

**Two-Day National Conference on
"GST Reforms: Challenges, Opportunities, and Socio-Economic Effects in Telangana State"
on 09th & 10th June 2026**



CMR TECHNICAL CAMPUS

Department of MBA

UGC Autonomous, Approved by AICTE, New Delhi & JNTU Hyderabad
Kandlakoya (V), Medchal, Hyderabad – 501401



**GST and Workforce Formalisation in Telangana: Employment Trends,
Structural Challenges, and Policy Imperatives**

Dr. D. Kishore Kumar

Assistant Professor, Department of MBA, CMR Technical Campus
Kandlakoya, Hyderabad.

Email: kishorekumar.mba@cmrtc.ac.in

Venkata Siva Kumar, S.

Associate Professor, Department of Management Studies, Vardhaman College of Engineering

Email: venkatasks@gmail.com

Abstract

Since the introduction of Goods and Services Tax in July 2017, workforce formalisation has emerged as one of the most closely watched dimensions of India's economic transformation. This paper examines the trajectory of GST-led workforce formalisation and employment growth in Telangana, one of India's fastest-growing and economically dynamic states. Through a systematic review of published research, government statistics, and official reports from 2017 to 2025, the study tracks formal employment growth using EPFO payroll data, analyses Telangana's economic performance across the post-GST period, and maps the structural challenges that continue to hold back inclusive formalisation. The findings reveal a mixed picture: GST has expanded formal employment nationally and strengthened Telangana's fiscal base, but converting enterprise formalisation into genuine labour formalisation remains incomplete. High compliance costs for micro-enterprises, agricultural sector exclusion, the rise of gig work as a new form of informality, and a persistent digital divide in rural areas are the key barriers. The paper proposes targeted reforms across compliance simplification, social protection expansion, and digital inclusion, with direct relevance to Telangana's policy agenda and the national push for a more formally structured economy.

Keywords: GST, workforce formalisation, employment growth, Telangana, informal economy, EPFO, social protection, MSME

1. Introduction

Few economic reforms in recent Indian history have been as far-reaching in design or as contested in consequence as the Goods and Services Tax. When GST went live on 1 July 2017, its architects presented it as more than a tax restructuring exercise. By requiring businesses to register, file returns, and maintain records, the reform was expected to pull large sections of India's informal economy—estimated at that time to account for nearly 90% of total employment—into visible, regulated structures. Formal visibility, in turn, was expected to trigger formal employment: registered businesses would hire workers on proper contracts, contribute to provident funds, and comply with minimum wage and safety standards.

For Telangana, this national reform arrived at a moment of rapid economic expansion. Formed as a separate state in 2014, Telangana quickly built a reputation for above-average economic growth driven by information technology, pharmaceuticals, and services. The state's GSDP grew at an average of 7.2% annually in real terms between 2014-15 and 2021-22, well above the national average (NITI Aayog, 2025). By 2024-25, Telangana's per capita income had reached ₹3,87,623—ranking the state among the top performers nationally and the highest in South India (Reserve Bank of India, 2025). Yet despite this headline growth, a large share of Telangana's labour force remained in informal, unprotected employment, particularly in agriculture and household-level micro-enterprises.

This paper focuses on what has the post-GST period actually delivered for workforce formalisation and employment in Telangana? It draws on EPFO payroll data as the most widely used proxy for formal employment growth, reviews Telangana's economic indicators for the period 2022-23 to 2024-25, and synthesises research on the mechanisms and barriers of GST-led formalisation. The goal is to provide a clear-eyed assessment of where progress has been made, where structural barriers remain, and what targeted policy changes are most needed.

2. GST and Workforce Formalisation: Concepts and Mechanisms

Workforce formalisation describes the transition of workers and enterprises from informal, undocumented arrangements into legally recognised, regulated structures that are visible to the state and subject to tax, labour, and social security law (Unni, 2018). This transition matters for workers not just because of tax compliance but because formal employment status is the gateway to provident fund contributions, health insurance, minimum wage enforcement, and access to dispute resolution mechanisms.

GST creates formalisation pressure through its Input Tax Credit (ITC) mechanism. A registered business can recover the GST it has paid on business inputs—but only when buying from other registered suppliers. This creates a strong commercial reason for businesses to prefer registered counterparties, generating a self-reinforcing chain of formalisation across supply chains (Ghosh, 2022). The logic has been summarised directly in the ILO's (2021) analysis of how tax reforms shape informality: where the tax system rewards formal

participation with tangible economic benefits, formalisation tends to spread organically through market linkages.

However, Unni (2018) draws a critical distinction between what she calls the “capital view” and the “labour view” of formalisation. The capital view focuses on enterprise registration and tax compliance. The labour view asks whether workers within those enterprises also gain genuine protections: employment contracts, regular wages, social security coverage, and access to legal recourse. Sankaran (2022) reinforces this: in India, it is entirely possible for a GST-registered business to continue employing workers informally—without EPF contributions, without formal appointment letters, and without complying with minimum wage law. True workforce formalisation requires both the enterprise and the worker to move into the formal sphere simultaneously. As this paper argues, GST has pushed more on the enterprise side than the worker side, and the gap between the two remains a central policy challenge.

3. Telangana’s Employment Landscape and Post-GST Economic Trajectory

A clear picture of Telangana’s employment structure is essential for assessing how much of the state’s labour force can actually be reached by GST’s formalisation mechanism. As of the most recent surveys, the state’s primary sector—agriculture, forestry, and fishing—employed 42.7% of the workforce in 2024-25, down from 47.3% in 2022-23, with the tertiary sector accounting for 34.8% and the secondary sector for 22.5% (Government of Telangana, 2025). The gradual shift away from agricultural employment is positive, but nearly half the workforce still labours in a sector that is substantially exempt from GST. This structural reality defines the ceiling on what GST-driven formalisation can achieve.

Where GST’s formalisation effect can be felt—in manufacturing, services, retail, and construction—the numbers tell an encouraging story. Table 2 below presents Telangana’s key economic indicators across the three most recent data years, drawing on official state and national sources.

Table 2: Telangana – Key Economic and Employment Indicators (2022–23 to 2024–25)

Indicator	2022–23	2023–24	2024–25
GSDP at Current Prices	₹13.13 lakh crore	₹15.02 lakh crore	₹16.41 lakh crore
GSDP Growth Rate	16.3%	14.5%	10.0%
Per Capita Income (Current Prices)	₹3,12,398	₹3,56,564	₹3,87,623
Services Sector Share (% of GSVA)	61.3%	N/A	66.3%
Primary Sector Employment (%)	47.3%	N/A	42.7%
GST Registrations (Active GSTINs)	N/A	2,48,378	3,21,043

Sources: Government of Telangana (2023, 2025); NITI Aayog (2025); Reserve Bank of India (2025). N/A = not available for the specific year from the cited sources.

The data in Table 2 reveal a sustained growth trajectory. Telangana’s GSDP grew from ₹13.13 lakh crore in 2022-23 to ₹16.41 lakh crore in 2024-25, a 25% expansion over two years. Per capita income rose from ₹3,12,398 to ₹3,87,623 over the same period—making Telangana the highest-earning state in South India and among the top five nationally (Reserve Bank of India, 2025). The services sector’s share of GSVA rose from 61.3% to 66.3%, indicating that formal service activity—the segment most likely to be registered for GST—is driving an increasing share of economic output. The expansion of the GST taxpayer base itself is a direct formalisation indicator. Active GSTIN registrations in Telangana grew from 2,48,378 in 2023-24 to 3,21,043 by March 2026—a 29% increase in a single year. This means nearly 73,000 additional businesses entered the formal tax net within the year, a rate of expansion that reflects both the ITC incentive and active outreach by the state’s commercial tax department (Government of Telangana, 2025).

4. GST as a Formalisation Catalyst: National Evidence

The broadest and most consistently available indicator of formal employment growth in India is the EPFO payroll dataset. Since September 2017—the first full quarter after GST’s introduction—the Ministry of Labour and Employment has released monthly provisional net payroll data tracking EPFO membership changes. Table 1 below presents the annual trend in net new EPFO enrolments from 2018-19 through 2024-25.

Table 1: EPFO Net Payroll Additions – Formal Employment Proxy (India, 2018–19 to 2024–25)

Financial Year	Net New EPFO Subscribers (Net Payroll Addition)	Year-on-Year Change
2018–19	61.12 lakh (6.11 million)	Baseline
2019–20	78.58 lakh (7.86 million)	+28.6%
2020–21	77.08 lakh (7.71 million)	–1.9% (COVID-19)
2021–22	1.22 crore (12.2 million)	+58.3%
2022–23	1.38 crore (13.8 million)	+13.1%
2023–24	1.65 crore (16.5 million) *	+19.6%
2024–25	~1.45 crore (14.5 million) **	Prov. growth

Source: EPFO Payroll Data, Ministry of Labour and Employment, Government of India. Available at https://www.epfindia.gov.in/site_en/Estimate_of_Payroll.php

*Preliminary payroll data subject to periodic revision. **Provisional; based on 1.32 crore net additions in the first 11 months of 2024–25 (April 2024–February 2025); full-year figure projected at ~1.45 crore.

The figures tell a clear story of formal employment growth in the post-GST period. Net new EPFO enrolments nearly doubled from 61.12 lakh in 2018-19 to over 1.38 crore in 2022-23, with a sharp acceleration in 2021-22 as the formal sector rebounded from the COVID-19 disruption of 2020-21. The 2023-24 preliminary figure of 1.65 crore represented the highest annual addition on record, and provisional data for 2024-25 indicates this momentum is continuing, with 1.32 crore additions recorded in the first eleven months alone (Ministry of Labour and Employment, EPFO, 2024). In cumulative terms, over 6.1 crore new members joined EPFO in the six-and-a-half years from September 2017 to March 2024, reflecting a sustained trend of formal sector expansion that coincides with GST’s implementation period.

At the enterprise level, Ghosh (2022) provides direct field evidence of how GST has changed business practices in India. Her survey of small businesses found that GST compliance requirements prompted measurable shifts toward digital invoicing, formal supplier relationships, and documented accounting—the early-stage building blocks of enterprise formalisation. Businesses that completed this transition showed improved access to formal credit and government procurement channels, with GST registration functioning as a de facto business credential. For Telangana’s substantial MSME sector, these findings suggest that supply chain formalisation is a real and ongoing process—even if its pace is uneven and its reach incomplete.

The ILO’s (2021) global analysis confirms that tax-driven formalisation tends to be more durable than administrative mandates alone, precisely because it embeds formal participation in everyday commercial decisions. When the ITC mechanism makes formal supply chains economically preferable, businesses have an ongoing reason to remain registered and to encourage their suppliers to do the same. India’s EPFO data, alongside Telangana’s growing GSTIN base, suggests this dynamic is operating at scale.

5. Structural Challenges to Workforce Formalisation

Despite the positive trends documented above, workforce formalisation in Telangana faces structural challenges that limit both its pace and its depth. These challenges operate across three levels: enterprises, workers, and systemic conditions.

5.1 Compliance Costs for Micro-Enterprises

The GST compliance process—requiring regular return filings, invoice reconciliation, and increasingly sophisticated digital record-keeping—remains burdensome for micro-enterprises operating at thin margins. Ghosh (2022), in her field survey of MSMEs, found that while larger small businesses adapted over time, micro-operators often found the compliance cost to exceed the perceived benefit of remaining registered. This is particularly acute in Telangana’s tier-2 and tier-3 towns, where retail traders, small manufacturers, and service providers constitute the bulk of informal employment. When the cost of formalisation exceeds its visible benefit, informal operation persists despite GST’s ITC incentive.

5.2 The Enterprise–Labour Formalisation Gap

Even where enterprises have entered the GST system, the conversion to formal labour practices is not automatic. Sankaran (2022) documents how India’s existing legal framework allows—and often incentivises—businesses to register as formal tax entities while continuing to engage workers informally, without EPF contributions or employment contracts. The four Labour Codes enacted in 2020, which simplify and consolidate earlier labour legislation, were intended to reduce this gap, and the Code on Social Security specifically defines gig and platform workers as a distinct category deserving social protection (Ministry of Labour, 2020). However, as of mid-2026, the notification of contribution rates under the aggregator cess

provisions—a mechanism designed to fund welfare for gig workers—remains incomplete, limiting the Code’s practical effect on this segment.

5.3 The Gig Economy as a New Form of Informality

The rise of platform-based gig employment has added a new and structurally distinct dimension to Telangana’s informality challenge. India’s gig workforce, estimated at 7.7 million in 2020-21 and projected to reach 23.5 million by 2029-30, is concentrated precisely in urban economies like Hyderabad (NITI Aayog, 2022). These workers—delivering food, driving passengers, providing domestic services—are formally classified as self-employed service providers under the GST framework, yet their earnings are irregular, their working conditions are algorithmically controlled, and their access to social protection is minimal. Rani and Furrer (2021) document how India’s existing regulatory frameworks, including GST, consistently fail to capture this category of worker: formally visible as a tax entity in some configurations, but without any of the substantive labour protections that formal employment is supposed to provide.

5.4 The Digital Divide

GST compliance is fundamentally a digital process. Filing returns, reconciling invoices, and managing the GSTN portal all require stable internet access, basic financial literacy, and either in-house expertise or professional support. Sinha et al. (2026), studying India’s digital registration initiatives for informal workers, found that digital-first formalisation approaches tend to reach workers who are already partially visible to the formal system, consistently leaving the most marginalised—those with low literacy, poor connectivity, and limited access to professional services—behind. This pattern is directly relevant to Telangana’s rural and semi-urban districts, where the digital infrastructure needed for GST participation is unevenly distributed. Ghose (2017), in his broader analysis of informality and development in India, makes the point that formalisation policies designed for urban economic contexts frequently fail at the rural margin for exactly this reason.

6. Policy Implications and Recommendations

The evidence reviewed in this paper points to a consistent conclusion: GST has made real contributions to workforce formalisation in India and in Telangana, but those contributions are uneven and incomplete. Converting enterprise formalisation into labour formalisation—the harder and more consequential step—requires targeted policy effort beyond the GST framework itself. Four areas deserve priority attention.

6.1 Simplifying Compliance for Micro-Enterprises

The most direct way to accelerate enterprise formalisation in Telangana’s tier-2 and tier-3 towns is to reduce the compliance cost of GST registration. Extending a version of the existing Composition Scheme—which allows businesses to pay a flat rate of turnover rather than navigate the full returns-and-ITC process—to a broader range of service-sector micro-enterprises would lower the friction of formal participation. Alongside

this, common service centres in smaller towns could be equipped to provide GST registration and return-filing support, converting outreach into actual registration uptake. Ghosh (2022) specifically identifies compliance support as the intervention most likely to shift the cost-benefit calculation for micro-enterprises currently hovering at the informal-formal boundary.

6.2 Linking GST Registration to Business Benefits

Registration should be a gateway to services, not merely a compliance obligation. Telangana could lead nationally by creating a formal linkage between GSTIN registration and eligibility for government-backed credit products (MUDRA loans, CGTMSE guarantees), procurement preferences, and subsidised professional services. The ILO's Recommendation No. 204 (2015) is explicit on this point: formalisation policies succeed when formal status is made genuinely advantageous, not simply when penalties for informality are increased. Making the economic value of registration visible and immediate would accelerate uptake among precisely those businesses currently on the fence.

6.3 Strengthening Worker-Side Social Protection

Enterprise registration without worker protection delivers fiscal outcomes without social ones. Accelerating the operationalisation of the Code on Social Security 2020—particularly the notification of aggregator cess contribution rates—would extend EPFO and ESIC-equivalent coverage to gig workers operating through platforms (Ministry of Labour, 2020). Rani and Furrer (2021) provide comparative evidence from Asia showing that extending social security to platform workers improves retention in formal arrangements, health outcomes, and financial resilience. Telangana, which hosts a large and growing gig workforce concentrated in Hyderabad, would be an ideal state to pilot a portable welfare account linked to GST registration—a mechanism that would make formal status economically meaningful for individual workers, not just enterprises.

6.4 Closing the Digital Divide

Reaching informal enterprises and workers in Telangana's rural and peri-urban districts requires digital infrastructure investment alongside regulatory simplification. Expanding common service centres and mobile GST facilitation camps into districts with low digital penetration—particularly those with high agricultural employment shares—would extend the geography of formalisation beyond Hyderabad and the state's established industrial clusters. Building digital and financial literacy into these outreach efforts, not simply awareness of GST obligations, would reduce the practical barriers that currently exclude a significant part of the state's micro-enterprise sector from the formal economy.

7. Conclusion

GST has been a meaningful catalyst for workforce formalisation in Telangana, contributing to a growing formal employment base, an expanding registered enterprise population, and a GSDP trajectory that has more than tripled in current-price terms since the reform's introduction. The EPFO data, tracking consistent annual growth in net new formal subscribers since 2017, is the clearest available national signal that formal employment is expanding alongside the post-GST formalisation push. Yet the evidence also demands honesty about what GST has not achieved. The gap between enterprise formalisation and labour formalisation remains significant. Nearly half of Telangana's workforce is employed in agriculture—a sector largely outside GST's reach. The gig economy has added millions of workers to an informal-adjacent grey zone that neither the GST framework nor current labour law fully addresses. Micro-enterprises in smaller towns and rural areas face compliance costs that still outweigh the perceived benefits of registration. And digital exclusion continues to limit who can participate in a fundamentally digital compliance system.

The 2026 National Conference comes at a juncture when Telangana has the institutional capacity, the data infrastructure, and the policy momentum to move beyond diagnosis. The reforms proposed in this paper—compliance simplification, benefit-linked registration, accelerated social protection for gig workers, and digital inclusion—are not radical departures. They build on existing frameworks: the GST architecture, the Labour Codes, the ILO's Recommendation 204, and the state's own development institutions. What they require is coordinated implementation and evidence-based design. Generating that evidence, particularly for Telangana's specific economic geography, is the research community's most urgent contribution to this agenda.

References

- Employees' Provident Fund Organisation. (2024). *Payroll data: Estimate of employment in the organised sector*. Ministry of Labour and Employment, Government of India.
https://www.epfindia.gov.in/site_en/Estimate_of_Payroll.php
- Ghose, A. K. (2017). Informality and development. *The Indian Journal of Labour Economics*, 60(1), 109–126. <https://doi.org/10.1007/s41027-017-0080-5>
- Ghosh, S. (2022). Formalising the informal through GST: Evidence from a survey of MSMEs. *Review of Development and Change*, 27(2), 150–169. <https://doi.org/10.1177/09722661221130138>
- Government of Telangana. (2023). *Telangana economy 2023*. Directorate of Economics and Statistics.
<https://telangana.gov.in/wp-content/uploads/2023/12/Telangana-Economy-2023.pdf>
- Government of Telangana. (2025). *Socio economic outlook 2025*. Government of Telangana.
<https://telangana.gov.in/wp-content/uploads/2025/03/Socio-Economic-Outlook-2025.pdf>
- International Labour Organization. (2015). *Transition from the informal to the formal economy (Recommendation No. 204)*. ILC 104th Session. https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_377774.pdf
- International Labour Organization. (2021). *World employment and social outlook 2021: The role of digital labour platforms in transforming the world of work*. ILO Publishing.
https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_771749.pdf

- Ministry of Labour and Employment, Government of India. (2020). *The code on social security, 2020 (No. 36 of 2020)*. Gazette of India. <https://labour.gov.in/sites/default/files/SS-Code2020ebook.pdf>
- NITI Aayog. (2022). *India's booming gig and platform economy: Perspectives and recommendations on the future of work*. Government of India. https://www.niti.gov.in/sites/default/files/2022-06/25th_June_Final_Report_27062022.pdf
- NITI Aayog. (2025). *Summary report: Telangana*. Government of India. <https://www.niti.gov.in/sites/default/files/2025-07/Summary-Report-Telangana%20%281%29.pdf>
- Rani, U., & Furrer, M. (2021). Digital work platforms at the interface of labour regulation and social protection: Dynamics of institutional change in India. *Competition & Change*, 25(2), 216–243. <https://doi.org/10.1177/1024529420904874>
- Reserve Bank of India. (2025). *Handbook of statistics on Indian states 2024–25*. Reserve Bank of India. <https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=Handbook%20of%20Statistics%20on%20Indian%20States>
- Sankaran, K. (2022). Transition from the informal to the formal economy: The need for a multi-faceted approach. *The Indian Journal of Labour Economics*, 65(3), 625–642. <https://doi.org/10.1007/s41027-022-00398-2>
- Sinha, H., Gallien, M., & van den Boogaard, V. (2026). Narrow formalisation: Informal workers, social protection and digital registration in India. Advance online publication. <https://doi.org/10.1177/14680181261416392>
- Unni, J. (2018). Formalization of the informal economy: Perspectives of capital and labour. *The Indian Journal of Labour Economics*, 61(1), 87–103. <https://doi.org/10.1007/s41027-018-0121-8>