

Goods and Service Impact on Indian Economy

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ABSTRACT

The Goods and Services Tax (GST) is a revolutionary reform in India's indirect tax system, aiming to replace a complex tax structure with a simpler, unified one. It integrates multiple taxes such as VAT, excise duty, and service tax into a single tax, ensuring seamless flow of tax credit across the supply chain. GST reduces the cascading effect of taxes, enhances ease of doing business, and promotes transparency. Its implementation has brought significant benefits to the Indian economy, including increased revenue, formalization of the informal sector, and economic efficiency. Despite initial challenges, such as technical glitches and compliance burdens, GST holds promise for sustained growth. The aim of this paper is to assess GST's overall impact on India's economy by evaluating its structure, implementation, sector-wise effects, and future recommendations.

INTRODUCTION

Launched on July 1, 2017, GST marked a new era in India's taxation system. The idea of GST was first proposed in 2000, and after years of discussions and preparations, it was finally implemented. GST is levied at every point of sale, and the final consumer bears the tax. It follows a dual model where both the Central and State governments levy tax simultaneously. The tax structure consists of multiple slabs: 0%, 5%, 12%, 18%, and 28%. Certain luxury and sin goods attract additional cess. The GST Council, a federal body comprising state and central finance ministers, governs the tax rates and regulations. This system aims to create a single, unified market by eliminating interstate barriers to trade. This comprehensive reform aimed to eliminate tax barriers between states, create a single national market, and promote ease of doing business. GST operates on a dual model, with both the central and state governments collecting taxes concurrently, thus ensuring federal cooperation.

OBJECTIVES OF THE STUDY

This thesis aims to:

Evaluate the structural transformation in India's taxation through GST.

Understand the implications of tax unification for central and state revenue.

Analyze the input tax credit mechanism to assess its role in reducing tax cascading.

Study the sectoral impact of GST across industries such as textiles, automobiles, finance, and FMCG.

Explore administrative efficiency and compliance under the GSTN system.

LITERATURE REVIEW

Shefali Dani (2016) highlighted that GST is a major reform in indirect taxation aimed at economic development. Shakir Shaik (2015) viewed GST as a unified model to integrate fragmented state economies. Abhishek Mehrotra and Rosy Kalra (2020) identified GST as a fiscal reform that boosts economic structure and tax capacity. Nishita Gupta (2014) emphasized GST's role in eliminating inefficiencies of VAT. Katta Swathi noted that GST helps in creating a seamless market with reduced tax evasion and better compliance. These studies collectively underscore GST's role in economic growth, while also pointing out the implementation challenges and structural limitations.

RESEARCH METHODOLOGY

This paper adopts an exploratory research approach, relying on secondary data sourced from academic journals, official government publications, financial websites, and news articles. The data was analyzed to identify key themes and impacts of GST across different sectors. No primary survey or quantitative data collection was conducted. The focus remains on analyzing existing literature and evaluating the practical implications of GST through case-based sectoral insights. Qualitative content analysis was applied to interpret the influence of GST on revenue, compliance, efficiency, and sectoral performance.

IMPACT ON KEY SECTORS

- The impact of GST varies across sectors:
- **Automobile:** Tax rates reduced to 28% with input credit, resulting in better margins and higher demand.
- **FMCG:** Lower logistics and warehousing costs, improved distribution efficiency.
- **Textiles:** Mixed impact—simplified taxes but increased burden on synthetic fabrics.
- **Financial Services:** Compliance increased due to taxation at state level.
- **Real Estate:** More transparency, but confusion among buyers.

These examples show that while GST has simplified taxation, adaptation challenges remain.

ADVANTAGES OF GST

1. Eliminates multiple indirect taxes.
2. Reduces tax evasion through digitization.
3. Promotes 'One Nation, One Tax' vision.
4. Enhances input tax credit utilization.
5. Boosts foreign investment due to transparency.
6. Strengthens ease of doing business.
7. Promotes inter-state trade by eliminating entry barriers.

CHALLENGES OF GST

1. Frequent changes in rules confuse businesses.
2. Technical glitches on the GSTN portal.
3. Compliance cost is high for small businesses.
4. Certain sectors excluded from GST (e.g., petroleum).
5. Complex multi-rate structure causes classification issues.
6. Refund delays affect exporters' cash flow.

KEY FINDINGS

GST replaced multiple indirect taxes, simplifying tax structure and compliance.

- Dual GST model enabled cooperative federalism.
- ITC system promoted efficiency and reduced the cascading effect.
- Sectoral impacts were mixed, with some industries benefiting more than others.
- GST increased transparency, broadened the tax base, and is expected to drive GDP growth and foreign investment.

RECOMMENDATIONS AND SUGGESTIONS

- Include petroleum and alcohol within GST to ensure comprehensive tax coverage.
- Simplify compliance, especially for small businesses through better digital tools.
- Enhance refund mechanisms for timely payments to exporters.
- Rationalize tax rates, possibly reducing the number of slabs for better clarity.
- Offer sector-specific incentives and tax breaks where needed, especially for textiles and MSMEs.

CONCLUSION

GST has redefined India's indirect tax landscape by introducing uniformity, transparency, and efficiency. Its benefits are evident in reduced tax burden, formalization of the economy, and enhanced compliance. However, for GST to achieve its full potential, policymakers must address its implementation issues and make it more business-friendly. With continued reforms and simplification, GST can contribute significantly to India's long-term economic growth and competitiveness.

LIMITATIONS OF THE STUDY

- Dependence on secondary data without field surveys or primary data
- Excludes analysis of several sectors like agriculture and tourism
- No quantitative modeling or data analytics included
- Limited state-wise or regional analysis
- Focuses on short- to mid-term implications; long-term outcomes are yet to be assessed.

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