

## IMPACT OF GST ON INDIAN ECONOMY

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### ABSTRACT

*(GST is one of the biggest tax reforms in the history of India. GST has been implemented across the country on 01 July 2017. The full name of GST is Goods and Service Tax. As soon as it is implemented, people have got freedom from indirect taxes like service tax, sales tax, VAT, excise duty etc. The common man has benefited the most after the implementation of GST, because now things are available at the same rate across the country. After the introduction of GST, the tax structure has become uniform and completely transparent, which has reduced tax disputes. The four types of GST are Central GST (CGST), State GST (SGST), Integrated GST (IGST) and Union Territory GST (UGST). Almost all products and services in India are subject to GST, which is divided into four rates: 5%, 12%, 18% and 28%. Goods and Services Tax or GST is the new indirect tax regime of the Government of India. The intention of implementing GST in India was to make compliance easier for business. GST has several advantages and disadvantages that affect both consumers and sellers. Let us find out the effects of GST on the Indian economy through this article.)*

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**Keywords:** GST, Consumer, Producer, Centre, State.

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### Introduction

The purpose behind implementing this system is to remove the different taxes levied by the Center and the States at different levels and integrate them into a single national tax. By establishing a market at all India level, this tax system has been established with the aim of providing manifold benefits to the business and industry field. After the Kelkar Committee report came in 2006, the government decided that GST would be implemented from the financial year 2010-11. But due to lack of agreement between the Center and the States, this process kept getting delayed. Two expert committees, one after the other, presented their opinion to the government. Finally, in August 2016, with the passing of the 101st Constitution Amendment Act (2016), the Parliament got permission to implement it. Then in the end of September 2016, the GST Council was created by the government. Then finally from July 1, 2017 the new Federal Indirect Tax or Federal Indirect Tax was implemented. GST is prescribed separately for different goods and services. These are fixed at 5%, 12%, 18% and 28%.

Before July 1, 2017, there were many different tax systems in place across the country and across the states. Traders had to pay various taxes at different stages from production to sale. As soon as the goods left the factory, excise duty had to be paid on them first. Additional excise duty was levied separately on many goods. If the same goods were being sent from one state to another, then entry tax was levied as soon as they entered the state. After this, the tolls are different at different places. While selling the goods, Sales Tax or VAT had to be paid. In many cases, Purchase Tax was also levied. If any item comes under the category of luxury, then luxury tax had to be paid separately. If those goods were being made available in a hotel or restaurant etc., then service tax had to be paid separately. Thus we

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see that, from the factory to reaching the hands of the consumer, any goods or service had to pass through many duties or taxes. By implementing GST, an attempt has been made to save the businessmen from this web of taxes, and the same tax has been imposed on all.

#### **Objectives of the Study**

- To study the background of GST
- To understand the concept of GST
- To study the impact of GST on Indian Economy.
- To study the challenges of GST in Future.

#### **Research Methodology**

The study is based on exploratory research and based on secondary data of journals, articles, newspapers and magazines. Secondary data was extensively used for the study.

#### **Impact of GST on Indian Economy**

The objective of GST is to make India a common market with common tax rates and procedures and remove its economic barriers. With the implementation of GST, competition is increasing in the national and international markets for goods and services manufactured in India. The impact of GST on India can be considered positive. GST is beneficial for the whole country. It is benefitting all the stakeholders from industry, consumer and government. The tax structure of the country has been streamlined with the implementation of GST. There has been a reduction in taxes after the implementation of GST. As a result, the end customer pays less tax. The reduction in tax burden has given a boost to the production and growth of retail and other businesses.

GST aims to make India a common market with common tax rates and procedures and remove its economic barriers. GST has given a further boost to the 'Make in India' initiative. GST will eliminate the mandatory requirement of maintaining numerous tax records by state governments under indirect tax laws of the central government and service taxes such as central excise, VAT, entertainment tax, entertainment tax, central sales tax, entry tax, luxury tax, etc. has gone. Customs duty on exported products has also been reduced. This has boosted the export rate of the country. The positive impact of GST will help more Indian businesses to enter foreign markets. The impact of GST in India has many long term benefits.

- **Impact of GST on the Consumer**

Looking at the immediate effects, consumers will now have to pay additional tax on the goods and services they buy. Most essential consumables will have either the same or higher tax amount. There are many benefits of GST for the common man. Small-scale businesses must also bear compliance costs, which can increase the price of their goods to the consumer. Consumers will now have to pay more tax on the products and services they buy based on short-term effects. The bulk of essential consumer goods will be taxed at the same rate or a higher rate. The benefits or positive effects of GST on the average person are innumerable. Small scale businesses will also have to pay the price of compliance, which may result in higher cost of their goods affecting consumers. The impact of GST in India has many long term benefits. With the reduction in taxes payable for consumer goods manufacturers such as Fast-Moving Consumer Goods or FMCG, the automobile industry will be forced to reduce the price of its products. Due to this, customers will be able to pay less when trying to avail these services.

A reduction in pricing will immediately increase demand, speed up production cycles and increase profitability. Both buyer and seller will ultimately save money, and the economy will benefit as well. A jump in production will also pave the way for growth, resulting in more employment and more revenue, offsetting the impact of GST. It not only expands opportunities for the average person but also helps the economy. The introduction of GST necessitates the generation of an invoice for the purchase of any goods or services. A good billing system will reduce the chances of black money and corruption. For an average person in India, these have been troublesome elements.

- **Simpler Tax Structure**

With the implementation of GST, the tax system of our India has now become simple. Since there is only one tax, it is now easier to calculate. With the help of this tax, consumers can easily understand how much tax they will have to pay while buying a particular item. It is essential when thinking about GST and how it affects GDP.

- **Support for Small and Medium Enterprises**

If you have registered under the composition scheme set up by GST, the amount of GST depends on the annual turnover of your company and the size of your business. Small and medium sized businesses can now register under the GST composition scheme. They pay taxes on the basis of their annual revenue under this arrangement. As a result, a firm with annual revenue of Rs. 1.5 crores is needed just to pay 1% GST. Other businesses with a turnover of Rs. 50 lakhs is also required to pay GST at the rate of 6%. The plan offers the benefits of reduced compliance and paperwork, reduced tax liability and high liquidity as taxes are low.

- **Increases in Exports**

Keeping in view the GST and its impact on the Indian economy, the customs duty on export goods has been reduced. Therefore, production facilities are now more cost-effective when producing and transporting goods. As a result of two-way savings, more industrial facilities are exporting their products. The GST effect in India has resulted in reducing the cost of production in the local markets. All these factors have boosted the export rate of the country. Companies have become more competitive when it comes to developing their companies around the world.

The introduction of GST has helped in the consolidation of state and federal taxes. As a result, the cascading effect of many taxes has been reduced. As a result, the tax burden on businesses and consumers is reduced. In addition, there has been an increase in the number of taxpayers, resulting in a substantial increase in tax income. The entire tax system has now become easier to administer. In addition, small and medium-sized companies can expand their operations. It is believed that the positive impact of GST will help more Indian businesses to enter foreign markets.

- **Enhanced operations throughout India**

Goods transportation across India is now easier due to the uniform taxation structure, which has improved operations across the country.

- **Impact of GST on Real Estate**

About 8% of the total GDP of our country comes from real estate. Before the implementation of GST, one had to pay VAT, service tax, stamp duty and registration fee to pay for an under-construction property. However, for buying a ready house only stamp duty and registration charges have to be paid. The implementation of GST will bring down the cost of buying a home, especially if you do it before construction. In addition, developers will also benefit from input credit on GST paid on goods and services provided by them, as potential buyers will bear that liability. Since the government has abolished stamp duty with the implementation of GST, the taxes levied on real estate have also become simpler. This has increased the prominence of the impact of GST on the real estate sector. Without input tax credit, the total amount of GST for all under-construction houses would be 5%. GST is not applicable on ready to move in properties. If you are considering buying a home, please consider the effects of GST on properties. Consider a property where the carpet area is up to 60 square meters and it is 90 square meters in a non-metro location. If yes, then you can include the property in the affordable housing scheme. If the cost of this affordable house is less than 45 lakhs, it will attract 1% GST; otherwise, it will attract 5% GST. These are some of the important effects of GST on real estate. In Tier-IV taxation system, builders have to pay higher taxes but get input credit later. Consequently, it is easy to see how GST helps the Indian economy.

- **Impact on Startups**

GST has brought many benefits to Indian entrepreneurs, such as a do-it-yourself compliance approach, higher registration threshold, free movement of products and services, and tax credits on purchases. For firms with pan-India presence, especially in the e-commerce sector, it has become easier to calculate taxes. If you work in small scale industry, you must be aware of the impact of GST on the Indian economy.

### **Long Term Impact of GST**

When it comes to long term benefits, it is expected that GST will result in lower tax rates and tax slabs. Only two or three rates are used in countries where the goods and services tax has aided economic transformation: an average rate, lower rates for essential products, and higher tax rates for luxury goods. In India, we now have five slabs with three rates: a unified rate, a central rate and a state rate. In addition, there is also access. The government has refrained from experimenting with lower or cheaper tariffs for fear of losing revenue. GST and its impact on the Indian economy is expected to yield

significant benefits in the long run. Inflation will also reduce due to GST as there will be no tax on tax. It will increase the revenue of the government and bring more foreign direct investment in India. GST will make it easier to do business in India.

There are some long term benefits of GST as well. For example, the FMCG industry will have to reduce the cost of its goods due to reduction in taxes for manufacturers of consumer goods. The reduction in prices would lead to an immediate increase in demand, speeding up the manufacturing cycle and generating more revenue. This will ultimately benefit the economy and both the buyer and the seller will be able to save a good amount. Increased production will also open doors for expansion, resulting in more jobs and higher incomes. This not only improves opportunities for the common man but also boosts the economy.

### Conclusion

GST is one of the biggest tax reforms in the history of India. GST has several advantages and disadvantages that affect both consumers and sellers. This will make it easier to do business in India, reduce inflation and increase foreign direct investment in India. The impact of GST on GDP is negative, as it increases the rate of inflation, as the tax rate increases the cost of certain products and services such as pharma products, telecom, dairy, automobile etc. These aspects should also be considered. On the one hand, as taxes have become more simplified, compliance costs have increased. Thus, the impact of GST on the Indian economy needs to be analyzed carefully. Both positive and negative aspects should be considered while evaluating GST impact in India. As we have seen that due to the implementation of GST, there has been a lot of transparency in the country's economy, at the same time some sectors had to face some losses in the beginning due to its implementation. And this happened not only with the economy of India, but in the countries where GST was implemented, in the beginning the economy faced some problems. Had to do it but it has been found that after a few years it has stabilized and then this tax system has been successful in increasing the country's GDP. Consumers will now have to pay higher taxes on most of the goods and services they buy. Most everyday items are now taxed at the same rate or slightly higher.

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