

IMPACT OF GST ON INDIAN ECONOMY: DERIVING EMPIRICAL EVIDENCE BETWEEN GST COLLECTION AND GDP

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Abstract-

GST is popularly known as Single Tax. Tax on the provision from the supplier to customer of goods and services. The GST was enforced as a single, unified tax reform. Many existing indirect Centre and State taxes, such as the Central Value Added Tax, Special Additional Duty of Customs, Service Tax, and VAT, have been abolished and replaced with a single tax. The input tax credit is one of the most important characteristics of GST in India. At each stage of the subsequent phase of value added, the input tax credit payable is available, which essentially makes GST a value added tax at every stage. An empirical relationship between GST Collection and GDP growth rate is also analyzed in this paper in addition to The positive and negative impact of GST on the Indian tax system.

Keywords: GST in India, Impact of GST, Tax system in India, GST Types, Indian GDP, GST Collection etc.

INTRODUCTION

Taxation is the government's inherent power to enforce and claim contributions on persons, properties or rights for the purpose of raising income from society and is used for the development of the public and community. James Wilson, who became the first Indian Finance Member, first introduced IT in India in 1860. A new income tax bill was passed in 1918 and was repealed again in 1922. The IT bill was passed in 1961 by the Ministry of Law and Finance and was brought into force on 1 April 1962. And this is also known as the present format of the financial year, which is from 01/04/2019 to 31/03/2020. The word Tax comes from Latin word "Taxo, Tax are" which means to Assess or estimate. Tax is a must payment made to government authority with certain activities is called tax.

Do you sulk why your hard-earned money goes to government every year when it is time to file your tax returns? Thousands of Indians are thinking about this, and that is why most of them don't pay tax. But it is important to understand that you help your motherland greatly by paying your taxes regularly. Here are some of the main reasons for paying taxes.

The Government needs to run smoothly: The Government is a large, multi-departmental organization. Each of these departments has hundreds of thousands of staff. These departments' overhead costs amount to thousands of rupees. The taxes you pay help the government to manage these departments in an efficient manner.

Overall infrastructure development: In many cities, flyover bridges are established every year to prevent congestion of traffic. In order to make people happy are constructed jogger parks and recreation facilities. These are built from the taxes you are paying. The government doesn't eat your money, it takes your money and gives you many opportunities in return, so you can enjoy the importance of taxes and appreciate them.

The following are the different kinds of taxation

Direct Tax: Direct tax is a tax charged to a person or property other than a tax charged on a transaction described as an indirect tax. Examples: Banking cash Transactions, Corporate Tax, Capital Gain Tax, Securities transaction tax, Personal Tax, Tax Incentives etc. **Indirect Tax:** An indirect tax is a tax that an intermediary collects from the person bearing the ultimate economic burden. Examples: Custom duty, anti-dumping duty, excise duty, income tax, service tax, VAT, etc.

Problems in Present Indirect Tax Structure

Taxes Central Excise, Service Tax, VAT, etc. are characterized by a multi-stage value added tax, charged by Central and State governments. The tax system is very complex and has a cascading effect before the introduction of VAT in sales tax and CENVAT in central excise tax and service tax. Different stages or destinations are subject to tax on products or services. Taxes are also charged on another destination at one destination. Recently, there has been significant progress in the fiscal scenario, not only by using new and improved technologies to improve the tax structure. There is a lack of cross-checks on the returns submitted in

accordance with different State and Central Tax Rules, and the detailed filed by central and state taxes paid simultaneously differ.

Goods and Service Tax is an indirect tax that has replaced many Indian indirect taxes, such as excise duty, VAT, tax on utilities, etc. On 29 March 2017, the Goods and Service Tax Act was introduced in Parliament and came into force on 1 July 2017. GST will be subsuming most of the indirect taxes to create one rate and integrate the country into a single market and make Indian products competitive in the domestic and international markets. In India GST was mooted during the period of Atal Bihari Vajpayee government, when it set up the Asim Dasgupta Committee to design model of GST in 2000. In 28-6-2006 the first announcement for introduction of GST was made in budget speech by the Finance Minister P. Chidambaram and in 2014 the GST bill was passed by Lok Sabha as 122 constitution bill on 6-5-2016. In 16-9-2016 GST was notified by the government and the bill got presidential assent and it was also ratified by 16 states. In 29-3-2017 Lok Sabha passed following four bills relating to GST, 1) The Central GST bill (CGST), 2) The Integrated GST bill (IGST), 3) The GST consumption bill and, 4) The union territory GST bill (UTGST). These bills are passed, and GST will be coming into effect from 1-7-2017.

Some of the countries are implemented the GST before implementing India. These are- **France:** In 1954, France was the first nation to introduce GST and Rate of GST is 19.6%. **Australia:** The GST was passed as legislation in June 1999, but it came in to force on 1 July 2000. Which company turnover is more than \$ 75000 is liable to registration under GST and Rate of GST is 10%. **Canada:** Canada Was introduced GST in 1991 January. **New Zealand:** New Zealand was introduced GST in October 1986 and Rate of GST is 12.5%.

GST is a consumption-based tax. It is a tax imposed on goods and service consumed. In other words, goods and services tax means a tax on the supply of consumer goods or services.

As per the Amended Article 366 (12A) of the constitution of India: “Goods and Service Tax” means any tax on supply of goods or services or both except taxes on the supply of Alcoholic liquor for human consumption.

Characteristics of GST:

The GST was enforced as a single, unified tax reform. Many existing indirect Centre and State taxes, such as the Central Value Added Tax, Special Additional Duty of Customs, Service Tax, and VAT, have been abolished and replaced with a single tax. The input tax credit is one of the most important characteristics of GST in India. If a supplier has paid an input tax on an order already, it can be deducted from its overall liability for output tax. GST consists of 4-tier tax structures of 5%, 12%, 18% and 28%. Only according to this tax structure are taxable all goods and services. Many of the main commodities, like foodstuffs, have no GST. The two biggest benefits of this four-tier structure are greater transparency and cheaper goods and services.

The following are the 4 different types of GST as listed below.

The Central Goods and Service Tax, The State Goods and service Tax, The Union Territory Goods and Service Tax, and The Integrated Goods and Service Tax. CGST is nothing but this system is applied when transactions are made in the state or supply are made in the intrastate that situation central government imposed CGST. SGST means this system is applied when transaction is made within the state or supply are made in the intrastate that situation State Government is levied SGST. UTGST means this system is applicable when Union Territory goods and supply are made, the aim of to impose UTGST is to apply a collection of tax to provide benefits as same SGST. Under UTGST Union Territories: Lakshadweep, Damn and Diu, Dadra and Nagar Haveli, Andaman and Nicobar Islands, and Chandigarh etc. IGST means this is levied on the interstate transactions of goods and services. The IGST is imposed when the movement of products and services occur from one state to another state.

Who is Liable to Pay GST? - Whose supplies of goods or services or both more than Rs. 20,00,000, In case he/she is an North Eastern States, Jammu and Kashmir, Himachal Pradesh and Uttarakhand, this limit is Rs.10,00,000, and he is required to register with GST Authorities.

GST SLAB RATE

For all goods and services under these slabs the Government has proposed a 4-tier tax structure – 5%, 12%, 18% and 28%. These are the commodities which fall under four tax categories together with those which attract no taxes after a recent revision of GST rates.

Table No: 1

Rate	Items
5%	Household items are like sweets, sugar, spices, tea, coffee, edible oil, etc.
12%	Computers and Processed foods are included like cheese, ghee, Ayurvedic medicines, cell phones, and fertilizers etc. services like work contracts, business class air tickets, and non-ac hotels are also included.
18%	Like toothpaste, soaps, hair oil, etc. as well as capital goods and industrial intermediaries.
28%	This slab involves luxurious items such as premium cars, consumer durables – AC, Refrigerators etc.

Source: GST portal, 2020

Apart from the above some of the Goods and Services are come under the Nil Rated GST, Exempted GST, Zero Rated and Non-GST supplies. Nil rated GST is nothing but supply of GST is 0%. In this type of GST Input Tax credit is not claimed which are Grains, Salt, Jaggery, etc. Exempted GST means items which are used for day to day purpose or basic essentials. These are Bread, Fresh Fruits, Milk, Curd, etc. Zero Rated GST means this is nothing but SEZ's (Special Economic Zones) or SEZ Developers these are comes under the Zero Rated GST. Non-GST Supplies means some supplies are not come under the term GST is called Non-GST Supplies, which are Petrol, Alcohol, etc.

Opportunity of GST

Remove Cascading Effect: Goods and Service Tax remove the dual tax effect. This will be major contribution of Goods and Service Tax of the business and commerce.

Single Tax: Another aspect that Goods and Service Tax has to have is that single taxation should be one point. It will help us determine the supply chain of the business world, pricing morals and helping customers to be products in the long run.

Reduce Transaction cost and unnecessary wastages: If government functions effectively, a single registration and uniform implementation may also be necessary for both State Goods and Service Tax and Central Goods and Service Tax, given that government produces efficient IT infrastructure and the integration of such state level infrastructure with the union.

Reduce Average Burden: Under the GST Mechanism, the cost of tax to be paid by consumers would be certain and the overall tax burden on consumers would be reduced by GST.

Reduce the corruption: This is one of the huge issues India is overpowered with. We can't foresee something significant until it is uncovered by political life.

Impact of GST

GST replaces 17 indirect tax compliance, this new tax regime provides a single window system of all the indirect taxes making compliance easily. But the contrary that we come to its practical implication then not that easy. Most business is counting software or ERP for filing their returns which is bad five duty VAT, Excise Duty, and service Tax already incorporated in them. Changing to GST system will require businesses to change their ERP either by upgrading the software or by purchasing new GST compliance software, they would further be some cost involved in either hiring or training employees on how to use them. This definitely increase the operating cost especially for small business that will require hiring experts in order to understand the new GST deal but now every businesses to know how deal with GST.

In present scenario, country is struggling due to COVID-19. Economy went down, factories was temporary shutdown, business has been closed and unemployment is increasing day by day. This has caused lower collection of GST but now GST collection is came to track. If there is no consumption automatically GST collection is low and economy will suffer.

Positive Impact of GST

India is now a unified market with increased foreign investment in India. The products produced in India have become more competitive on the international market, driving growth in exports due to their lower costs. Throughout India, GST has changed VAT. Now in different States, we do not have to pay various amounts of tax. It is a taxation scheme for every States in India and we have therefore already removed different taxes and duties on our industries. The tax authorities have begun to function free of corruption. It has also resulted in transparency to allow sales invoices to show the tax applied.

Negative Impact of GST

GST is known as a single tax system but in actual fact it is a dual tax as the State and the Centre collect separate tax on a single sales and service transaction. Before implementing GST service tax is 15%, after implementation of GST it is 18% to 20%, so service sector pay more tax on their service. Air travel is going to become more expensive. Tickets in the economic class are taxed 6% and in the non-economical class 9%. After the GST, 18% to 20% are charged for tickets.

GST impact on different Industry

Textile Industry: The textile sector of India is one of the top contributors towards development of the Indian Economy concerning GDP, employment, export, promotion etc. Industry contributes 10% of the total annual export of the country which will under GST. GST has eased out rates and categorization in textile sector. Cost of manufacturing has reduced in the textile industry due to GST in subsuming different taxes. Under GST ITC is available for all the tax paid on the capital goods. After implementation of GST input credit system smoothly shift the balance towards the organized sector.

Manufacturing Sector: India's manufacturing sector has been growing steadily since the early 2000, creating new jobs and boosting the economy. Before GST, cascading taxes were a big problem for manufacturing companies. Each time you bought or sold products, you had to deal with multiple taxes, including VAT, entry taxes and central sales tax. GST eliminated these cascading taxes automatically saving you money. When you bought or sold across state lines, you had to deal with complicated state and national taxes, when it came in to forces much easier. No matter where your vendors and customers are located, you still pay the same GST rate.

Literature Review

GST is a tremendous felt that improves on the huge tax structure by supporting and upgrading the monetary interaction of a county. (Dani, 2016). GST is an extensive duty demand on delivering, deal and utilization of items and administrations at a public level. The items and Services record or GST Bill, conjointly named because the Constitution (122 Amendment) Bill, 2014, starts a value extra Tax to be implemented on a public level in Asian countries. GST will be a duty even the slightest bit the phases of creation to welcome

consistency inside the framework. On-exchange GST into follow, there is a union of Central and State charges into one assessment installment. (Shaik et al, 2015). It conjointly improves the situation of the Asian country in every, homegrown correspondingly as global market. At the purchaser level, GST would scale back the taxation rate, which is as of now measurable at 25-30%. Under this method, the purchaser pays a definitive duty anyway a prudent information decline framework guarantees that there's no falling of charges charge on the expense paid on data sources that enter assembling of items. To evade the installment of various expenses like extract obligation and fix charge at Central level and VAT at the State level, GST would bring together these duties and make an even market all through the country. Combination of differed charges into a GST framework can welcome an effective cross-usage of credits. The current framework charges creation, though the GST can intend to burden utilization.

India has embraced twin GST as opposed to public GST. (Roychowdhury, 2012). It's made the total design of GST genuinely modern in the Asian country. The Centre can be constrained to facilitate with 29 states and 7 association domains to actualize such an assessment system. Such a system is presumably going to frame finances also as political issues. The states are conceivable to lose the say in determinant rates once GST is authorized. (Bhattacharjee & Bhattacharya, 2018). The sharing of incomes between the States and the Centre keeps on involving rivalry with no arrangement showed up concerning income nonpartisan rate.

The arranged GST system could be indifferently considered to support the charge structure. more than 150 nations have implemented GST. The public authority of Asian nations should contemplate the GST system set up by shifted nations and conjointly their aftermaths before actualizing it. At a comparative time, the public authority should assemble an undertaking to protect the huge helpless populace of Asian countries against the conceivable expansion on account of the execution of GST. Almost certainly, GST can change existing expense framework and can encourage to dispose of shortcomings made by the overarching flow heterogeneous tax collection framework giving there's a straightforward arrangement over issues with edge limit, income rate, and consideration of non-renewable energy source item, power, alcohol, and resources. Till the understanding is reached, the public authority should oppose executing such a system.

In her report, Nishitha Guptha (2014) guaranteed that GST execution inside the Indian structure could prompt modern advantages that were immaculate by the VAT framework and would, at last, bring about monetary development. GST would consequently begin the chance of a joint advantage for the industry, exchange, horticulture, and conventional clients similarly concerning the focal government and the public authority.

In his report, Jaiprakash (2014) expressed that the GST is required to offer a ton of alleviation to industry, exchange, horticulture, and clients at the focal and furthermore state level through a ton of broad and more extensive inclusion of information charge set-off and fix charge counterbalance, subsumption of many duties inside the GST and eliminating of standard time. Organization and joint exchange reactions are so motivating. Along these lines, GST offers the U.S. the simplest alternative to build our resources and we ought not to skirt these chances to execute it once the conditions are entirely ideal and the economy appreciates consistent development with just sensitive swelling. (Kesavaraj, G.) Corona Epic Infection Covid-19 pandemic has been a mammoth in the world and has provided every human being with the standard presence to stop. Corona is extremely disturbing in terms of human costs. The effect of the infection is more than likely to be seen after a cure is managed by clinical science or when COVID-19 antibody. Because of the reality, the money-related advantage is steep to close goliaths around the world. In 2019 World Health Organization (WHO) and World Bank joint report evaluates the impact of this pandemic at between 2.2 and 4.8 percent (USD 3 trillion) of global GDP. It was a good time before the world knew COVID-19. Barclay believes that a powerful multi-day lockdown in India may require the nation's explosion to be reduced by 2.5% of its previously assessed 4.5%.

(Kumar, C. R. 2015) No doubt that the GST will definitely boost India's economic unification by subsuming a large number of indirect taxes and having a uniform Indirect tax structure across the country. Again, GST will avoid the cascading effect in the Indirect Tax regime with improved conformity and revenue resilience. In order to attract foreign investors, any economy must adopt GST and VAT in a national way. History has shown that many countries benefit from the changeover to a GST system. (Gupta, N. 2014) In light of income distribution issues, a good tax system should be in place while at the same time trying to generating tax revenues to support public services and infrastructural development spending by government. Cascading tax revenue has a different impact on companies in the economy that are not fully compensated with a relatively high burden. It leads to loss of the economy's

income and wellbeing. (Sunitha, G., & Sathischandra, P. 2017) GST, instead of various taxes such as CST, excise duties, VAT, service taxes, the entertainment tax etc., is a single taxation system applicable to an entire country. The country for different goods and services is a single taxation system. It will consider bringing all state economies together with a unique tax system across the country. This concept prevents duplication of taxes that change our country's pace.

Impact of GST on GDP of India

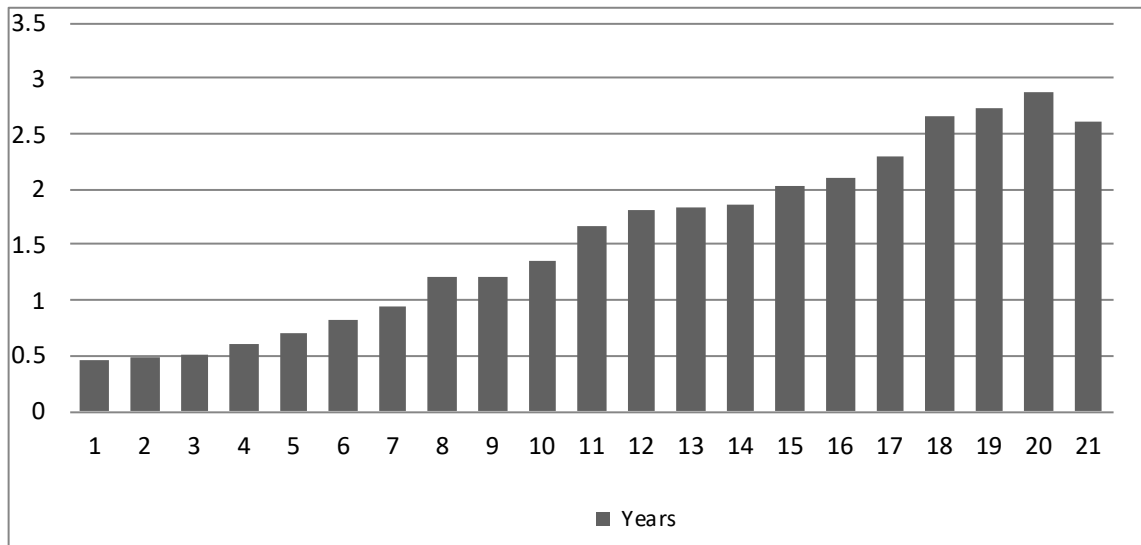
Indian Taxation system is classified in two segments namely direct and Indirect taxes. Before implementation of Goods and Service Tax – indirect taxes constituted service Tax, Central Excise, and customs duties. Post GST implementation, except for petroleum products, service tax and duties concerning Central Excise were replaced with Goods and Service Tax. The following are the before after introducing the GDP.

Table: 2

Year	Billion \$
2000	0.468395
2001	0.485441
2002	0.514938
2003	0.607699
2004	0.709149
2005	0.820382
2006	0.94026
2007	1.217
2008	1.199
2009	1.342
2010	1.676
2011	1.823
2012	1.828
2013	1.857
2014	2.039
2015	2.104
2016	2.290
2017	2.652
2018	2.719
2019	2.869
2020	2.610

Source: World Bank, 2020

Figure: 1



IMF Projected Indian GDP Growth Rate is 11.5% in coming FY22, and also OCED (Organization for Economic Co-operation and Development) Projected that 12.6% growth rate, according to Moody’s India’s Growth rate is 13.7% FY22 and Goldman Sachs projected the India’s GDP is 15.7% FY22.

Trends in GST Collection

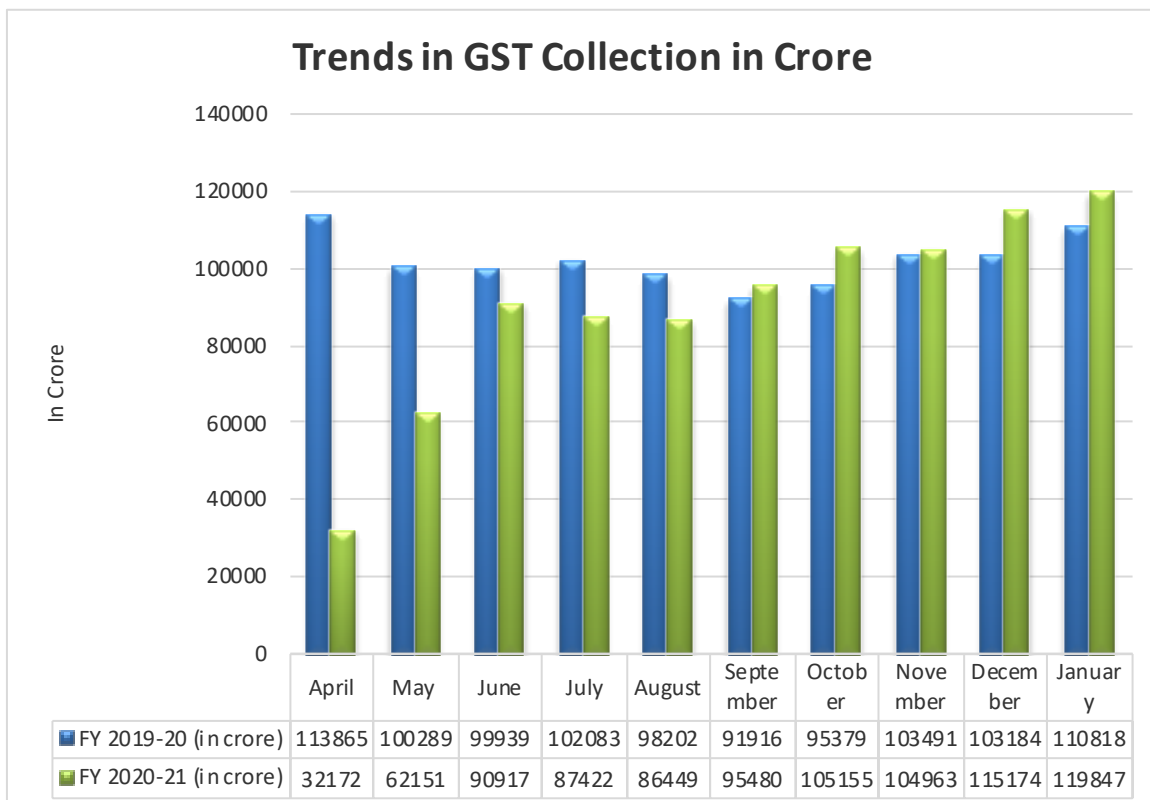


Figure: 2

In the above chart starting months of FY 2020-21 GST revenue is very low comparing to previous year because of COVID Pandemic, in this pandemic all sectors are shutdown. GST Collections recover after the record low in March. After opening lockdown GST collection in October likely to cross Rs. 1 lakh crore mark for the first time in 8 months. Revenue for month of January 2021 are 8% higher than GST revenues in same month last year and also GST revenue during January 2021 are the highest since introduction of GST.

Table: 03

Months	GST Collection in 2019-20 (Rs. Crore)	GDP Growth Rate	GST Collection in 2020-21 (Rs. Crore)	GDP Growth Rate	% Change in GST Collection
April	113865	6.8	32172	4.5	-2.5
May	100289	6.8	62151	2	-0.6
June	99939	5	90917	3.1	-0.1
July	102083	4.5	87422	4	-0.17
August	98202	6.2	86449	3.1	-0.14
September	91916	4.5	95480	5.1	0.04
October	95379	4.7	105155	-10.3	0.1
November	103491	5	104963	-8.2	0.014
December	103184	5.1	115174	6.93	0.104
January	110818	3.1	119847	5.5	0.075
February	105361	4.7	113143	4.2	0.069

Source: GST Portal, GOI, 2020

The exportation of goods and services, following GST implementation, will become competitive due to the nil effect of the cascading effect of goods and goods tax. Research by NCAER suggests that GST is the major revolution in the Indian economy and that it is capable of increasing the GDP by between 1.0 and 3.0%.

Method: Least Squares
Research Methodology

Secondary data is collected from various articles, newspapers, Economic review of India during various years, Directorate of Economic Affairs and sites like world bank etc. Augmented Dickey fuller test is done for GDP growth rate and GST Collection.

Analysis and Interpretation

ADF Test

Null Hypothesis: D(GDP_GROWTH_RATE_2019_20) has a unit root
Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=1)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.174455	0.0166
Test critical values:		
1% level	-4.582648	
5% level	-3.320969	
10% level	-2.801384	

*MacKinnon (1996) one-sided p-values.

Warning: Probabilities and critical values calculated for 20 observations and may not be accurate for a sample size of 8

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(GDP_GROWTH_RATE_2019_20,2)

Method: Least Squares

Date: 03/18/21 Time: 12:11

Sample (adjusted): 4 11

Included observations: 8 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDP_GROWTH_RATE_2019_20(-1))	2.481098	0.594353	-4.174455	0.0087
D(GDP_GROWTH_RATE_2019_20(-1),2)	0.678177	0.378151	1.793405	0.1329
C	0.552964	0.419841	-1.317077	0.2449
		Mean dependent		0.42500
R-squared	0.855229	var		0
		S.D. dependent		2.31994
Adjusted R-squared	0.797320	var		5

Date: 03/09/21 Time: 16:50
 Sample: 1 12
 Included observations: 12

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP_GROWTH_RATE_2019_20	19376.54	1213.984	15.96112	0.0000
R-squared	11.31682	Mean dependent var		101843.7
Adjusted R-squared	11.31682	S.D. dependent var		6176.799
S.E. of regression	21677.69	Akaike info criterion		22.88561
Sum squared resid	5.17E+0	Schwarz criterion		22.92602
Log likelihood	136.3137	Hannan-Quinn criter.		22.87065
Durbin-Watson stat	1.369273			

Null Hypothesis: D(GST_COLLECTION_IN_2019_20__RS__CRORE_) has a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=1)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-3.627569	0.0298
Test critical values:		
1% level	-4.420595	
5% level	-3.259808	
10% level	-2.771129	

*MacKinnon (1996) one-sided p-values.

Warning: Probabilities and critical values calculated for 20 observations and may not be accurate for a sample size of 9

Augmented Dickey-Fuller Test Equation

Dependent Variable:

D(GST_COLLECTION_IN_2019_20__RS__CRORE_.,2)

Method: Least Squares

Date: 03/18/21 Time: 12:21
Sample (adjusted): 3 11
Included observations: 9 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GST_COLLECTION_IN_2019_20_RS_CRORE_(-1))	1.048518	0.289042	-3.627569	0.0084
C	547.1294	1877.589	0.291400	0.7792
R-squared	0.652765	Mean dependent var	902.111	1
Adjusted R-squared	0.603160	S.D. dependent var	8929.42	5
S.E. of regression	5625.113	Akaike info criterion	20.3010	0
Sum squared resid	2.21E+0	8 Schwarz criterion	20.3448	3
Log likelihood	89.35450	- Hannan-Quinn criter.	20.2064	2
F-statistic	13.15926	Durbin-Watson stat	2.06005	5
Prob(F-statistic)	0.008425			

Date: 03/18/21
Time: 12:26
Sample: 1 11
Included observations: 11
Correlations are asymptotically consistent approximations

GDP_GROWTH_RA	GDP_GROWTH_RA	TE_2019_20	GST_TE_2019_20	GST_COLLECTION_IN_2019_20_RS_CRORE_(-i)	GST_COLLECTION_IN_2019_20_RS_CRORE_(-i)	E_(+i)	i	lag	lead
								0	0.039 0.039
								1	0.333 0.267
								2	0.034 0.098
								3	0.090 -
									0.067

					5	
					-	
				0.556	0.426	
.	*****		.	****	.	
				4	8	6
						-
				0.092	0.320	
.	*	.		.	***	.
				5	2	2
						-
				0.038	0.165	
.		.		.	**	.
				6	1	7
				0.047	0.009	
.		.		.		.
				7	2	3
				0.066	0.224	
.	*	.		.	**	.
				8	2	2
						-
				0.327	0.282	
.	***	.		.	***	.
				9	9	5

From the analysis it is found that p value is less than .05 and the null hypothesis is rejected. There exists a seasonality in both the variables.

Conclusion and Relevance:

According to the GST council, GST is very helpful to having good growth rate and using dynamic manpower resources and technologies to improve them self in the organization. Optimum utilization of resources can improve financial performance in a better way. GST reduces double cost, and it controls the cost and efficiency. Through this project we are able to find impact of GST, we are able to know what are the advantages are involved in the GST. So, the overall outcome of the GST saying that companies having potential and significant financial growth to avoiding the double tax rate.

In terms of growth, investment, consumption and jobs in Indian economy, the impact of the GST reforms is very positive. The GST increases the Indian economy's capital intensity. After the GST reform, revenue distribution is also more equal. The GST reforms create a very positive environment for investment and accumulation of capital through the liberalization of the economy.

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