

A Study of GST on Foreign Direct Investment Trends in Uttar Pradesh

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Abstract: Goods and Services Tax (GST) was introduced in India in 2017 as one of the biggest indirect tax reforms in the Indian tax history with the goal of developing a single national market and enhancing the investment climate in India. This study looks into the impact of the GST on the investment trend in post-reform India with a particular focus on Foreign Direct Investment (FDI) inflows, Gross Capital Formation (GCF) and the pattern of growth of the industries. The study is based on secondary time-series data for the years 2012-2026 and examines the impact of the implementation of GST on investment performance to determine if the tax harmonisation, input tax credit and reduced cascading effect have helped to build investor confidence.

Econometric model (regression) is used to analyse the effect of GST revenue growth and policy reform on domestic and foreign investment flows. Analysis of trends and compound annual growth rates (CAGR) also provide insights into structural changes in the formation of capital. The results will show how GST has helped to achieve transparency, ease of doing business and market integration, which in turn has positively affected the investment decision. There are however, transitional compliance issues and rate complexities that have possibly dampened short-term impacts. The study provides policy suggestions to enhance the fiscal strength and ensure the long-term growth of investment in India's transforming economic system.

Outline the concept of Goods and Services Tax (GST) and the Foreign Direct Investment (FDI) and their significance. Explain Gross Capital Formation (GCF), Economic Growth, Goods and Services Tax (GST) and Foreign Direct Investment (FDI).

Introduction

Industrial Goods and Services Tax (GST) is an integrated indirect tax regime implemented in India on 1st July 2017 as per the 101st Constitution (12th Finance) Amendment Act. It brought together several indirect taxes, like VAT, excise duty, service tax, entry tax and luxury tax, to establish a single tax regime in the country.

GST has a significant impact on the Uttar Pradesh revenue system and simplifying the tax collection process for businesses. Prior to the introduction of GST, there were several State and Central taxes that had to be paid by traders and manufacturers in Uttar Pradesh. GST introduced dual tax structure of CGST (Central GST) and SGST (State GST) in case of transactions within the state and IGST (Integrated GST) in case of transactions outside the state.

The benefits of the GST regime to Uttar Pradesh, as one of the largest consumer markets and manufacturing hubs in India, include enhanced transparency in the tax system, better compliance, digitization of tax system and greater revenue generation. The introduction of GST has also resulted in a decrease of tax cascading, improved ease of doing business and formalisation of small and medium enterprises in the state.

In this way, GST has emerged as an effective fiscal reform for Uttar Pradesh, which will promote economic development, better governance, and better fiscal performance.

1.2 Concept and Objectives of GST

GST is a consumption tax which is levied at the destination and has been formulated to enable smooth flow of input tax credit and remove tax cascading. The key aims are to:

- Development of the national market.
- Development of a one country market.
- Lower logistics and transaction fees
- Improvement of the tax compliance and transparency
- The level of ease in doing business has increased.

1.3 GST as a Driver of Economic Growth

Investment plays a vital role in the economic development because the creation of productive capacity, better infrastructure, employment, and industrial development. The Goods and Services Tax (GST) regime has provided a strong support for investment growth in Uttar Pradesh through fiscal reforms and optimizing tax administration. GST has made the indirect tax regime much simpler and has enabled investors to have a clear and efficient business environment.

The introduction of GST has brought about a substantial change in the revenue generation and economic activities in Uttar Pradesh since its implementation. The collections of GST in the state have gone from ₹49000 cr to over ₹1.15 lakh cr, which shows that it's been far more and more people have been complying and the volume of trade has increased. The expansion reflects the positive impact of GST reforms on formalisation of businesses and expanding the tax base, thereby increasing the income for the government and increasing public investments in infrastructure.

The Government of Uttar Pradesh has also launched various initiatives on GST to further boost the investment environment. The state tax department has been conducting drives for expansion of the base of GST in areas that were not covered, such as real estate, banking and insurance, advertising, restaurants, and e-commerce. These measures enable to decrease the incidence of tax evasion and to formalize more businesses.

The state has also put in place a simplified system of GST registration, allowing low-risk businesses to register for GST within three days, fostering entrepreneurship and new investments. Moreover, the implementation of digital compliance measures like e-invoicing, e-way bills, and online return filing has enhanced the transparency and efficiency of tax compliance.

GST reforms have also lowered the taxes on essential goods and some sectors, stimulating consumption and production. For instance, some materials for education and some life-saving drugs are no longer liable to GST, several items in the household goods category are now in the 0% / 5% slab and others were exempted

from GST. These measures are designed to stimulate demand for state goods and services, and boost purchasing power, which in turn will stimulate investment and job growth in the state.

Additionally, long-term benefits of the GST policy reform and rationalisation are anticipated for Uttar Pradesh through the growth of its industries and consumption. The potential economic benefits of the GST reforms in the long-term are estimated at around Rs 30,000 crore for the state. Hence, the GST initiatives have contributed greatly in boosting the investment climate in the state of Uttar Pradesh through a number of mechanisms, including ease of taxation, enhancement of revenue, transparency and expansion of business. These reforms are part of the state's overall goal of speeding up economic growth and transitioning toward a \$1-trillion economy.

1.4 GST and Investment Climate

Tax system stability, transparency and predictability is one of the key factors of a good investment climate. The introduction of GST boded well for such an environment in India as it was a major structural reform to replace the multi-layered and fragmented indirect tax regime with a single tax regime. Multiple tax regimes by the Centre and State made it difficult to comply with the tax regime, introduced inefficiencies and affected investment choices before GST. GST tackled these structural challenges by introducing harmonised tax rates and by bringing the national market into one economic space.

One of the biggest contributions of GST is that it removes cascading tax effects by allowing seamless flow of input tax credit across goods and services. This process lowers the total cost of production, increases price competitiveness and profit margins, thus promoting business growth and capital accumulation. The elimination of inter-state checkpoint and entry taxes has significantly boosted the logistics efficiency, decreased the duration of transportation and minimised transaction cost which are key factors in deciding investment.

Further, e-invoicing and filing of e-returns online has enhanced transparency and accountability in tax administration under the technology-driven compliance regime of GST. An improvement in tax transparency will lead to increased investor confidence, as it will bring back some clarity and eliminate discretionary practices. A uniform tax regime makes it easier for foreign investors to enter into the market and plan their investments for the long term.

GST, however, presented some difficulties during the transition period, including frequent rate adjustments and challenges for small enterprises, as well as some technical issues. Such short-term disturbances might have temporarily affected investment patterns. However, it is hoped that in the long run, GST will bring a positive change in India's ease of doing business, make the fiscal system more stable and provide a better environment for investment, both domestic and foreign.

1.5 Operational and Compliance Challenges under GST

While the implementation of GST brought in a uniform tax regime, there were multiple operational and compliance issues, which were especially challenging in the first few years. The following are challenges:

1. **Complex Return Filing Structure:** The increased compliance burden due to the multiple return forms (GSTR-1, GSTR-3B, Annual Return) and the frequent changes in the filing procedure.
2. **Unpredictable changes in Rules and Rates:** There was a lot of uncertainty and businesses had to keep a check on frequent changes in Rules and Rates.
3. **Input Tax Credit (ITC) Restrictions:** Disagreements and working capital strains due to strict matching requirements and blocked credit provision.
5. **E-Invoicing and Digital Compliance Requirements:** Mandatory e-invoicing and real-time reporting led to a higher technological dependence and system upgrades.
6. **Working Capital Blockage:** Liquidity was affected due to delay in refund processing particularly for exporters and inverted duty structures.
7. **Compliance Cost for Small Businesses:** MSMEs faced higher administrative expenses due to greater reliance on tax experts and software solutions.
8. **Audit and Assessment Complexities:** Enhanced audit attention, reconciliation demands and documentation requirements in addition to operational complexities.
9. **Inter-State Transaction Documentation:** E-way bill rules and tracking came with added formalities in the supply chain.

3. Research Methodology

This study based on analytical and descriptive in nature. It aims at exploring the effect of GST on the trends of FDI investment in Uttar Pradesh.

1. **Nature of Study:** The study is based on Secondary Data analysis which was used to assess the relationship between GST and FDI investment trends.

2. Sources of Data:

The data for the study will be collected from various secondary sources such as:

- Reports of Reserve Bank of India (RBI)
- Uttar Pradesh State Tax Department.
- Reports of NITI Aayog
- Economic Survey of India is published in both printed and electronic format.
- GST Council reports
- Read research journals, articles and government publications.
- Department for Promotion of Industry and Internal Trade (DPIIT)
- Invest UP
- India Brand Equity Foundation (IBEF)

3. Period of Study:

This study applies to the 2017–2026 timeframe.

4. Tools and Techniques:

To analyze the data, the following tools will be used:

- Trend analysis

4. Objectives of the Study

1. To study the revenue collection trend of Goods and Services Tax (GST) in Uttar Pradesh.
2. To study the pattern and flow of Foreign Direct Investment (FDI) into Uttar Pradesh in the past few years.
3. To analyze the impact of economic development on FDI inflows with the help of GST reforms in Uttar Pradesh.
4. To evaluate the contribution of GST and FDI towards economic development, industrial development and employment generation in Uttar Pradesh.
5. Suggest policy measures to enhance efficiency of GST and boost FDI inflows in Uttar Pradesh.

5. Limitations of the Study

1. Mainly secondary data is used, and the data used may not be accurate and complete.
2. Research is limited to the state of Uttar Pradesh, so conclusions might not be representative of other states in India.
3. The analysis is based on the available data on Goods and Services Tax (GST) and Foreign Direct Investment (FDI); it is possible that it does not reflect all informal or unreported economic activity.
4. Only some of the indicators of investment and tax performance are taken into account in the study and the factors that affect the economic growth may be incomplete.
5. Any conclusions drawn rely on information available for the study period selected, and could change as a result of future economic events.

6. Analysis & Findings

Table: 6.1 India GSTs Collection from 2017 to 2025

Financial Year	Total GST Collection	In ₹ Lakh Crore
2017–18 (Jul–Mar)	₹7,40,650 crore	7.40
2018–19	₹11,77,368 crore	11.77
2019–20	₹12,22,116 crore	12.22
2020–21	₹11,36,805 crore	11.36
2021–22	₹14,83,291 crore	14.83
2022–23	₹18,07,680 crore	18.07
2023–24	₹20,18,249 crore	20.18
2024–25	₹22.08 lakh crore	22.08

- **Gross GST Collection: 2.37 lakh crore (12.6% YoY growth)**
- **Net Collection (post refunds): 2.09 lakh crore (9.1 % YoY growth)**

Source Lok Sabha reply & GST monthly updates (March 2025)

GST collections have seen strong growth since its inception, growing from ₹7.41 lakh crore in 2017–18 (July–March) to a record ₹22.08 lakh crore in FY 2024–25, which is almost three times the amount collected

in eight years, despite a dip during the pandemic period in 2021–22 when collections reached ₹11.37 lakh crore. The key milestones are marked by the increase in compliance levels, economic recovery and structural reforms such as slab rationalization, which are reflected by the growth in the figures to ₹11.77 lakh crore (FY19), and to ₹12.22 lakh crore (FY20), ₹14.83 lakh crore (FY22), ₹18.08 lakh crore (FY23) and finally to ₹20.18 lakh crore (FY24). The FY25 peak at monthly average of ₹1.84 lakh crore (up from ₹1.68 lakh crore in FY24) reflects growing tax base and consumption, which has doubled from FY21.

State-Wise GST Collection in India (FY 2024)

Rank	State	GST Collection (₹ Crore)
1	Maharashtra	3,18,497
2	Gujarat	1,74,938
3	Karnataka	1,43,023
4	Tamil Nadu	1,12,456
5	Uttar Pradesh	1,05,789
6	Haryana	98,234
7	West Bengal	87,654
8	Rajasthan	76,543
9	Telangana	65,432
10	Andhra Pradesh	54,321

In FY 2024 the economically strong states dominated the collection of the Goods and Services Tax in India. Maharashtra ranked first with ₹3,18,497 crore, followed by Gujarat (₹1,74,938 crore) and Karnataka (₹1,43,023 crore). The other important contributors are Tamilnadu and Uttar Pradesh. Other states like West Bengal, Rajasthan, Telangana, Haryana and Andhra Pradesh also played a prominent role. In general, the major states have more GST revenue which are mainly industries, commercial and service areas.

Table 6.2: Uttar Pradesh GST Collection data from 2017-18 to 2024-25

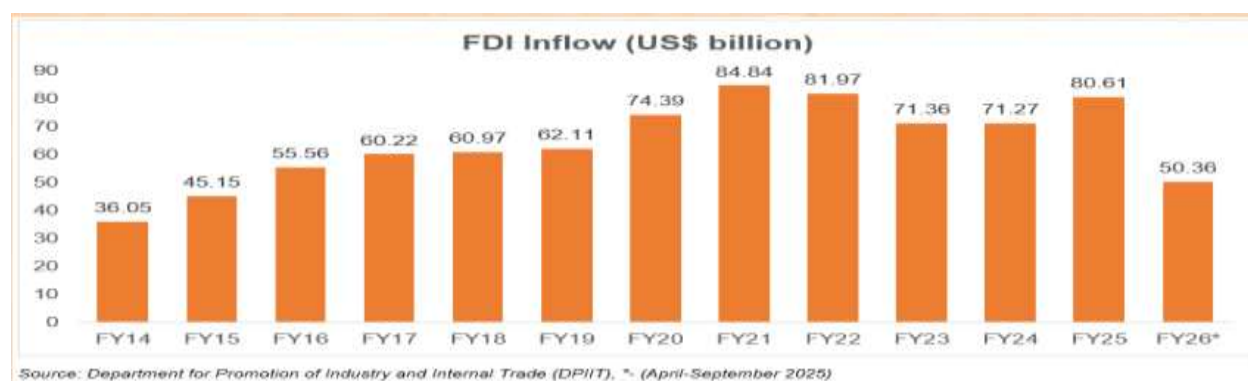
Financial year	Uttar Pradesh GST collection (₹ crore, approx)
2017-18	36,891
2018-19	61,337
2019-20	65,281
2020-21	59,721
2021-22	73,865
2022-23	87,970
2023-24	1,74,962
2024-25	1,86,315

Source: GST Club

However, since the inception of Goods and Services Tax, there is a steady increase in the collection of Goods and Services Tax in Uttar Pradesh. It increased from ₹36,891 crore in FY 2017–18 to ₹65,281 crore in FY 2019–20, followed by a slight decline to ₹59,721 crore in FY 2020–21 due to the impact of the COVID-19 pandemic. After that, collections steadily improved, reaching ₹73,865 crore in FY 2021–22 and ₹87,970 crore in FY 2022–23. The figure sees a sharp increase in later years, with ₹1,74,962 crore in FY 2023-24 and ₹1,86,315 crore in FY 2024-25, reflecting robust economic activity and enhanced tax compliance in the state.

FDI

Figure: In this figure India FDI Inflow are given



The FDI inflows in India have grown by nearly 20 times from FY01 to FY25, totaling Rs. The period of April 2000 to September 2025 saw an increase in norms easing and ease of doing business, which increased the money to 99,08,749 crore (US\$ 1.12 trillion). During April-September 2025 alone, the inflows amounted to Rs. 4,44,641 crore (US\$ 50.36 billion), with equity at Rs. 3,03,402 crore (US\$ 35.18 billion). The services industry and computer software/hardware accounted for 16% each. 8,09,564 crore and Rs. 8,62,922 crore, respectively), followed by trading (6%), telecom (5%), and automobiles (5%). Most sources were from Singapore (24%, Rs. 13,21,127 crore) and Mauritius (24%, Rs. States like Maharashtra (31% – Rs. 11,228 crores) were the leaders for contribution to households' food budget. 7,88,640 crore), ahead of Karnataka (21%), Gujarat (15%), Delhi (13%), and Tamil Nadu (6%).

Financial year	Uttar Pradesh FDI Inflow (₹ crore, approx)
2018-19	
2019-20	Covid-19
2020-21	2200
2021-22	2,354
2022-23	3,373

Financial year	Uttar Pradesh FDI Inflow (₹ crore, approx)
2023-24	2,762
2024-25	3700

Source: DPIIT

Foreign Direct Investment (FDI) inflow in UP has experienced overall increasing trend in recent years. While data for 2018–19 is not specified and 2019–20 was affected by the COVID-19 pandemic, inflows improved afterward, reaching ₹2,200 crore in 2020–21, ₹2,354 crore in 2021–22, and ₹3,373 crore in 2022–23. Although there was a slight decline to ₹2,762 crore in 2023–24, it increased again to ₹3,700 crore in 2024–25. Overall, the FDI inflows in Uttar Pradesh during 2017–2025 period is around ₹16,316 crore which shows a gradual improvement in foreign investment and economic development of the state.

7. Conclusion

It is evident from the data that the introduction of Goods and Services Tax (GST) has been a great success in consolidating India's indirect tax regime in terms of tax compliance, widening tax base and better revenue collection. As of FY 2024–25, total GST collection in India has seen a near three times increase from ₹7.40 lakh crore during FY 2017–18 to ₹22.08 lakh crore in FY 2024–25. GST collections slowed down in FY 2020–21 due to the COVID-19 pandemic, but rebounded strongly and continued to grow in subsequent years which is a clear indication of economic activity, digitisation process and enhanced compliance framework of government.

The state-wise analysis shows that Maharashtra, Gujarat, Karnataka, Tamil Nadu and Uttar Pradesh are the major contributors in terms of revenue from GST as they have high industrial, commercial and service activities. Of these, Uttar Pradesh is one of the biggest when it comes to the collection of the Goods and Services Tax (GST). The increase in the state's GST revenue from ₹36,891 crore (FY 2017–18) to around ₹1,86,315 crore (FY 2024–25) highlights significant growth in economic activity, increased tax base and enhanced tax administration. Although the slowdown was experienced during the pandemic, Uttar Pradesh has shown great resilience and had sustained revenue growth in the post-pandemic period.

Foreign Direct Investment (FDI) data also indicate that India's status as an investment destination for the world's is becoming more and more attractive. This has been driven by policy enhancements, easing of investment regulations and the improvement of the ease of doing business, and cumulative FDI inflows rose to ₹99.08 lakh crore (US\$1.12 trillion) by September 2025. The largest investments were made in the services and information technology sector with the states of Maharashtra, Karnataka, Gujarat, Delhi and Tamil Nadu continuing to see the highest levels of investment.

FDI inflows in Uttar Pradesh have been on a steady rising trend despite of the negative impact of COVID-19. From FY 2020–21, investment rose from nearly ₹2,200 crore to nearly ₹3,700 crore in FY 2024–25, adding up to an estimated total of nearly ₹16,316 crore over the period covered by the study. Despite still

having a lower pace of FDI compared to other top investment hotspots in India, the steady growth is a result of the steady improvements in infrastructure, industrialization, investor-friendly policies and programmes like the UP Investors Summit, One District One Product (ODOP) and development of industrial corridors. The study of the GST collections and FDI inflows indicates that economic reforms have had positive impacts on the mobilization of revenue and growth of investments, and Uttar Pradesh has been a rapidly developing state with significant positive gains on both tax collection and investor confidence. Going ahead, continued policy changes, infrastructure development, ease of doing business and digital governance are expected to further boost the GST revenue, boost FDI and contribute towards sustainable economic growth of India and Uttar Pradesh.

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