

# Assessing the Impact of GST Implementation on the Manufacturing and Retail Sectors in India: A Comparative Analysis of Pre- and Post-GST Eras and Its Influence on Consumer Demand

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**Abstract-** The paper studies how the launch of the goods and services tax (GST) in India was a transformational shift in the taxation landscape of the country. The system intended to develop the country's indirect tax system and transform a complicated multiple structure of tax into simpler and one unified tax structure. This research project looks at the impact of GST on both manufacturing and retail sectors through a comparison of the pre and post GST eras. This research examines important factors like tax compliance, cost structures, supply chain efficiency, and pricing determination. The use of primary and secondary data has allowed an insight into the perspectives of the industries as well as the changes in the attitude of the consumers. The results of the study suggest that while GST has simplifying the taxation process and reduced logistical problems, challenges such as compliance burden, initial adaptation cost, etc. The research ends by putting forward some suggestions that can enhance GST reforms, growth of the sector, efficiency, and customer satisfaction of businesses.

**Keywords:** *GST, Manufacturing sector, Retail sector, Consumer demand, Tax compliance, economic, India.*

## INTRODUCTION

India introduced the Goods and Services Tax (GST) on July 1, 2017 to replace many indirect taxes. The aim was to remove the tax barrier between states to make taxation easier and tax compliance better. GST is split into four tax slabs - 5%, 12%, 18% and 28% while some essential items are exempted from tax or taxed at lower rates. The GST not just affects business operations but also shapes buyer's behavior and demand patterns. Even if it faced some challenge in beginning days like compliance and technology adaptation which affected business, GST is an

important measure to enhance India's global competitiveness.

This reform has affected both the manufacturing and retail sectors that are an important pillar of the Indian economy. The manufacturing industry that was being clouded by multiple taxes and difficulties was expected to benefit from better taxation and more smooth supply chain. Like manufacturing, retail, which meets customers face to face, expected better compliance and lower supply costs. But, reality is different in case of both the manufacturing and the retail sector. We need to check out as to why that has happened.

The effectiveness of the reform is mainly measured by the consumer demand & this is influenced by GST. Although people thought GST will reduce the tax burden on various goods and services, but that did not happen in reality. Sometimes consumers were charged more as tax rate increased, sometimes it was decreased. Due to this the trend in purchasing changes along with demand. The changes in price changes affected the demand elasticity and consumer choices in many areas. This current study is being conducted with an aim to evaluate the transformational impact GST has made on the sectors of manufacturing and retailing. The paper will highlight the impact of GST on these two sectors in changing consumer preferences. In the end, it will show whether GST has been able to meet its objectives of efficient economy and unified market, thereby contributing to a better understanding regarding its wider substance for industry and policy.

## LITERATURE REVIEW

Multiple studies have been done to study the effects of GST on the Manufacturing sector, Retail sector,

Consumer demand and behavioral changes. Additionally, many comparative analysis pre and post GST were done for research purposes. There are also some studies that suggest the challenges and opportunities with respect to GST.

According to S.K. Gupta in his book, "*GST in India: A Blessing or a Curse?*" (2017), the implementation of GST has made it easier for many industries to manufacture. Gupta says, "*The abolition of the tax on tax scheme has lowered the overall cost of production for manufacturers, making them more competitive.*" Usually, when these taxes are reduced both production and consumption become easier. This has resulted in higher supply chain productivity and reduced operational costs, a change that has benefited a considerable amount of manufacturers after GST.

In "*GST and Its Impact on Retail Sector in India*" by R.K. Jain (2018), the topic of how GST has significantly changed the operations of the retail sector, especially with regards to business taxation and pricing, is examined. Editorially, Jain states, "*Retailers, who previously suffered from the multiplicity of state taxes, now enjoy a tax regime which is more conducive to doing business because there is a single tax which covers the whole country resulting in better price realization.*" Retailers have become operationally more efficient because of the ease in compliance and lessened complexities of tax regulations and subsequently, the tax relief has been passed on to the end consumer.

In "*The Economics of GST: Implications for India*," Nitin Pradhan (2019) attempts to study the impact of goods and services tax on consumer spending. He pointed out that indirectly, GST would have impact on demand because it allows reduction of product prices because reducing indirect taxes within the economy. Pradhan conveys, "*The lower tax burden of goods and services after its implementation of GST should have a favourable impact on consumer expenditure which in turn stimulates demand in all sectors.*" This shows that some segments of the population have grown in their level of confidence that enables them to spend as a result of the changes in demand.

The book "*GST in India: A Comparative Perspective*" by P.S. Verma (2020) highlights that the period before the introduction of GST and the post-GST period are decidedly different in terms of efficiency and market activities. Verma states that "*Before the introduction of GST, manufacturing and trade suffered from a tax*

*system which was proventative and disintegrated in scope and interstate trade. After GST, the advancement in uniformity of operations across state boundaries has helped businesses lower their cost of operations thereby increasing competitiveness.*" This is a glimpse to understand how GST has changed the landscape of business in the scope of manufacturing and in retail.

In Soni's "*GST in India Road Ahead*" published in the year 2021, Soni has noted the positive outcomes that came in with the implementation of GST but has also pointed out that there is a lot of work that needs to be done. Soni writes, "*The hardest part of changing the system was in the beginning, especially for smaller medium enterprises which did not have sufficient means to adjust. Over time, the retail and manufacturing sector adapted to the paradigm change which has resulted in benefits of sustainably.*" This shows that along with hurdles, there was also potential for development after the GST was applied.

All these sources bring together the conclusion that the introduction of GST has reduced the tax burden, encouraged increased competition within the industry, positively increased consumer demand and at the same time posed new challenges to different sectors of the economy.

## METHODOLOGY

The present inquiry is a qualitative research endeavour that relies on secondary data. The administration reports, the publications of the branches of industry, the academic articles, and the case studies of the trade were evaluated to see the effect of the GST on both manufacturing and retail businesses. A direct comparison of the data from before and after the GST was in place was made to find the functional and compliance changes and the shifts in consumer behavior. The thematic analysis as well as purposive sampling made an attempt to present the main patterns and process the data by choosing the different types of manufacturing, structured and unstructured, as well as the mid- and big-size retail. The triangulation method was used to analyze the data from different sources, ensuring that it would be reliable.

## ANALYSIS/DISCUSSION

### A. Impact on the Manufacturing Sector

GST initiation revolutionized the operation in the entire manufacturing sector and enhanced the sector

businesses in a great way. The inclusion of the Input Tax Credit that was utilized for taxes on particular occasions was effective, hence the production costs were reduced, and producers could offer lower prices and their products were competitive. The introduction of the single tax structure due to the better management and data sharing in the system made it easier for companies to accomplish it and also led to the successful flow of goods across the country, which led to a reduction in the company's operational efficiency. However, the overall compliance requirements involving regular filling (sending) of returns and ITC refunds have emerged as the biggest challenge to many manufacturers' working capital. The misinterpretation and over classification of products under different tax rates also brought in more complexity, especially in those industries which involve companies that produce composites or mixed supplies.

Similarly, GST was the catalytic agent in formalizing the manufacturing sector through the introduction of honest and transparent tax practices by companies. But, regardless of their competitiveness, the fact that small manufacturers were too undeveloped to keep up with the "jungle" of taxes, which including some operational problems for them, meant that they were left behind.

**B. Impact on the Retail Sector**

After GST, the retail business was left, mainly the organized, as the beneficial one, because of the complete transparency and the straightforwardness of the tax issues that come after GST. Different discussions began to take place with stores about the quantity and pricing of the same items, as the need for the same tax was no longer active. The logistics of the sale of the packaging to the retailers was followed by the earlier covering of the state's goods tax, which in the past led to some narrow places.

**D. Comparative Analysis**

In such a situation, we would like to look at the accompanying tables which show the differences before and after GST in the manufacturing and retail areas:

Aspect	Pre-GST Era	Post-GST Era
Tax Structure	Multiple taxes (VAT, CST, excise)	Single unified GST
Compliance	Complex and state-specific	Simplified but digitally intensive
Input Tax Credit	Limited and sector-specific	Comprehensive ITC across goods and services
Logistics	Checkpoints and entry taxes	Seamless movement of goods
Pricing	Hidden taxes and cascading effects	Transparent pricing

The analysis emphasise the potential transformative character of GST by streamlining operations and increasing market transparency.

However, the process of making the change to GST was not straightforward for everyone. In the case of the minor players and the businesses that were not organized became very difficult to cope with additional compliance such as frequent return filings and maintenance of detailed transaction records. Moreover, the digital resolution of the technological problems was the main issue among those traders who did not have sophisticated systems, so they were unable to support the implementation of the digital filing mandates.

Setup and initial period were marred by the price volatility which led to the consequent effect on consumer demand in the retail sector. The businessmen were very flexible and had to change pricing strategies thus forcing the markets to disrupt for some time due to the high accuracy that the customers requested on the pricing a product.

**C. Influence on Consumer Demand**

During the switch of the economy from the period of the adoption to the period of the transition following GST implementation, buying pattern has faced a change. The sudden price variation made things difficult for a short period & people had to get used to the new pricing system. Nonetheless, the business sector was getting in a good and services as they were adapted and price structures were kept steady, the consumer demand started to grow.

Visible of the transaction of the consumption with the help of GST insisted on the introduction of Buy through formal retail channels. With the tax rate being predictable, tax ambiguities being reduced, the demand became steady consumable factor in time. The throwaways of the past taxes also guaranteed the competition in the prices of many goods eventually creating a win-win situation for consumers.

## POLICY RECOMMENDATION

**Simplified Compliance:** Make the process of filing extremely easy by implementing one single form that can take the place of several others and thus cut down on the overhead required of companies, especially the small and medium-sized ones.

**Digital Support for Small Businesses:** Bring in Government-sanctioned digital support centers and training programs for small businesses to help them adapt to the technology of GST. And to make the shift more seamless, introduce user-friendly compliance software.

**Timely ITC Refunds:** Implement automatic, speedier, ITC refunds policy and thus increase the operating capital of the companies. Creating separate departments dedicated to refund processing is one option to remedy the situation.

**Sector-Specific Tax Clarifications:** Spell out the rules of single and multiple supplies to prevent tax uncertainty and compliance complications in manufacturing and other such domains.

**Consumer Awareness Campaigns:** Run the education program to tell people how they are kit out of GST benefits, like transparency of prices and lower tax cascading effects.

**Continuous Stakeholder Engagement:** Make a habit of dialogues with industry players to tackle issues, locate the painful points, and come up with viable remedies.

## CONCLUSION

The introduction of GST in India's retail and manufacturing industry was one of the most significant changes that helped it become more efficient. The GST system has shortened the number of tax forms we need to fill in; thus, it reduced the opportunity for taxpayers not to evade taxes. The GST system has transparency now, which has been the first result for companies so that they can be more efficient and lower their costs. It has been easier for the adoption of GST that brought uniform taxation of goods thus, the market has then become more integrated and also more competitive- more uniform.

The fact is that from an abstract point of view, GST was an absolutely beautiful thing to do but it came out all wrong. For instance, the businesses have been facing the problems of ensuring compliance to new rules for example, ITC delays, and difficulties in using the digital filing system which are tough for the small and medium-sized businesses. These problems such as these have stressed the urgency of beneficial changes through the policymaking and stakeholder participation corroborate that.

GST thrusts demand for goods and consumables the consumers need for buying multiple items. A point where confusion and the price breaks were so severe that people were gradually alienated from the businesses. People started reverently talking about the price changes caused by GST because of its transparency. Goods which formerly included a large profit margin suddenly became cheaper which was advantageous to customers.

To make a better future, officials need to focus on simplifying the taxes. As per the innovative one the first rule can be the one about simplifying the taxation of small businesses through digital support and the timely refunds delivery. The national one can include the clarification of the rules that are specific to special sectors and the engagement of all stakeholders which would, in turn, help us further improve the GST rules and make the atmosphere more business-friendly.

Therefore, it can be said with confidence that the Goods and Services Tax has laid the groundwork for sustainable economic growth and stable market conditions. However, that can only be achieved by the collective action of numerous players addressing the incomplete planning and forthcoming. The country will be able to implement the full scope of the Goods and Services system thanks to the cooperation of the government, companies, and individuals. As a result, India can take advantage of the efficiencies brought about by GST and hence build a vibrant and thus transparent economic scenario.

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