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The Influence of GST on the Indian Economic Landscape: An Exploratory Study

Mr. Ramesh Jaid[1*], Dr. Yuvraj Lahoti[2]

[1*]Research Scholar, Vishwakarma University, Email Id- ramesh.jaid-959@vupune.ac.in
[2]Professor, Vishwakarma University, Email Id- yuvraj.lahoti@vupune.ac.in

Abstract

The implementation of Goods and Services Tax (GST) in India marked a significant turning point in the country's economic landscape. This exploratory study delves into the multifaceted influence of GST on the Indian economy, with a focus on its impact on various sectors, the Consumer Price Index (CPI), and the financial well-being of the average individual. The first objective of this study is to examine the effects of GST on diverse sectors operating within the Indian markets. GST sought to simplify the tax structure, reduce the cascading effect of taxes, and promote a more unified market. We investigate how this transformative tax reform has affected sectors such as automobile, real estate, consumer goods, information technology, and telecom, using statistical data to provide insights into the changes observed in these sectors. The second objective centers on investigating the influence of GST on the Consumer Price Index (CPI). The introduction of GST initially led to fluctuations in inflation rates, but subsequent adjustments aimed to stabilize prices. We utilize statistical data to analyze inflation trends and the impact of GST on the purchasing power and cost of living for the common man. The third objective is to assess the implications of GST on the financial well-being of the average individual. We examine how GST has influenced savings, expenditure patterns, and tax compliance for the common man, considering the impact on essential items and the ease of doing business. Through this exploration, we aim to provide a comprehensive understanding of the consequences of GST on the economic landscape and the everyday lives of Indian citizens.

Keywords: GST, Indian Economy, Consumer Price Index, Financial Well-being

1. Introduction of the Study

Prior to the introduction of Goods and Services Tax (GST) in India in July 2017, the country's tax system was characterized by a multitude of indirect taxes applied to various transactions, including Value Added Tax (VAT), excise duty, service tax, central sales tax, entertainment tax, luxury tax, sales tax, and others. This complex and fragmented tax structure not only added to the administrative burden but also led to inefficiencies, such as the cascading effect of indirect taxation and double taxation. This paper explores the profound effects of the implementation of GST on the Indian economy, focusing on the simplification of the tax regime, the elimination of cascading taxes, and the promotion of a unified and efficient market.

The concept of Goods and Services Tax was first introduced by the former Union Finance Minister, P. Chidambaram, during his budget speech for the fiscal year 2006-07. This marked the beginning of a transformative journey toward a unified tax system in India. It aimed to replace the numerous indirect taxes and create a more simplified and efficient tax structure for the country. After years of deliberation, the GST Bill was passed by both houses of the Indian Parliament on 29th March 2017 and was officially implemented on 1st July 2017.

One of the primary goals of GST was to simplify the tax system in India. By subsuming various state and central taxes under one umbrella, GST effectively reduced the complexity and administrative burden associated with the earlier tax regime. This single indirect tax replaced the myriad of indirect taxes and brought uniformity to the taxation structure, making it easier for businesses to comply with tax regulations.

The cascading effect of indirect taxation, also known as tax on tax, was a major issue in the pre-GST era. Under the previous system, taxes were levied on the value of the goods at each stage of production and distribution. This resulted in a cumulative tax burden on the final consumer. GST addressed this problem by providing a mechanism for the offset of input tax credits, ensuring that taxes were levied only on the value added at each stage. This reform not only reduced the overall tax burden but also enhanced the competitiveness of Indian products in the global market.

GST has been instrumental in moving India closer to the concept of a common market. By facilitating the free movement of goods and services across state borders, it has eliminated the barriers that existed under the previous tax structure. This has enabled businesses to expand their operations and supply chains more efficiently. A common market encourages economic growth and fosters a climate for doing business in a more streamlined and cost-effective manner.

While the implementation of GST brought significant benefits to the Indian economy, it also had an impact on government revenues. Initially, there was a dip in government revenue due to lower tax rates and the transition period. However, in the long run, GST is expected to increase revenue collection as it curbs tax evasion and expands the tax base.

Despite its transformative impact, the implementation of GST in India has not been without challenges. The complexities in compliance, frequent changes in tax rates, and technology-related issues have posed challenges for businesses. The government continues to work on addressing these issues through ongoing reforms to ensure the system operates more smoothly and effectively.

2. History of GST in India

The history of Goods and Services Tax (GST) in India is a journey of significant tax reform that began in the early 2000s. The idea was formally introduced by Union Finance Minister P. Chidambaram in the 2006-07 budget speech. The primary goal was to simplify India's convoluted tax system, which included multiple state and central taxes like VAT, excise duty, and service tax. This complexity burdened taxpayers and led to issues like the cascading effect of taxation.

However, the road to GST implementation was not without challenges. Achieving a consensus among states and the central government regarding the structure and rates of GST required intricate negotiations. The formation of the Goods and Services Tax Council, representing both levels of government, played a crucial role in achieving this consensus.

On March 29, 2017, the GST Bill was passed by both houses of Parliament, setting the stage for its implementation on July 1, 2017. This marked a monumental shift in India's tax landscape, as GST replaced a multitude of indirect taxes with a unified system. The implementation of GST simplified tax compliance for businesses, reduced the tax burden, and eliminated the cascading effect of taxes. It also promoted the concept of a common market within India, enabling the free movement of goods and services across state borders and fostering economic growth.

While GST brought about transformative changes, it also presented challenges, including initial disruptions and compliance complexities. However, ongoing reforms have been implemented to address these issues and ensure the smooth operation of the GST system. In summary, the history of GST in India represents a significant milestone in the country's economic landscape, simplifying taxation and facilitating economic growth.

3. Literature Review

Numerous research papers and articles provide comprehensive insights into the Goods and Services Tax (GST). In their 2009 research study, Ahmed and Poddar conducted an extensive examination of the potential consequences stemming from GST reforms in India. Their scholarly investigation shed light on the prospective outcomes linked to the implementation of GST, demonstrating its ability to establish a simpler and more transparent tax framework, ultimately enhancing economic output and productivity in the Indian context. It is crucial to emphasize their reiterated focus on the essential role of thoughtful design and effective execution of the GST framework to realize these envisioned benefits.

Building upon this academic foundation, Vasanthagopal's scholarly work in 2011 reaffirmed the positive prospects associated with transitioning from the complex existing indirect tax system to a seamlessly integrated GST model in India. Furthermore, the successful implementation of GST was foreseen as a potential catalyst for its endorsement by a consortium of over 130 nations worldwide, thereby establishing it as the preferred mode of indirect taxation in the Asian region.

Concurrently, the research efforts of Sarma and Bhaskar in 2012 shed light on the necessary procedural steps and constitutional amendments required for the full-scale adoption of this comprehensive tax framework. Collectively, these scholarly contributions have significantly enriched our comprehension of the multifaceted journey toward GST integration in India, underscoring the pivotal role of thorough planning and execution.

In 2013, Taqvi et. al. conducted an extensive examination of the challenges and opportunities presented by the Goods and Services Tax (GST) in India. Taqvi highlighted the distinctive nature of GST as the only indirect tax that directly impacts all sectors and segments of the country. This transformative tax reform aimed to establish a unified market with potential benefits for both businesses and the broader economy. Notably, Taqvi and the team clarified the proposed GST model's division into Central GST and State GST, indicating its dual implementation by both central and state governments.

In a different perspective, a study by Mawuli and Moresby in 2014 raised concerns about the application of GST in low-income countries, arguing that it might not foster comprehensive growth in such nations. Mawuli suggested that if low-income countries were to adopt GST, it should be implemented at a minimal rate of less than 10% to promote economic growth.

Conversely, research by Bala in 2018 argued that the introduction of GST at both central and state levels in India would alleviate the burden on industry, trade, agriculture, and consumers. This tax reform involved broader input tax and service tax offsets while consolidating various taxes and gradually phasing out the Central Sales Tax (CST). The responses from industry and trade were viewed as positive, presenting GST as an opportunity to expand the tax base in a favorable economic environment characterized by stable growth and modest inflation.

Echoing a similar perspective, a study by Kumar in 2017 concluded that the implementation of GST in India had the potential to rectify the economic distortions inherent in the existing indirect tax system. Kumar envisioned a tax structure that was indifferent to geographical disparities, providing an impartial platform to foster economic growth and development.

4. Objectives of the Study

The primary goals of this research paper are as follows:
1. To examine the impact of GST on various sectors within the Indian markets.
2. To investigate the influence of GST on the Consumer Price Index (CPI).
3. To assess the implications of GST on the financial well-being of the average individual.

5. Results and Discussion

The impact of GST on these sectors in India has been a mixed bag. While some sectors initially faced challenges during the transition period, GST has generally simplified the tax structure, reduced the cascading effect of taxes, and promoted a more unified market. Over time, these changes have contributed to the growth and development of various industries, as evidenced by the statistics and trends in each sector.

A) Impact of GST on Various Sectors within the Indian Markets

The introduction of Goods and Services Tax (GST) in India has had a profound impact on various sectors of the economy, including the automobile, real estate, consumer goods, information technology, and telecom sectors.

1. ***Automobile Sector:*** GST has had both positive and negative effects on the automobile industry. On the positive side, GST streamlined the tax structure, reducing the overall tax burden. However, the initial implementation led to higher tax rates for certain vehicle categories, affecting prices. The sector also saw challenges like increased compliance requirements. According to the Society of Indian Automobile Manufacturers (SIAM), the Indian automobile industry witnessed a growth of around 23.9% in the year 2018-2019 post-GST implementation.
2. ***Real Estate Sector:*** GST had a significant impact on the real estate sector by replacing various state and central taxes. While it aimed to bring more transparency to the industry, the implementation led to a temporary slowdown in the sector. The affordable housing segment received a boost with a lower GST rate. According to data from the Reserve Bank of India, the real estate sector showed signs of recovery in terms of housing loans and property transactions, indicating positive long-term prospects.
3. ***Consumer Goods Sector:*** GST simplified the tax structure for consumer goods, benefiting both consumers and manufacturers. The introduction of a unified tax structure eliminated the cascading effect of taxes, resulting in reduced prices for many consumer goods. As per Nielsen's data, post-GST implementation, the FMCG sector witnessed growth of approximately 8-10%.
4. ***Information Technology Sector:*** The IT sector experienced a relatively smooth transition to GST. It benefited from the input tax credit system, which reduced costs. While the initial implementation phase saw challenges, the sector adapted quickly. As per the National Association of Software and Service Companies (NASSCOM), the Indian IT industry continued to grow steadily, contributing significantly to GDP post-GST.
5. ***Telecom Sector:*** GST brought telecommunications services under the 18% tax slab. While this increased the tax burden on consumers initially, it also allowed telecom companies to claim input tax credits. The sector has

continued to invest in infrastructure and technology. As per the Telecom Regulatory Authority of India (TRAI), the number of wireless subscribers in India increased post-GST.

B) The Influence of GST on the Consumer Price Index (CPI)
The introduction of Goods and Services Tax (GST) in India had a notable influence on the Consumer Price Index (CPI), which measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Initially, there was some concern that GST might lead to a temporary increase in inflation, particularly due to the higher tax rates on some goods and services. The transition period witnessed fluctuating inflation rates. According to data from the Reserve Bank of India (RBI), there was an increase in CPI inflation after the GST rollout, with inflation peaking at around 3.6% in October 2017.

The GST Council periodically reviewed and revised tax rates for various goods and services to mitigate the impact on inflation. Essential items such as food items and certain services were placed under lower tax slabs to ensure they remained affordable. These adjustments helped in stabilizing and controlling inflation. Over time, as the initial disruptions and adjustments settled, inflation rates began to moderate. As per the Ministry of Statistics and Programme Implementation (MOSPI), the CPI inflation rate started declining, and it reached below 3% in 2019-2020.

Core inflation, which excludes the volatile food and fuel components, is often considered a better indicator of underlying inflation trends. Post-GST implementation, core inflation remained relatively stable, indicating that the impact of GST was somewhat transitory. The impact of GST on the CPI isn't solely about the numbers; it's also about consumer sentiment. As consumers adapted to the new tax regime and as prices stabilized, confidence in the economy increased. Consumer spending patterns and sentiment play a role in shaping inflation trends.
It's important to note that while GST had some initial impact on inflation, its long-term effect has been beneficial in simplifying the tax structure, eliminating the cascading effect of taxes, and promoting a more efficient supply chain, which can ultimately contribute to price stability. The specific impact on CPI can vary based on the composition of the CPI basket, tax rate adjustments, and broader economic factors. The government and GST Council have continued to make adjustments to ensure that the tax system remains consumer-friendly.

C) The Implications of GST on the Financial Well-Being of the Average Individual
The implications of Goods and Services Tax (GST) on the financial well-being of the average individual in India have been multifaceted. While the impact has been complex, it is essential to understand how GST has influenced the financial situation of the common man. GST aimed to simplify the tax structure, which potentially could lead to reduced prices on various goods and services. As a result, the common man may have experienced some savings on their regular expenses. According to a study by Nielsen, post-GST implementation, the Fast Moving Consumer Goods (FMCG) sector witnessed growth of approximately 8-10%. This could indicate that lower tax rates on essential consumer goods led to cost savings for consumers, benefiting their financial well-being.
Essential items such as food, grains, and healthcare were placed under lower tax slabs to protect consumers from a sudden price hike. The Reserve Bank of India (RBI) reported that there was a slight increase in inflation rates immediately after GST implementation, which impacted the purchasing power of the common man. However, as tax rate adjustments were made, inflation started to stabilize.
The simplification of the tax system through GST reduced compliance burdens for businesses. A more efficient tax regime can potentially lead to increased economic activity and job opportunities. An improved business environment and increased economic activity can indirectly benefit the financial well-being of individuals through better employment opportunities and income growth. Consumer sentiment plays a significant role in the financial well-being of individuals. As people adapted to the new tax regime and perceived stability in prices, confidence in the economy and spending patterns improved.
It's important to note that the impact of GST on the financial well-being of the average individual is not uniform and can vary based on individual circumstances, such as income levels, consumption patterns, and location. While there were some challenges during the initial phase of implementation, the long-term goal of GST has been to create a more efficient and equitable tax system that benefits the common man. Statistical data on inflation trends, savings in the FMCG sector, and real estate considerations can provide insights into these implications.

6. Conclusion

This exploratory study has shed light on the intricate and multifaceted influence of Goods and Services Tax (GST) on the Indian economic landscape. The three main objectives of this study were to examine the impact of GST on various sectors, investigate its influence on the Consumer Price Index (CPI), and assess its implications on the financial well-being of the average individual. Our examination of GST's impact on various sectors, including the automobile, real estate, consumer goods, information technology, and telecom industries, reveals both challenges and opportunities. While some sectors faced initial disruptions, the long-term benefits of simplified tax structures, reduced cascading taxes, and enhanced competitiveness have set the stage for growth and development.

In investigating the influence of GST on the CPI, we observed initial fluctuations in inflation rates, which subsequently stabilized. The adjustments made to tax rates for essential items aimed to protect the common man from sudden price hikes, aligning with the broader goal of ensuring the well-being of citizens. Assessing the implications of GST on the financial well-being of the average individual, we found that while challenges existed during the transition, the tax reform ultimately contributed to savings, cost reductions, and increased consumer confidence.

This study underscores the dynamic nature of GST's impact on the Indian economy. It is not a one-size-fits-all scenario; instead, the influence varies across sectors and individuals. The long-term advantages of GST, such as streamlining tax structures, reducing the cascading effect of taxes, and promoting a unified market, have the potential to foster economic growth and enhance the well-being of the average Indian citizen. It is essential for policymakers to continue monitoring and refining the tax regime to ensure that the positive effects of GST continue to benefit the nation.

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