

Impact of GST on Indian Economy

MALPANI DEEPIKA VISHNUPRASADJI

Commerce

Assistant professor

Suman Madhav Mahila Mahavidyalay Zari Nanded, Maharashtra, India

ABSTRACT

The Goods and Services Tax (GST), implemented in India on July 1, 2017, represents the most profound and transformative indirect tax reform since independence. Conceived as a "one nation, one tax" regime, it aimed to unify the country's fragmented market by subsuming over 17 central and state levies into a single, destination-based, multi-stage tax. This research provides a comprehensive, multi-dimensional analysis of the GST's impact on the Indian economy from its inception to the present. It evaluates the reform against its core objectives: creating a unified common market, eliminating the cascading "tax-on-tax" effect, enhancing ease of doing business, broadening the tax base, and boosting economic growth and foreign investment. The study employs a mixed-methods approach, analyzing macroeconomic indicators (GDP growth, inflation, fiscal deficits, revenue trends), sectoral performance (logistics, manufacturing, MSMEs, services), and micro-level business experiences. Findings reveal a complex and evolving picture: GST has successfully streamlined logistics, reduced inter-state barriers, and formalized the economy, leading to a significant increase in the taxpayer base. However, the transition has also exposed challenges, including initial implementation complexities, a multi-rate structure that dilutes the ideal of simplicity, compliance burdens for small businesses, and persistent revenue volatility for some states. The paper concludes that while GST has laid a robust foundation for a more efficient and transparent tax system, its full potential is yet to be realized. Strategic policy refinements—such as rate rationalization, simplification of compliance, and strengthening the GST Council's dispute resolution mechanism—are critical to harness its positive impact and navigate the trade-offs between revenue neutrality, progressivity, and economic efficiency for sustainable long-term growth.

KEYWORDS

Goods and Services Tax (GST), Indirect Tax Reform, Indian Economy, Tax Unification, GST Council, Input Tax Credit (ITC), Ease of Doing Business, Formalization of Economy, Revenue Neutral Rate (RNR), Compliance Burden, Economic Integration, Inflation, Fiscal Federalism, Supply Chain Efficiency.

INTRODUCTION

India's pre-2017 indirect tax system was a complex, multi-layered web of central taxes (Excise, Service Tax) and state taxes (VAT, Entry Tax, Octroi), creating a fragmented national market with significant cascading effects and high compliance costs. The genesis of GST lay in the need to replace this inefficient structure with an integrated system to enhance competitiveness, reduce distortions, and foster cooperative federalism. This introduction outlines the constitutional journey of GST (101st Amendment Act), its core design principles (dual GST with CGST, SGST, and IGST), and the role of the pivotal GST Council. It sets the stage for a critical examination of the reform's economic ramifications, acknowledging it as a monumental economic experiment with far-reaching consequences for all stakeholders—from the government and large corporations to MSMEs and consumers.

DEFINITIONS

1. **GST:** A comprehensive, destination-based, multi-stage tax levied on the supply of goods and services, where tax is levied on value addition at each stage and credit is available for taxes paid on inputs.
2. **Input Tax Credit (ITC):** The mechanism that allows a taxpayer to claim credit for the tax paid on inputs used in the supply of goods or services, eliminating the cascading effect.
3. **GST Council:** A constitutional body (Chair: Union Finance Minister; Members: State FM) responsible for making recommendations on rates, exemptions, and laws related to GST.
4. **Reverse Charge Mechanism (RCM):** Where the liability to pay tax is on the recipient of the supply instead of the supplier.
5. **Composition Scheme:** A simplified scheme for small taxpayers with a turnover below a specified limit to pay tax at a fixed rate.

NEED FOR THE STUDY

Seven years post-implementation, a comprehensive and balanced assessment is crucial. Policymakers need evidence to refine the structure; businesses require insights into operational efficiencies and challenges; and academia seeks to understand the reform's theoretical and practical outcomes. This study fills the gap by moving beyond initial transitional analyses to provide a mid-to-long-term perspective on GST's structural impact on economic integration, efficiency, equity, and fiscal health.

AIMS & OBJECTIVES

Aim: To holistically evaluate the economic impact of the Goods and Services Tax on India, assessing its successes, shortcomings, and long-term implications.

Objectives:

1. To analyze the pre-GST tax structure and theorize the expected economic benefits of GST implementation.
2. To assess the impact of GST on key macroeconomic indicators: GDP growth, inflation, fiscal deficits, and tax buoyancy.
3. To evaluate sector-specific impacts (Logistics, Automobiles, Real Estate, MSMEs, E-commerce, Services).
4. To examine the effect on ease of doing business, tax compliance, and formalization of the economy.
5. To study the functioning of the GST Council as a model of cooperative federalism and its decision-making efficacy.
6. To identify persistent challenges and unintended consequences of the GST regime.
7. To provide data-driven policy recommendations for optimizing the GST framework.

HYPOTHESIS

1. **H1:** GST implementation has significantly improved supply chain efficiency and reduced logistics costs by eliminating inter-state check-posts.
2. **H2:** The multi-slab rate structure and frequent changes have increased compliance costs, particularly for MSMEs, offsetting some benefits of input tax credit.
3. **H3:** GST has been a net positive for fiscal consolidation at the central level but has created revenue volatility and dependency concerns for some states.
4. **H4:** The formalization effect of GST (due to the ITC chain) has increased the tax base but may have initially adversely impacted the informal sector's competitiveness.

LITERATURE SEARCH

1. **Official Reports:** GST Council Meeting Minutes, Reports of the Revenue Secretary, C&AG reports on GST, Economic Surveys (2017-2024).
2. **Academic Research:** Rao & Rao (2017) on fiscal federalism; EY, Deloitte, and PwC sectoral impact studies; NIPFP working papers on revenue neutrality.
3. **International Comparisons:** Studies on VAT/GST implementation in countries like Canada, Australia, and Malaysia.
4. **Key Books:** "The GST Journey: Five Years and Counting" by various authors; "GST: Explained for Common Man" by T. N. Manoharan.

5. **Empirical Studies:** Research papers in journals like *Economic & Political Weekly*, *Indian Journal of Finance*, and *GST Law Review* analyzing compliance data and economic trends.

RESEARCH METHODOLOGY

1. **Type:** Descriptive, Analytical, and Evaluative research.
2. **Data Source:** Secondary data from Ministry of Finance, GST Network (GSTN) portal, RBI bulletins, CSO, annual reports of companies, and industry associations (CII, FICCI, ASSOCHAM).
3. **Tools:**
 - A. **Trend Analysis:** Of monthly GST collections, sectoral growth pre and post-GST.
 - B. **Comparative Analysis:** Of state-wise revenue generation and compensation trends.
 - C. **Case Studies:** Of specific sectors (e.g., Real Estate post-GST rate cut) and MSME clusters.
 - D. **Review of Literature:** Synthesizing existing studies and reports.
4. **Limitations:** Difficulty in isolating GST's impact from other economic shocks (Demonetization, COVID-19); time lag in availability of granular, post-GST microdata.

STRONG POINTS / POSITIVE IMPACTS

1. **Unified National Market:** Removal of inter-state barriers reduced transit time and logistics costs by ~20%.
2. **Elimination of Cascading:** Seamless ITC reduced the cost of capital goods and intermediates, boosting manufacturing (Make in India).
3. **Formalization of Economy:** The digital, invoice-matching-driven system expanded the taxpayer base from ~65 lakh to over 1.4 crore.
4. **Improved Ease of Doing Business:** Simplified registration and a single return (ideally) replaced multiple state-level filings.
5. **Enhanced Transparency:** Digital trail reduced tax evasion and increased transparency in commercial transactions.
6. **Boost to Competitive Federalism:** GST Council provided a structured forum for Centre-State dialogue.

WEAK POINTS / CHALLENGES & NEGATIVE IMPACTS

1. **Structural Complexity:** Multiple tax slabs (5, 12, 18, 28%) plus cesses contradict the simplicity principle and create classification disputes.

2. **High Compliance Burden:** Technical glitches on GSTN portal, frequent return form changes (GSTR-1, 3B, 9, 9C), and stringent penalties.
3. **MSME Struggles:** Working capital blockage due to delayed refunds, high compliance costs, and challenges under the reverse charge.
4. **Revenue Uncertainty for States:** Dependence on compensation cess ended in 2022, exposing revenue vulnerabilities for consuming states.
5. **Inflationary Pressures (Initial):** Services and some goods saw tax rate increases, leading to short-term inflation.
6. **Implementation Hiccups:** Poor IT infrastructure initially, lack of clarity on anti-profiteering, and complex transitional provisions.

CURRENT TRENDS

1. **Rate Rationalization:** GST Council moving towards a three-slab structure (merging 12% & 18% into a median rate).
2. **Tech-Driven Compliance:** Increasing use of e-invoicing, AI/ML for analytics, and data-driven fraud detection.
3. **Focus on Curbing Evasion:** Tightening of e-way bill rules, mandatory e-invoicing for lower thresholds.
4. **Litigation Management:** Efforts to reduce disputes through clarifications and advance ruling mechanisms.
5. **Inclusion of Excluded Sectors:** Ongoing discussions on bringing petrol, diesel, real estate (fully), and electricity under GST.

HISTORY / EVOLUTION

1. **2000:** Idea proposed by Atal Bihari Vajpayee government; formation of an Empowered Committee.
2. **2006:** First discussion paper on GST model released.
3. **2011:** Constitution (115th Amendment) Bill introduced; lapsed.
4. **2014:** Constitution (122nd Amendment) Bill introduced.
5. **2016:** Passed by Parliament; ratified by States; **101st Constitutional Amendment Act** enacted.
6. **July 1, 2017:** GST launched with a grand midnight session in Parliament.
7. **2017-Present:** Continuous evolution through Council meetings, rate revisions, and simplification of processes.

DISCUSSION

This section synthesizes findings, debating key issues:

1. **Trade-off between Simplicity and Revenue:** The rationale behind multiple slabs versus a single/reduced rate.
2. **Cooperative vs. Competitive Federalism:** Analyzing state autonomy vs. collective decision-making in the GST Council.
3. **Formalization vs. Growth:** Whether the push for formalization stifled informal sector growth in the short run.
4. **Efficiency vs. Equity:** How the regressive nature of indirect tax is addressed (or not) through exemptions for essential goods.
5. **GST during COVID-19:** Role of GST relief measures in economic recovery.

RESULTS

1. **Macroeconomic Impact:** GST contributed to medium-term GDP growth by improving efficiency, but short-term disruption was evident. Inflation spiked initially but normalized.
2. **Revenue Impact:** GST collections have shown buoyancy, crossing the ₹1.5 lakh crore monthly mark consistently, indicating base expansion.
3. **Sectoral Impact:** Logistics and organized manufacturing were clear winners; real estate saw mixed effects; MSMEs faced a challenging adaptation phase.
4. **Compliance:** While digital compliance increased transparency, the complexity of filings remains a major pain point.
5. **Federalism:** The GST Council has been a successful experiment, though political tensions surface during compensation and rate discussions.

CONCLUSION

The GST is a watershed reform that has fundamentally altered India's economic landscape. It has successfully dismantled internal fiscal barriers, promoted a culture of compliance, and set the stage for a more efficient, transparent, and integrated national economy. However, the journey has been one of "evolution, not revolution," marked by pragmatic adjustments. The initial vision of a simple, single-rate tax has given way to a more politically feasible but complex multi-rate system. The true success of GST will be measured not by its flawless launch, but by the agility of the GST Council to simplify the structure, reduce compliance friction, and ensure stable revenues for all states, thereby unlocking its full potential as an engine of sustainable growth.

SUGGESTIONS & RECOMMENDATIONS

1. **Rationalize Tax Slabs:** Move expeditiously towards a three-rate structure (a merit rate, a standard rate, and a demerit rate).

2. **Simplify Compliance:** Make the proposed single monthly return robust and user-friendly. Extend the compliance calendar.
3. **Support MSMEs:** Further simplify the composition scheme, ensure quick refunds, and provide handholding for digital compliance.
4. **Strengthen Dispute Resolution:** Set up a permanent GST Tribunal and promote advance rulings to reduce litigation backlog.
5. **Widen the Tax Base:** Include petroleum products, real estate, and electricity to realize the full benefit of a seamless credit chain.
6. **Enhance GSTN Infrastructure:** Continuously invest in IT infrastructure for higher uptime, better analytics, and user experience.
7. **Independent Review:** Constitute a high-level committee for a comprehensive five-year review of GST's structure and impact.

FUTURE SCOPE

1. Longitudinal study on the impact of GST on income inequality and poverty.
2. In-depth analysis of the cross-border implications of GST on India's export competitiveness.
3. Behavioral economics study on tax compliance under a digital, invoice-matching system.
4. Impact assessment of including excluded sectors (Petrol, Diesel, Real Estate) under GST.
5. Comparative analysis of GST revenue resilience across states post-compensation era.
6. Study on the environmental impact of GST through changes in supply chain logistics.

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