

GST and Economic Growth: A Conceptual Review

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Abstract- One of the many landmark tax laws passed in India, to streamline the indirect tax system and establish a single national market is the Goods and Services Tax (GST). GST is a single-tiered tax that replaced multiple taxes levied at the center and by various states at the same time, came in effect from 1st July 2017, and is efficient, free of cascading, and aims to boost the economy. The study is conceptual and involves a reading and appraisal of the literature, government reports, government documents, and scholarly research that exists regarding the linkage between GST and economic growth. The study examines theoretically the effects of GST on important indicators of the economy such as tax compliance, governments revenue, ease of doing business, investment, industrial productivity, and integration. It also covers the issues that can arise in the implementation process of GST including issues related to compliance as they in relation to small businesses, technological issues, multiple taxes and administrative issues. The review has shown that GST has made a huge contribution to the efficiency and transparency of the tax regime in India and promoted its long-term economic uplift. But its overall effectiveness has hang-on to continuous policy changes, technological development, simplified compliance procedures and efficient administration. The study concludes the GST it is an important policy tool which can enhance growth of the economy by creating transparency, competition and efficient business environment in the country. The results are informative for policy makers, researchers and practitioners interested in the effect of GST on sustainable economic development.

Keywords: Goods and Services Tax (GST), Economic Growth, Indirect Taxation, Fiscal Policy, Public Finance, Tax Reform, Economic Development, India.

I. INTRODUCTION

The tax regime is important for the Economic Development of every country to create Government Revenue, encourage the investors, helps the trade process, and to ensure public welfare. An efficient tax system also helps to promote business development and growth and increases the fiscal stability. The Goods and Services Tax (GST) imposed in India on 1 July 2017, was one of the biggest indirect tax reform

since Indian Independence. The aim of GST was to replace the multiple indirect taxes imposed at both central and state level with a common tax regime based on destination and to give birth to a common national market.

Prior to the Introduction of GST, the status quo in India was that indirect tax regime was comprised of a number of tax levies like Value Added Tax (VAT), Central Excise Duty, Service Tax, Entry Tax, Octroi, and Central Sales Tax. A combination of these multiple taxes added to an increased cost of compliance, put tax inefficiencies in place, and made it challenging to move products and services freely from one state to another. To overcome this, the introduction of GST entails assimilation of different taxes into a single tax system with a view to increasing tax transparency, the reduction of tax burden and easy business procedures.

Economic growth is typically viewed as a consistent rise in the output of goods and services, a rise in average income, an increase in employment, or an improvement in standard of living of a nation. There are clear links between fiscal policies, predominantly taxation, and economic growth in terms of its impact on consumer demand, business investment, production efficiency and government spending. A robust tax system facilitates informalization of the economy, enhances revenue collection and facilitates support for infrastructure development, as well as social welfare programmes. As a result, the introduction of GST has garnered significant interest on the ground of its implications for the economic performance of India from various scheduled parties like business groups, economists, researchers and the policy makers.

GST introduction has spurred a significant body of academicians and policy makers to comment on its effects on the economy in general and various sectors in particular. However, several studies indicate that the introduction of GST may have contributed benefits in

terms of increased efficiency of revenue collection, better tax compliances, lower logistics costs, investment and better "One Nation One Tax". It has also introduced increased transparency in tax administration in digital services and Input Tax Credit (ITC). Meanwhile, there have been a number of difficulties highlighted, such as compliance burden on small businesses, implementation issues with technology, various tax thresholds, the regular change in tax policy and administrative administrative burden. Such mixed results suggest that there is a need to have a comprehensive theoretical understanding of GST and its linkage with economic growth.

In this present study the theoretical as well as conceptual approach is adopted to investigate the effect of GST on economic development. The research is secondary research, with no data gathered either from surveys or interviews, and is conducted only from peer-reviewed journal articles, books, government publications, policy documents, reports from international and national agencies and other scholarly publications. The present work conducts a review and synthesis of the available body of knowledge in order to gain a better understanding of the theoretical relationship between GST and the economic growth.

It is important to this study because it brings together different scholars' perspectives on GST in a single conceptual framework. It will look at the benefit of GST for economic development based on the efficiencies of tax collection, greater tax revenue, higher investment, integration of markets and ease of doing business. The study also outlines the key obstacles encountered during the implementation of this tax and also draws attention to policy solutions which can strengthen the feasibility of the GST. This research is a conceptual review study which adds to the existing body of knowledge in providing the theoretical back drop of the importance of GST in the development of Indian economy and key areas for future empirical research.

Finally, under the GST regime, India has undergone a revolutionary reform of its indirect tax regime. While the enduring outcomes of the reform require further effective implementation, a stable policy environment, technological development, and awareness among

taxpayers, the reform has set the stage for more transparent and more efficient and more integrated tax affairs. This study examines the theoretical foundations of the proposed relationship between GST and economic growth, using a thorough review and analysis of the relevant literature, and offers significant insights for researchers, policy makers and practitioners who are interested in public finance and economic growth.

II. LITERATURE REVIEW

In India, one of the key indirect tax reforms that have been universally acknowledged is the Goods and Services Tax (GST). Much research has been done and reported about the effects this policy has had since its introduction on 1 July 2017, on taxation, running of business, receipts for government, and economic growth overall. Prior studies indicate that the implementation of GST has made the indirect tax regulatory structure simpler, enhanced tax compliance and fostered market integration. There are also some challenges in implementation that have been noted, such as compliance costs, technological difficulties and frequent changes in policy.

It was also noted the importance of a Goods and Services Tax (GST) to reform the Indian tax indirect tax structure by Kelkar (2009). A single tax system would mean cascading effect of taxes would not occur, production efficiency would improve, costs of compliance would be lower and a single national market would emerge, Kelkar said. The report made the case for the benefits of GST for the long-term economic growth, citing its ability to increase the overall tax efficiency and to provide investors more incentives to invest.

Ehtisham Ahmad and Satya Poddar (2009) studied the design and introduction of GST in India and pointed to the fiscal efficiency that it would bring. Both pointed out that a destination-based tax would provide easier tax collection, improve transparency, prevent tax evasion, and improve revenue collection. The authors also pointed that how GST is to be implemented, with central and state government cooperation, is to be crucial.

Pinki, Supriya Kamma & Richa Verma (2014) preached about the future economic impact of the

implementation of GST. Their study revealed that GST would not only be easier for the indirect taxes system in India, it would also enhance exports, increase competitiveness of industry, cut production costs and also ensure overall economic development. Thus, the authors have come up with the conclusion that if GST is implemented properly then it can be a significant economic contributor to India.

In connection to this topic, Vasanthagopal (2011) examined the Laborato's study of 'Impacts of GST on Indian Economy' and concluded that introduction of a single taxation regime in the Indian economy has a positive effect on bringing the compliance behavior of tax payers under government control, boosting government revenue and shrinking the overall tax burden on businesses. The review also revealed that GST would also be of benefit to consumers as it would come with the benefit of reduced prices due to the fact that cascading tax would be eliminated.

A number of studies have been carried out since the introduction of the GST, and it has shown to have positive impact in formalizing the economy and extending the tax base. The researchers noted that digital tax administration has benefited by the introduction of online tax return filing, electronic invoicing, input tax credit, etc. All of these technological adjustments have increased transparency and have made such tax evasion activities less discoverable. Meanwhile, companies have encountered early difficulties concerning adherence to compliance, a number of alterations to GST policies, and making adjustments to digital systems.

Research by the **National Institute of Public Finance and Policy (NIPFP)** indicates that it has enhanced the fiscal governance even in terms of improving the administration of two taxes, effectively and efficiently augmenting tax revenue in the long-term. The institute also pointed out that there are several operational issues which have been rectified since the introduction of the GST, which makes it more efficient and business friendly.

The International Monetary Fund (IMF) and the World Bank have both published reports making important contributions to the recognition of GST as an important fiscal reform with the benefit of extending

the tax base, minimizing market distortion and fostering investment. It is noted that nations implementing full-fledged Value Added Tax (VAT) or comprehensive GST system tend to have improved tax administration, compliance and revenue base along with a better economic competitiveness if effective tax governance and administration are provided.

The Organisation for Economic Co-operation and Development (OECD) has also recognized the role of modern consumption taxes like GST in fostering fiscal sustainability and economic growth. OECD research showed that an IMD system that is designed well results in better resource allocation, easier tax administration, and boosts competitiveness of business activities by reducing tax distortions and formalizing the economy.

The results reported here are positive, but there are some known problems in the literature. The difficulties faced by MSMEs, such as rising compliance costs, reliance on digital infrastructure, complicated returns filing protocols and various tax slabs are cited in many studies. The initial operational issues faced during the first few years of implementation have been compounded as a result of frequent policy changes, technical challenges with the GST Network (GSTN), etc. The challenges indicate that despite its potentially positive long-term impact, GST's implementation is dependent on ongoing policy development and effective management.

III. RESEARCH GAP

A review of the available literature shows that various studies have mostly dealt with the processes of implementation, difficulties in operations, tax compliance, revenue generation and impact of GST on the specific sector or industry. There are few studies available which carry out a detailed conceptual analysis of the linkage of GST and economy growth, which includes comings together of findings in varied theoretical and policy views. Moreover, a majority of the research undertaken is essentially an empirical approach, that is to say, it is based upon statistics or just short time economic indicators.

Thus the present study aimed at bridging this gap with a totally theoretical review using secondary sources. It collates and consolidates literature to address the roles

GST plays in economic growth such as 'Tax Efficiency', 'Revenue Collection', 'Market Integration', 'Investment Promotion', 'Ease of doing Business' and 'Fiscal Transparency'. Challenges of the implementation of the GST and conceptual understanding is also discussed in the study which can provide a platform for empirical investigations to be done in future.

IV. RESEARCH METHODOLOGY

Research Design

This research was conducted by using secondary data and theoretical research design (Conceptual). The objective of the research is to examine the link between Goods and Services Tax (GST) and economic growth through a review and synthesis of the past literature, government reports, policy documents and academic journals. The study does not gather primary data, but rather, it constructs a conceptual understanding on the effect of GST on economic growth using economic and fiscal mechanisms.

Nature of the Study

It is a descriptive and exploratory study. It explains the concept, aims and application of GST and examines the theoretical effect of GST on economic growth. The research reviews the various studies done already and discusses the possible positive outcomes, problems, and future consequences of GST on the Indian economy.

Sources of Data

The study does not have primary data in its content, only data that is obtained from authentic and credible sources such as:

- Peer-reviewed journals/research articles.
- Taxation, Public Finance and Economic Development books.
- Government documents such as reports by the Ministry of Finance and GST Council etc.
- The reportage of various countries and International organizations like World Bank, International Monetary Fund (IMF), OECD, and NITI Aayog (India Institute for Technology Management).

- Policy papers, conference proceedings and statistical reports.

Data Collection Method

Academic databases, Government sources of information, institutional repositories, and published reports were used for collecting related literature. The chosen sources were related to GST, indirect taxes, fiscal policy, public finance, tax reforms and economic growth. To ensure the quality and credibility of the study only reliable publications of relevance were included.

Data Analysis Technique

Thematic content analysis was used for analyzing the collected information. There was a systematic review of the literature to look for similarities on the topics of GST, such as extent to which it is tax efficient, can generate revenue, easy for business, can integrate markets, can promote investment, can make tax compliance easier, economic growth. The results of the different studies were synthesized and compared to see if it is possible to draw an overall picture of the relationship between GST and economic development.

Scope of the Study

The study is aimed at analyzing the conceptual link between economic growth and GST in India. It analyzes literature to capture the extent to which GST affects taxation efficiency, tax revenues, competitiveness of businesses/increase in investment and economic development. This study does not have empirical testing or statistical evaluation.

The study has its own weaknesses and constraints. The study has some limitations.

The research is entirely based on secondary data sources (secondary surveys, interviews or questionnaires are not conducted). Because the study is conceptual in nature, its results reflect the literature available, and not necessarily reflect actual policy or current economic events. So the conclusions must be considered in light of the literature studied.

Ethical Considerations

This research adopts secondary sources of public information. Citation and referencing of all information has been done to ensure its appropriate use in keeping academic integrity and avoiding plagiarism. Ethical approval was not necessary as human subjects were not used.

V. CONCLUSION

Goods and Services Tax (GST) has become a landmark tax reform riding the wave of building a single and transparent tax regime in India. The results of the available literature review suggest that GST can play an important role in stimulating growth through various avenues, including greater compliance, increased government revenue, elimination of cascading effect of taxes and business friendliness. In spite of the hurdles like the complexity of compliance, multiple tax rates and implementation issues, GST is still a key fiscal reform exercise to boost the Indian economy. It is necessary to achieve the maximum long-term benefits and enhance sustainable economic development through continuous policy improvements, technological progress and streamlined compliance mechanisms.

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