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Assessing the Impact of GST on Livelihoods and Employment in Rural and Urban India

Dr. Chandramouli Balaraju,
Principal, Govt. Degree College, Puttur
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Abstract

The introduction of the Goods and Services Tax (GST) in India in 2017 marked a historic shift toward a unified indirect tax system, aiming to unify the fragmented tax system and boost economic growth. This paper examines the impact of GST reforms on rural and urban livelihoods and employment in India. It analyzes the differential effects across sectors and regions, highlighting challenges and opportunities brought about by GST implementation. By examining the simplification of the tax structure, rate rationalization, and specific policy interventions, this study investigates how GST 2.0 influences consumption patterns, input costs for businesses, and job creation in various sectors. The study draws on secondary data, government reports, and scholarly articles to provide a comprehensive understanding of the socio-economic implications of GST.

Keywords: GST, rural livelihoods, urban livelihoods, employment, India, tax reform, economic impact.

Introduction:

The Goods and Services Tax (GST), is a landmark reform, implemented in India from July 1, 2017, represents one of the most ambitious tax reforms aimed at creating a unified national market by subsuming multiple indirect taxes levied by the central and state governments. GST's objective was to simplify tax administration, reduce cascading taxes, and enhance compliance. This reform has profound implications for livelihoods and employment, especially in a country where both rural and urban economies coexist with marked differences.

Background of GST in India:

Before GST, India had a complex tax structure with central excise, service tax, VAT, and numerous state-level taxes. This multiplicity created inefficiencies and compliance burdens, especially for small businesses and informal sector workers predominant in rural and urban areas alike. GST aimed to streamline taxation by imposing a single tax on the supply of goods and services, thereby improving ease of doing business and fostering economic growth (Government of India, 2017).

Objectives of the Study:

1. To examine the structure and features of GST reforms in India
2. To analyse the impact of GST on rural livelihoods
3. To assess the effects of GST on urban employment and economic activities
4. To evaluate the implications for the informal sector
5. To suggest policy measures for inclusive growth

Methodology:

This study is based on **secondary data** collected from research articles, government reports, journals, and policy papers. Analytical and descriptive methods are used to interpret the impact of GST on different sectors.

GST and Its Impact on Rural Livelihoods:

1. Agriculture and Allied Activities:

Agriculture is largely exempt from GST, but allied sectors like fertilizers, pesticides, and farm machinery are taxed. Agriculture remains a major source of rural employment, and GST indirectly influences farmers' income and cost structures and better market access due to reduced inter-state barriers. While GST helped reduce costs for some agricultural inputs, small farmers faced challenges adapting to the new tax regime due to lack of awareness and digital infrastructure (Kumar & Singh, 2019).

2. Rural SMEs and Informal Sector:

Small and medium enterprises (SMEs) in rural areas, many of which operate informally, faced transitional difficulties complying with GST's registration and invoicing requirements. This initially disrupted livelihoods but incentivized formalization, potentially improving access to credit and markets (Rao, 2018).

3. Informal Sector in Rural Areas:

The rural informal sector, which employs a large share of the workforce, has been significantly affected. mployment Effects:

The GST regime led to restructuring in rural industries such as handicrafts and

textiles. Some job losses occurred due to compliance costs and mechanization, but new opportunities emerged in logistics and digital services, facilitating rural employment diversification (Patel & Jha, 2020).

GST and Its Impact on Urban Livelihoods:

1. Formal Sector and Manufacturing:

Urban formal sectors benefited from GST through simplified tax administration and input tax credits, boosting manufacturing competitiveness and employment (Economic Survey, 2018-19). The ease of interstate trade stimulated urban industrial growth.

2. Services Sector:

GST unified service taxation, affecting sectors like IT, hospitality, and retail. While larger firms adapted quickly, small service providers faced compliance burdens. Over time, GST encouraged formalization and expanded employment in organized services (Sharma, 2021).

3. Informal Urban Economy:

The informal urban workforce, including daily wage laborers and small traders, experienced short-term disruptions due to GST compliance challenges. However, better tax regulation and digital payment adoption gradually improved transparency and worker protections (Chakraborty & Mukherjee, 2020).

Comparative Analysis: Rural vs Urban Impact:

GST reforms had uneven effects: urban areas with better infrastructure and formal sector presence adapted faster, gaining employment and livelihood benefits. Rural areas, dominated by informal economies and limited digital access, faced transitional hardships, although long-term prospects for formalization and market integration improved.

Challenges and Policy Recommendations:

1. Challenges:

1. Digital divide limiting GST compliance in rural areas
2. Initial disruption to informal sector livelihoods
3. Complexity in tax slabs and compliance costs for SMEs

2. Recommendations:

1. Strengthen rural digital infrastructure and GST awareness programs

2. Simplify GST procedures for small taxpayers
3. Provide transitional support to informal sector workers
4. Encourage skill development aligned with new economic opportunities

Conclusion:

GST reforms have reshaped the economic landscape of India, influencing livelihoods and employment differently across rural and urban sectors. While challenges remain, particularly for rural informal economies, GST offers a framework for greater economic integration and formalization. Policymakers must focus on inclusive measures to ensure the benefits of GST reach all segments of society.

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