

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 8 | Issue 2

2025

© 2025 *International Journal of Law Management & Humanities*

Follow this and additional works at: <https://www.ijlmh.com/>

Under the aegis of VidhiAagaz – Inking Your Brain (<https://www.vidhiaagaz.com/>)

This article is brought to you for “free” and “open access” by the International Journal of Law Management & Humanities at VidhiAagaz. It has been accepted for inclusion in the International Journal of Law Management & Humanities after due review.

In case of **any suggestions or complaints**, kindly contact support@vidhiaagaz.com.

To submit your Manuscript for Publication in the **International Journal of Law Management & Humanities**, kindly email your Manuscript to submission@ijlmh.com.

Goods and Services Tax (GST) and its Impact on The Indian Economy: A Critical Evaluation of Fiscal Transformation

ISHITA¹ AND ADYA PANDEY²

ABSTRACT

On July 1, 2017, the Goods and Services Tax (GST) was implemented in India, which, to put it mildly, was a momentous step as regards India's indirect tax regime. Introduced as the most ambitious tax reform since independence, GST was to subsume a host of indirect taxes imposed by both Centre and States in the creation of a unified national market. This paper treads the multidimensional ground of the impact of GST on the Indian economy which includes aspects of tax compliances, retail inflation, informal sector, ease of doing business and economic growth in general. Though challenges including compliance burdens, IT infrastructure issues and confusion among small traders came in the way, over time the GST regime has become more mature, and has improved the level of tax transparency and efficacy. Streamlining of the tax structure on account of abolition of cascading taxes and moving towards a destination based tax system has made it business friendly and easy to understand. In addition, the effect of incorporation in GST in federal fiscal relations and revenue allocation has also been of vital significance in ascertaining its long term sustainability. In this research we critically review the current available literature and then formulate some key research questions and then an evidence based analysis of the effectiveness of GST. Using the qualitative assessment and secondary data evaluation, it evaluates the macroeconomic implications of GST and determines what needs still require reforms. For instance, to encourage the MSMEs some suggestions are rationalization of tax slabs, better technology support, and timely refunds, etc. The paper concludes that although GST is a revolutionary hold in economic integration and transparency, more reforms have to be done and stakeholders need to engage fully for GST to be maximally utilized.

Keywords: Goods and Service Tax, India, Economy, Tax rates.

I. INTRODUCTION

Indian economy has been clogged by an intricate web of indirect taxes levied by both the central and the state governments. There was excise duty, service tax, VAT, CST, entertainment tax,

¹ Author is a student at Amity Law School, AUUP, Lucknow Campus, India.

² Author is an Assistant Professor at Amity Law School, AUUP, Lucknow Campus, India.

and several others that resulted in tax cascading, compliance issues and logistical inefficiencies. That being said, realizing such shortcomings, the government introduced the Goods and Services Tax (GST) as a comprehensive indirect tax reform. Starting from July 1, 2017, GST will replace the several indirect taxes by a single tax in different stages, and will be a tax linked to the destination. It includes goods and services as one basket with an objective to increase transparency, increase tax compliance and to promote ease of doing business.³

GST is also one of the primary key objectives to avoid the cascading effect of taxes i.e. tax on tax, which the previous system always had. The GST reduces effective tax burden on end consumer and businesses by enabling seamless input tax credit(ITC) across the value chain. The system works on double model, where within the states both CGST and SGST are levied on intra-state transaction and on Inter-state transaction, both IGST is charged. The challenges facing GST's implementation from the beginning. The digitized filing system and multiple returns ended up creating a compliance burden on the businesses, especially the MSME sector. Furthermore, there was cognizance of technical glitches in the GST Network (GSTN), transitional tax credits and rules were ambiguous leading to confusions and disapproval. However, many reforms were taken over a period of time to simplify processes such as quarterly returns for small taxpayers, e-invoicing and rationalisation of GST rate. The GST had to ensure the adoption of cooperative federalism, therefore the GST Council is a constitutional body, which had to consist of the state and central finance ministers.⁴

This paper delves into the wide-ranging impact of GST on the Indian economy. The tax reform is considered, in terms of its effect on inflation, GDP growth, employment, federal relations and fiscal autonomy.⁵The report also assesses how far, if at all, GST has in fact fulfilled its mandate of making the country a 'one nation, one tax' entity. This paper incorporates information from academic literature as well as government data and policy reviews in order to critically assess the efficiency of GST and suggest ways to make the GST structure and administration more efficient.

(A) Review of literature

The impact of GST on Indian economy has been studied by many scholars, economists and policy analysts with multiple conclusions at various time periods and areas.

³ Arvind Virmani and V Bhaskar, 'GST Reform in India: Simple Tax, Broad Base, Harmonised Structure' (2015) ICRIER Working Paper No. 324.

⁴ NITI Aayog, 'Goods and Services Tax: The Road Ahead' (2017) <https://niti.gov.in> accessed 1 April 2025.

⁵ D K Srivastava and C Bhujanga Rao, 'GST in India: A Review of Initial Trends' (2018) National Institute of Public Finance and Policy.

- V. Bhaskar and Arvind Virmani (2015) estimated that GDP will grow by 1–2% when GST increases the efficiency gains of harmonizing tax regime. Logistics are improved, transaction costs reduced and tax revenues increase as their model projected.
- NITI Aayog (2017) had highlighted that GST is supposed to ease of doing business as it removes inter state tax barriers and creates a uniform national market. It also pointed out its ability to diminish corruption as digitized compliance systems are being used.
- According to D.K. Srivastava and C. Bhujanga Rao, even though the initial disruptions were severe, with small and medium-sized enterprises bearing the brunt of it, it was also true that the reorganisation took Indian textile companies to the next level. The smooth adaptation was deterred by compliance requirements and software glitches.
- Going further, RBI (2019) in a working paper asserted that despite being disinflationary in the long run, in short run, GST also contributed to inflationary pressure through supply chain disruptions, rate anomalies. The also observed a change in consumption after GST.⁶
- According to EY and FICCI (2020),⁷ GST study revealed GDP formalization of the economy, increased tax base and more than 20% reduction in logistics cost. It also, though, warned about compliance fatigue and pleaded for reduction of tax rates.
- As per the World Bank (2018), regarding India's GST, it was the second highest in the world in terms of number of slabs. Differentiated rates were appreciated in the aim but due caution was given that over complexity would make the system less efficient with regard for its tax attribute.
- There is a general agreement in the literature about the nature of GST as a necessary reform, but implementation has been affected by design and execution challenges. Whereas large corporations have done quite well, small traders struggle. Feedback responsiveness has been appreciated as a strength of the system, however, on this front the GST council has proved to be responsive. As such, the available literature upholds the argument for a balanced perspective; GST has provided an array of benefits, but remains ripe for further improvement to its optimum capacity.

(B) Research Questions

⁶ Reserve Bank of India, 'Report on Currency and Finance 2019-20' <https://www.rbi.org.in> accessed 1 April 2025.

⁷ EY-FICCI Report, 'GST: The Road Ahead – Tax Reforms in Progress' (2020) <https://ficci.in> accessed 2 April 2025.

- It can be claimed from figures that there will be a positive impact of GST on GDP, trade, and inflation of the country.
- What is the effect of GST in transforming tax compliance and reducing the informal sector?
- What are the main areas where challenges lie with GST?
- Has GST been able to come up with a unified market throughout India?

(C) Objectives

- In addition, it aims at critically evaluating the macroeconomic effects of GST.
- In order to assess the practical challenges in implementation and in compliance.
- To examine the impact of the shock on MSMEs and logistics in particular.
- In order to give policy recommendations that can contribute to enhance the GST framework.

(D) Hypothesis

The effect of GST introduction on India's economic growth and formalisation of the economy is positive.

- H0: There has not been a significant contribution of GST towards changing any of India's economic indicators and additional compliance burdens have been without proportional benefits.

II. ANALYSIS

- **GDP and Economic Growth have been affected.**

With the introduction of Goods and Services Tax (GST), the indirect taxation in India saw a watershed. Before the launch of GST, the Indian economic system was faced with the trouble of numerous taxes for example Value Added Tax (VAT), Central Excise, Service Tax, Entry Tax, and the Central Sales Tax (CST). In respect of inter state transactions, these taxes gave rise to cascading tax effects and inefficiencies. For example, entry taxes and CST notably increased the cost of transport of goods from one state to another. The introduction of GST brought with it the change in the fractured tax structure to a destination based tax structure which paved the way for smooth flow of goods and services in the country. The harmonization of taxes has proved to be crucial in optimizing the supply chain. Removal of inter state check posts and introduction of single unified tax reduced logistics and transportation cost. This has enabled the

businesses to restructure their supply chains relying exclusively on centralized warehouse and hub and spoke distribution model. These efficiencies led to a 0.5 to 1 percentage point increase in the incremental GDP growth over the medium term, as has been noted in Economic Survey 2018 – 19. However, the effect of GST on GDP in the immediate term was not as good. GDP growth fell to 6.3 percent in Q2 of 2017–18, against 7.1 percent in the previous quarter, the initial phase was marked by a slowdown. Attributable to the usual teething problems associated with new tax compliance digitalization, operational challenges with regards to compliance, confusion around input tax credit mechanisms and disruptions faced by MSMEs who are not accustomed to doing their tax compliance digitally. However, the growth momentum was revived once businesses adjusted to the new tax regime and the systemic problems were resolved in successive meetings of GST Council. In addition, tax buoyancy strengthened on account of enhanced compliance and formalisation of the economy, which, in turn, helped consolidate fiscal deficit.⁸

- **Revenue Mobilization**

The model behind GST was to be a revenue positive reform giving upside to revenue by expanding the tax base. Among its key goals, it aimed to bring into the tax net previously untaxed economic activity by offering an incentive for registration on the basis of an input tax credit mechanism. Since the rollout of GST, the collections of GST have been rising significantly. Average monthly GST revenues have been consistently crossing ₹1.6 lakhs crore as of 2024 as taxpayer compliance improves and taxable base increases.

Nevertheless, after implementation, the early years did not fulfil the revenue targets, considering the continual rate revisions and the implementation difficulties. Virtually all the states had to contend with revenue shortfalls, and that included those relying on compensation from the Centre. It had promised to compensate states for revenue losses for five years through GST (Compensation to States) Act of 2017. Yet, this antagonism in Centre State fiscal relations was caused by delays in disbursement of compensation. Timely release was on the agenda of States, the several confrontations were at the GST Council meetings. However, the Council has actually operated as an example of cooperative federalism for the most part. Recalibrating rates and modifying procedures as also resolving disputes have been possible only because of the consensual decision-making process between the Centre and the States. Besides, new system driven tools such as e-way bills, e-invoicing have further added to compliance and brought

⁸ World Bank, 'India Development Update: India's Growth Story' (2018) <https://www.worldbank.org> accessed 2 April 2025.

transparency to revenue.

- **Formalization of the Economy**

GST is one of the prime transformations which has helped in formalizing of Indian economy. GST with input tax credit (ITC) mechanism was essentially designed with the aim of creating the incentive for entities to register and comply with tax regulations. Those businesses which fell outside the scope of taxation, were at a competitive disadvantage and thereby encouraged voluntary compliance.⁹In this, just over 1.4 crore entities are registered under GST as of 2024, a figure on a much higher level than during pre GST years. Furthermore, the digital infrastructure under the Goods and Services Tax Network (GSTN) facilitates data triangulation between GST filings and income tax returns. Through this interconnectivity, log of discrepancies and identification of tax evasion than overall compliance is what you will get. GSTN in partnership with Income Tax Department has been effective in eliminating the fraudulent behaviour and broadening the formal economy. But it has been acknowledged, at the same time, that the formalization process was more cumbersome for micro and small enterprises. Some of the businesses have also been scared off from regular compliance due to the complexity of filing GST returns—mainly GSTR-1, GSTR-3B and annual returns. Though some reform such as the Quarterly Return Monthly Payment (QRMP) scheme and simplified composition schemes provide a partial relief; procedural clarity and digital literacy have been big bottlenecks for small traders and enterprises.

- **Impact on Inflation**

At the time of the introduction of GST it was a matter of concern whether the same would lead to inflation especially of the essential goods and services which were either fully exempted or were taxed at lower rates. Some of these fears were in fact confirmed in the short run, with effects on prices, owing to changes in effective tax rates and pass through of input costs in some services and goods. This tax migration initially hit sectors such as healthcare, food services and transportation as a consequence. Despite this, the GST Council stepped up for the considerable rate rationalisation – claimed many goods from the highest 28% bracket and increased the number of goods that were zero rated or exempt. It simply aimed to reduce end consumer burden even as revenues remained neutral. As per the Monetary Policy Report of the Reserve Bank of India (2020), there has been a largely neutral long run effect of GST on inflation. Subsequent years of stable inflation figures go on to affirm that the policy induced inflationary pressures

⁹ Ministry of Finance, Government of India, 'GST Revenue Collections' (2024) <https://pib.gov.in> accessed 2 April 2025.

were transitional rather than structural. The structure of GST also helps the country achieve optimizes which historically lead to price inflation created due to tax cascading effect. In effect, this has resulted in GST contributing to a more predictable and transparent price regime across the country in further supporting its long-term neutrality on inflationary trends.¹⁰

- **Sectoral Impacts**

A vast difference has been there in the effect which GST has created in the various sectors. MSMEs are among the most affected. Although the input tax credit system reduces the effective tax burden of registered MSMEs, a good number of them have found the compliance load too heavy to bear. Complicated regulatory environment is created by regular filing of the return, there are plenty of audit requirements and frequent changes in the rates of the tax. In the same vein, refunds have delayed liquidity, particularly in exports. As a result, government thereafter introduced mechanisms including the QRMC scheme and increased the threshold limits for registration, to ease compliance burden. On the other hand, sectors that were not able to take advantage of GST include the logistics and e-commerce. The multiple state level taxes, check posts and permits had previously hindered the logistical operations. Elimination of these barriers through GST made the creation of pan India warehouse networks possible and resultantly, more efficient transport systems could be adopted. The e-commerce platforms, which were facing problems with state laws, have passed that hurdle with their taxation covered under an uniform taxation regime and defined tax collection at source methods.

The sectors of real estate and automobiles had mixed results. The rule that denied input tax credits on under construction properties ultimately caused real estate costs to rise. While there were revisions in the GST rates and rationalizations in ITC provisions, it has brought some balance over time, but the taxation of land and completed projects remain unclear. However, the automobile sector only benefited indirectly through the subsume of different levies (excise, VAT, etc.) into a single tax. Reduced tax incidence reduced the cumulative tax incidence, which succeeded in stabilizing vehicle prices and stimulating consumer demand.

- **Challenges in Implementation**

However despite the same, operational and systemic challenges frying implementation of GST has been seen. The most mentioned criticism remains the presence of many tax slabs, namely, 0%, 5%, 12%, 18% and 28% which contradicts the idea of 'one nation, one tax'. Due to the wide range of rates, classifications are disputed, litigated and ambiguous interpretations are

¹⁰ Economic Survey of India 2018-19, Ministry of Finance <https://indiabudget.gov.in/economicsurvey/> accessed 3 April 2025.

made. For example, restaurant services, some educational services, and pre-packaged food items, have been the subjects of much debate and frequent revision of tax treatment. There has also been quite a lot of criticism about the technological backbone of GST: GSTN. In the initial few years of its operations, the GST portal faced constant downtimes, problems in filing the returns and mismatching the invoices. These impediments created impediments to taxpayers and compliance. Delays in refunds had the negative consequences of retarding working capital for exporters in particular. Nevertheless, the government continued to do its due diligence to find solutions to the country's problems. E-invoicing for large businesses introduced has helped with the accuracy and tracing on the invoice. Invoice matching and anomaly detection now offered by Artificial Intelligence (AI) tools are being used to minimize the fraud. Later, compliance checking based on analytics, data sharing between departments and GST portal upgradation as per the users have further reinforced the robust system. The enhancements in these technologies are designed to help solve longstanding complaints about the system, and increase confidence in the system.¹¹

III. SUGGESTIONS

- Simplify Rate Structure: Change rates from a slab that goes from zero to six to a slab that goes from zero to three.
- Strengthen GSTN infrastructure: Backend needs to be strengthened to cope up with compliance volumes smoothly.
- Refund mechanisms should be improved: Automation with timelines for refunds of MSMEs is enforced.
- Training and outreach: On enhanced training to enhance capacity of small business and traders in rural areas.
- Dedicated helpdesks and AI based chatbots can cut down on the compliance burden and provide greater services to the taxpayers.

IV. FINDINGS

- Tax compliance has improved and the tax base has been broadened in the country.
- It formalized and thereby helped generate revenue better in the medium term.
- The impacts fall variedly; logistics and e commerce experience more than MSMEs.

¹¹ GST Council, 'GST Acts and Rules' <https://www.gstcouncil.gov.in> accessed 3 April 2025.

- The system still faces compliance and classification issues.
- The GST Council has become a very important institution of cooperative federalism.

V. CONCLUSION

GST is a paradigm shift in India's fiscal policy to establish an integrated tax system into a unified national market. The transition came with tremendous challenges, but it has put in place a better, more efficient, transparent, and technological tax administration. The success of GST lies not merely in its initial implementation but in its evolution through stakeholder engagement, technological adoption, and continuous reform. Meaning the way forward for India to achieving a \$5 trillion economy is a stable, simple and inclusive GST framework that forms the bedrock of fiscal strategy.

VI. REFERENCES

- Arvind Virmani and V Bhaskar, ‘GST Reform in India: Simple Tax, Broad Base, Harmonised Structure’ (2015) ICRIER Working Paper No. 324.
- NITI Aayog, ‘Goods and Services Tax: The Road Ahead’ (2017) <https://niti.gov.in> accessed 1 April 2025.
- D K Srivastava and C Bhujanga Rao, ‘GST in India: A Review of Initial Trends’ (2018) National Institute of Public Finance and Policy.
- Reserve Bank of India, ‘Report on Currency and Finance 2019-20’ <https://www.rbi.org.in> accessed 1 April 2025.
- EY-FICCI Report, ‘GST: The Road Ahead – Tax Reforms in Progress’ (2020) <https://ficci.in> accessed 2 April 2025.
- World Bank, ‘India Development Update: India’s Growth Story’ (2018) <https://www.worldbank.org> accessed 2 April 2025.
- Ministry of Finance, Government of India, ‘GST Revenue Collections’ (2024) <https://pib.gov.in> accessed 2 April 2025.
- Economic Survey of India 2018-19, Ministry of Finance <https://indiabudget.gov.in/economicsurvey/> accessed 3 April 2025.
- GST Council, ‘GST Acts and Rules’ <https://www.gstcouncil.gov.in> accessed 3 April 2025.
