

GST in India: Its Impact on Indian Economy

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Abstract

The research paper is regarding impact of GST on Indian economy. The products and carrier Tax is carried out on July 1, 2017 at a characteristic in critical corridor of the Parliament. The Lok Sabha has sooner or later handed the GST invoice and it is expected to have a great impact on every enterprise and consumer. Greater than a hundred and sixty countries have implemented GST. The council of the GST can be headed with the aid of the Union Finance Minister this is currently Arun Jaitley. The products and provider Tax might be levied at the manufacture, sale and the consumption of the goods and offerings in India. On the premise of this paper, we are able to understand approximately the standards, targets and the consequences of the products and carrier Tax in India.

GST, or Goods and Services Tax, is a tax that clients need to endure when they purchase any goods or offerings, together with meals, garments, electronics, objects of every day needs, transportation, tour, and many others. The concept of GST is that it's far an "indirect Tax", i.e., this tax is not immediately paid by clients to the authorities, but is instead levied at the manufacturer or dealer goods and the vendors of services. The sellers typically add the tax expense into their prices, and the fee the clients pay is which include GST. Thus, in maximum cases, you grow to be paying a tax even in case you aren't an earnings taxpayer

Introduction: -

The Goods and Services Tax (GST) was introduced in India on **July 1, 2017**, marking a historic and transformative step in the country's indirect tax structure. The launch was celebrated during a special midnight session in the Central Hall of Parliament.

Background and Legislative Journey

The idea for a unified indirect tax system was first proposed by the Atal Bihari Vajpayee government in 2000, which set up a committee to design the GST model. Over the next 17 years, the proposal went through several stages of deliberation and political discussion:

- **2004:** The Vijay Kelkar Task Force recommended the implementation of GST to improve the existing tax system.
- **2006:** The then Finance Minister P. Chidambaram proposed a target date of April 1, 2010, for its introduction.
- **2014:** The Constitution (122nd Amendment) Bill was reintroduced in Parliament by Finance Minister Arun Jaitley.

- **2016:** The bill was passed by both the Lok Sabha and the Rajya Sabha and received presidential assent, becoming the **101st Constitutional Amendment Act, 2016**. This Act paved the way for both Central and State governments to levy GST.
- **September 2016:** The GST Council, a joint forum of central and state finance ministers, was constituted to finalize the tax rates, rules, and regulations.

Objective of Study

The objective of studying the Goods and Services Tax (GST), is to comprehensively understand its structure, implementation, and impact on various stakeholders in the economy.

Foundational Understanding

- **To grasp the basic concept and historical evolution of GST:** This involves understanding why the previous complex indirect tax system in India needed reform and how the "One Nation, One Tax" ideology was achieved.
- **To understand the features of the GST framework:** This includes learning about its multi-stage, destination-based nature and the dual structure (CGST, SGST, IGST) that facilitates revenue sharing between Central and State governments.
- **To recognize the taxes subsumed under GST:** Studying which central and state taxes (e.g., Excise Duty, VAT, Service Tax) were replaced provides a clear picture of the simplified tax landscape.

Impact and Analysis

- **To analyze the elimination of the cascading effect:** A primary objective is to study how the Input Tax Credit (ITC) mechanism prevents "tax on tax," reducing the final cost of goods and services for consumers.
- **To evaluate the impact on the Indian economy:** This involves assessing the effects on various macroeconomic indicators such as GDP growth, inflation, tax revenue collection, and price stability.
- **To identify sectoral variations in impact:** Researchers often study how different sectors (e.g., manufacturing, retail, services, logistics) have been affected, identifying both positive outcomes and challenges faced during the transition.

Practical and Compliance Aspects

- **To understand compliance procedures:** A practical objective is to gain working knowledge of the online procedures for GST registration, return filing, payment, and refund processes through the GST Network (GSTN) portal.
- **To assess ease of doing business:** This involves evaluating how the simplified, online, and uniform tax structure has reduced the compliance burden, particularly for small and medium enterprises (SMEs).

- **To examine measures for curbing tax evasion:** Studying the stringent laws, e-way bills, and e-invoicing systems helps in understanding how the government enhances transparency and reduces tax fraud.

In essence, the study of GST provides crucial insights into a major economic reform, enabling individuals to understand its operational mechanics, evaluate its effectiveness in achieving its intended goals, and identify areas for future improvement and policy adjustments

Objective of GST in India

The primary objectives of the Goods and Services Tax (GST) in India were to streamline the country's fragmented indirect tax system and foster unified economic growth

The key objectives include:

- **"One Nation, One Tax":** The main objective was to create a single, unified national market by replacing a complex web of central and state indirect taxes (like Excise Duty, VAT, and Service Tax) with one comprehensive tax. This was intended to ensure uniform tax rates and procedures across the country.
- **Elimination of the Cascading Effect:** A crucial goal was to remove the "tax on tax" or double taxation effect inherent in the previous tax regime. The Input Tax Credit (ITC) mechanism under GST ensures that tax is levied only on the net value added at each stage of the supply chain, reducing the final cost of goods and services for the consumer.
- **Simplification and Automation of Procedures:** GST aimed to simplify tax administration and compliance through an online, technology-driven platform (GST Network - GSTN). This includes online registration, return filing, and payment processes, making it easier for businesses, especially SMEs, to comply with regulations.
- **Widening the Tax Base and Curbing Evasion:** By bringing more businesses into the formal economy and implementing stringent online monitoring and invoice matching systems, the government aimed to increase tax compliance and reduce tax fraud and evasion.
- **Improving Logistics Efficiency:** The removal of state-specific taxes and inter-state checkpoints has facilitated the seamless movement of goods across India, leading to reduced transportation times and logistics costs.
- **Promoting Economic Growth and Competitiveness:** By making the tax system more efficient and transparent, GST sought to boost domestic consumption and make Indian products more competitive in international markets. This was expected to have a positive impact on the GDP.

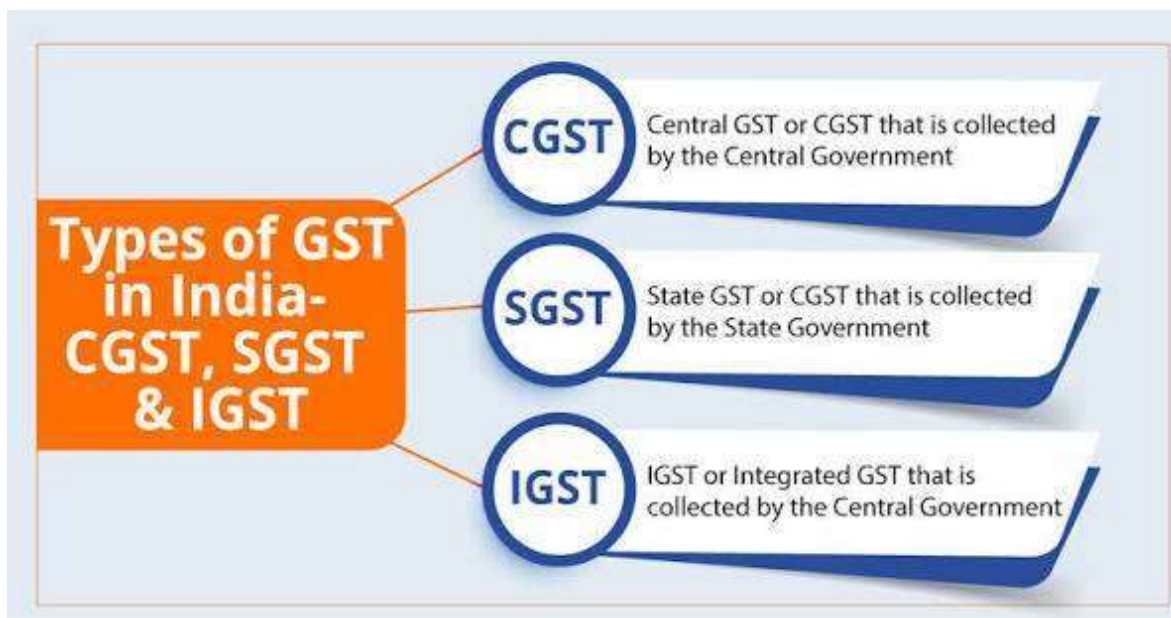
Classification of GST

The Goods and Services Tax (GST) in India is primarily classified into four types based on the nature of the transaction (intra-state or inter-state) and the governing authority

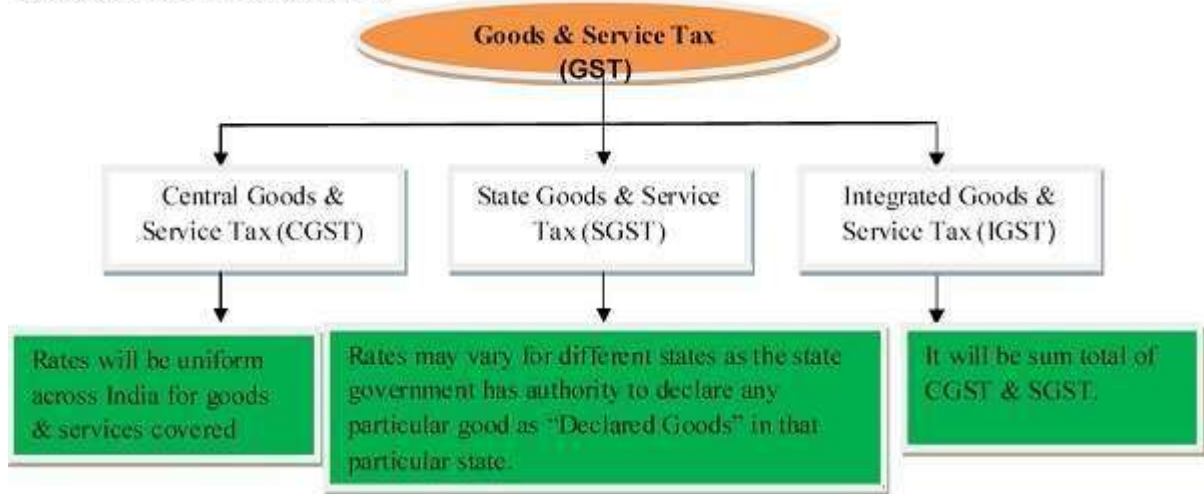
Types of GST

India operates under a dual GST model where both central and state governments can impose and collect taxes. The four main components are:

- **Central Goods and Services Tax (CGST):** Levied by the Central Government on intra-state transactions, with revenue going to the Central Government.
- **State Goods and Services Tax (SGST):** Levied by the State Government on the same intra-state transactions as CGST, with revenue going to the respective State Government.
- **Union Territory Goods and Services Tax (UTGST):** Applied to intra-union territory transactions in Union Territories without legislatures and functions similarly to SGST, with revenue going to the Union Territory administration.
- **Integrated Goods and Services Tax (IGST):** Levied by the Central Government on inter-state transactions, imports, and exports. The collected revenue is shared between the Central Government and the destination state.



Federal structure of taxation:



Classification by Tax Rate Slabs

The current GST rate slabs are:

Rate	Category of Goods/Services	Example Items
0% (Nil Rated)	Essential goods and services	Fresh milk, unpackaged food grains, fresh fruits and vegetables, certain life-saving medicines, educational services, and individual health & life insurance policies.
5% (Merit Rate)	Commonly used and essential items	Packaged food items (e.g., butter, cheese, most packaged snacks, pasta, chocolates), edible oils, tea, coffee, coal, fertilizers, footwear and apparel up to ₹2,500, and services like hotels with tariffs up to ₹7,500/night and gyms/salons.
18% (Standard Rate)	Most standard goods and services	Consumer durables (ACs, TVs, refrigerators, washing machines), most vehicles (small cars, motorcycles ≤350cc, buses, trucks), cement, mobile phones, auto parts, and general professional services (IT, telecom, banking).

40% (Demerit Rate)	Luxury and sin goods	High-end cars, premium motorcycles (>350cc), aerated/carbonated beverages, pan masala, betting, online gaming, and casino services.
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Special Rates

In addition to the main slabs, there are a few special rates for specific high-value items:

- **0.25%:** For semi-precious stones and rough diamonds.
- **3%:** For gold, silver, platinum, and imitation jewellery.
- **Cess:** Certain items like tobacco products continue to attract a compensation cess on top of the GST rate until related government dues are settled.

GST Rate Changes 2025

New Rates:
0%, 5%, 18%, 40%



0%



5%



18%



40%

LEGAL INDIA
TAXATION

GST RATE ON SERVICES

50% Transport of goods by
Rail/Road/Air/Ship
Transport of passengers Rail/Road
Economy air travel, Tour operator
Print media Ads, New paper Printing

18% General Rate on all
services (no specific rate)
Foods/drinks etc in AC restaurant
Bars, Outdoor catering, Pandal etc
Composite supply works cont.

12% Air travel Business class
Non-AC restaurant
Hotel Rooms rent Rs 1000-2500
Construction of Building/complex
Temp Transfer of Intellectual prop.

28% Race club, Gambling
Hotel rent more than Rs 5000/day
Services provided in Five star Hotels
Cinema /Multiplex/IPL/Casino
Amusement parks/sporting events

The Impact of GST on Different Sectors of the Economy

The Goods and Services Tax (GST) in India has had a mixed impact across different economic sectors, bringing both advantages and challenges. It has broadly simplified the tax structure, improved compliance, and formalized the economy, but its effects vary significantly depending on the sector's size, nature, and tax burden under the previous regime

Manufacturing sector

The manufacturing sector has been a significant beneficiary of the GST regime.

❖ Positive impact:

- **Reduced logistics costs:** The removal of state border check-posts has created a unified national market, leading to faster movement of goods and lower transportation expenses.
- **Elimination of cascading taxes:** The input tax credit (ITC) mechanism prevents the "tax on tax" effect, reducing the overall cost of production.

❖ Negative impact:

- **Working capital issues:** Some manufacturers, especially exporters, experience cash flow problems due to delayed ITC refunds.
- **Inverted duty structure:** In some cases, the tax rate on raw materials is higher than on the finished product, creating challenges for certain industries like textiles.

Service sector

The service sector experienced both simplification and some increased costs with the implementation of GST.

❖ Positive impact:

- **Prevents double taxation:** GST resolved ambiguity over whether certain bundled supplies were goods or services, ending the double taxation that existed under the previous regime.
- **Streamlined tax structure:** A uniform, technology-driven system for registration, filing, and compliance has replaced a complicated web of taxes.

❖ Negative impact:

- **Higher tax burden:** Many services were taxed at 15% before GST but now fall under the 18% slab, increasing costs for end consumers.
- **Increased compliance costs:** The requirement for multiple state registrations has increased the compliance burden for multi-state service providers.

Micro, Small, and Medium Enterprises (MSMEs)

For MSMEs, the impact of GST has been particularly varied, presenting both opportunities and significant challenges.

❖ Positive impact:

- **Unified market:** Eliminating interstate taxes and restrictions allowed MSMEs to expand their customer base across the country.
- **Formalization:** The digital framework has brought many MSMEs into the formal economy, improving transparency and access to credit.

❖ **Negative impact:**

- **High compliance costs:** Digital infrastructure requirements, consultant fees, and frequent return filings pose a financial burden for many smaller businesses, especially in rural areas.
- **Cash flow disruptions:** Delayed GST refunds have created liquidity issues for cash-strapped MSMEs.

Agriculture sector

The agriculture sector's relationship with GST is complex due to varying tax rates on raw versus processed goods.

❖ **Positive impact:**

- **Exemption for raw produce:** Most basic, unprocessed agricultural produce, such as fresh fruits, vegetables, and grains, is exempt from GST, protecting small farmers.
- **Improved market integration:** GST has streamlined the movement of goods across states, benefiting agribusinesses and farmers accessing national markets.

❖ **Negative impact:**

- **Increased input costs:** While many inputs are taxed at lower rates, some machinery and pesticides face higher tax slabs, potentially increasing input costs for farmers.
- **Challenges for small farmers:** Those selling exempt produce cannot claim ITC, and many small, unregistered farmers lack the tech literacy to navigate the online system.

Contribution to GST Revenue from Various Business Types

In 2025, the Goods and Services Tax (GST) revenue is primarily driven by large corporate entities in major economic sectors. Public and private limited companies are the largest contributors to the total GST revenue, with key sectors including manufacturing, consumer goods, and the services industry forming the economic backbone of these collections.

Revenue by Business Type (Legal Structure)

While proprietorships make up the vast majority of registered taxpayers, the largest share of the actual revenue comes from corporations.

Business type	Percentage of GST Collection
Public Ltd. Company	34.83%
Private Ltd. Company	27.94%
Proprietorship	13.28%
Public Sector Undertaking (PSU)	9.64%
Partnership	7.29%
Others (LLP, Trust, Govt Dept, etc.)	7.02%



Key Contributing Sectors and Economic Drivers

Official reports from 2025 highlight that the GST revenue growth is primarily driven by a few robust sectors and consumption hubs:

- **Manufacturing and Automotive:** This sector is a major contributor, with a significant amount of revenue coming from the production and sale of goods. Recent GST rate cuts on items like small cars, two-wheelers, and cement (from 28% to 18%) were designed to boost demand and compliance, which has positively impacted overall collections.
- **Consumer Goods (FMCG):** The high volume of daily-use products falling under the new 5% and 18% slabs ensures a consistent and large revenue stream.
- **Services (IT, Banking, Hospitality):** The service sector contributes significantly, particularly in major hubs. States with strong IT services output, such as Karnataka, Tamil Nadu, and Telangana, have shown stable and growing GST revenues.
- **Imports:** Revenue from the Integrated GST (IGST) on imports has shown robust growth (12.9% year-on-year in October 2025), reflecting strong trade activity and contributing substantially to the total pool.

GST Collection in previous years (2017 onwards till 2025)

Gross GST collections in India have shown consistent growth since its implementation in July 2017, with record highs in recent financial years. The cumulative annual GST collections since FY 2017-18 are as follows:

- FY 2017-18: ₹7.40 lakh crore*
- FY 2018-19: ₹11.77 lakh crore
- FY 2019-20: ₹12.22 lakh crore
- FY 2020-21: ₹11.37 lakh crore
- FY 2021-22: ₹14.83 lakh crore
- FY 2022-23: ₹18.08 lakh crore
- FY 2023-24: ₹20.18 lakh crore
- FY 2024-25: ₹22.08 lakh crore
- FY 2025-26: ₹10.40 lakh crore**

*Note: The GST was implemented on July 1, 2017, so the collection for the 2017-18 financial year only covers nine months.

**Note: This figure for FY 2025-26 represents the cumulative collection up to October 2025.

Recent monthly highlights:

- October 2025: ₹1.95 lakh crore, a 4.6% increase over the previous year.
- April 2025: A record high of ₹2.37 lakh crore.
- August 2025: ₹1.86 lakh crore, a 6.5% year-on-year increase.



Conclusion

The Goods & Services Tax is a milestone in India's Indirect Tax system that addresses multiple issues together. It has brought a smoother structure to prevent double taxation. The Goods & Services Tax is destination-based tax charged at the point of consumption. Introduction of GST may have helped only some sectors to benefit from GST in the short term. But the long-term advantages are many for all the sectors.

There are approx. 140 countries where GST has already been implemented. Some of the popular countries being Australia, Canada, Germany, Japan, and Pakistan, to name a few. Implementation of GST impacts a nation both ways, positively and negatively. Ignoring negative aspects, positive aspects can be taken into consideration, in order to improve the economy of the country. In order to measure the Impact, the GST we need to wait for the time and the Government needs to communicate more and more about the systems.

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