

"Assessing the Impact of Goods and Services Tax on India's Economy: A Comprehensive Analysis"

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Abstract

Historically, indirect taxes have played a significant role in India's fiscal system. Prior to the implementation of tax changes in the nineties, the primary contributor to the government's coffers came through indirect taxation. The widespread poverty in India was cited as the primary reason for the country's dependence on indirect forms of taxation. Consequently, expanding the direct tax base was constrained by structural barriers. Cascading and skewed taxes on the production of goods and services are hallmarks of India's indirect taxation system, which in turn reduces productivity and slows economic growth. This is one of the reasons why India's economic development is so much slower than that of other wealthy countries. A simple tax known as the goods and services tax is necessary to eliminate the infinite number of taxes that exist under the existing system, some of which are charged by the centre while the rest are imposed by the states, and to reduce the burden on taxpayers. Current taxation procedures include an unlimited number of taxes, only a small subset of which are collected centrally (GST). This article presents a comprehensive analysis of the Value added Tax, including its rationale, its model, its pros and cons, and its effects on the Indian economy.

Keywords: GST, Indian Governance, Taxes, India's Fiscal System, Impact on Economy.

I. INTRODUCTION

In recent decades, India's economy has been among those with the highest rates of growth. Several reasons, including market reforms, a flood of foreign direct investment, rising foreign currency reserves, a thriving IT and real estate industry, and a robust capital market, have contributed to this expansion. Indirect taxes have always played a crucial role in India's tax system. (Smith et al., 2022) Before-tax changes were enacted in the 1990s, indirect taxes brought in the lion's share of tax money. The main rationale for relying heavily on indirect taxes was that expanding the base of direct taxes was difficult since the bulk of the people in India was impoverished. Cascading and distorted taxes on the production of goods and services are hallmarks of India's indirect taxation system, which in turn dampens productivity and slows economic progress. It is time for a simplification of the current tax system, which imposes an overwhelming number of taxes on citizens but collects just a fraction of its revenue from the federal government. Goods and services tax would accomplish this (GST). There has been a growth in the number of MNEs (multinational corporations) operating in India and, as a result, a rise in the volume of commerce between the country and others. This opens up a lot of possibilities for the government to reform the tax system. This article examines the rationale behind the Goods and Services Tax, the GST Model, its benefits and drawbacks, and the effect it has had on the Indian economy. (Lyeonov et al., 2023)

II. OBJECTIVE

The research aimed to fulfill the following objectives:

- To study the goods and services tax (GST), its structure, and its components
- Challenge of the goods and services tax (GST),
- Divisions of GST and advantages of the GST

III. METHODOLOGY

Earlier versions of the constitution granted the central government the authority to impose an excise charge on manufactured goods and a service tax on the provision of services. In the same vein, it grants the state government the authority to impose the value-added tax (VAT) that corresponds to the state tax on the sales of products. Due to the exclusive distribution of fiscal authorities, the indirect tax system in the nation has been subject to manipulation. In addition to that, the sale of products inside the state was subject to a centralized tax. In addition, a few governments impose an entrance tax on the purchase of products inside their respective jurisdictions. Therefore, in order to solve this issue, the government at this stage has implemented a single taxation system that incorporates all taxes into itself. This is done to avoid the various issues that are associated with the taxation system, and as a result, this control is now in the hands of only one person. Goods and services

are subject to a tax known as GST. It is a replacement for direct taxes collected by the federal and state governments of India and is implemented as an indirect tax throughout the whole country.

IV. THE GOODS AND SERVICES TAX (GST), ITS STRUCTURE, AND ITS COMPONENTS

Over the last two decades, India's tax collection system has seen a number of changes. The Goods and Services Tax applies to anything that is produced, sold, or purchased on a national basis (GST). The Goods and Services Tax, or GST, is projected to have far-reaching consequences on the tax system of India and is largely regarded as one of the most significant tax changes attempted in India since the nation earned independence. Consolidating and simplifying the many taxes now charged on the manufacturing, distribution, and consumption of products and services is the primary objective of this reform. This will eventually replace the existing convoluted system of taxation. The Goods and Services Tax, or GST for short, is one of the most comprehensive plans for tax reform. The ultimate goal is to create a global market free of monetary restrictions so that all countries may participate. Paying the national sales tax in India is consistent regardless of whether you are buying or renting. in accordance with According to (van der Enden& Klein, 2020)

The Goods and Services Tax (GST) will replace all existing indirect taxes, making their collection and management more simpler. The existing system of many taxes being imposed on an identical product at various periods will be replaced with a consistent, one tax across the board, through inputs to outputs, thanks to the Goods and Services Tax (GST) taxation law. It spells the end of the current order of things. The Goods and Services Tax (GST) is built on the principle of "One Country, One Tax" in an effort to streamline taxes. The Goods and Services Tax will replace many of the existing indirect taxes paid to the federal government and individual states (GST). This is due to its widespread use throughout the whole value chain, from the procurement of inputs to the ultimate distribution of the finished product. The Dual-GST model used in this jurisdiction consists of the CGST and the Goods and Services Taxes imposed by the individual states (SGST). The Central Goods and Services Tax will eventually replace the many indirect taxes now levied by the federal government. These taxes include the central excise duty, central sales tax, service tax, special additional charge on customs, and counter-veiling expenses (CGST). The SGST, if completely implemented, will subsume a variety of other state taxes, including as the state value-added tax, the state purchase tax, the state luxury tax, the state octroi, and the state gaming tax. In addition to the GST, there is also an interstate sales tax called the Integrated Goods and Service Tax (IGST). The Products and Services Tax (GST) is not a new tax, but rather a method of tracking international transactions and assigning tax collection responsibilities to the country in which final consumption of the goods or provision of the service occurs. (Dharmayanti, 2023)

The Effects of GST in India

The most prominent GST reform had a significant influence on the Indian economy, as well as on small, medium, and big firms, in addition to the average Indian citizen and the Indian government. In general, it has left an indelible imprint on the economic landscape of India.

Since it was first implemented, the Goods and Services Tax (GST) has had an impact on the daily lives of billions of people throughout India. The effect is like riding a roller coaster since there have been rate additions as well as substantial relaxations from previous taxes. It is true that this innovative tax reform has made the taxation system easier to understand, but it also comes with its own challenging move.

Let's take a look at a few pieces of data to get a better idea of how the Goods and Services Tax (GST) reform in India has affected the country. (Palmer)

- An enlargement of the tax base as an increasing number of taxpayers have switched to the GST regime, there has been a significant expansion of the tax base as well as a modification in the compliance stances of taxpayers.
- Revenue Collections: Without a doubt, the quantity of revenue collected went through a meteoric climb as a direct result of the introduction of an internet taxation system, which rendered tax evasion impossible.
- Rationalization of Rates: In order to rationalize the rates that are applicable to the different items that fall under GST, the government made a number of significant initiatives. For example, although there used to be 19% of things that fell under the 28% GST slab, there are now just 3% of items that fall under that particular slab. That indicates the government is making a concerted effort to reduce the GST rates on a variety of goods.
- E-way Bill System: Despite having been plagued by a number of technological issues, the GST compliance process has recently been transformed into a more efficient operation.

- Requirements posed by taxpayers: In response to the requirements posed by taxpayers, the government has made significant changes to better accommodate the requirements of taxpayers.

The combination of these several elements has resulted in a simpler taxation system that has, to a significant degree, assisted in the reduction of tax evasion. (van der Enden & Klein, 2020)

According to recent studies, the Goods and Services Tax (GST) has resulted in an increased need for 1.3 million qualified financial professionals. As a direct result of this, a flood of possibilities has been created for those who have an interest in accounting, finance, and taxes. Additionally, this paves the way for new opportunities for those who are interested in the expansion and development of their careers. The government is aware that individuals get more anxious as the dates for tax payment deadlines draw near. In addition, the new tax system and the requirements for complying with it made life more complicated for individuals all throughout the country. As a result, the government came up with the idea of GST Practitioners as a means to alleviate the burdens placed on taxpayers as a result of the Goods and Services Tax (GST). These GST Practitioners could act as representatives of taxpayers and assist with the filing of returns and other GST compliance requirements. Now, if you are curious about how to become a GST Practitioner and are contemplating the subject, the first step you should do is to enroll in the GST Course. These classes may be taken offline or online, and there are groups that meet throughout the week as well as on the weekends. (Slemrod, 2008)

V. CHALLENGE

There seem to be certain fundamental flaws in the GST model enforced by the union government that may render it ineffectual in achieving the intended objective.

- One country, one tax is a flawed premise that cannot be applied to India in the form of GST. After the introduction of GST, there are 31 taxes instead of the previous 32 (service tax, excise duty, sale tax, including 29 state VAT taxes); these 31 taxes are made up of IGST, CGST, and 29 SGST, creating a complex tax system that goes against the idea of "one nation, one tax."
- Another fundamental concept behind GST implementation is that a single rate of taxation is not viable in India since, according to the 101st amendment to the constitution, Article 246 A says that the parliament and legislative assembly may levy taxes on goods and services. As a result, not only the union government but also the state governments had the authority to set their own GST rates. Article 279 A of the constitution specifies that the GST council has only advisory powers; it is now up to state governments to impose their own GST rates, which distorts the country's whole GST uniformity rate scheme. (2020)
- The government established the goods and services tax network (GSTN), which is in charge of creating the GST portal to provide services such as GST registration, GST return filing, IGST settlement, and so on, which need a strong IT network. It is well acknowledged that India is still in its infancy in terms of IT network connection.
- The lack of trained and competent labor with up-to-date GST topic knowledge has resulted in an increased workload for experts across industries.
- The Indian insurance industry is still underdeveloped, with fewer than 10% of the population insured. This was the motivation behind the government initiative "PradhanMantriJeevan Bema Yojana," but with the implementation of GST, insurance premiums have increased by 300 basis points, making it difficult for insurance companies to enter the market and acting as a detriment to insurance awareness campaigns. The government program "Pradhan Mantri Jan DhanYojna" undertaken by the government that every citizen has a bank account would encounter challenges since the levy on financial services has been hiked by 3% in the new goods and services tax system.
- However, although the government is making strides toward a digital India, the telecommunications industry is facing a major challenge, telecom services are getting costlier as telecom services will attract a GST tax rate of 18% which is 3% higher than the previous service tax rate, even when India's rural tele density is not even 60%.
- The GST administration aims to exclude petroleum items from GST, despite the fact that petroleum products have been a key contributor to inflation in India. (Shukla & Kumar, 2019)
- Because they can't afford to hire dedicated IT and accounting staff to keep track of and file GST forms, small businesses are finding the GST tax rate assessment and the resulting increase in operating costs to be particularly perplexing.

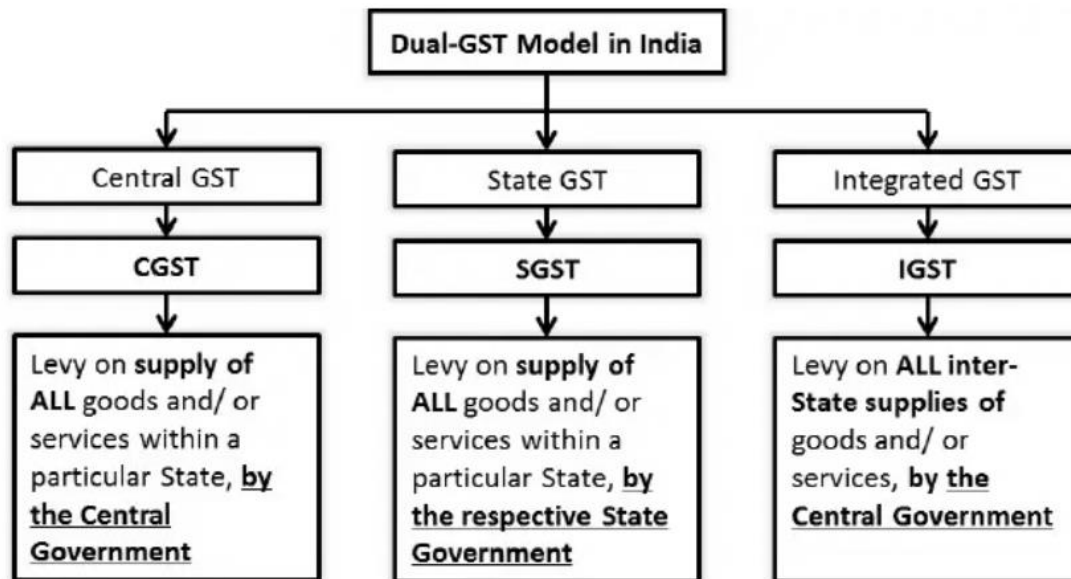


FIGURE 1. GST MODEL

VI. DIVISIONS OF GST AND ADVANTAGES OF THE GST

➤ **Divisions of GST**

The recently enacted Goods and Services Tax (GST) law replaced many different forms of indirect taxes with itself, and it may be broken down into four distinct categories. These are the four categories:

- A central tax on goods and services is referred to as the CGST. It applies to retailers and wholesalers doing business inside the state. Any taxes that are paid will be distributed to the entity that serves as the central authority.
- A state tax on goods and services is referred to by its acronym, SGST.
- It applies to retailers and wholesalers who do business inside the state. The amounts of taxes that are paid will be distributed among the several governmental authority bodies.
- An integrated goods and services tax is what is meant by the abbreviation "IGST." It is relevant to vendors that operate in both commerce beyond state lines and import and export transactions. The amount of taxes that are paid will be distributed to both the state and the central authority body.
- The Union Territory Goods and Services Tax (UTGST), if the transaction is connected to any union territory (Smith et al., 2022)

➤ **Advantages of the GST**

The implementation of the GST has resulted in a number of advantages all over the world. The primary objective is to preserve the country's existing tax structure while simultaneously fostering economic growth and expanding exports. The following is a summary of some of the advantages that the GST offers.

- The Goods and Services Tax (GST) establishes a nationwide single market.
- Encourages investment from other countries
- Contributes to the establishment of consistent taxes
- Contributes to the enhancement of production and encourages entry into the global market.
- The tax burden for small businesses is either nonexistent or little.
- When customers shop at locally owned and operated businesses, they get several benefits. (Palmer)

Month	GST Collection in Rs. Crs
April	113865
May	100289
June	99939
July	102000
August	98202
September	91916
October	95380
Total	701591

FIGURE 2: -Monthly Gst Collections In India In Fy2020-21 (IN RS. CRS)

CONCLUSION

The Goods and Services Tax (GST) was enacted to modernise India's indirect tax system. Consolidating many federal and state levies into one might prevent cascading or double taxation and promote a single national market. The tax's apparent ease of administration bodes well for its eventual adoption and enforcement. The Goods and Services Tax (GST) is predicted to provide companies an edge in the marketplace and encourage the growth of e-commerce. By establishing a single market and lowering taxes for people, Goods and Services Tax (GST) would significantly alter India's economic climate. The current indirect tax system would undergo significant changes in many respects, including organisation, computation, payment, compliance, use, credit, and reporting. Companies everywhere are moving swiftly to adapt to the dynamic global economy. As the global economy expands and diversifies, there is a need for more harmonised national tax systems and laws. If efforts are adopted to promote awareness and keep an eye on pricing before the GST is implemented, there may be less reluctance to implementing the anti-profiteering clause. For the GST to regain the trust of the public and business community, it may be necessary to form a committee to deal with any and all problems, establish an audit unit whose only purpose is to check for anti-profiteering, or adopt laws outlining the specific actions that are illegal. For a countrywide launch to succeed, a solid IT network and infrastructure are also required. The creation of a unified computer network has only started. As a result, the government has begun the National Digital Literacy Mission to help people improve their skills in this area. The implementation of GST necessitates a review of the original goals. The "One Nation, One Tax, and One Market" goal of GST can never be realised until these issues are addressed. Input tax credit set-offs, service tax set-offs, and the unification of multiple taxes have all been shown to be beneficial to businesses and consumers alike under the proposed Goods and Services Tax (GST). It's also important to highlight the many industries and fields of study that have benefited from GST.

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