IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

An Overview of Goods and Services Tax in India : Benefits and Impact ahead

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ABSTRACT

GST is a uniform national tax imposed on all products and services in India. All indirect taxes, including VAT, excise duty, and central sales tax, will be consolidated under the GST. Existing structures and practices of indirect taxation have been found to contain vulnerabilities for tax evaluation at various stages. A tax system founded on the GST is strengthened and improved, thereby reducing tax evasion and distortion. This article provides an summary of the GST concept. This article elucidates the primary characteristics of the GST and elaborates on the benefits it offers. It also provides insight into how the implementation of the GST will affect revenue collection and GDP.

INTRODUCTION

The GST is a value-added tax imposed at the point of sale, spanning from the manufacturer to the consumer. It has taken the place of various indirect taxes imposed by the central and state governments (Gupta, 2017). The GST is without a doubt one of the most significant tax reforms in independent India's history. In other words, the GST eliminates tax on tax cascading effects and has become the new instrument for doing so. The implementation of GST in the Indian state of Jammu and Kashmir represents the government's crowning achievement and will increase treasury revenues.

Existing Structure of Indirect Tax

One form of tax is indirect tax, which is imposed on a third party or organization. Indirect taxes are typically imposed on suppliers or manufacturers, who subsequently transfer the burden of payment to the ultimate consumers. A cascade of tariffs is imposed on products at each subsequent stage of the supply chain, beginning with the raw material and ending with the consumer purchase. Every participant in the supply chain remits payment in accordance with the cost of the item, which incorporates any revised or previous taxes (Adoe, 2012). This indirect tax cascade causes the price of a product to increase as a result of the compounding effects of additional taxes. The country adheres to a federal administrative structure, which grants the central, state, and local governments the authority to impose distinct taxes on different products and services.

There are two distinct categories of indirect tax structures in India: those imposed by the central government and those imposed by the state governments.

Concept of GST

GST represents a significant turning point in India's indirect tax reforms. The Goods and Services Tax (GST) was implemented in India as of July 1, 2017. It constituted the most significant policy reform in India since its independence in 1947. A unified, common tax is imposed on all products and services. It migrates the taxation and tax administration system to the digital age through the implementation of cutting-edge information technology. The dual taxation paradigm is exemplified by the concurrent imposition and collection of taxes by the union and states (Yadav & Yadav, 2020). The GST council oversees the tax rates, rules, and regulations of the GST. It is composed of finance ministers from both the central and provincial levels.

The GST is categorized into two structures: single GST and dual GST. A single rate of GST refers to the solitary tax rate imposed on the provision of products or services. In India, however, a single rate tax on all supplies of products and services is difficult to maintain due to state, product, and other disparities. Under the Dual GST system that India has implemented, the taxable value of each transaction involving the supply of products and services will be subject to both a central and state GST.

On April 12th, 2017, the President granted assent to four legislative measures, namely:

- The Central GST Act, 2017
- The Integrated GST Act , 2017
- The GST (Compensation to states) Act, 2017

- The Union Territory GST Act, 2017

1. **CGST:** It is the indirect tax that the central government imposes on state-to-state transactions.
2. **SGST:** It signifies the tax levied on intrastate transactions by the state government.
3. **UTGST:** UTGST is applicable to intrastate transactions within the same Union Territory, in contrast to SGST.
4. **IGST:** When transactions take place between states, the integrated GST is applied.

Objectives of GST

Review of Literature

Shehrawat and Dhanda (2015) outlined the timeline for the implementation of the GST in India. The study identified several characteristics of the proposed GST and emphasized the primary responsibilities of the proposed GST Council. They reached the conclusion that the proposed GST system will increase the tax base while capitalizing on the advantages of a unified and streamlined tax structure.

Mujalde and Vani (2017) conducted a descriptive analysis to examine the notion of Goods and Service tax in relation to the existing taxation system in India. According to their analysis, transitioning to the GST regime will positively affect multiple sectors and industries, leading to major benefits for the country's economic status. Furthermore, they asserted that a single rate would promote simplicity and openness. If implemented correctly, it might also serve as a useful tool for managing fiscal policy.

Rathod's (2017) paper on an Overview of GST in India argues that the judicious utilization and efficient execution of GST will establish India as a globally competitive and intelligent tax system. Furthermore, the consolidation of a single country and tax market will bring respite to manufacturers, consumers, governments, and the nation as a whole.

Devi (2017) conducted a study on the indirect tax system in India and put out the idea of implementing the GST. She emphasized that the implementation of GST will enhance the growth of the Indian economy by stimulating exports and generating many employment possibilities. She emphasized that the tax elimination will prevent the domino effect of taxes and ultimately lead to a decrease in the pricing of products and services. This, in turn, will stimulate higher levels of consumption and output.

Objectives of the Study

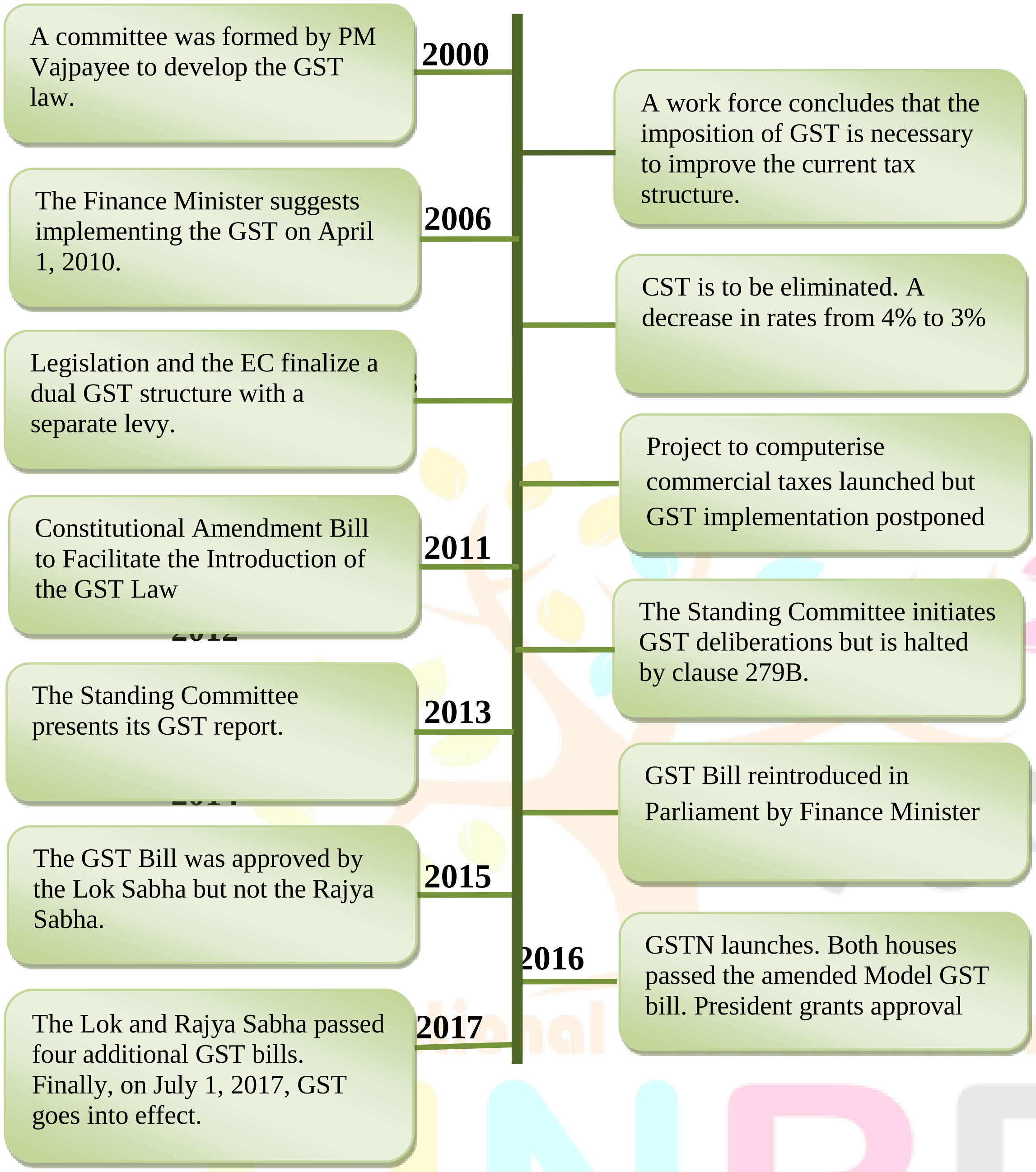
The study aims to get a comprehensive understanding of the GST taxation structure. This research aims to elucidate the influence of GST on several aspects such as business, government revenue, and GDP. Additionally, it endeavours to analyse the pattern of GST revenue generation in India and demonstrates the upward trajectory of the number of active taxpayers in the GST system since 2018.

Research Methodology

The study primarily focuses on providing a detailed description of the subject matter. The ongoing investigation is based on precise information and verifiable data gathered from secondary sources. The data was collected from scholarly journals, reputable magazines, conference papers, and official websites such as the Ministry of Finance, PIB (Press Information Bureau), and ClearTax.

History of GST in India

The introduction of GST in India was a momentous step, as it represented a substantial overhaul of the country's indirect tax system. Several nations have already implemented the GST. France implemented the Goods and Services Tax in 1954, making it the pioneering nation to do so. The implementation of GST in New Zealand took place in 1986. In Canada, the concealed Manufactures Sales Tax was substituted by the Goods and Services Tax in 1991. The System was implemented in Australia in 2000 as a replacement for the Federal Wholesale Tax (Ajay Kumar, 2017). The inception of GST in India can be traced back to the year 2000, and it reached its culmination in 2017 when four measures pertaining to the GST were enacted into law. The constitutional basis for the implementation of the GST in India is as follows:



GST Rate Structure in India

At present, the primary GST slabs applicable to ordinary taxpayers are as follows**: 0%, 5%, 12%, 18%, and 28%**. A few less prevalent GST rates include **3% and 0.25%**. In addition, composition taxable persons are obligated to remit GST at reduced or nominal rates, such as **5%, 6%, or 1.5%** of their turnover. TDS and TCS, with respective rates of **2% and 1%**, are also accounted for under the GST (India, S. S. C. 2018). The GST law imposes a cess on the sale of specific items, including petroleum, cigarettes, tobacco, aerated water, and motor vehicles, at rates ranging from 1% to 204%, in addition to the aforementioned GST rates.

Impact of GST

1. **Impact on Businesses:**

- Simplified Tax Structure
- Boost to Organised Sector
- Enhanced Compliance

2. **Impact on Government Revenue:**

- Improved Tax Compliance
- Broadening Tax Base

1. **Impact on Consumers:**

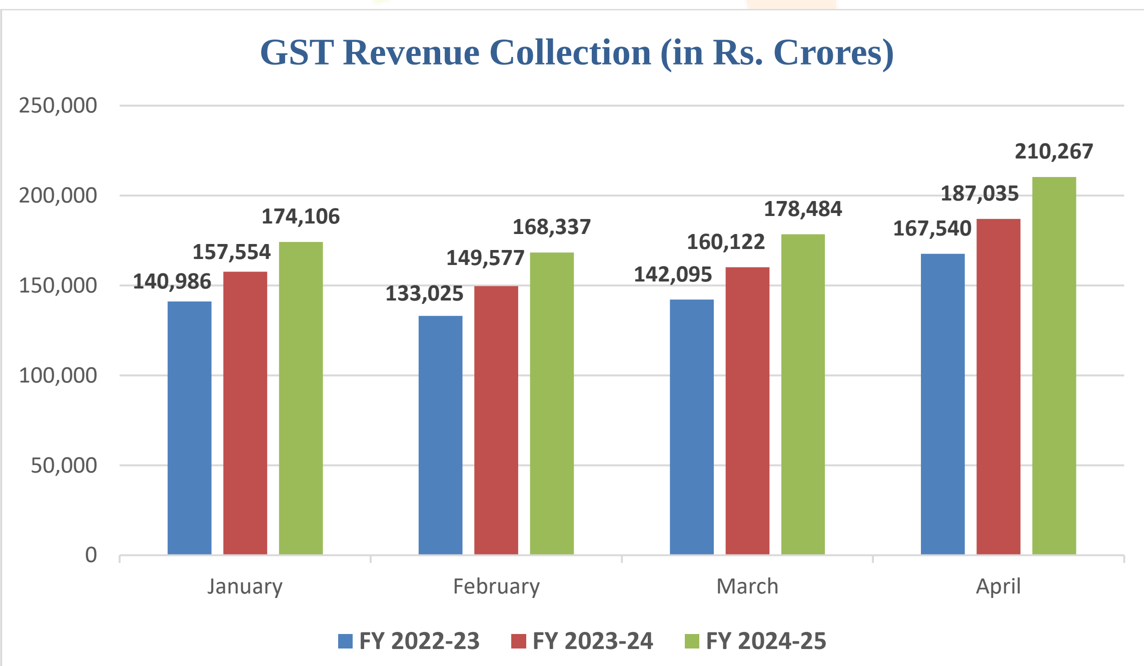
- Price Stability
- Increased Product Availability

2. **Impact on Economic Development**

- Encouragement to Export
- Boost to GDP growth
- Streamlined Supply Chain

Analysis and Interpretation

Figure 1: Total GST Revenue Collection (in Rs. Crores)



Source: PIB (Press Information Bureau)

The figure above depicts the monthly gross GST collection for the three fiscal years 2022-23, 2023-24, and 2024-25. On the basis of the data presented above, we can conclude that GST revenue collection is increasing annually. April

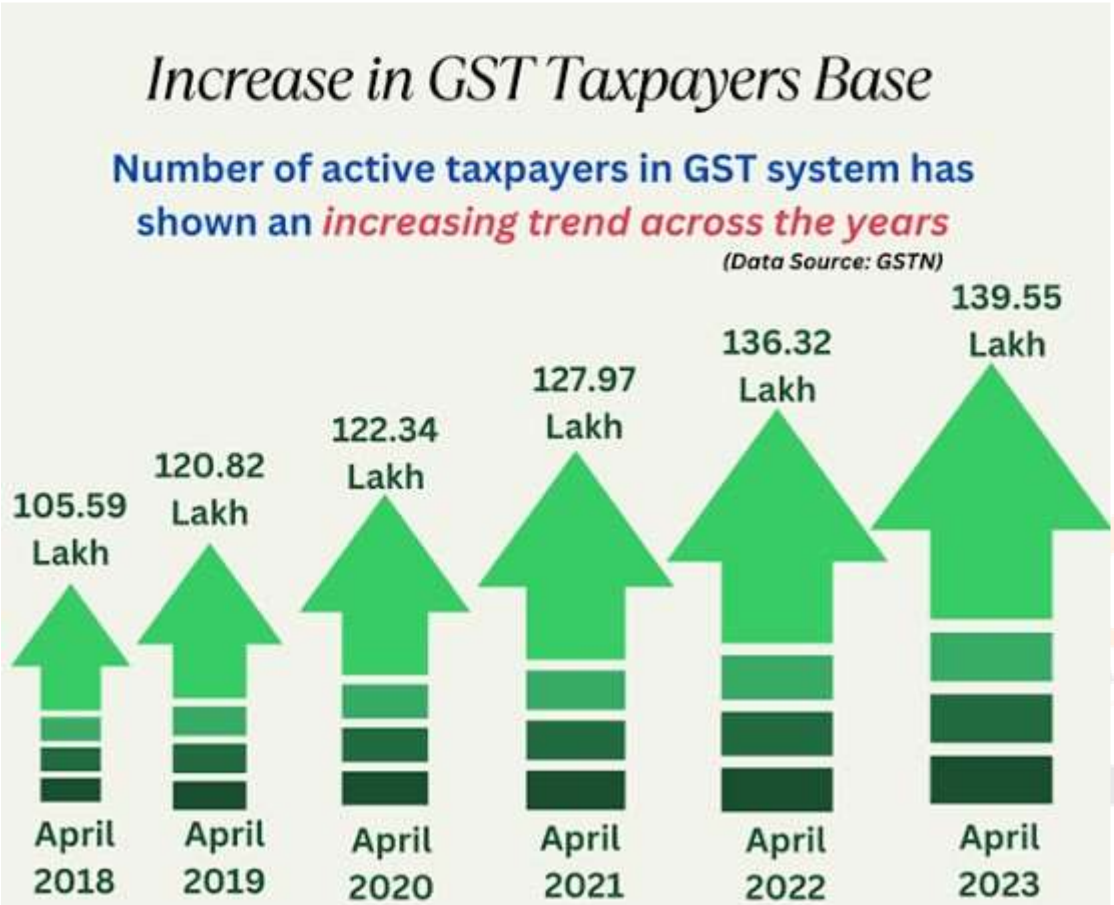
2023-24 GST revenue collection amounted to Rs. 1,87,035 crores, an increase of 12% over the corresponding month in FY 2022-23. April 2024 sees a record-breaking collection of Rs 2,10,267 crores in GST, representing a significant 12.42 percent year-over-year increase.

Figure 2: Growth in return filing of GSTR-1 and GSTR-3B (in Lakh)

Source: Ministry of Finance

The preceding graph illustrates the upward trajectory of GSTR-1 and GSTR-3B return filings between April 2018 and April 2023. Prior to submitting GSTR-3B for a given tax period, filing GSTR-1 has become mandatory as of October 1, 2022. Additionally, implementation of sequential GSTR-1 filing has been required since October 1, 2022. As a result, both GSTR-1 and GSTR-3B have been arranged in strict tax period order. This would facilitate the timely submission of tax returns and optimize the recipient's access to the input tax credit.

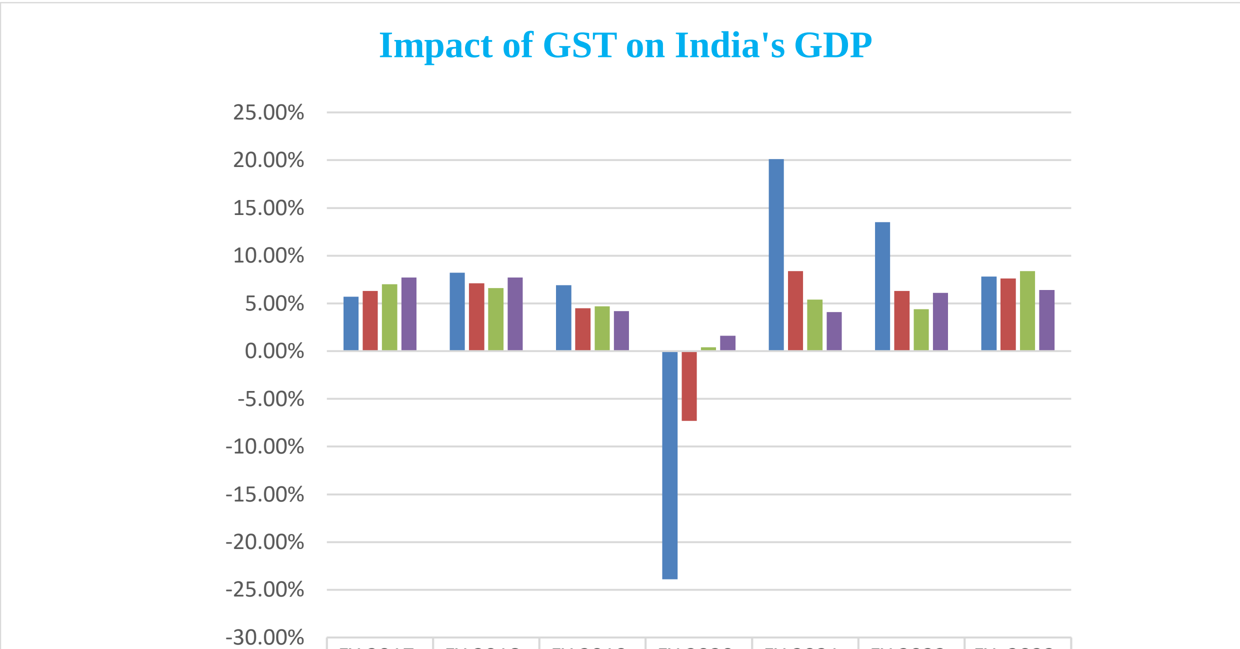
Figure 3: Number of Active Taxpayers in GST System (in Rs. Lakh)



Source: Ministry of Finance

Figure 3 displays the quantity of individuals who pay taxes in the GST system from April 2018 to April 2023. Based on the above figure, it can be inferred that there is a consistent annual growth in the number of taxpayers in the GST system from 2018 to 2023.

Figure 4: Impact of Goods and Services Tax on GDP



	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Q1 (April to June)	5.70%	8.20%	6.90%	-23.90%	20.10%	13.50%	7.80%
Q2 (July to September)	6.30%	7.10%	4.50%	-7.30%	8.40%	6.30%	7.60%
Q3 (October to December)	7%	6.60%	4.70%	0.40%	5.40%	4.40%	8.40%
Q4 (January to March)	7.70%	7.70%	4.20%	1.60%	4.10%	6.10%	6.40%

Source: Clear Tax

The fluctuations in the GDP growth rate during the early years subsequent to the implementation of the GST were apparent. Positive trends in GDP growth rate deceleration persisted following July 2017 implementation; the trend persisted as businesses acclimated to the new tax regime and the GST rate stabilized. In contrast, growth slowed in 2018 as a result of a number of factors, including domestic and international economic unpredictability. The GDP fluctuated in the subsequent quarters, exhibiting both positive and negative trends. Significantly, the April-June 2020 quarter encountered a substantial decline of -23.9 percent, primarily attributable to the statewide quarantine that followed the COVID-19 pandemic. Nevertheless, the GDP growth rate experienced a resurgence in tandem with the incremental recovery of the economy. The April-June 2021 quarter grew by 20.1%, demonstrating the positive impact of the GST on GDP. In the subsequent months of 2021, the rate decreased to 8.4% and 4.1%, respectively. We experienced another period of growth from April to June 2022, but were unable to maintain it due to the downturn in global economies. The 8.4% growth rate for the October-December quarter demonstrated the GST's positive effect on GDP. Several studies project that India's gross domestic product will approximate 6.4% in the year ending March 31, 2024. It is anticipated to rebound, however, and reach 6.7% in fiscal year 2024.

Conclusion

The taxation system of a nation exerts a substantial influence on economic progress by affecting both efficiency and equity. An effective tax system will regulate the distribution of income while simultaneously striving to generate tax revenue that can be used to fund government investments in infrastructure development and public services. The implementation of the GST represents a comprehensible tax system that consolidates the majority of indirect taxes. On the basis of the aforementioned findings, it is possible to conclude that the GST has a positive effect on GDP, increasing it by 1% to 5%. Additionally, it will generate resources and revenue gains for both the central government and the states, primarily due to an expansion of the tax base and an increase in tax compliance. Additionally, the implementation of GST contributes to the growth of the tax payer population in India by streamlining the process of submitting returns. India, as a developing nation, has the potential to achieve sustainable and balanced development through the implementation of GST.

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