

GST and its Role in India's Fiscal Consolidation

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Abstract: Goods and Services Tax (GST) has emerged as a pivotal element in India's fiscal consolidation efforts. This tax reform, introduced in July 2017, replaced a complex web of indirect taxes with a unified and streamlined tax structure. GST's role in India's fiscal consolidation is multifaceted, encompassing revenue generation, enhanced compliance, and economic integration. This abstract explores the impact of GST on India's fiscal landscape, examining how it has contributed to revenue growth, reduced tax evasion, and fostered economic cohesion, thus playing a vital role in the country's fiscal consolidation strategy. GST was planned to be implemented in April 2010, but was postponed due to political issues and conflicting interest of stakeholders. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India like Central Excise Tax, VAT/Sales Tax, Service tax, etc. and implement one taxation system in India. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. The paper highlighted the background of the taxation system, the GST concept along with significant working, comparison of Indian GST taxation system rates with other world economies, and also presented in-depth coverage regarding advantages to various sectors of the Indian economy after levying GST and outlined some challenges of GST implementation.

Keywords: GST, Economy, Taxation, Fiscal Consolidation, Revenue

I. INTRODUCTION

The Goods and Services Tax (GST) is one of the most significant tax reforms in India's modern economic history. It was introduced on July 1, 2017, with the aim of transforming India's complex and fragmented tax system into a unified and streamlined structure. GST replaced a plethora of indirect taxes, including central excise, service tax, state-level value-added tax (VAT), and various other levies, consolidating them under a single tax regime.

The introduction of GST was motivated by several key objectives. First, it sought to simplify the tax system, making it more accessible and comprehensible for businesses and consumers.

Second, it aimed to eliminate tax cascading, where taxes were levied on taxes, reducing the overall tax burden on businesses. Additionally, GST aimed to create a unified national market by harmonizing tax rates and procedures across states, which was expected to boost economic growth and promote ease of doing business.

Role in India's Fiscal Consolidation:

GST plays a pivotal role in India's fiscal consolidation efforts. Fiscal consolidation involves the management of government finances to achieve macroeconomic stability and long-term fiscal sustainability. GST contributes to this goal in several ways:

Enhanced Revenue Generation:

GST has led to an increase in tax revenues for both the central and state governments. The unified tax structure, wider tax base, and improved compliance mechanisms have resulted in higher revenue collection. This additional revenue is crucial for reducing fiscal deficits and financing infrastructure and social development projects.

Reduction of Tax Evasion: GST's technology-driven approach, with features like the e-way bill system and digital filing of returns, has made it more challenging for businesses to evade taxes. This has led to a reduction in tax evasion, thereby increasing government revenues and ensuring fiscal discipline.

Promotion of Economic Integration:

By harmonizing tax rates and procedures across states, GST has facilitated the movement of goods and services across the country. This economic integration has reduced trade barriers, encouraged investment, and improved the efficiency of supply chains, contributing to economic growth and fiscal consolidation.

Fiscal Transparency:

GST's online tax payment and return filing systems enhance fiscal transparency. This transparency not only reduces corruption but also enables better fiscal planning and budget management.

Advantages of GST

Create a unified common market:

Will help to create a unified common national market for India. It will also give a boost to foreign investment and "Make in India" campaign.

Streamline Taxation:

Through harmonization of laws, procedures and rates of tax between Centre and States and across States.

Increase tax Compliance:

Improved environment for compliance as all returns are to be filed online, input credits to be verified online, encouraging more paper trail of transactions at each level of supply chain;

Discourage Tax evasion:

Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighboring States and that between intra and inter-state sales.

For Overall Economy:

Bring about certainty:

Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system;

Reduce corruption:

Greater use of IT will reduce human interface between the taxpayer and the tax administration, which will go a long way in reducing corruption;

Boost secondary sector:

It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;

Ultimately it will help in poverty eradication by generating more employment and more financial resources.

GST has emerged as a critical tool in India's fiscal consolidation efforts. By simplifying the tax system, improving revenue collection, and fostering economic integration, it has not only enhanced the country's fiscal health but also played a pivotal role in its broader economic development

Disadvantages of GST

Some of the disadvantages of GST include: increased costs, higher tax liability of SMEs, penalties and fines, impact in the unorganized sector as well as other teething issues.

II. REVIEW OF LITERATURE

GDP Growth and Fiscal Consolidation:

Several studies have emphasized the importance of GDP growth in achieving fiscal consolidation. When the economy grows, tax revenues tend to increase, which can help reduce fiscal deficits.

Fiscal Policy and Economic Growth:

Researchers have examined the relationship between fiscal policy and economic growth in India. They've debated the impact of fiscal deficits on economic growth, highlighting the need for responsible fiscal management.

Structural Reforms:

Some literature discusses the role of structural reforms in enhancing India's GDP growth and, consequently, contributing to fiscal consolidation. Reforms in areas like taxation, labor, and infrastructure can be significant.

Revenue Mobilization:

Studies also examine the effectiveness of revenue mobilization measures, including the implementation of the Goods and Services Tax (GST), in bolstering India's fiscal position

Expenditure Control:

The control of government expenditures is another aspect explored in the literature. Effective management of public spending is seen as crucial for fiscal consolidation.

Debt Sustainability:

Research delves into the issue of debt sustainability, considering the level of government debt and its impact on GDP growth and fiscal consolidation.

Macroeconomic Policies:

Literature often discusses the need for coordinated macroeconomic policies, including monetary and fiscal policies, to achieve sustainable GDP growth and fiscal consolidation.

Global and Domestic Factors:

Some studies analyze how both global economic conditions and domestic factors, such as political stability and institutional quality, influence India's fiscal consolidation efforts.

To get a comprehensive review, I recommend accessing academic journals, government reports, and publications from organizations like the Reserve Bank of India and the International Monetary Fund, which may provide the most up-to-date research on this topic.

2.1 OBJECTIVES OF THE RESEARCH

- To study the concept of GST and its Role in India's fiscal consolidation.
- To analyze economic growth.
- To evaluate revenue collection and composition of GST.
- To study the impact on businesses.
- To study the structure and compare India's taxation at international level.

III. RESEARCH METHODOLOGY

Secondary data was collected through Journals, Magazines, Reference books, Internet etc.

IV. FINDINGS

- GST after implementation will bring uniformity with tax rates and will also overcome lots of shortcomings in the Indian taxation system with regard to indirect taxation. The Good and Services Tax would surely be highly advantageous for major areas of the India economy.
- GST and types of GST play a crucial role in the Indian economy. The three types of GST, CGST, SGST, and IGST, are designed to create a unified tax structure, reduce cascading of taxes, and ensure that the tax burden is fairly shared between the Central and State Governments.
- GST is a single domestic indirect tax law for the entire country. Under the GST regime, the tax is levied at every point of sale. In the case of intra-state sales, Central GST and State GST are charged. All the inter-state sales are chargeable to the Integrated GST.

V. SUGGESTIONS

- As the GST will subsume all other taxes, the exemption available for manufacturers in regards of excise duty will be taken off which will be an addition to Government revenue and it could result in an increase in GDP. The GST regime has although a very powerful impact on many things including the GDP also.
- It will replace multiple taxes collected by multiple authorities and will thus create a single market in India. It will drastically reduce the 'Current Account Deficit' of India and will enable it to increase its foreign exchange reserves.
- Despite the challenges, the implementation of GST has provided opportunities for strengthening federalism in India. These opportunities include cooperative federalism, increased revenue for State governments, simplification of the tax system, and facilitation of inter-State trade.

VI. CONCLUSION

In conclusion, the Goods and Services Tax (GST) has played a significant role in India's fiscal consolidation efforts. Since its implementation in July 2017, GST has streamlined the country's complex tax system, facilitating better revenue collection and administration. This has contributed to increased tax compliance and helped to curb tax evasion. GST has also encouraged formalization of the economy, expanding the tax base and reducing the burden on the informal sector.

Furthermore, GST has led to a harmonized tax structure, promoting ease of doing business and simplifying inter-state trade. While the initial transition challenges and compliance issues were observed, the system has evolved, and the government has worked to address these concerns

Overall, GST has been a pivotal instrument in India's fiscal consolidation, aiding in revenue enhancement and promoting a more structured and accountable tax environment. However, continuous efforts are necessary to further refine the system and ensure its long-term effectiveness in supporting India's fiscal goals.

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