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Policy Reforms for Strengthening Livelihood Security under GST: A Roadmap for Inclusive Growth and Employment Protection

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Abstract

The implementation of the Goods and Services Tax (GST) in India was a major reform that was meant to establish a common tax regime, increase transparency, and efficiency in the economy. Though GST has led to formalization and growth of tax base, its effects on livelihood security especially among Micro, Small and Medium Enterprises (MSMEs), informal workers and self-employed people have been uneven and complicated. This paper looks at the difficulties of GST such as compliance costs, working capital limitations as a result of slow input tax credit refunds, and digital barriers that have a disproportionate impact on small and rural businesses. The study is premised on the descriptive and analytical research approach that employed secondary data sources, which comprised government reports, institutional publications, and academic literature. The results indicate that despite the fact that GST has enhanced macroeconomic efficiency and market integration, it has also brought about short-term imbalance in employment and income stability particularly in the labour intensive and informal sectors. The paper also finds a digital divide and industry-specific differences that restrict the inclusive benefits of GST.On the basis of these findings, the paper highlights the necessity of specific policy changes including streamlining of compliance processes, reinforcing of refund systems, improving digital infrastructure, and institutional support of MSMEs. The paper concludes that GST can be an effective instrument of inclusive growth and job protection, but only with the help of policies that are able to balance economic efficiency and social equity.

Keywords: Goods and Services Tax (GST), Livelihood Security, MSMEs, Informal Sector, Employment Protection, Compliance Burden, Digital Inclusion, Working Capital Constraints, Inclusive Growth, Policy Reforms

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Introduction

A major milestone in the fiscal reform process in India was made in July 2017 with the introduction of the Goods and Services Tax (GST) in India. GST was supposed to lead to a single national market, increase the transparency of taxes and make the business easier since it would replace a wide range of indirect taxes such as VAT, excise duty and service tax among others. Though much of this has been received on a macroeconomic level, GST has had disproportionate and complex impacts on livelihood security (and on small businesses, informal workers, and self-employed people, in particular.

A major factor in the Indian economy is the informal sector as the sector contributes a considerable percentage of jobs and revenues to the informal sector. Shifting towards more formalized tax system with GST has introduced various compliance requirements, including electronic filing of the returns, invoice matching, and periodic payment of tax. These have been a significant burden to most micro and small businesses especially those in rural and semi-urban arrangements due to low financial strength, digital illiteracy and lack of access to professional tax advice. Moreover, the working capital cycles have also been impacted by GST with the introduction of input tax credit and unaidly refunds that are an additional financial burden on the small-scale businesses. This has in turn been transferred to the job market in terms of some businesses reducing their workforce or shutting the doors. Consequently, there have been fears about the capacity of GST to promote inclusive development and protection of livelihoods.

At that, the necessity to revise the existing GST framework in terms of livelihood security is quite urgent. The policymakers should aim at coming up with reforms that are revenue efficient and socially equitable. Increased protection of vulnerable groups, simplified compliance procedures, and promoting digital inclusion are the main factors to ensure that GST does not not only have positive impacts on the economy, but also generates jobs and incomes. This paper is aimed at examining how GST has led to a challenge of livelihood security and propose a future policy roadmap to achieve inclusive growth and sustainable employment security in India.

Objectives

The current paper will analyze the connection between implementing GST and livelihood security with an emphasis on inclusive economic growth and employment security. The particular objectives are:

1. To examine the effect of GST on livelihood security especially on small business, informal workers and self-employed people.
2. To determine the major issues confronting MSMEs and vulnerable population because of GST compliance obligations.

3. To assess how well current GST provisions have contributed to inclusive growth.
4. To analyse the effect of GST on the employment trend in the formal and informal sectors.
5. To propose policy changes to streamline the GST compliance and alleviate the pressure on small taxpayers.
6. To suggest a way forward on how livelihood security can be enhanced and employment protection guaranteed under GST.

Literature Review

The introduction of Goods and Services Tax (GST) in India has been a topic of considerable academic and policy interest, especially with regard to its effect on economic efficiency, tax compliance and livelihood security. GST is a complex system of indirect taxes, which was introduced by the Government of India (2017) to simplify the tax system, remove cascading effects, and build a unitary national market. Although the reform had anticipated improvements in doing business and introducing transparency, initial observations revealed that its implementation created a number of operational problems particularly to small taxpayers.Individual studies and institutional reports have explored the implications of GST on Micro, Small and Medium Enterprises (MSMEs) that are important in the creation of employment. According to reports by the Reserve Bank of India (RBI), even though GST has resulted in formalization and enhanced tax compliance, it has also made compliance more expensive and the administration more difficult to the small business. In the same vein, the Economic Survey of India (2019-20) notes that delayed input tax credit refunds and working capital constraints are some of the problems that have negatively impacted the financial stability of MSMEs, hence, impacting their ability to maintain employment.

In terms of the wider policy, NITI Aayog (2018) and OECD (2019) note that GST has a high potential to contribute to long-term economic growth and enhance revenue efficiency. They however emphasize the need to design policies that are inclusive in such a way that the vulnerable groups, especially informal workers and self-employed persons are not affected adversely in the process of shifting to a formal tax regime. In that regard, it is also observed by the International Labour Organization (ILO) that higher tax compliance would have an indirect negative impact on the creation of employment opportunities in the informal sector since small businesses would not be able to adjust to the new system.Additionally, the world ratings like the Ease of Doing Business Report by the World Bank (2020) identify GST as one of the significant reforms that have enhanced the business climate in India. However, in spite of such enhancements, the report recognizes that there are still enduring concerns with procedural

complexity and regular regulatory restructuring, which are skewed towards small and rural businesses. This is also supported by academic literature by Singh and Kumar (2018) and Sharma (2020), which states that GST has increased transparency but has increased the distance between large enterprises and small ones because of disparities in the digital preparedness and availability of resources.

In general, the literature available indicates that GST has introduced structural advantages to the Indian economy but has also introduced short-term and medium-term problems to livelihood security, especially in the MSMEs and informal sector workers. Although a great number of studies aim at the outcomes of the economy and the efficiency of taxation, there is still a research gap that deals with specific policy reforms that can balance the administration of taxes with employment security and inclusive growth. It is against this background that this paper endeavors to fill this gap by suggesting a detailed roadmap of enhancing livelihood security under GST.

Methodology

The given research design is descriptive and analytical, and it will be used to investigate the effects of the Goods and Services Tax (GST) on livelihood security and present the policy changes aimed at ensuring inclusive development and job security. The descriptive approach assists in knowing the current GST structure and its impacts on various sectors whereas the analytical approach allows a critical assessment of the issues and policy loopholes so that vulnerable groups like MSMEs, informal workers, and self-employed individuals are considered.The study is mainly founded on secondary data, which has been gathered and accumulated on an extensive scope of reliable and authoritative materials. These consist of government publications like GST Acts, Economic Surveys and reports provided by the Ministry of Finance and Central Board of Indirect Taxes and Customs (CBIC). Moreover, the institutional reports of the organizations, including the reserve bank of India (RBI), NITI Aayog, World Bank, OECD, and International Labour Organization (ILO) have been widely utilized. The topic has also been studied through academic journals, research papers, and published articles to have a comprehensive understanding of the topic.In order to guarantee reliability and validity, data has been chosen on the basis of relevance, authenticity and congruency across various sources. The research paper uses recent data and reports to represent the current trends and dynamic nature of GST implementation. The data has been interpreted with the help of a qualitative approach to the analysis, and the most focus has been made on the frequent problems, e.g., compliance burden, digital barriers, working capital constraints, and their effects on employment and income stability.

Another element of the methodology is a comparative study of the pre-GST

and post-GST situation to see what structural changes have been made to taxation and what they entail to the participants of the small business and informal sector. This comparison can be used to determine how GST has enhanced or had a negative impact on livelihood security. Moreover, the thematic analysis method has been applied to divide the most significant issues into significant themes, including compliance challenges, digital inclusion, financial constraints, and employment impacts. It is with this thematic classification that it becomes easier to understand the areas of problems and make specific policy recommendations. The paper also follows policy analysis model, in which the current GST provisions and government initiatives are critically discussed to find gaps and inefficiencies. The research suggests practical and feasible policy revisions, based on such findings, that would help reduce the compliance burden, increase digital access, support MSMEs, and save jobs.

Nevertheless, the research has some limitations. It might do too little to capture the ground-level realities or recent micro-level changes since it uses secondary data. Also, there is no primary data like surveys or interviews that restricts the extent of empirical validation. Certain limitations notwithstanding, the study provides a detailed and informed analysis of the impact of GST on the livelihood security and has valuable suggestions to the improvement of the policy.

Results and Findings

Structural Gains:

Formalization, Transparency, and Market Integration

The results show that GST has introduced a lot of structural changes in the Indian economy through tax transparency and formalization. The cascading effects have been minimised with the introduction of a common tax system which has formed a common national market facilitating easier interstate trade. The businesses are now mandated to keep

accurate invoices and records and this have made them more accountable and less tax evasive. Government and institutional reports indicate that the tax base has been steadily growing since the GST indicating greater formal participation.

Nevertheless, although the long-term benefits of formalization are positive, the transition has come with adjustment costs to the small and informal enterprises. A large number of micro-businesses which used to be out of the tax net have not been able to comply. Therefore, despite the fact that GST has enhanced macroeconomic efficiency, the short-term impacts of GST on livelihood security are not balanced across the various economic sectors.

Compliance Burden and Cost Escalation for MSMEs

One of the major results of the study is that the compliance with GST has placed a huge burden on the MSMEs in terms of its operations. Tax compliance has become more difficult than it was during the pre-GST regime due to the requirement of periodic returns filing, invoice matching, e-way bills, and digital documentation. Small businesses that in most cases do not have accounting expertise and technological infrastructure are forced to enlist the services of tax professionals, thus raising their compliance expenses. Studies have shown that such extra expenses are disproportionately imposed on micro and small businesses that have low profit margins. Businesses have in most instances either reduced their operations or returned some of their operations to informal ways to escape the pressure of compliance. This tendency is opposite to the goal of formalization and indicates the necessity of simplified processes that would be adapted to small taxpayers.

Liquidity Constraints and Working Capital Pressures

The other important discovery is associated with the negative effect of GST on working capital management, especially the MSMEs and the export-oriented units. Although input tax credit (ITC) is conceptually a good idea, it has been known to result in delays in terms of refunds, resulting in funds being tied up in the system. This causes liquidity crunch, which impacts on the daily business activities like procurement, payment of wages and production cycles.

Policy reports and studies indicate that small businesses are more susceptible to such financial shocks as they have less access to credit and rely on the flow of cash. The working capital blockage has in a number of cases led to low production capacity and employment rates. Thus, the inefficiency of refund systems is directly translated into livelihood insecurity of the workers relying on such businesses.

Digital Divide and Unequal Adaptation to GST Framework

The research highlights a significant digital divide that influences the effectiveness of GST implementation. Since GST is heavily reliant on digital platforms for registration, return filing, and tax payments, businesses with access to technology and digital literacy have adapted more efficiently. Large firms and urban enterprises have leveraged these systems to streamline operations and enhance compliance.

In contrast, small traders, rural enterprises, and informal sector participants face barriers such as poor internet connectivity, lack of digital skills, and limited awareness. This has resulted in unequal participation in the GST system, where technologically advanced firms gain a competitive advantage. The digital divide not

only affects compliance but also limits the ability of smaller businesses to fully benefit from GST reforms, thereby widening economic disparities.

Employment Impact and Livelihood Vulnerability

The research concludes that GST has had varied effects on employment and livelihood security. The formal sector has been growing because of the enhanced compliance and business expansion whereas the informal sector has been shaken. Higher compliance expenses, economic issues, and operational difficulties have caused some small businesses to downsize or even close down.

Sectors that are labor intensive like textiles, handicrafts and small manufacturing units have been hit the most since they work on thin margins and have many informal workers. The shift to a formal tax system, which lacks proper support systems, has subjected workers to income instability and job insecurity. This shows that GST, as it is, is not a comprehensive way of meeting the employment protection needs of the vulnerable groups.

Discussion

The results of the paper indicate that although GST has made tremendous steps in the context of tax reform and economic integration, its effects on livelihood security are still multifaceted and uneven. The increase in transparency and formalization is a favorable change in the structure of the economy. These advantages are however highly concentrated in the organized sector, as the small businesses and informal workers still have to endure the adjustment problems. This implies that GST, as efficient in a macroeconomic context, needs to be supported by other policies to make sure that its gains are shared inclusively.

One of the most significant problems that the findings have raised is an augmented compliance load on MSMEs. The move towards a comparatively less complex tax regime to a technology-based GST system has placed operational and financial strains on small businesses. In contrast to big companies, MSMEs do not have the resources and experience to cope with frequent filings and online practices. This has not only made them more expensive to do business but it has also influenced their competitiveness. According to the discussion, the GST can inadvertently deter small-scale entrepreneurship unless compliance procedures are simplified.

The other area of serious concern is the problem of working capital limitation due to delays in the refund of input tax credit. The stagnation of funds in the GST system has interfered with the cash flow cycles especially to the small and medium enterprises. This has directly affected the level of production and employment. The results suggest that livelihood insecurity is tightly connected with liquidity problems, as financially strained

businesses are more likely to decrease their staff or to restrict their growth. That is why the efficiency of refunds is the key to maintaining business processes and jobs.

The paper also highlights the issue of digital divide, which is also a major factor in the effectiveness of GST implementation. Although digitalization has contributed to efficiency and transparency, it has left barriers to businesses that are not technologically accessible and skilled. The rural and semi-urban businesses are especially disadvantaged, which results in the unequal contribution to the taxation system. This underscores the importance of digital inclusion policies that would enable all sectors of the economy to enjoy the benefits of GST.

Moreover, the effect of GST on employment has a two-sided trend. On the one hand, the formal sector employment has experienced a certain growth because of the rise in compliance and business growth. Conversely, the informal sector has been affected as some businesses have been downsizing or closing. This implies that formalization does not by itself guarantee livelihood security unless it is complemented by employment protection and transition assistance to the workers who have been affected.Altogether, the discussion highlights that GST is a radical reform that can have long-term positive effects, but its short-term difficulties need to be mitigated with the help of specific policy interventions. It is necessary to have a balanced strategy that will integrate economic efficiency and social protection to make sure that GST will help to achieve inclusive growth and sustainable livelihood security.

Conclusion

The implementation of the Goods and Services Tax (GST) is a historic change in the taxation system of India, which is supposed to increase the transparency, efficiency, and economic integration. The research paper concludes that GST has effectively simplified the process of indirect taxation and facilitated formalization, but its effects on livelihood security, specifically that of MSMEs, informal workers, and self-employed people, have been both positive and negative. GST advantages are more apparent at the macroeconomic scale and the micro level issues remain to be experienced by the vulnerable sectors of the economy.

Through the findings and discussion, it is evident that the problem of heightened compliance burden, working capital constraints, and digital barriers have posed serious challenges to small businesses. These issues have subsequently affected employment stability and income security particularly in the labor intensive and informal sectors. Despite the potential of GST to produce long-term economic growth, its short-term disturbances demonstrate the necessity of a more inclusive and supportive policy framework.In order to make GST play a significant role in securing livelihood, it is

important to introduce specific reforms, including the simplification of compliance processes, prompt refund systems, improvement of digital infrastructure, and institutional support of MSMEs. Also, sector-specific policies and employment protection are essential in order to protect vulnerable groups as the transition to a formalized economy. GST can be used as an effective instrument of inclusive growth provided that it is accompanied by properly designed policy interventions that would strike a balance between economic efficiency and social equity. Enhancing livelihood security under GST is not only a requirement to ensure the safety of employment but also long-term sustainable and fair economic development.

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