DOI: https://doi.org/10.62823/ExRe/2025/02/02.52
Explorersearch (3048-815X) Vol. 02, No. 02, April-June, 2025, 51-58

Original Article | Peer Reviewed | Open Access

Exploresearch
e-ISSN: 3048-815X
Impact Factor: 6.262

www.mgmpublications.com

Impact of Goods and Services Tax on Indian Economy: An Analysis

Nisha Jangid[1*] & Sanjay Chhabra[2]

[1]*Research Scholar, Jayoti Vidyapeeth Women's University, Jaipur, Rajasthan, India.*
[2]*Research Guide, Jayoti Vidyapeeth Women's University, Jaipur, Rajasthan, India.*
***Corresponding author:** Jangidnishajpr@gmail.com*

Article History:

Received: 10 April 2025
Accepted: 20 May 2025
Published: 05 June 2025

Keywords:

G.S. Tax, Input Tax System, Indirect Tax.

DOI:
10.62823/ExRe/2025/02/02.52

Abstract: *There is a state of discontent among traders and common consumers regarding the Goods and Services Tax. One country one tax is being implemented, on 3 August 2016, the Goods and Services Tax has been passed across the country, the government has decided to implement it from 1 July 2017. This is the biggest change in the tax structure of the country after independence, which will benefit the common man. This bill was passed by the Rajya Sabha, which has been passed by the Lok Sabha in May 2015. Under the Goods and Services Tax, a proposal to impose National Value Added Tax has been passed in June 2016.*

Introduction

The tax system in India is not a new system. The word "tax" was first introduced to everyone in India in the form of rent. The word "rent" was used during the British rule or feudal system. This word was first used as a form of tax imposed by the British government on farming. At that time, any farmer who used to farm on his land had to pay tax to the government in return for farming on his land, which was called rent. The word "tax" was first used in India by the British government after the 1857 revolution. After this revolution, the British government had to suffer huge financial losses, to compensate for which the British government made provision for income tax for the first time in 1860. At that time, the British government imposed income tax at the rate of 4% on any person whose income was more than Rs. 200 and in this way the British government compensated for the loss incurred in the revolution of 1857. This is a tax imposed by the central and state governments, which is mandatory for the taxpayer to pay. The money received is used by the state government and the central government or both to provide basic facilities or economic welfare to the public. This money is mainly used for education, health, employment, houses, roads, bridges and protection from global epidemics. Tax is generally imposed on a person (individual, Hindu undivided family, company firm, group of persons, artificial person) or properties. While mentioning the types of taxes in India, the type of tax is determined with a view to bearing the burden of tax. At present, bilateral tax system is prevalent in India since 1961.

Just as taxes like excise duty, sales tax, VAT and customs duty were imposed on production, sale, import and export, in the same way service tax was imposed on the supply of services. Hence it was called service tax. Services are intangible, which can only be felt. It was first implemented in 1994-1995 by the Finance Act, 1994. Initially, the rate of service tax on service was 5% which was finally increased to 15%. It is a type of indirect tax. Service tax is applicable on the whole of India except Jammu and Kashmir. Service providers provide many types of services but service tax is imposed only on providing taxable service. Service tax is calculated on the value of service. Service tax was payable only on receipt of the value of the service, it is not taxable on the basis of earning. If the value of the service is not more than 10 lakhs, then service tax will not be levied on it. It is called providing service at a small scale. Service tax will be applicable only when the value of the service is more than 10 lakhs. Service tax is not levied on services provided free of cost and also on services provided for charitable purposes. There is a provision of Cenvat credit on the service provided to the person providing the service. If a service provider receives service from outside India, then in such a case the person receiving the service in India will have to pay service tax. On the contrary, if any service is provided outside India, then it is kept tax free.

For the first time in India, Atal Bihari Vajpayee proposed to implement the Goods and Services Tax in the year 2000. He formed a strong committee for this, whose chairman was Asim Das Gupta. In 2004, under the chairmanship of Vijay L. Kelkar, Kelkar Task Force was formed. In which the previous tax system was proposed. Before implementing the new indirect tax system, all aspects were thought over and studied in detail at various levels. But despite continuous and tireless efforts by the governments on the indirect tax system, many questions and confusions remained unresolved. “The researcher has told earlier that for the first time in 2006, the Goods and Services Tax was officially discussed in the Parliament during the budget session. This does not mean that the Goods and Services Tax was never discussed before 2006. Even before 2006, various governments had discussed the implementation of Goods and Service Tax in India and formed several committees to implement it. But all these things were not mentioned clearly in the budget. At the world level, it was implemented in France in 1954. After examining the countries where Goods and Service Tax had been implemented, the Central Government was trying to clarify the real status of this tax. A lot of discussions were held on this in the budget session of 2005-2006. In this discussion, it was told that the government will collect only one type of tax, which will be distributed in a fixed proportion between the center and the state. At that time, a similar single tax was being demanded continuously in the industry and trade sector and its implementation was also expected. In the budget session of 2006, it was decided that the Goods and Service Tax will be implemented in the whole of India from 1 April 2010. But its other aspects were also discussed. A lot of time was wasted due to many new questions like what will be its effect on the tax collection of the state governments. When the central government announced the imposition of VAT in the whole of India in 2006, an empowered committee was formed before 2006. The main objective of forming this committee was to coordinate between the states and the center regarding the implementation of VAT. This work was extremely important. Therefore, this committee was formed to prepare for the implementation of VAT in the entire India without any contradiction in all the states. A new thing was mentioned in the budget session 2007, that was the formation of an empowerment committee. The proposal for the formation of this committee was brought in this budget session. In this committee, along with the representatives of the central government, importance was also given to the representation of the state governments. Because the division of the income obtained from the goods and service tax was to be decided on the basis of mutual consent of both the state and the central government. Therefore, due to equal representation of the center and the states, the finance ministers of the states were included in this committee. Since then, this committee was called the Empowered Committee of State Ministers. This committee was mentioned by the Finance Minister in this budget session 2007-2008. First of all it is necessary to know about this committee that it was a committee formed before VAT was implemented in India in 2006, whose chairman was the Finance Minister of West Bengal, Dr. Aseem Das Gupta was a famous economist. In 2006, when VAT was implemented in the whole of India, before that Central Sales Tax and State Sales Tax Act were in force in India, at that time there was very important coordination between the State and Central Governments, because neither there was any conflict of interest in the centre nor in the interests of the states, so both did not have rights over each other's revenue related income, thus the relations between all the states and the Central

Government were cordial. The initial statement in the budget session 2006 was also made by the Finance Minister with the thought that an environment should be created in the whole of India in favour of the goods and service tax and the trade and industry of India should adopt it in a cordial manner, this statement was the next step in the story of those good relations. The Indian business and consumer class had been expecting that for the last many years that there should not be any fundamental change in the indirect tax structure again, due to this change, the business and consumer class had many problems. He was suffering from pain, he wanted to get relief from it. The biggest problem for the business class was that they wanted to avoid a large number of indirect taxes. Paying a total of 17 types of indirect taxes in the country was a mountainous problem for the business class, which they wanted to avoid. This would save the businessmen from their time, money and mental stress. In the year 2006 and 2007, the Goods and Services Tax was mentioned for the first time by the Honorable Finance Minister of India, P. Chidambaram. In both the years, whenever the Goods and Services Tax was mentioned in the budget, it was mainly common at that time that the Goods and Services Tax was in the form of a single tax. The main thing in this was that the Goods and Services Tax had to be paid at only one place. Meanwhile, in the year 2008, the Finance Minister of the Government of India indicated a reduction in the Central Sales Taxes. The Central Government announced that the Central Government would reduce the current rate of Central Sales Tax from 4 percent to 3 percent. Do it in the budget session and also announce a reduction of 2% from 3% for the next year in this budget session. Till now it was a normal procedure but along with this it was said that the goods and service tax will be implemented in the whole of India from 1st April 2010. Several rounds of meetings were held and the first discussion paper on goods and service tax in India was being prepared. In the process the budget came in 2009. This year the Government of India presented two budgets, interim and full budget in the Lok Sabha. The important thing in both these budgets was that the Finance Minister did not mention anywhere that goods and service tax is going to be introduced in India from the next session. Before its introduction, indications of change in tax rates were definitely given. Only this much was said by the Finance Minister in the budget session in Lok Sabha that efforts will be made to implement the Goods and Services Tax from 1 April 2010. Budget session 2010 was an important year for the Goods and Services Tax. For the last four years, preparations were going on in full swing for the implementation of the Goods and Services Tax in the whole of India. Because every time in the budget session, the Finance Minister of India had announced the date of implementation of the Goods and Services Tax in India as 1 April 2010. Every businessman, entrepreneur and consumer was eagerly waiting for this. But during the budget session 2010, what was expected happened that the Goods and Services Tax cannot be implemented in India right now, some work is still pending. In the budget speech of 2011, the Finance Minister said in the Lok Sabha that many experts are of the opinion that due to some negative points, it would be undesirable not to impose the Goods and Services Tax. Some areas have been left out of the scope of taxation; they will also be brought under the scope of taxes. A nationwide tax system is a very useful approach of one tax one country for the whole of India. After the initial statement on the goods and service tax, the traders and entrepreneurs started thinking that a single tax would be imposed all over India and the task of collecting it would be done by the Central Government and after that the Central Government would divide it between the states and the Centre in a pre-determined share. The biggest hope of the traders and businessmen was that they would avoid paying a large number of prevalent indirect taxes and pay only one type of tax, which would make it easier for all of them to do business. A discussion also started among all the traders and entrepreneurs about the format of a model goods and service tax, as to which things should be included in its format, which unnecessary items should be removed from the format and those which are necessary should be added. A tax was conceived in such a way that the tax format should be so simple that the businessman can himself determine the tax and fill it himself. He should not be dependent on any person with special qualifications or accountant or chartered accountant. Along with all these things, the entrepreneur and business class was also completely convinced that when any goods or services are supplied, tax should be imposed on it at a fixed rate or in other simple words, tax should be imposed on the purchase of goods, after which when that item or goods or service is sold, after deducting the tax already paid by the businessman on that goods or service, the remaining amount should be paid as tax. Now finally, after all the tax is collected by one government, it should be divided between the central and state governments. The issue on which all the states had objection was that after the imposition of goods and service tax, all indirect taxes imposed by the state governments will be stopped, how will the reduction in revenue or loss due to this be compensated. This was the problem for all the states. Without resolving this issue, it was impossible to implement goods and service tax in the whole of India. Therefore, the path to implement goods and service tax in India was likely to open only after resolving this issue. In this discussion paper, it was expressed that after the implementation of goods and service tax, all state governments may suffer revenue loss and it was demanded that if any state suffers revenue loss, then the central government should compensate for it. The decision of the Finance Commission will be considered on this. This will provide relief to the business and entrepreneur class who were especially affected by the tax-cashing effect, that tax was imposed on tax, and secondly, the businessman and entrepreneur did not get input credit in VAT, this problem also became the main reason for reform in indirect taxes. The business and entrepreneur class had very high expectations of reform in indirect tax due to this problem too. For this, the need for many types of constitutional amendments was felt.

The Goods and Services Tax is a type of indirect tax which has been widely imposed on the country's manufacturers, traders and consumers of goods and services. This tax will replace other taxes and will include the "input tax system" in this tax which did impose at every level of purchase and sale of goods and services. Under this system, registered businesses will get the "facility of claiming tax credit". GST is a very big change towards tax system of India. When the Goods and Services Tax was implemented in India, it was imposed at zero rates or at a very low rate for some time.

This is a bill related to Goods and Services Tax, which has been imposed on the citizens of the country. Now the question arises that what is there in this bill, that the citizens are celebrating its passing. In simple words, now a new tax did impose on almost all goods and services and that did Goods and Services Tax. Along with this, all the taxes that were imposed earlier will not be imposed now.

After the passing of Goods and Services Tax, tax did imposed at the same rate across the country as it did imposed on the entire country and apart from this, no other tax will have to be paid. In 200, during the tenure of Vajpayee government, an empowered committee of state finance ministers was formed. Under this bill, the Goods and Services Tax will have two parts.

- CGST levied by the Centre.
- SGST levied by the State.

The first symposia of the GST Council were held under the chairmanship of Finance Minister Shri Arun Jaitley, in which many decisions were taken. The exemption limit is up to Rs 20 lakh. The Central and State Governments have voluntarily included services in the GST.

GST is integrated tax structure, by integrating various indirect taxes applicable in India, has been passed by both the houses of the Parliament and has been listed as the 10th Constitutional Act.

Form or Structure of Goods and Services Tax

The researchers have used an investigative research technique on this subject, and have collected data from related journals, annual reports, detailed reports, and news, letters, magazines based on previous literature.

India is a federal country and keeping in mind its format or structure; there did two components of GST.

- Central GST,
- State GST

Both the Governments have simultaneously imposed tax on every supply of goods of the same value. Research design has been used for the purpose of the study as per the academic literature on GST. As GST is an explanatory research, it is based on secondary data published in journals, articles, papers. Keeping in mind the subject of study, descriptive type of research has been adopted.

Objective of the Study

- To study the implementation and possibilities of Goods and Services Tax.
- To study the results of GST.
- To explanation the features of Goods and Services Tax.
- To analysis the benefits and disadvantage of the GST system.

Rationale of the Present Research

The burden of 18% GST has to be borne either by the consumer or the trader. There is a lot of discontent among the trader and the general public about GST. Where the tax rate on many goods was

4% to 8%, the tax rate of 18% on the same goods is discontent among the general public and the consumer. It is a big burden for the traders.

The rationale of this research is to shed light on whether small traders and consumers will benefit from it or not.

It did a big responsibility for small traders to arrange for computer operators and their salaries etc. Also, small traders selling goods on the basis of market credibility did able to follow the prescribed time table for paying the goods and service tax.

What did become Cheaper

- Electronic goods like AC, microwave, oven, fridge, washing machine etc. did available at cheaper rates because at present 12.5% customs duty and 14.5% VAT is levied on these goods. But with the introduction of goods and service tax, only one type of tax did levy due to which these goods will become cheaper.
- Different types of taxes are also levied on restaurant bills i.e. food items. Due to which eating in hotels outside the home etc. becomes very expensive. But with the provision of goods and service tax, food items will become cheaper than food grains.
- At present 22 to 24 percent tax is levied on multiplexes and media, in which service tax and entertainment tax are the main ones. But with the introduction of goods and service tax, the amount of tax did 18 to 20 percent.
- Different types of taxes are also levied on medicines, whether online or local market, but only 6 percent tax did levy in goods and service tax.
- Small cars will also become cheaper.
- With the concrete implementation of goods and service tax, the prices of cement etc. will fall by 18 to 20 percent.

What will become Expensive

- Packed food will become expensive by 12 percent. The things which have been added to the packed items are tea, coffee etc. because at present no charge is levied on these items, but with the addition of goods and service tax, the government will impose normal rate of tax due to which the price of these items will increase.
- Diamond jeweler and readymade garments will become expensive due to imposition of GST as 12% tax has been added to it.
- Tax rates will increase in textiles, edible oil and low-cost footwear.
- Standard GST will double the price of 18% goods which did paid by the final consumer.

The government has completely accepted this. The general public will definitely get its benefits. India is a federal country. Where indirect taxes are levied by the Union and the State. The State Governments have the right to fix the price. GST will prove to be a milestone in all indirect taxes. Keeping in mind the new tax system GST which is going to be implemented from 1st July 17, traders have been made aware of the new way of business and technology.

Main Features of GST

It is a dual GST tax system in which tax is levied by the Centre and the State on the same tax base. The GST levied by the Centre on intra-state sales is called GST while that levied by the State on the above is called SGST. It is a destination based consumption tax. Currently, tax is payable at the point of manufacture of goods, their sale and providing services, whereas in contrast, in GST, tax is payable on the supply of goods or services. It is a tax levied on the supply of all goods except alcohol and five petroleum products namely crude, petrol, high speed diesel, natural gas and ATF. It is levied on all goods and services except some specified goods and services.

Effect of Goods and Services Tax in India Goods and Services Tax has reduced the burden on the producers and is promoting development through more production. VAT tax structure, numerous tax blocks are motivating the pump manufacturers to increase their capacity and production. Check posts, toll plazas and import of ineligible goods are increasing. + Apart from this, registered dealers, sellers and suppliers are being encouraged and the country's competitiveness in foreign markets has increased due to reduction in transaction costs. GST is helpful for the growth of Indian economy.

Benefits of GST

The biggest benefit of GST to the citizens is that only one tax has to be paid on goods across the country. Due to this, the price of goods is same across the country. There is uniformity in indirect taxes in the country through goods and service tax. Tax structure has improved due to the implementation of GST. Paying tax has become easy. This will also stop tax evasion. It has had a direct impact on the country's GDP. With the implementation of this tax, Octroi, Central Sales Tax, State level Sales Tax or VAT, Entry Tax, Turnover Tax, Telecom License Fee, Tax on use or sale of electricity etc. have been abolished. With the implementation of GST, the cost of goods and services has become stable. With the implementation of GST, tax evasion has decreased. GST is proving to be decisive for industries and e-commerce. There is a definite benefit of GST.

Important Points Regarding GST

The model GST Bill prepared by the Central and State Taxation Officers and the United States of America has been made available on the website of the Finance Department, Government of India for comments and suggestions of the public. This model Bill contains 162 sections and four schedules. The Bill contains provisions for taxation point, taxable person, and time of supply, assessment of supply and tax credit. It also includes provisions for filing of returns, assessment of tax, record of accounts, cash returns, audit, demand and penalty, prosecution, appeal and full consideration, advance ruling and timely development etc. along with legal and procedural aspects.

The GST system also provides for tax payment on the supply of goods and services by the taxable person. Tax is levied on turnover exceeding the threshold limit of Rs. 1 lakh crore. Supply of all educational services is being defined as supply of all professional services, while supply of other services is being defined as inter-state transactions. Transactions where the location of the supplier and recipient are in the same State are inter-state transactions.

The tenth chapter of the proposed ISP law has 33 sections. The draft contains methods for determining the place of supply of goods. Where there is transfer of goods in supply, the place of supply is the place where the supply of goods to the recipient finally ends. Where you want the goods not to be transferred and that is the place of supply, the place of supply is where the goods are supplied to the recipient. The goods can be installed at any place or the place of supply can be installed on any machine. The place of supply of goods during transportation in any vehicle is the place where the goods are to be loaded.

Provisions related to place of supply of services are also provided in this. Apart from certain specified exceptions, if the service is supplied to the recipient business, then the place of the recipient business is the place of your destination. If the address of the applicant is not available, then the address of the place of supply should be given. The Model Plan also applies to exceptional rules, which will apply to real estate, restaurant catering, training, and scientific and social work, malls, transport, communication, banking, insurance and financial services applications.

The proposed policy also provides for the use of the policy among each other. If the credit of the policy is taken advantage of, then the benefit of the policy can be taken so that the Central Government can get the same benefit. Similarly, the credit is taken and the debt is transferred to the State Government account at an equal amount as is owned by the Central Government. The law also provides for exchange of funds between the Centre and the State and for exchange of funds between them. Many provisions of the Barrage Law such as registration, assessment, assessment, edict, inspection, seizure, appeal etc. are applicable in the same form in the PAG.

In preparing the Model GST Plan, certain policy issues have been kept in mind with clarity in tax building, administrative simplicity, ease of doing business for the taxpayers and development partners and a concept of 'Ease of Doing Business' has been given.

Problems and Suggestions

After the implementation of GST in the country, a new system has started functioning. On one hand, pictures of the implementation of GST are coming in the country, on the other hand, traders are protesting, demonstrating, hunger striking and even closing the markets. After the implementation of

GST, many sectors have stopped sending and importing goods because they are still assessing the effects of GST. It is definitely affecting the market. The government machinery is not yet ready for GST. Due to the shortage of trained personnel, it is still to be decided who will provide training to the employees and when. There is no clear mechanism to control tax evasion of GST and there are difficulties in assessing its effects correctly. There is also a question about the tax sharing between the center and the state. India is a country where there is a huge diversity in the interests of the people, so some people are supporting it while others are opposing it. GST has brought more challenges for the government than demonetization. GST also affected the daily wage labourers of the country. GST was implemented with the objective of bringing more and more population of the country under the tax system and increasing its reach to more and more MSME industries and also increasing the cost associated with it, thus increasing the burden of paying tax and the cost associated with it.

- Due to such a strict law, there is a possibility of huge losses to the traders.
- No one is aware of its direct benefits.
- What is its future is also a matter of debate.
- GST will broaden the tax base and bring about a much needed reform in the tax ratio and eliminate the competition among states.
- It will redistribute the tax equally among all the states.
- It will ensure uniformity in the tax system across all the states.
- It will improve economic transactions.
- It will also increase transparency and eliminate double taxation.
- There is a need to make taxpayers aware through education and mass communication.
- Awareness can be brought about by various workshops, training and seminars on GST.

Conclusion

The Goods and Services Tax Act is the most important tax reform in India till date. At present, there is a concern among Indian businessmen, industrialists and intellectuals that the Goods and Services Tax may bring negative results in future. With the implementation of GST, one country has become one market. In which there is relief from unnecessary indirect taxes. With the implementation of Goods and Services Tax in the country, the economy has become stronger.

This is not the first change in the tax structure in the history of India; due to this the prices of many goods and services will fall. Although this will increase inflation and monetary change will happen but still this change in tax structure is a great change.

This is being seen as a very big change in the Indian tax sector. However, in other developing countries, the implementation of goods and services tax has led to a huge decline in GDP. It remains to be seen what its results are in India in the coming time. Since taxes contribute the most in revenue receipts. What are the benefits of eliminating all types of tax systems and implementing only one country one tax system, it did known only in the coming time.

References

1. Aamir, M., Qayoom, A., Nasir, A., Hussain, S.S., Khan, K.E., (2011) Determinants of Tax Revenue: A Comparative Study of Direct and Indirect Taxes between India and Pakistan. International Journal of Business and Social Sciences, 2(19).
2. Acharya, S., (2005), Thirty Years of Tax Reforms in India. Economic and Political Week, pp. 2061-2070.
3. Pal, P. and Ghosh, J.E., (2007) Homelessness in India-A Survey of Recent Trends.
4. Burney, L. and Facchini, A. (2005) Tax System and Reform in India. Department of Public Policy and Public Choice Workshop NG Paper, 51
5. Das-Gupta, A. (2006) Costs of Corporates and Collateral Costs in India, 2000-2001 pp. 9-30.
6. Burgess, R, Howes, S and Stern, N (1995) Value Added Tax for India, International Tax and Public Finance,2(1) pp. 109-114.

7. Geetha, R and Okar M, (2012) Awareness and satisfaction level of individual tax payers in India. Journal of Management Sciences 231, pp.11.
8. Das, B.B. and Raja, A.V. (2013) Government Transfers and Tax Collection in India: An Emergent Analysis. Public Budgeting and Finance, 33(2) Pp. 93-116.
9. Sinha, S., (2006) Evidence for the Law of Wealth Distribution in India. Statistical Mechanics and its Applications, 359, Pp. 555-562.
10. Garg, G., (2014) Basic Concepts and Distinctions of Goods and Services Tax in India. International Journal of Scientific Research and Management, 2(2) Pp. 542-549.
11. Sengupta, D.P. and Rao, R.K.E. (2012) Direct Tax Code and Taxation of Agricultural Income. Economic and Political Week, Pp. 5-60.
12. Pomeranets, A. and G. Weaver, D., (2011) Securities Taxes and Market Quality 2011, (26)
13. Reddy, V.V. and George, R., (2013) Corporate Tax in India 40(3) Pp. 2-221.
14. Jaiswal, K., (2018) A Progressive Assessment of Direct Tax Revenue in India. International Journal of Emerging Research in Management and Technology, 6(11) pp. 48-51.
15. Rao, M.G., (2003) Reforms in Central Sales Tax with reference to VAT. Economic and Political Weekly, pp. 627-636.
16. Purohit, M.C., (1982) Structure of Sales Taxes in India. Economic and Political Weekly, pp. 1365-1375.
17. Jha, R., Mohanty, M.S., Chatterjee, S. and Chitkara, P., (2000) Tax Efficiency in Selected Indian States. Advances in Public Economics, pp. 91-104.
18. Nepram, D., (2011) An analysis of state-level value added tax and its revenue statistics in India. Economic Research Journal, 5(2) pp. 245-265.
19. Purohit, M.C., (1993) Adoption of value added tax in India: Problems and prospects. Economic and Political Weekly, pp. 393-404.

❑❑❑