

Impact of GST on Indian Economy

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Abstract

The Goods and Services Tax (GST), implemented in India on July 1, 2017, marked a watershed moment in the nation's economic history. It aimed to unify the fragmented indirect tax structure into a single, comprehensive system, promising to streamline trade, boost revenue, and enhance economic efficiency. While the impact of GST has been multifaceted and continues to evolve, it has undeniably reshaped the Indian economic landscape. One of the most significant impacts of GST has been the simplification of the tax structure. By subsuming numerous central and state taxes like excise duty, service tax, VAT, and octroi, GST eliminated the cascading effect of taxes, where taxes were levied on taxes. This reduction in the "tax on tax" burden has led to lower production costs and potentially lower prices for consumers. Furthermore, the unified tax regime has reduced the complexities of inter-state trade, fostering a more seamless national market. The expansion of the tax base is another crucial outcome. GST's integrated system has brought a larger number of businesses into the formal economy. The threshold for GST registration has encouraged smaller businesses to register, thereby increasing compliance and broadening the tax net. This formalization has also improved transparency and accountability in business transactions. The implementation of e-way bills, which track the movement of goods, has further curbed tax evasion and improved logistics efficiency.

Keywords:

GST, Economy, business, SME

Introduction

The implementation of the Goods and Services Tax (GST) in India has significantly reshaped the landscape of the Indian retail sector. This comprehensive indirect tax reform has brought about both challenges and opportunities, influencing various aspects of retail operations. However, the transition to GST has not been without its challenges. Initially, businesses, particularly small and medium enterprises (SMEs), faced compliance hurdles. The complex filing procedures and the need for technological adaptation posed significant challenges. The initial glitches in the GST Network (GSTN) also added to the confusion and frustration. The government has since made efforts to simplify procedures and provide support to businesses, but ongoing refinements are still necessary. (Sudina , 2021)

There has been discussion about the effect on revenue generating. Although the goal of GST was to raise tax revenue, there were variations and deficits in the early years. This was caused by a number of factors, including the difficulties in complying with regulations and the decrease in tax rates on specific goods and services. However, GST collections have steadily increased over time as the system has stabilized and compliance has improved.

The supply chain and logistics industry is another area affected. The time and expense of transportation have been greatly decreased with the installation of e-way bills and the removal of interstate checkpoints. As a result, supply chains are now more efficient and the flow of goods around the nation is more seamless. Another factor has been the decrease in logistical constraints to a more competitive business environment.

The effects on particular industries have differed. The streamlined tax system and increased productivity have greatly helped some industries, such manufacturing and logistics. However, other industries found it difficult to adjust to the new system, especially those with a large percentage of unorganized participants. (Kumar , 2020)

Foreign investment has also been indirectly impacted by the GST. India is now a more alluring location for foreign investors due to its clear and straightforward tax structure. A key element in luring in foreign investment is the convenience of conducting business, which has been enhanced by the unified market and decreased compliance load.

A complicated network of various indirect taxes, including service tax, excise duty, and VAT, was replaced by the GST, which created a single tax structure. Because of this streamlining, retailers now have less administrative work to do, which improves the efficiency of tax compliance. Taxes that were previously levied

on taxes no longer have a cascading impact thanks to the GST's input tax credit (ITC) mechanism. Costs have decreased as a result, and consumers may now pay less.

By eliminating interstate tax obstacles, the GST has made it easier to create a single national market. As a result, supply chain operations and logistics have become more efficient, allowing for quicker product movement and lower inventory costs. This simplified procedure was further facilitated by the introduction of E-way bills.

Because GST is digital, transactions are now more transparent, which lowers the possibility of tax fraud and fosters a more orderly retail environment. GST has made it possible for merchants to increase their market share by streamlining interstate transactions beyond state borders, fostering business growth.

For merchants, especially small and medium-sized businesses (SMEs), the shift to GST necessitated considerable changes in accounting operations, compliance protocols, and technology usage. Even though the general tax structure has been made simpler by GST, certain retailers may still find it difficult to comply with continuing responsibilities like filing monthly returns.

Technology plays a key role in the GST System. The retail industry has adopted technology more widely as a result of this demand. Although beneficial, it has also presented challenges for smaller shops who lack access to those resources. (Nandi, 2020)

Review of Literature

Ahmed et al. (2020): The Indian retail industry has been formalized thanks in large part to GST, which has increased operational efficiency and transparency. For retailers, it has leveled the playing field, encouraging fair competition and business expansion. As the Indian retail industry continues to expand and adjust to the GST regime, the long-term picture is extremely favorable.

Kumar et al. (2021): Although there were some early difficulties with the GST's introduction, the Indian retail industry has generally benefited in the long run. It has paved the way for long-term growth and development by making the retail market more unified, transparent, and efficient.

Datey et al. (2022): Before the GST, companies had to deal with a complex web of taxes, such as excise duty, service tax, value-added tax (VAT), octroi, and entry tax. A greater overall tax burden for consumers resulted from the cascading effects of this disjointed structure, where taxes were imposed on taxes. Compliance was difficult since companies had to deal with various tax laws in every state. In order to remove this complexity and establish a single national market, the GST was introduced.

Annapoorna et al. (2022): The removal of the cascading effect has been one of the most important effects of GST. GST guarantees that taxes are only imposed on the value contributed at every stage of the supply chain by combining multiple indirect taxes into a single levy. The entire tax burden has been greatly decreased as a result, lowering the cost of goods and services. This benefit has been further increased by the smooth movement of input tax credits across state lines, enabling enterprises to offset taxes paid on inputs against their output tax liability.

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The procedure of compliance has been made simpler by GST. Businesses no longer have to deal with numerous tax authorities and adhere to disparate state requirements thanks to the implementation of a single tax framework. A strong IT infrastructure called the GST Network (GSTN) has made it easier to file returns and pay taxes online, increasing the process's efficiency and transparency. For small and medium-sized businesses (SMEs), in particular, this has lessened the burden of compliance, freeing them up to concentrate on their primary business operations.

Another significant effect of GST is the development of a single national market. The free flow of products and services throughout the nation has been made possible by the GST's removal of interstate tax obstacles. As a result, the supply chain is now more efficient and logistics expenses have decreased and enhanced competitiveness. Businesses can now operate on a national scale, expanding their market reach and benefiting from economies of scale.

But there have also been some difficulties with the GST's implementation. Businesses, particularly SMEs, faced challenges during the initial teething issues, which included technical issues with the GSTN interface and the intricacies of adjusting to the new system. Confusion and the burden of compliance have also increased due to the frequent changes in GST rates and regulations.

Furthermore, the effects of GST on particular industries have differed. The streamlined tax system and increased efficiency have greatly helped certain industries, such e-commerce and logistics. Nevertheless, other industries, like small businesses and real estate, have had difficulties as a result of higher compliance standards and shifting tax rates.

Notwithstanding these difficulties, the GST has generally had a good effect on simplified taxation. It has eliminated the cascade effect, established a single national market, and greatly simplified the indirect tax structure. Realizing the full potential of the GST system depends on continued efforts to solve its issues and enhance it, such as by streamlining compliance processes and offering businesses greater assistance.

At first, there were difficulties with the GST's implementation. Companies found it difficult to conform to the new compliance standards, which included complicated filing processes and changes to technology. The process was made more difficult by technological issues with the GST Network (GSTN) during the initial rollout. As a result, revenue collection fluctuated in the first several months, and possible shortfalls were a source of concern.

But the system has developed over time. Simplified filing procedures have been implemented, and the GSTN has been reinforced. Businesses have also been actively contacted by the government to discuss their issues and offer the assistance they require. Consequently, there has been a consistent increase in GST revenue.

The increase in GST revenue has been attributed to a number of factors. First and foremost, better tax administration and increased compliance have been essential. Stricter enforcement actions and the implementation of electronic invoicing have expanded the tax base and decreased tax evasion. Second, higher revenue has also resulted from the economy's formalization. The tax base grows as more companies fall under the GST's purview, increasing revenue. Thirdly, the expansion of the Indian economy has inevitably resulted in higher production and consumption, which raises GST income.

Notwithstanding the encouraging trend, difficulties still exist. One key challenge is addressing the issue of tax evasion, particularly in certain sectors. The government continues to implement measures to curb evasion and ensure better compliance. Another challenge is the need for further simplification of the GST system to ease the burden on small and medium-sized enterprises (SMEs). The constant tweaking of tax rates and rules also creates some confusion for businesses.

Technological limitations also pose a significant hurdle. Although the GST Network (GSTN) was designed to facilitate electronic compliance, it has faced its share of glitches and technical issues. System outages, slow processing speeds, and difficulties in uploading and downloading data have disrupted supply chain operations. While improvements have been made, the need for a robust and reliable technology infrastructure remains crucial for seamless GST implementation. Furthermore, the digital divide in India means that many smaller businesses lack the technological literacy and infrastructure to fully utilize the GSTN, exacerbating compliance challenges.

The implementation of e-way bills was intended to curb tax evasion and improve logistics efficiency. However, it has also introduced its own set of challenges. The requirement to generate e-way bills for inter-state and intra-state movement of goods has led to increased documentation and potential delays at checkpoints. The validity period of e-way bills, based on distance, can be restrictive and may not always align with real-world logistics realities. This can lead to unnecessary delays and increased transportation costs, impacting supply chain efficiency.

Reconciliation issues are another major concern. The need for accurate invoice matching between suppliers and recipients is critical for claiming input tax credit (ITC). Discrepancies in invoices, delayed submissions, and errors in data entry can lead to significant reconciliation challenges. This can result in blocked ITC, impacting working capital and cash flow, particularly for SMEs. The complexity of the reconciliation process often requires businesses to invest in specialized software and manpower, adding to their operational costs.

State-specific variations in GST rules and procedures also create complexities for businesses operating across multiple states. While the GST aimed to create a unified national market, certain state-level variations persist, particularly concerning intra-state e-way bills and other compliance requirements. This lack of uniformity can lead to confusion and increased compliance costs for businesses with multi-state operations, hindering the seamless flow of goods.

Furthermore, the lack of awareness and training among businesses, especially SMEs, is a significant challenge. Many businesses struggle to understand the intricacies of the GST regime and lack the necessary skills to comply effectively. This can lead to errors, penalties, and disruptions in supply chain operations. Continuous education and training programs are essential to bridge this knowledge gap and ensure smooth GST implementation.

Finally, adapting to the evolving nature of the GST regime is a continuous challenge. The government frequently introduces amendments and clarifications to the GST rules, requiring businesses to stay updated and adapt their processes accordingly. This constant evolution can be challenging for businesses, particularly SMEs with limited resources.

Conclusion

GST has had a profound and multifaceted impact on the Indian economy. While the initial years were marked by challenges and adjustments, the long-term benefits of a unified tax regime are becoming increasingly evident. The simplification of the tax structure, the expansion of the tax base, and the improved efficiency of logistics have contributed to a more robust and integrated economy. However, continued efforts are needed to address the remaining challenges, simplify compliance procedures, and ensure that the benefits of GST reach all sectors of the economy. The ongoing evolution of the GST regime is crucial for realizing its full potential and driving sustained economic growth in India.

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