

Impact of Successive Government Strategies on Tax Collections: A Case of the Indian Economy Post Demonetization and Gst Implementation.

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Abstract

In recent years, the government of India has undertaken reform initiatives in the monetary and fiscal sectors of the economy. The process of demonetization and other changes in the financial system began in November of 2016. Reforms in the fiscal sector have been brought about as a direct result of the following adoption of the Goods and Services Tax (GST) in July of 2017. Both of these measures have been taken by the government in an effort to alter the current state of the economy and to increase the likelihood of successfully implementing reforms. It has been determined that widespread tax evasion is to blame for India's budget shortfall in terms of government spending. The history of taxes provides an additional explanation for the significant amount of tax evasion that now occurs. Bribery and corruption have a role in the creation of massive quantities of illegal revenue and in the encouragement of tax avoidance. Therefore, the research is essential if it is to shed light on the influence that demonetization and GST have had on the approaches that the government has taken to collect taxes. Secondary sources of information were used for the research project. This article will make a contribution to the existing body of literature discussing the modifications that were made by the government to the tax collecting programmes after the demonetization and implementation of the GST.

Keywords:- Demonetization, Government, GST, Economic Growth

1. Introduction

The government of India has made significant efforts in recent years to reform and modernise the country's monetary and fiscal institutions. As of November 2016, the process of demonetization and other changes to the monetary and financial system has officially begun. The Goods and Services Tax (GST) was implemented in July of 2017, and since then, there has been a correlation between the GST and changes in monetary policy. Both measures have been taken by the present administration in an attempt to alter the trajectory of the economy and improve the prospects for the effective implementation of the aforementioned reforms. Evidence suggests that widespread tax evasion in India is to blame for the country's budget imbalance when measured against government spending. Looking back to tax law's origins may reveal one additional factor contributing to the widespread practise of tax avoidance in the modern day. The growth of enormous quantities of unlawful money and the simplicity of tax avoidance are both facilitated by corruption and bribery. These two elements are also responsible for the creation of illicit capital. As a result, the study is crucial if it is to achieve its goal of exposing the impact of currency demonetization and the implementation of GST on the methods used by the government to collect taxes. Secondary resources were used to get the necessary data for this study. This article will add to the current literature by addressing the adjustments the government made to the tax collection programmes after the demonetization and installation of the GST. These adjustments were made since the GST is replacing a cash-based tax collection mechanism. This article will add to the body of knowledge by providing an analysis of the policy changes made by the government.

1.1 Background

On November 8th, 2016, the government of India abolished the 500 and 1000 rupee notes. The primary motivations for this huge and swift action were to expose tax evaders who had amassed tremendous riches in the form of high-value currency notes and to cleanse the economy of the counterfeit cash that was causing widespread economic instability (Dasgupta, 2016). The announcement was also made for the issuance of ₹ 500 and ₹ 2000 banknotes in the replacement of the demonetized currency. Thus the people had to stand in long queues in order to exchange these banknotes (Vand & Bajaj). Rajakumar and Shetty (2016) published a research paper to compare current demonetization in India with the one carried out in 1978. Tax evasion is an important constraint on the enhancement of the fiscal capacity of the developing country since the developed countries collect 40 per cent of the Gross Domestic Product whereas only about 10 per cent to 20 percent of the GDP is collected in developing countries (Besley and Persson, 2014). Tax evasion is comprehensive especially among self employed individuals as they can diversify or hide their income sources (Sarkar and Sukanta, 2010). Corruption has shown negative impacts on the growth of the economy and the level of the income (Dreher and Herzfeld, 2005) and the impact of foreign investments (Dharmapala and Hines, 2009). The main objective of the Goods and services tax is to eliminate the massive impact of taxes on the distribution cost and the production cost of the goods and services. The taxes that are included in GST include countervailing duty, excise duty, state-level VATs, cess and service tax.

1.2 Problem Statement

Goel and Sandeep (2018) analyzed and assessed the approach of the scheme of demonetization after its implementation. From the results, it was visible that the black money which was stocked up and stored was eradicated which led to the improvement of governance. Rajakumar and Shetty (2016) in his research paper compared the current demonetization in India with the one carried out in 1978. Tax evasion is considered a big roadblock in the way of improving a developing nation's monetary system. The reason for this is that governments in developed countries collect 40% of their GDP in taxes, whereas governments in developing countries collect just 10%-20%. A big issue is tax avoidance because of this disparity (Besley and Persson, 2014). The Goods and Services Tax (GST) and the demonetization of large quantities of money has far-reaching effects on the economy, including the stock market, inflation, and other factors. The research findings will provide light on how the aforementioned factor has influenced the government's attempts to increase tax revenue. The study's secondary objective is to evaluate the pros and cons of demonetization and GST.

1.3 Aim :

1.3.1 Aim: To analyze the impact of the successive strategies adopted by the government including Demonetization and GST on the tax collections using secondary sources.

1.3.2 Objectives

- To study the changes in the Tax collection structure driven by recent strategies of the Government of India.
- To analyze the impact of demonetization and GST on the Government Tax revenues.
- To examine the role of demonetization and GST in curbing Tax aversion in the Indian economy.
- To assess the extent to which tax compliance practices of the Indian businessmen have improved post implementation of GST and Demonetization.

2. Literature Review

In 2016, a sudden announcement was made to demonetize the high-value currency notes of ₹ 500 and ₹ 1000. Researchers Dharawat and Gangadharan (2016) estimated that around 14 million rupees' worth of 500 and 1000 bill currency was in circulation. In an attempt to tackle corruption and counterfeit currency, this was the most extensive campaign to date targeted at removing black money. The study conducted by Dani (2016) on the impact of the Goods and Services Tax (GST) on the Indian economy indicates that this new tax system simplifies tax computation. When analysed in respect to the telecommunications sector, the impact was found negative due to the increase in direct tax from 14% to 20%. Pathak and Patel made an effort to focus their 2017 research paper on the effect of demonetization on the Indian stock market. For this purpose, a descriptive research strategy was used. The National Stock Exchange and the Reserve Bank of India's websites were mined for the secondary information. The study's time frame included the fifty days after November 8, 2016, the thirty days beginning on that day, and the ten days leading up to that date. Two statistical methods, the t-test and regression analysis, were used to evaluate the collected data. According to the results of the study, the effects of demonetization have a significantly negative correlation in the short term, after ten days and after thirty days, but no link in the longer term, before and after fifty days. Based on their results, the researchers concluded that the demonetization of India's currency did not affect the stock markets there. Debnath (2016) wrote a paper that aimed to draw a plan for how GST will be levied, collected, and distributed between the central government and the states. The analysis shows that the Goods and Services Tax (GST) will help the country economically by eliminating the need for the wide variety of other taxes that are already in place.

A less overall tax load will be the outcome of efforts to increase transparency and boost efficiency. These benefits will also accrue to the consumers. (Angrej Singh, 2017).

3. Research Methodology

This research paper will analyze the impact of demonetization and Goods and Service Tax on Indian Tax System using secondary data.

4. Goods & Services Tax (GST)

On July 1, 2017, the Indian government instituted a new indirect tax known as the Goods and Services Tax (GST). There is speculation that it is a comprehensive, destination-specific tax levied at several points of the journey. Several previous charges levied by the Central and State governments have been superseded by the Goods and Services Tax (GST). For the collection of taxes, five different tax slabs were made which are:-

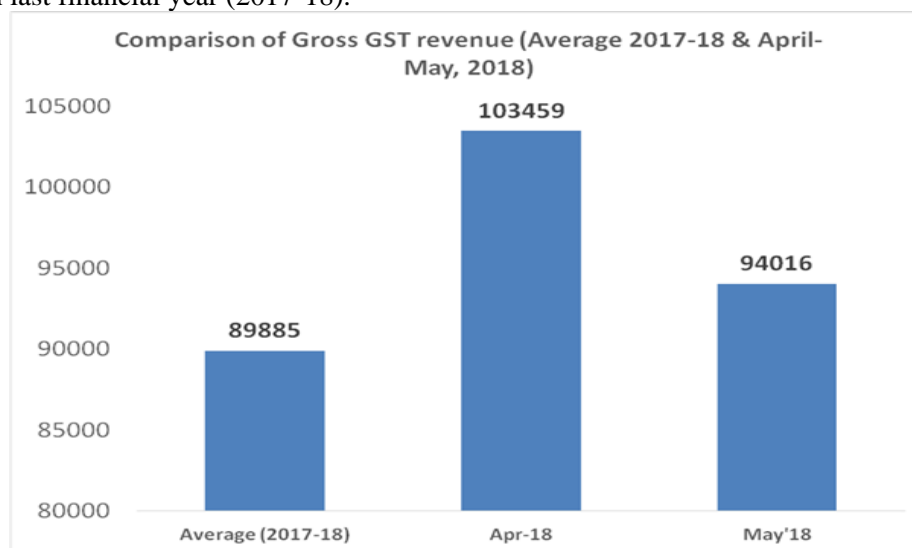
0%, 5%, 12%, 18%, and 28%. Gasoline and other items derived from the petroleum industry, alcoholic beverages, and electrical power are all subject to distinct taxes depending on the state in which you live. On the other hand, a 0.25 percent premium is added to the cost of raw precious and semi-precious stones, and a 3 percent premium is added to the cost of gold because of its unique properties. A supplementary tax on top of the standard Goods and Services Tax rate of 28% is imposed on a variety of products, including but not limited to tobacco products, luxury automobiles, and carbonated drinks. The hybrid goods and services tax (GST/HST) structure used in Canada serves as inspiration for India's dual GST system. The administration of this law will be jointly overseen by both the federal government and each individual state government. The CGST would be collected by the federal government for transactions that take place inside a single state, often known as intrastate transactions. On the other hand, the State GST will be collected by the relevant state government (SGST). The Central Government is considering

imposing and collecting an Integrated Tax on Goods and Services (IGST) on all transactions, including those that take place inside a state and those that take place between states. The Union Territory Government will levy a tax on goods and services known as the Union Territory Tax on Goods and Services (UTGST) on any and all businesses that operate wholly inside a single Union Territory.

5. An in depth analysis of Demonetization & GST

Demonetization has caused acute currency crunch in the economy. Money Supply and as a result GDP growth rate also slowed down. A report by Reserve Bank Of India stated that the informal sector, small and medium enterprises (SMEs) were very much affected by demonetization. Lack of demand in manufacturing sector has created the problem of unemployment too. Demonetization was considered as an important factor during 2016-18 which exacerbated India's GDP growth rate, unemployment, inflation and other macroeconomic indicators. Muthulaxmi (2017) says that demonetization is not much of a benefit in the short run but in the long run it will be very much beneficial in curbing illegal activities.

GST has also caused difficulty for manufacturing sector. Various e-commerce companies have faced problem in filling taxes. A negative impact is seen on telecom industry like Airtel, Vodafone as 18% GST has been implemented (Nayyar & Singh, 2018). On the other hand, statistics shows that GST has a positive impact in terms of tax collection. Total Gross Revenue collection in the month of April 2018 (Rs 103,459 crore) and May 2018 (Rs 94,016 crore) is much higher than the average collection in last financial year (2017-18).



Source : Ministry of Finance, Government of India

Pinki, Kamna & Verma (2014) concluded that the Indian taxation system has shown a lot of improvement with the help of GST and the government should make more efforts in reaping its full benefits for every individual. The implementation should be backed by strong IT infrastructure. As forecasted by experts, GST will improvise tax collections and boost up India's economic development and break all tax barriers between Central and State Governments. No doubt, it will give India a clear and transparent taxation system, but it is also surrounded by various challenges as discussed in this paper.

6. Conclusion

The problem of capacity development among the participants who have less resources, such as the small-scale producers and dealers, is one that the government is obligated to address on a priority basis since it is their job to do so. It is necessary that techniques be found for decreasing the overall cost of compliance, and it is probable that in order to satisfy the demands of the majority, reforms of some type will be needed. It is imperative that methods be discovered for reducing the entire cost of compliance. The Goods and Services Tax, won't be useful or simple to comprehend unless the whole country works together toward a unified aim. These advantages, on the other hand, are highly dependent on the structure being neutral and agreeable of the Goods and Services Tax (GST). It would seem that such a design would provide its users with a significant number of hurdles, taking into consideration the findings of the investigation into many significant issues that were discussed in this article. These are not technical problems, but they are difficult to solve because of their nature. They would require a significant amount of research and analysis, as well as a deft balancing act between the conflicting interests of the many stakeholders and a full political commitment to a fundamental overhaul of the system. In addition, they would require a full political commitment to the idea that the system needs to be completely redesigned. When opportunities to make a big change do arise, however, one must pounce on them with all the speed that is humanly possible since such possibilities do not arise very often. Because the decisions that are made today cannot be undone in the near future, it is essential to keep the bigger picture in mind while making decisions. Therefore, making the right choice requires performing a delicate act of political and economic balancing, one that takes into consideration the many technological choices as well as the various requirements and limitations imposed by the primary stakeholders. The fact that a significant number of the country's most influential figures have articulated their support for reform is excellent news for everyone. In the twenty-first century, a delayed or cautious approach would neither be politically realistic for India nor would it be in the country's best interest.

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