Goods and Service Impact on Indian Economy

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ABSTRACT

The Goods and Services Tax (GST) is regarded as The biggest reform in India indirect taxation. It functions as a unified tax regarding the availability of goods and services and adheres to a destination-based approach. GST has taken the place of several previous taxes, including VAT, Octroi, Entry Tax, Central Excise Duty, and Service Tax. Its primary goal is to integrate state-level economies and contribute to the overall expansion of the nation's economic sector.

Introducing GST in a diverse nation like India was a significant challenge. It demanded effective cooperation between the central and state governments. Major concerns involved choosing between an origin-based or destination-based tax system, determining appropriate tax rates, handling conflicts, and deciding whether to bring petroleum products and alcohol within the scope of GST.

The introduction of the GST has brought notable advantages to the logistics industry. Prior to GST, Companies were forced to keep up warehouses throughout multiple state to avoid interstate taxes and entry levies. These storage units were often inefficient and expensive to maintain. Since the implementation of the GST, such tax-related barriers were eliminated, enabling companies to consolidate their warehousing operations and lower their overall costs. This led to reduced logistics expenses and improved profitability for businesses engaged in goods transportation.

Startups have also gained from the GST framework through simplified compliance procedures, reduced tax liabilities, and the removal of the tax cascade effect. Additionally, small enterprises benefit from an exemption threshold of ₹20 lakhs, meaning GST registration is not required until their annual turnover exceeds that amount. The GST system has significantly broadened the tax base, now accounting for over 10 million registered entities.

INTRODUCTION

The Goods and Services Tax, or GST, is one of the most significant tax reforms in India. The effective date was July 1, 2017. The idea was first suggested back in the year 2000 by the NDA government. At that time, a group was established to create the GST system. Over the years, there were many discussions and delays.

In the 2006–07 budget, the then Finance Minister, P. Chidambaram, announced that GST would be launched by April 1, 2010, but that deadline wasn't met. Later, the 122nd Constitutional Amendment Bill, which aimed to introduce GST, was pass by the Lok Sabha on August 8, 2016 and by the Rajya Sabha on August 3, 2016. After the President of India, Pranab Mukherjee, gave his approval on September 8, 2016, the path was clear for GST to be implemented in July 2017.

GST has been around for a while. Over 160 countries already use it. In 1954, France became the first country to implement GST. Different countries use different GST models. For example: In the USA, states have their own GST system (State model).

India uses Using the Dual GST model, both the federal government and state governments gather GST. This model is

also used in countries like AUSTRALIA and Canada.
Before GST, India was a complicated system with many different taxes like VAT, excise duty, service tax, sales tax, customs duty, and other local taxes. State-by-state variations in tax rates which often led corruption and tax evasion. GST aims to simplify the tax system by bringing many of these taxes under one umbrella.

However, not everything is included under GST. Some items like: Petroleum and alcohol, Lottery, betting, Stamp duty on property, Vehicle taxes Entertainment and luxury taxes by local bodies

These are still State-imposed separate taxes or central governments.

Originally, GST was planned as a single tax rate, but in practice, it has two parts:

1. The central government is in charge of collecting the central GST.
2. The state government is responsible for collecting the State GST.

In India, before GST was introduced, different types of taxes were charged by both the central and state governments. The central government collected taxes like excise duty and service tax, while states collected sales tax, entertainment tax, luxury tax, entry tax, and tax on lottery and gambling.
The main idea behind GST is that taxes should not be charged separately on goods and services. Experts believe that GST will help grow India's economy by 0.9% to 1.7% by creating one big market across the country. It will also make life easier for businesses by reducing paperwork and removing the tax-on-tax problem. since GST permits companies to receive tax credits already paid.
However, for GST to work well, both companies and government tax departments need to be ready to adjust to the new system. The full benefits will only come if everyone follows the new rules properly.
Even though it may take time for GST to show results like more jobs and faster growth, it is important to look at how GST affects specific areas. This study focuses on real estate and automobiles, two major industries in India.
Before GST, different sectors were taxed differently. This caused confusion and inefficiency, making it harder to use resources properly. Companies often didn't get full tax credits (especially from state taxes), which meant they ended up paying more tax than necessary.
Also, when Indian products were exported, the taxes included in their prices made them less competitive in global markets. GST aims to fix this by streamlining taxes and helping companies get full tax credits, so they can sell products more cheaply abroad. Understanding GST: An Important Tax Change in India
GST is an indirect tax in India that is applied products and services sold. It officially started on July 1, 2017, through the 101st Amendment to the Indian Constitution. The aim was to replace many different taxes that were earlier charged separately by the central and state governments, which often resulted in double taxation.

Why GST Was Introduced:

Earlier, taxes like sales tax, excise duty, service tax, and entry tax were charged separately by different levels of government. This made the tax system complicated and uneven.
The idea of GST was to bring one single tax system that would apply across the country, making it simpler and fairer.
GST also helps in avoiding the tax-on-tax problem and gives tax credits to businesses, which can help reduce costs.
It is expected to increase India's GDP, improve exports, and make production and consumption more efficient.
Structure of GST:

India uses a dual GST system, which means:

1. Central Goods and service tax
2. State Goods and service tax
3. Integrated Goods and service tax

Tax Slabs under GST:

GST divides products into 5 primary tax rates: 0% – for essential items
5%

12%

18%

28% – for luxury and high-end items

Items Outside GST:

Some goods are not covered under GST, such as: Petroleum products
Alcoholic drinks

PROCESS OF GST

GST procedure in India includes several stages, beginning with registration and extending to tax filing and regulatory compliance. Here's an outline of the step-by-step process involved in GST.

1. **GST Registration**

Any business with a turnover exceeding the prescribed threshold (₹40 lakh for goods, ₹20 lakh for services; lower for special category states) must register for GST.
Registration is done online via the GST portal.

Once registered, a GST Identification Number (GSTIN) is assigned.

- **Supplier Sells Goods or Services**

GST is added to the selling price when a seller delivers goods or services to a customer.

- **GST Collection**

The GST amount is collected from the buyer by the seller at the time of purchase.

- **Input Tax Credit (ITC) Claim**

A seller or manufacturer must also pay GST when they purchase goods or services to operate their business. The final tax due can be decreased by claiming this tax as an input tax credit.

- **Tax Payment to Government**

After adjusting for the input credit, the business pays the balance GST to the government.

- **GST Return Filing**

Regular GST returns, including information on sales, purchases, taxes collected, and input credits claimed, must be filed by businesses.

- **Tax Division Between Governments**

In India, GST is divided between the Central and State Governments. This division is based on whether the transaction is within a state or between different states.

6. **GST Assessment & Compliance**

The GST system has automated matching of invoices to prevent tax evasion.

Authorities conduct assessments and audits to ensure compliance. Non-compliance leads to penalties, interest, or legal actions.

7. **Refund Process**

Businesses can apply for refunds in case of excess tax paid, export incentives, or inverted duty structure refunds. Refund applications are processed online, with some requiring manual verification.

8. **GST Appeals & Dispute Resolution**

If disputes arise, taxpayers can file appeals with GST Appellate Authorities or move to GST Tribunals, High Courts, or the Supreme Court for resolution.

OBJECTIVE OF STUDY

1. To understand the structure and features of the goods and services tax (GST).
2. To analyze the effect of GST on government revenue.
3. To identify the challenge faced during the implementation of GST.
4. To assess the effect on different sectors of the economy.
5. To examine the effect on economic growth.
6. To evaluate the effect on consumers.

LITERATURE REVIEW

1. SHEFALI DANI (2016) "AN IMPACT OF GOODS AND SERVICE TAX ON INDIAN ECONOMY:

- GST is a comprehensive indirect tax system created to simplify the tax framework and promote the development of the nation.
- Over 150 nations across the world have already adopted the GST system.

In India, the idea behind GST was first introduced by the Vajpayee government in 2000, and the Constitutional Amendment Bill related to On May 6, 2015, the Lok Sabha approved it.

- However, it is still awaiting approval from the Rajya Sabha.

- It is important to explore the explanations for the proposed GST framework might pose challenges to the country's growth and development.

2. SHAKIR SHAIK (2015) "DOES GOODS AND SERVICE TAX LEADS TO INDIAN ECONOMICS DEVELOPMENT

- Goods and services Tax is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level.
- one of the biggest taxation reforms in Indian the (GST) is all set to integrate state economics and boost overall growth. Currently companies and businesses pay a lot of indirect taxes such as VAT, service tax, sales tax, entrainment tax, octroi and luxury tax. Once GST is implemented, all these taxes would cease to exist.
- An attempt is made in this paper to study the concept of goods and service tax and its impact on Indian economy.
- The study also aims to know the advantages and challenge of GST in Indian scenario.

3. ABHISHEK MEHROTRA, ROSY KALRA (2020) "IMPACT OF GOODS AND SERVICE TAX ON INDIAN ECONOMY

- The GST, often known as the Goods and Services Tax, is a massive indirect tax system designed to support and enhance a country's financial and economic development.
- The GST has been adopted in more than 150 countries to date. However, the Vajpayee Government brought forward the idea of a GST in India in 2000, and on May 6, 2015, the Lok Sabha approved the sacred amendment for it.

4. NISHITA GUPTA (2014) GOODS AND SERVICES TAX: IT IS IMPACT ON INDIAN ECONOMY

- On April 1, 2005, VAT was incorporated into the Indian tax system. When compared to the local sales tax system, the VAT is a major improvement. The benefit of the VAT at the state level is that it is a multi-point tax that allows for setoffs for taxes paid on purchases and avoids taxing the same commodity more than once. There are still several restrictions in the structure of VAT, both at the federal and state levels, notwithstanding its effectiveness.
- When presenting the budget on July 6, 2009, then-finance minister Pranab Mukherjee stated that the GST would take effect in April 2010 to address the problems left unresolved by the VAT. In fact, the goods and services tax (GST) will be a major step forward for the nation's overall indirect tax overhaul. India would have a top-notch tax system and increase tax collections if goods and services taxes were integrated.
- The CAG Speaking at the National Conference on GST for the first time, Mr. Vinod Rai introduced the idea as "an integrated scheme of taxation that does not discriminate between goods and services and is a part of the proposed tax reforms that centre on evolving an efficient and harmonized consumption tax system in the country." The current study aims to investigate the idea of a goods and services tax and how it affects the Indian economy.

5. KATTA SWATHI, GOODS AND SERVICE TAX: ISSUES AND CHALLEGES

- Goods and Service Tax is known as GST. The production, sale, and use of products and services are all subject to the goods and services tax. It primarily serves as a replacement for all indirect taxes levied by the Indian federal and state governments on goods and services. In accordance with the input tax credit procedure, goods and services tax would be assessed and collected at every stage of the sale or purchase of goods or services.
- One Nation, One Tax, One Market is the primary goal of the GST. A common national market would be made possible by reducing pouring or double taxation by combining many federal and state taxes into a single tax. This kind of tax will increase the competitiveness of original goods and services in the market,

which will directly affect the country's GDP growth, till the final consumers. The main advantage of GST is that it will prevent special tax avoidance. When the GST is implemented in India, the registration process will be standardized and centralized, much like the service tax registration process.

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.

CATEGORIES OF GST

- Under GST, goods and services are taxed at the following rates, 0%,5%, 12% and 18%.
- Certain items such as alcohol, petrol, diesel and natural gas will be exempt under the GST.

0 PERCENTAGE

- Milk, eggs, curd, lassi, unpacked foodgrains, salt, besan etc.

5 PERCENTAGE

- Sugar, Tea, Coal, Milk Food for Babies, Cashew Nuts, Life-saving drugs etc.

12 PERCENTAGE

- Butter, Ghee, Fruits, Jam, Mobiles, Almonds, Packed coconut water, Jelly etc.

18 PERCENTAGE

- Capital goods, Pasta, Corn, Flakes, Printers, Computers, Ice-Cream etc.

28 PERCENTAGE

- Small Cars, High-end motorcycles, Luxury & Sin items like BMW etc.

Impact of GST ON INDIAN ECONOMY

- It may increase the flow of FDI.
- GST will increase the government revenue in the long.
- It will create more employment opportunities.
- GST would also help in moving the custom duties on exports.

GST MODEL

Three parts, or three distinct types of GST, make up the GST model. They are listed below.

- Central GST.
- GST by state.

•Two GSTs.

1. Central GST: The central government will impose the goods and services tax.
2. State GST: State-level GST is imposed.
3. Dual GST: The State and the Centre will both impose GST at the same time.

Impact of GST on Various Sector

It is claimed that the GST benefits the overall economy. However, in terms of sectoral classification, the GST affects each industry in both positive and bad ways. Below are a few sectors together with their corresponding GST.

Automobiles: The tax rate paid by the automobile industry currently ranges from 30 to 45 percent. Additionally, it is anticipated that the rate will be approximately 28 percent following GST, which will be very beneficial to the auto industry and profitable for both

manufacturers/dealers and final consumers. Customers' standards and social standing are raised. The Goods and Services Tax will cause the automobile industry to grow significantly.

Textiles: GST on clothes, Readymade, Garments and Textiles. Ready-made garments are taxed at a 12% GST rate, while synthetic or man-made fibres and fabrics are taxed at 18% GST. The standard GST rate for textile products is 12%, but if apparel and footwear cost less than RS.1000, a 5% GST is applied.
Positive impacts: Simplified Tax Structure: The GST reduced the administrative load on businesses by replacing multiple indirect taxes (such as VAT, Central Excise Duty, etc.) with a single tax.
Negative impacts: Higher GST rates on certain industries, such as ready-made clothing and synthetic fabrics, resulted in a greater tax burden for these companies.

Financial institution: Financial institutions are impacted by the Goods and Services Tax (GST) in both positive and negative ways. Positively, it encourages a single market, lowers cascading taxes, and streamlines the tax structure. But it can also result in higher compliance costs, possible inflation in some industries, and implementation difficulties. Positive impact: Simplified Tax Structure By replacing several indirect taxes with a single tax, GST eases business operations and lowers compliance costs.
Decreased Cascading Taxes: Businesses no longer have to pay taxes on taxes they have already paid thanks to the GST, which lowers overall expenses.
Negative impact: Increased Compliance Costs:

Implementing GST requires businesses to adapt their systems and processes, which can be costly, including initial compliance costs and the purchase of software, says Bajaj FinServ.

FMCG SECTOR: Taxes on the majority of fast-moving consumer goods (FMCG) have decreased or stayed the same when compared to the previous tax system. These consist of non- durable items such as sanitary products, over-the-counter medications, and packaged food. Prior to now, FMCG products were subject to indirect taxes like VAT.

All things considered, these manufacturers now pay less in taxes as a result of the Goods and Services Tax (GST).

However, the FMCG industry has also been affected by the GST due to anti-profiteering concerns. The FMCG industry has experienced mixed results from GST. Businesses can use tools like Bajaj Finance's GST Calculator to precisely determine how GST will affect FMCG products.

POSITIVE IMPACT OF GST ON THE FMCG INDUSTRY

The post-GST logistics costs for FMCG products decreased by more than 2%, and for certain products, by 5%, as a result of the subsumption of taxes such as VAT, Entry Tax, and OCTROI. Given that these products typically sell quickly, the decrease in logistics costs will raise demand for them. This is particularly true for goods that aren't branded.

GST rates on FMCG products

The different GST rates on FMCG products

GST Bracket	FMCG products
NIL	Milk, Curd, eggs, rice, wheat, oats and fresh vegetables
5%	Branded paneer, honey, frozen vegetables, fried Areca nuts
12%	Butter, Cheese, ghee and dry fruits

FINDINGS

- GST is a major tax reform in India that replaces many indirect taxes like VAT, service tax, excise duty, etc.
- It was officially launched on July 1, 2017, and aims to make "One Nation, One Tax" a reality.
- India follows a dual GST model – both Centre and State governments collect taxes.
- Five tax slabs exist under GST – 0%, 5%, 12%, 18%, and 28%.
- Some sectors like petroleum and alcohol are kept out of GST.
- Industries like Automobiles and FMCG have seen positive impacts, like reduced tax rates and better logistics.
- Sectors like Textiles and Financial services face some challenges, such as higher tax rates or increased compliance costs.
- GST has simplified the tax process, reduced cascading of taxes, and is expected to boost GDP and foreign investment.

Recommendation & Suggestions

- Include petroleum and alcohol under GST for uniform taxation.
- Simplify the filing process even more, especially for small businesses.

- Provide more training and awareness to businesses about GST procedures.
- Improve the technology infrastructure for smoother GST compliance.
- Strengthen the refund process to avoid delays, especially for exporters.

RECOMMENDATIONS

- Enhance GST Awareness and Capacity Building

Conduct targeted awareness campaigns and training for small and medium enterprises (SMEs), especially in rural and semi-urban areas, to improve compliance and understanding of GST rules.

- Rationalization of GST Rates

Revisit the multiple tax slabs and aim for a simplified two-rate structure (e.g., standard and luxury rates) to reduce complexity and classification disputes.
Reduce the rate burden on high-impact sectors like textiles and ready-made garments to support industry competitiveness.

- Inclusion of Excluded Sectors

Gradually bring petroleum products, alcoholic beverages, and electricity under the GST umbrella to ensure comprehensive tax coverage and improve credit chain efficiency.
Set a phased timeline for these inclusions along with adequate compensation mechanisms for affected states.

- Address Sectoral Challenges Proactively

Automobile Sector: Maintain a stable and lower GST rate (e.g., 18%–28%) to support growth and boost domestic sales.
Textile Sector: Offer tax credits and incentives for traditional and export-oriented textile units to offset the higher GST burden on synthetic fabrics.
Financial Services: Simplify GST compliance mechanisms and allow centralized registration for multi-state operations to reduce compliance costs.

FMCG Sector: Strengthen anti-profiteering mechanisms with clear guidelines and faster resolution timelines to protect consumers while maintaining industry profitability.

- Export Competitiveness and Refund Reforms

Streamline refund procedures, especially for exporters, to avoid working capital crunch and encourage export growth.
Automate the processing of refunds with real-time tracking to build trust and transparency.

CONCLUSION

The introduction of the Goods and Services Tax (GST) in India marked a major change in the country's taxation system. It replaced a complex system of multiple indirect taxes with one uniform tax. This helped to simplify tax collection, reduce tax evasion, and create a common national market. However, the journey of GST implementation has not been without challenges.

This study showed that GST has affected different sectors in different ways. For example, the real estate sector saw an increase in transparency, but homebuyers still faced confusion due to changing tax rates. The automobile industry benefited from lower overall tax rates, but the luxury tax component continued to impact high-end vehicles. The textile sector, especially small and traditional businesses, struggled with compliance and higher costs due to the absence of input tax credit on certain fabrics. The financial sector had to adjust to taxing services across states, which increased their compliance burden. The FMCG sector gained from lower tax rates and streamlined supply chains but faced pressure from anti-profiteering rules.

Despite these challenges, GST has brought many positive changes, such as more formalization in the economy, better tax compliance, and increased government revenue over time. However, for GST to truly reach its full potential, more improvements are needed. These include simplifying the tax rate structure, expanding the GST system to include items like fuel and alcohol, improving the refund process for exporters, and making compliance easier for small businesses.

In conclusion, while GST has laid a strong foundation for a modern tax system in India, its continued success depends on how well the government listens to sector-specific concerns and makes timely reforms. With proper adjustments and support, GST can become a powerful tool for promoting economic growth, increasing ease of doing business, and building a fairer tax system for all.

Limitation of the study

1. Based Mostly on Secondary Information

This study uses information that is already available in books, research papers, news articles, and government websites. It does not include direct feedback from businesses or people, which means it might miss real-life challenges or opinions that only come from personal experience.

2. Changing Nature of GST Rules

The rules and tax rates under GST keep changing with time. Since this study is done based on current or past rules, future updates in the GST system may make some of the findings less accurate or outdated.

3. Only a Few Sectors Covered

The study focuses only on five major sectors—real estate, automobiles, FMCG, textiles, and financial services. Other important sectors like agriculture, healthcare, and tourism are not studied, so the findings cannot be applied to all parts of the economy.

4. No Focus on Specific States

India is a large country where every state may face different challenges in applying GST. This study looks at the overall national impact and does not consider how GST affects individual states or regions5. No Data Analysis or Numbers

The study does not use detailed statistics or mathematical models to show the exact effect of GST. Instead, it gives a general overview. This makes it less precise when it comes to measuring the real impact.

6. Short-Term Perspective

GST is still a relatively new system. The long-term results, such as increased tax collection or better business efficiency, may take many more years to become clear. This study focuses on the short-term effects only.

7. Impact on Small and Informal Businesses Not Fully Covered

Many small or informal businesses are not registered under GST. Because there is not much official data available on them, this study may not fully explain how GST has affected this large section of the economy.

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