

## **IMPACT AND EFFECTS OF GST ON UNORGANIZED SECTOR IN INDIAN ECONOMY**

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### **ABSTRACT**

The informal sector plays a vital role in economic development of all the countries. Particularly, developing countries one third of national income comes from this informal sector only. The informal sector reduces the unemployment. While analyzing the composition of the Indian Economy, it is of two major sectors namely, organized and unorganized. The organized sector contributes two third to the GDP. Whereas the remaining 1/3 is by unorganized sector. In this paper the researcher analysis that the informal sector is economic activity that is neither taxed nor monitored by a government; and is not included in that government's Gross National Product (GNP); as opposed to a formal economy. Although the informal economy is often associated with developing countries-where up to 60% of the labor force (with as much 40% of GDP) works, all economic systems contain an informal economy in some proportion. This paper is based on fully secondary data which is collected from various sources. The share of corporate sector is around 12-14 percent in our national income while that of unincorporated [non-corporate] or Bhagidari sector is more than 30 percent. Even in manufacturing activity the share of non-corporate sector is nearly 40 percent if we consider the unregistered manufacturing group (fully non-corporate sector) plus the partnership proprietorship groups in the registered manufacturing group. GST will put paid to India's informal sector, drawing most of it into the formal universe and killing off much of what is left behind. This change will erode the flexibility the economy derives from informality and has serious implications for India's political economy. The paper concludes that GST will add 1.5-2% to GDP growth within 1-2 quarters of its implementation. A standard rate of 18% will be ideal. A standard rate of 22% might harm the economy. GST implementation will not only curtail indirect tax evasion but also direct tax evasion. The likely negative impact on the unorganized sector will not hurt but improve employment on national basis.

**KEYWORDS:** GDP, GNP, GST, Informal Sector.

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