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Effect of GST in Indian Economy: A Review

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ABSTRACT:

The Goods and Services Tax (GST) is one of the most significant tax reforms in India, introduced on July 1, 2017, to replace a complex structure of multiple indirect taxes with a unified taxation system. Designed under the principle of "One Nation, One Tax," GST aims to streamline tax administration, eliminate the cascading effect, and promote economic efficiency. This paper explores the impact of GST on the Indian economy, focusing on its role in enhancing tax compliance, increasing revenue collection, boosting GDP growth, and simplifying the business environment. However, challenges such as frequent rate revisions, high compliance costs, and multiple tax slabs continue to create hurdles for businesses, particularly small and medium enterprises (SMEs). The government has been working on simplifying the tax structure, rationalizing rates, and improving digital infrastructure to enhance efficiency. Despite its challenges, GST has played a crucial role in formalizing the economy, improving transparency, and fostering economic growth. With continuous reforms and technological advancements, GST is expected to further strengthen India's economic framework and contribute to its long-term stability and development.

KEY WORDS : Taxation, administration, economic, GDP, revenue and development.

INTRODUCTION :

GST or Goods & Services Tax is an indirect tax imposed on all goods and services in India. It is one of the biggest tax reforms applied to date to uniformly levy tax with the principle of—**one nation, one market, one tax**. It is the single biggest tax imposed on goods and services in India. The GST was rolled out in a single stroke, converting the Indian economy into a unified market.

The Parliament of India passed the Goods and Service Tax Act on March 29, 2017, and Implemented on **July 1, 2017**, GST replaced a complex web of indirect taxes such as **excise duty, service tax, value-added tax (VAT), and others**, bringing them under a single, unified system. GST aims to simplify taxation, enhance transparency, and boost economic efficiency. By eliminating the cascading effect of taxes and streamlining compliance, it has transformed the way businesses operate across the country. While the reform has led to numerous benefits, such as improved tax collection and ease of doing business, it has also faced challenges, including implementation hurdles and compliance burdens. This article explores the role of GST in shaping the Indian economy, its impact on various sectors, and the challenges it continues to face.

Indirect Tax in India

The next type of tax in India is an indirect tax. In India, indirect taxes are levied on items and services traded or sold by vendors. Under the Indian tax system, these taxes are collected by the vendors selling a particular service or commodity. The tax is added to the initial price of the goods or services, thereby increasing its final price. The types of indirect taxes in India are listed below. They are:

Goods and Services Tax (GST) – GST is a single indirect tax proposed to replace all other indirect taxes, thereby reducing the burden of paying different indirect taxes.

Sales tax - Sales Tax was a tax imposed on the sale of goods within a state. It was collected by state governments at different rates. Sales Tax has now been replaced by GST. However, certain items like petroleum products and alcohol still attract Sales Tax in some states.

Customs duty – It imposed on import and exports of goods.

Excise duty - Excise Duty was a tax levied on the manufacture and production of goods within India. It was collected from manufacturers before the goods were sold. However, with the introduction of GST in 2017, Excise Duty was largely abolished, except for specific goods like alcohol, petroleum, and tobacco products.

TAX POLICY AND TAX SYSTEM IN INDIA

India's tax policy is designed to generate revenue for the government while promoting economic growth, ensuring equity, and maintaining fiscal stability. The taxation system is divided into direct and indirect taxes, which are levied by both the Central and State Governments as per the Constitution of India.

As per the taxation system of India, the Constitution of India has allowed the government to charge taxes to the people of the country based on their income bracket. The tax system allows ordinary taxpayers to plan their taxes and save money wherever possible. However, there are several cascading effects of taxes in India.

- The **Central Board of Direct Taxes (CBDT)** oversees direct taxes under the Income Tax Department.
- The **Central Board of Indirect Taxes and Customs (CBIC)** manages GST and customs duties.
- State governments handle specific taxes like **State GST (SGST) and Stamp Duty**.

Further, the tax collected from the country's citizens is used to create revenue for public works projects and enhance the country's economic standing. If a person decides to put money into a tax-saving instrument, they may be eligible for a tax break.

PRINCIPLES OF INDIA'S TAX POLICY

1. Equity & Fairness – Ensures that taxpayers contribute based on their income and ability to pay, with **progressive taxation** for higher earners.

2. Efficiency – Aims to minimize economic distortions and encourage investment, savings, and productivity through simplified tax structures.

3. Simplicity – Reduces complexity in tax laws, making compliance easier for individuals and businesses (e.g., **GST replacing multiple indirect taxes**).

4. Broad Tax Base– Expands the number of taxpayers to reduce the burden on a limited group and enhance revenue collection.

5. Revenue Sufficiency – Ensures the government collects enough revenue to fund **public services, infrastructure, and welfare programs.**

6. Certainty & Stability – Provides **predictability** in tax rates and laws to help businesses and individuals plan their finances.

7. Tax Compliance & Administration – Strengthens enforcement measures and digital tax filing (e.g., **faceless tax assessments**) to reduce evasion and corruption.

8. Reducing Tax Evasion – Introduces measures like **TDS**, digital tracking, and linking **PAN** with **Aadhaar** to prevent tax leaks.

RECENT TAX REFORMS IN INDIA

The reforms have been aimed at simplifying the tax system, improving compliance, promoting economic growth, and reducing tax evasion. These reforms are –

Goods and Services Tax (GST) (2017) - Replaced multiple indirect taxes (e.g., VAT, Excise Duty, Service Tax) with a unified tax structure. Introduced e-invoicing, e-way bills, and GSTN portal to enhance compliance.

Corporate Tax Rate Reduction (2019) - Reduced corporate tax to 22% (from 30%) for existing companies and 15% for new manufacturing firms. Aimed at boosting investment and economic growth.

Faceless Tax Assessment & Appeals (2020) - Eliminated physical interaction between taxpayers and officers to reduce corruption. Implemented AI-based selection of cases for scrutiny.

New Income Tax Regime (2020) - Introduced optional lower tax slabs but removed most deductions and exemptions. Gave taxpayers a choice between the old regime (with exemptions) and the new regime (without exemptions).

Vivad Se Vishwas Scheme (2020) - A dispute resolution scheme to reduce pending litigation by offering settlements on disputed tax amounts.

Digitization of Taxation (2020-2023) - Introduction of e-filing portals, digital payments, and pre-filled ITR forms to simplify compliance. Use of Artificial Intelligence (AI) and Big Data for detecting tax evasion.

TDS/TCS Compliance Strengthening - Expansion of Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) provisions for better tax tracking. New rules on **cryptocurrency taxation (30% tax + 1% TDS on transactions**) from 2022.

GST Rationalization & Rate Revisions - Ongoing efforts to simplify GST slabs and reduce litigation on input tax credits. GST rates revised periodically to address inflation and industry concerns.

Incentives for Start-ups & MSMEs - Relaxation in tax audits and reduced compliance burdens for start-ups. Lower corporate tax rates for small businesses.

Customs Duty Reforms - Shift towards 'Make in India' policy by increasing import duties on non-essential items. Promotion of domestic manufacturing through Production-Linked Incentive (PLI) schemes.

KINDS OF GST RATES AND STRUCTURE IN INDIA

In India, the Goods and Services Tax (GST) system categorises goods and services into several tax slabs to ensure uniformity and transparency in taxation, as per GST law. These slabs include 0% (nil-rated), 5%, 12%, 18%, and 28%, with some items attracting additional cess. Here's an overview of the kinds of GST rates and structures.

GST rates in India are structured based on the type of goods and services. The tax slabs range from 0% for essential items like milk, eggs, and educational services to 5%, 12%, 18%, and 28% for various other categories. Certain goods such as luxury items, high-end motorcycles, and consumer durables attract a 28% tax rate along with additional cess. Integrated GST (**IGST**) is applicable on interstate supplies, while Central GST (**CGST**) and State GST (**SGST)** are applied on intrastate supplies, ensuring comprehensive coverage across the country.

RECENTLY REVISED GST RATE ON CERTAIN GOODS (2025)

The Role of GST in Indian Economy with special reference to **Tax Budget 2025.** The GST rate list comprises five slabs, namely 0%, 5%, 12%, 18%, and 28%. The GST council has assigned each good and service to one of these five tax slabs.

Here is an over view of GST rates:

GST Rate	**Applicable Goods and services**	**Purpose**
0%	Essential goods such as milk, eggs, curd, and educational services.	Ensures affordability and accessibility for essential items and services.
5%	Items like coal, edible oils, tea, domestic LPG, and life-saving drugs.	Promotes accessibility to basic necessities.
12%	Goods such as butter, ghee, computers, fruit juice, and packed coconut water.	Balances affordability and revenue generation.
18%	Products like hair oil, capital goods, toothpaste, industrial intermediaries, and toiletries.	Aims to maintain tax revenue while ensuring reasonable consumer prices.
28%	High-end items like luxury cars, motorcycles, consumer durables (e.g.. ACs, fridges), and sin goods like cigarettes and aerated drinks.	Applies the highest GST rate with additional cess on some items to manage luxury and non-essential goods.

In recent updates to the GST rates in India, several adjustments have been made to benefit specific categories of goods.

Category	**Old GST Rate**	**New GST Rate**
Vehicles equipped with retrofitting kits for disabled individuals	Not specified	5%
Cancer treatment drug (keytruda) Because cancer treatment is essential.	12%	5%
Goods sold at the Indo-Bangladesh When you look at tax structures, there is also cess applied on certain items border	Not specified	**NIL** (IGST is not levied on these goods)
Scrap and polyurethanes	5%	18%
Pens	12%	18%
Metal Concentrates and Ores	5%	18%
Recorded media reproduction and print	12%	18%
Packing containers and boxes	12%	18%

Certain Renewable Energy Devices	5%	18%
Broadcasting, sound recordings, and licensing	12%	18%
Printed material	12%	18%
Railways Goods and Parts under Chapter 86	12%	18%

The GST Council regularly reviews the GST rate list and makes adjustments based on economic conditions and the needs of the industry.

IMPACT OF GST ON THE INDIAN ECONOMY :

POSITIVE IMPACT OF GST ON THE INDIAN ECONOMY

the GST was imposed on all sectors of life. Everything you buy goods and services from the market, the final amount charged upon includes GST other than those which do not come under the purview of GST. Here are some of the significant impacts of GST on the Indian economy are --

Simpler tax structure - With the introduction of GST, the taxation system has become much simpler. Since there is only one tax, the calculation is easier. As a result, the buyer gets a clear idea of the total tax paid by him.

More funds for production - Another major impact of GST on the Indian economy is more funds for production. The total taxable amount has been reduced drastically, which fosters production.

Increased volume of export - When talking about the impact of GST on the Indian economy, custom duty on the export goods has reduced drastically. As a result, the production units save a lot of money during the production and shipment of goods.

Support for small-size enterprises - GST is implied based on the size of the enterprise and the annual turnover. If the annual turnover of an organisation is 50 lakhs, it will pay 6% GST.

Enhanced operations throughout India - With a single and unified taxation system in the country, it is easier to transport goods in India. As a result, boosting transportation operations has increased.

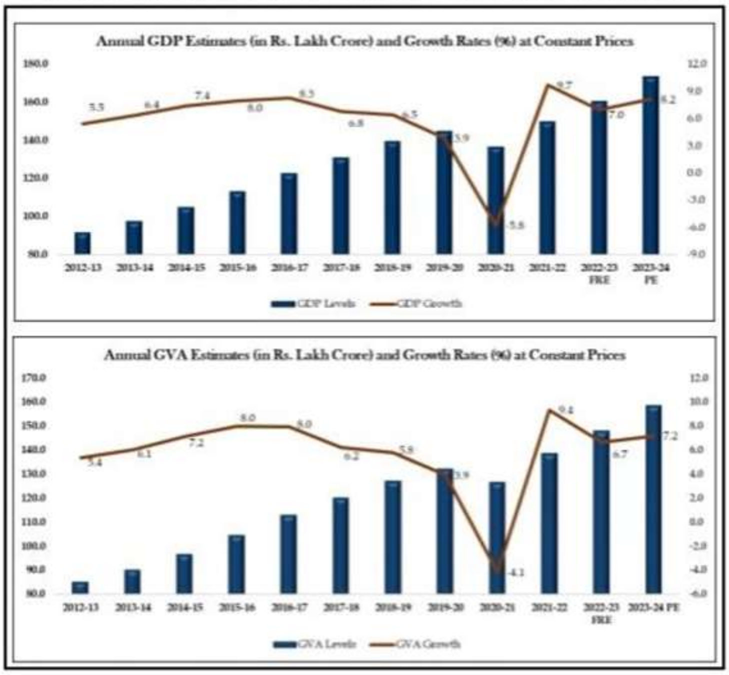
ECONOMIC IMPACT - Tax regime has become convenient reducing duplication and multiplicity of tax filings creating ease of doing business. From a macro-economic perspective, the government and industry expected that the GST would be instrumental in reducing economic distortions, which in turn, would provide necessary impetus to economic growth.

The Ministry of Statistics and Programme Implementation has declared India’s GDP (Gross Domestic Product)growth to be 7.7% in 2017-18 compared to 7.1% in 2016-17. But the recent Real GDP has been estimated to grow by 8.2% in FY 2023-24 as compared to the growth rate of 7.0% in FY 2022-23. Nominal GDP has witnessed a growth rate of 9.6% in FY 2023-24 over the growth rate of 14.2% in FY 2022-23, Real GVA (Gross Value Added) has grown by 7.2% in 2023-24 over 6.7% in 2022-23. This GVA growth has been mainly due to significant growth of 9.9% in Manufacturing sector in 2023-24 over -2.2% in 2022-23 and growth of 7.1% in 2023-24 over 1.9% in 2022-23 for Mining & Quarrying sector.

GST aims to increase the number of taxpayers in the nation, which will help in the development of the nation’s economy.

The promotion of a corruption-free nation and diminishing tax evasion rates are also counted as objectives of GST.

Fig. 1: Annual GDP and GVA Estimates along with Growth Rates at Constant Prices



NEGATIVE IMPACT OF GST IN INDIAN ECONOMY

The negative impacts of GST on the Indian economy have been listed down hereunder:

Negative impact on the common man: GST being an indirect tax is recovered by means of rising the selling price. This in turn affects middle and lower-middle-class people and therefore has a negative impact on the common man.

Negative impact of GST on the market: In general, firms continue to face issues with input tax credit systems thereby failing to manage working capital requirements in an effective way. This is what led to GST having a negative impact on the market.

Negative impact of GST on unemployment: Following the implementation of GST (July-2017), the unemployment rate had risen from 3.39 to 6.06 % during the period July 2017 to February 2018 in India. With business building being easier, self-employment is on rise but only for those who can afford it.

GST Performance Trends (2017 – 2024)

The growth of year-wise collection reflects a steady graph, which showcases the resilience of the Indian economy and the success of GST reforms in broadening the tax base.

There was a 8.86% growth in the total collection for the year 2024 at Rs.21.36 lakh crores as compared to the year 2023 which stood at Rs.19.62 lakh crore .The following figure represents the trend of GST collection from FY 2017-18 to FY 2024-25*

- Financial Year 2024-25 **January GST** collections up **12.3% at Rs. 1.96 Lakh Crores.**

India's 2024 GST receipts show the success of tax changes and the resilience of the economy. GST has established itself as a pillar of India's revenue

FY 2024-25* includes months from April 2024 to December 2024

structure with steady growth and increased compliance.

India must continue to prioritise streamlining compliance, utilising technology, and promoting economic expansion in all areas as it looks to the future. The 2024 trends present a positive outlook and lay a solid basis for the years to come.

CONCLUSION

GST has transformed India's taxation system by simplifying indirect taxes, improving compliance, and boosting economic growth. It has enhanced ease of doing business and increased government revenue. but challenges like rate complexities and compliance burdens persist. With ongoing reforms, GST is set to become more efficient, transparent, and business-friendly, driving long-term economic stability in India.

While GST has positively impacted government revenue, interstate trade, and the formalization of businesses, challenges such as compliance burdens, rate complexities, and frequent revisions remain. However, continuous reforms, including simplification of tax slabs, improved digital compliance mechanisms, and better integration with direct taxes, indicate a promising future.

Overall, GST has played a crucial role in strengthening the Indian economy, contributing to its growth, transparency, and efficiency. With further refinements and policy adjustments, GST can become an even more robust and business-friendly taxation system, driving long-term economic stability and development in India.

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