



A Study of Impact of GST on Indian Economy with Reference to Pune Region

Shilpa Kulkarni and Sudhindra Apsingekar

EasyChair preprints are intended for rapid dissemination of research results and are integrated with the rest of EasyChair.

July 22, 2021

**A Study of Impact of GST on Indian Economy with Reference to Pune
Region**

by

Dr. (Mrs.) Shilpa. R Kulkarni

and

Mr. Sudhindra Apsingekar

A Study of Impact of GST on Indian Economy with Reference to Pune Region

Abstract

The Goods and Services Tax (GST) has become one of the most prominent topics discussed since its introduction in India. GST was effectively implemented on 1st July 2017. Despite the mixed reviews, the newly implemented tax policy has brought about changes in the country particularly in tax administration system and business transactions. GST is a single national uniform tax levied across India on all goods and services. In GST, all Indirect taxes such as excise duty, central sales tax (CST) and value-added tax (VAT) etc. will be subsumed under a single regime. Introduction of the Goods and Services Tax (GST) is expected to be a significant step towards a comprehensive indirect tax reform in the country, which would lead India for its economic growth. The Proposed study is designed to know the impact on GST on Indian economy with reference to its individual impact on few selected sectors of economy.

Keywords: GST, Indirect tax, Indian Economy.

Introduction

The historic GST or goods and services tax has become a reality. To remove cascading effect of taxes and also to provide for a common national market for goods and services, the Government of India proposed for amendments to introduce the goods and services tax for every transaction across the country. GST is an indirect tax introduced on 1 July 2017 in India and was applicable throughout India which replaced multiple cascading taxes levied by both central and state governments. The GST is governed by a GST Council. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28% and there is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. Expert viewed it as biggest tax reform in India founded on the notion of “one nation, one market, one tax”.

The GST rollout has converted India into a unified market of 1.3 billion citizens. For corporates, the elimination of multiple taxes will improve the ease of doing business. For consumers, the biggest advantage would be in terms of a reduction in the overall tax burden on goods. "Inflation will come down, tax avoidance will be difficult, India's GDP will be benefitted, and extra resources will be used for welfare of poor and weaker section," Finance Minister Arun Jaitley said at GST launch event in Parliament. Goods and Services Tax Bill is expected to have a significant impact on every industry and every consumer. Apart from filling the loopholes of the current system, it is also aimed at boosting the Indian economy. This will be done by simplifying and unifying the indirect taxes for all states throughout India. The rollout has a positive hope for India's fiscal reform program regaining momentum and widening the economy of the nation. The idea behind implementing GST in the country in 29 states and 7 Union Territories is that it would offer a win-win situation for every citizen. The entire taxation base will be shared between the assessment mechanism of the center and the states who would get to collect tax on the economic activities taking place in Indian territorial waters.

Need for study

GST implementation is one of the major exercise in India starting 2017. This is one of the important national agenda and received a fair share of attention from academicians, tax experts, consultants, business community, politicians, consumer bodies as well as the wider public. One of the major reason for this study is to ascertain impact of GST implementation on various economic parameters of Indian economy like Exports, Gross Domestic Product, Inflation, Foreign Exchange, Impact of GST on Make-in-India & unification of Market.

Following points underlines the need for systematic study in this area.

- Effectiveness of implementation of GST has received mixed reviews from market experts & tax professionals. Critical study is required to understand short term demerits vs long term benefits of GST implementation on various parameters of Indian economy.
- GST is a uniform tax across the country. However, it's replacing all state specific old taxes & hence region wise detailed study is required to analyze effectiveness of GST implementation in specific region.

- GST being the biggest indirect tax reform has to face some implementation challenges. It is therefore required to assess economic benefits of GST against short term implementation challenges.

Objectives

- 1 To understand impact of GST on Indian economy.
- 2 To understand impact of GST on goods VS services.
- 3 To find out difference between previous indirect taxes and GST.
- 4 To identify benefits and challenges of GST after implementation.

Research Scope

This research will explore impact on Indian economy with reference to following selected areas of economic performance.

- Reshaping of Indirect Tax Structure
- Exports
- Gross Domestic Product
- Inflation
- Foreign Exchange
- Impact of GST on Make-in-India
- Unification of Market
- Credit to Manufactures/ Dealers

Samples selected for this study will be from following selected sectors of economy.

- Fast moving consumer goods (FMCG) Sector
- Entertainment Industry
- Automobile Industry (Passenger cars)
- Real Estate Industry
- Tourism & Hospitality

Geographical scope of this research is regions in Pune city.

Research Gap

The prior literature discusses GST as a concept and illustrates its benefits theoretically. Empirically, the impact of GST on economic growth, inflation, export, make in India initiative can be analyzed. The present study attempts to fill this research gap by empirically examining the economic impact of GST on various key performance indicators of Indian economy. The study also provides a comprehensive view of GST implementation including short term challenges as against long term benefits of this nationwide reform.

Literature Review

1. Introduction

GST is considered as an indirect tax for the whole nation that would make India one unified common market. It is a tax which is imposed on the sale, manufacturing and the usage of the goods and services. It is a single tax that is imposed on the supply of the goods and services, right from the manufacturer to the customer.

It is charged at the national and state level at similar rates for the same products and it also replaces almost all the current indirect taxes that are imposed separately by the Centre and the States. Goods & Services Tax is a destination-based tax which means that the tax is paid at the place of supply.

Types of Taxes under GST

There would be three different types of levies in GST

1. CGST
2. SGST/UTGST
3. IGST

Nidhi Parashar, Deepa Joshi, and P. K. Chopra in their paper “Exploring the influence of transition to GST on consumer behavior related to FMCG in India” holds the view that taxes are an inescapable part of the purchasing experience. When consumers make decisions about which products to buy, elementary economics dictates that prices should matter. Their research found that people are aware about the tax they pay on purchase of commodities but are not much interested in giving importance to such tax on their purchase of FMCG.

Dr. R. Vasanthagopal (2011) studied, “GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Chaurasia et al. (2016) Studied, “Role of Goods and Services Tax in the growth of Indian economy” and concluded that overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.

Ehtisham Ahmed and Satya Poddar (2009) studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Nitin Kumar (2014) studied, “Goods and Service Tax- A Way Forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Nishita Gupta in her study „Goods and service tax: its impact on Indian Economy” stated that the goods and services Tax (GST) will indeed be a significant improvement towards a comprehensive indirect tax reforms in India and it would give India a world class tax system and improved tax collections. It would end distortions of differential sectors. Further viewed that it would lead to the abolition of taxes such as central sales tax, state level sales tax, octroi, entry tax, stamp duty, telecom license fees, taxon consumption. GST is expected to create a business-friendly environment in India, as a result price levels and inflation rates would come down overtime because of application of uniform tax rate. Moreover, it will also improve government's fiscal health as the tax collection system would become more transparent, making tax evasion difficult.

Dr. Ambrishstates in his study “Goods and Service Tax and Its Impact on start-ups“ states that GST is expected to unite the country economically as it will remove various forms of taxes that are currently levied at different points. Based on a 2015 NASSCOM report this paper also analyzed how the GST has impact on start-up of the country and how that has the impact

on GDP. Dr. R. Vasanthagopal, studied “GST in India: A Big Leap in the Indirect Taxation System”, and found that the positive impacts are dependent if design of the GST is rational and if we balance the conflicting interests of various stakeholders. Further the research confirms GST would be a big leaf in the indirect tax system and also give a new impetus to India’s economic change. Further the author confirms that the implementation of GST would be pegged as one of the biggest game changing reforms of the Indian government, which will help India to become an economically integrated economy and help to reduce business costs and facilitate seamless movements of goods and services eliminating local charges.

It has been three year since the Goods and Services Tax (GST) was rolled out across the county, subsuming 17 indirect taxes and a host of cesses. The expectations from GST were varied. Businesses, whether large or small expected fewer taxes, less paperwork, transparent rules and easy bookkeeping. Consumers expected to pay lesser prices and taxes for the goods and services, and the taxpayers were looking for more convenient ways of compliance. The government intended to get more businesses in the tax ambit, thereby increasing its revenue, and reducing the rate of tax evasion and profiteering.

The success and realities of the GST have been mixed. We have seen effective short-term and medium-term gains. The GST revenue collection in June 2018 rose to Rs 95,610 crore. The compliance rate stood at 69.5% and considering the size and the market, it’s a healthy number to achieve within the first year of its implementation. As we begin planning to face few more years, this research will explore how GST has really impacted India’s economy by critically analyzing key performance indicators of economic growth.

2. Short Term Impact of GST- A year after GST Implementation

For any reform to have a widespread impact, there is a gestation period filled with teething troubles. It has been the same for GST. The challenges ranged from adoption to execution. India, traditionally a pen-and-paper economy, struggled to adopt digital platforms. Also, given the widespread tax evasion among Indian businesses, ignorance and resistance from business firms were major hurdles that are gradually being dealt with and will likely continue in the months to come.

However, the short-term impact despite the challenges has been positive. It has led to the removal of multiple taxation regimes and cascading tax effects. Due to the lower burden of

taxes, overall costs have decreased with subsequent increase in production. This is also gradually reducing the burden on the end consumer. Black money, fraudulent practices and tax evasion have reduced, especially as reforms like the E-way bill bring in more control and transparency. Consequently, government revenues have increased because of the extended tax base; this has led to a healthy economic outlook.

3. Long Term Impact of GST - What will the future look like

In the long-term, GST would be simplified even more. Globally, countries that have benefitted from GST implementation typically deploying two- or three- rates, as compared to the five-rate structure in India. As the cascading effect disappears, inflation will reduce, thus leading to a positive consumer outlook. As the tax revenue rises, the fiscal deficit would improve.

The international business community has welcomed this changing landscape of Indian business and noted that the GST has helped improve the ease of doing business in India. This is expected to attract more FDI investments and help growth in exports.

4. Upcoming initiatives- Action points for brighter economy

As immediate next steps, the government needs to address capacity-building and digital adoption among the SMEs and MSMEs in India. The overall compliance cost needs to be lowered and technology should be used effectively. Shifting a pen-and-paper economy like India to a completely digital platform is a good start. However, there must be considerable investment both from the government as well as the industry in this direction. Counselling services and hand-holding guidance to file returns will be important.

In hindsight, the GST has been a step in to the right direction. It will have a long-term impact on the country's GDP growth, ease of doing business, expansion of trade and industry, and the 'Make in India' initiative. Most importantly, it will be significant in establishing and promoting honest business practices, which will propel India towards becoming a significant economic power.

Sampling Design:

Universe:

All the people whose age group was above 25 years were comprised of universe. An optimum size of 200 was decided as sample size which was neither excessively large nor too small. The sample size was large enough to give a confidence interval of desired width.

Sampling Unit:

Here unit belonging to the people whose age group is above 25 were treated as sample unit.

Sampling Frame:

Selected areas of Pune City like Dhayari, Sinhgad Road, Sadashiv Peth and Ravivar Peth is considered as sample frame.

Data collection sources:

The researcher collected primary and secondary data for the purpose of the study. The sources for collection of these data are as follows

Type of Data Used:

Both primary as well as secondary data was used. Primary data was gathered by the means of interviewing the respondents with the use of questionnaire that the researcher prepared. A structured questionnaire was used for data collection which was a mixture of open ended, multiple choice questions and closed ended questions. The words were simple and helped in avoiding confusing and misunderstanding among the respondents.

Data Analysis:

Data Analysis of response obtained from customers & industry persons was done after conducting a survey with the sample size of 200. The questionnaire containing 25 questions was prepared to obtain the desired information and the method of personnel interview was also adopted for those respondents who were not interested in filling the questionnaire.

Tools of Data Analysis and Interpretation:

Percentage Analysis, Graphical Analysis-pie charts, bar diagrams, Tabular Analysis

Research Findings

Findings of research study connecting to impact on Indian economy can be summarized with reference to below key performance parameters of economy.

- **Reshapes Indirect Tax Structure:** The GST will reshape the structure of indirect tax by a subsuming majority of indirect taxes like excise, services etc. This will do away with the complex structure of indirect tax of the country, thus improving the ease of doing business.
- **Exports:** Exports have become competitive as the GST regime will eliminate the cascading effect of taxes and enabled Indian firms to emerge successfully in foreign trade. With GST in place, the export industry in India would be able to have internationally competitive prices due to the smooth process of claiming input tax credit and the availability of input tax credit on services.
- **Gross Domestic Product:** The GST will bring about a qualitative change in the tax system by redistributing the burden of taxation equitably between manufacturing and services. Impact on growth due to reduction in direct cost and cost reduction on capital inputs nailed the improvement in growth rates between 1.5 to 2 per cent. A National Council of Applied Economic Research study suggested that in long run GST could boost India's GDP growth by 0.9-1.7 per cent.
- **Inflation:** Initially, the implementation of the GST in the near-term revealed some upturn in inflation; however, the effect should be transitory. A revenue-neutral rate (RNR) of 15 percent with a low rate of 12 percent and a standard rate of 18% would have a negligible inflation in long run.
- **Foreign Exchange:** It is observed that GST results in wider foreign direct inflows of investment and a narrow current account deficit-factors that should help the INR eventually outperform other Asian and emerging market currencies.
- **Impact of GST on Make-in-India:** The 'Make in India' campaign is proposing to make India a world-class manufacturing hub. The tax reforms through GST is playing a crucial role to attract large-scale investment. The impending Goods and Service Tax promises a progressive tax system which avoids tax cascades and helps establish India as a true common market.
- **Unification of Market:** GST is leading to the unification of the market, which would facilitate seamless movement of goods across states and reduce the transaction cost of businesses.

- Credit to Manufactures/ Dealers: Under the GST, manufacturers & dealers are getting credits for all taxes paid earlier in the goods/services chain, therefore, incentivizing firms to source inputs from other registered dealers.
- Foreign Trade- GST is a solution provider by lining up total indirect tax structure of all streams into one single tax payable by the companies. The impact of this will be on the all multinational companies and facilitates for ease of doing business and adds factor to the globalization and liberalization.

Conclusion:

In India, a single taxation system like GST will minimize the complexity of taxation & would encourage new businesses and entrepreneurs to engage in service and manufacturing sector. GST is levied only on consumption of goods or services & hence leads to elimination of economic distortions in taxation among states and helps in free movement of goods. A fiscal reform like GST is beneficial to individuals as commodity prices will go down due to GST and this decrease in price leads to increase in consumption and will directly affects the GDP positively. As GST implementation is ensured at the same time for all states & hence lack of policy barrier is descopeed. Directly GST will increase the investment in FDIs which increases the foreign exchange of the country and indirectly increase the employment opportunities. Finally, GST will promote new startups in India because of its business-friendly tax structure.

A single taxation system would encourage new businesses and entrepreneurs to engage in service

and manufacturing sector. GST levied only on consumption of goods or services .This leads to eliminate economic distortions in taxation amongst states and also helps in free movement of goods ,further it also minimize the complexity of taxation. It will also beneficial to individuals as the prices will go down due to GST and decrease in price leads to

increase in consumption and
directly

increase the GDP.As GST

implementation applied at a time
for all states lack of policy

barrier will

removed. Directly GST will

increase the investment in FDIs

which increase the foreign

exchequer of

the country and indirectly

increase the employment

opportunities. It will promote
new startups in
India for its business-friendly tax
structure

Bibliography & References

Journals & Magazines:

- Namita Mishra” Impact of GST on Indian Economy” ‘‘ International journal of basic and applied research”
- Monika Sehrawat & Upasana Dhanda (December 2015)” GST in India: A Key Tax Reform” “International Journal of Research -GRANTHAALAYAH” Volume 3.
- Milandeep Kour, Kajal Chaudhary, Surjan Singh (November 2016) “A Study of Impact of GST After its Implementation” “International Journal of Innovative Studies in Sociology and Humanities” Volume 1.
- Shefali Dani (February 2016)” A Research Paper on an Impact of Goods and Service Tax (GST) on Indian Economy” “Business and Economics Journal” Volume 1.
- Jisana T.K. (May 2014)” Consumer Behavior models: An overview” “Sai Om Journal of Commerce & Management” Volume 1.
- Dr. Yogesh Kailashchandra Agrawal, “Goods and Services Tax and Its Impact on Indian Economy” “IOSR Journal of Business and Management” Volume 19.
- A Dash (May 2017)” Positive & Negative Impact of GST on Indian Economy” “International Journal of Management and Applied Science” Volume 3.

Books:

- Saxena Rajan, “Marketing Management”, Prentice Hall of India Ltd. 2002.
- Schiffman Leon G, Leslie Lazar Kanuk, “Consumer Behavior”, Prentice Hall of India Ltd. 1997.
- Jha Mithileshwar Koshy, Abraham Keller, Kevin Lane, Philip Kotler, “Marketing Management” 13th Edition, 2008, Pearson Education Delhi.

Websites:

- <http://gstindia.in/Impact-of-GST-on-Real-Estate.aspx>
- <http://www.cbec.gov.in/htdocs-cbec/gst/index>
- <https://cleartax.in/s/impact-of-gst-on-indian-economy>
- <http://www.irjcjournals.org/ijmssr/apr2013/12.pdf>
- <http://economictimes.indiatimes.com>
- <http://www.gstindia.com>