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Impact of GST on Indian Economy

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Abstract

Goods and Services Tax (GST), implemented in India on July 1, 2017, replaced multiple indirect taxes such as VAT, Excise Duty, and Service Tax with a unified dual-tax structure comprising CGST, SGST, UTGST, and IGST. This paper examines the impact of GST on the Indian economy through exploratory research based on secondary data drawn from journals, articles, and government sources. The study outlines the basic features, benefits, and challenges of GST, and evaluates its sector-wise impact across electronics, FMCG, automobiles, textiles, real estate, banking, and logistics. Findings indicate that GST has simplified tax compliance, reduced cascading taxation through Input Tax Credit, improved transparency, widened the taxpayer base, and boosted government revenue and GDP growth. However, small businesses continue to face challenges related to compliance costs, technical difficulties, and frequent regulatory changes. The paper concludes that despite transitional hurdles, GST has emerged as a transformative reform strengthening India's economic structure and ease of doing business.

Abbreviation:

GST	Goods and Service Tax
CGST	Central Goods and Service Tax
SGST	State Goods and Service Tax
UTGST	Union Territory Goods and Service Tax
IGST	Integrated Goods and Service Tax

Keywords; Treasury, Electronic Means, Imposed, Levied, Input Tax Credit, Evasion, One Nation One Tax.

INTRODUCTION

GST is a Indirect Tax which is charge on goods and services or both. In India GST was applicable July 1 2017. Dual GST system is applicable in India which is based on Canada GST rate model. Its some part collected by central Government and some part is collected by State Government so it is called the dual GST system (Mehta, 2024). There are four type of GST is applicable. GST replaced numerous Indirect taxes like VAT, Excise duty, and Service tax simplifying the overall tax structure and compliance for business. France was the first country to levy GST in 1954 to check tax evasion. After that about 160 countries have GST at present. Many countries like Brazil, Canada etc. have dual or two-fold GST (Separate GST for state and country) (Raghuveer, 2026). India also decided to adopt this dual system like these countries. Simple taxation and collection of Goods and Service Tax increase the number of taxpayers. Due to this, the possibility of increase in Government revenue. Goods and Services Tax has given many reliefs to small businessman (Anand, 2018; S, 2026).

Earlier, businessmen with turnover up to 10 lakh were exempted from VAT and Service Tax whereas in GST this limit has been raised to 40 lakh.

About 20 lakh small businessmen are likely to be benefited from this. Goods and Service Tax provides input tax credit facility to every registered supplier. For input tax credit, it is necessary for every recipient to submit an invoice this automatically makes tax control possible and reduces the possibility of tax evasion (Shekar, 2026).

Features Of Goods and Service Tax (GST)

We can explain the main basic elements nature and feature of Goods and Service Tax (GST) applicable in India as follows.

i. **Indirect Tax:** Goods and Services Tax is an indirect tax whose ultimate burden falls on the end consumer of goods and services. Although it is collected by the manufacturer, producer, distributor, wholesaler, retailer etc.
ii. **Tax on supply of Goods and Services:** Goods and Services Tax is levied on the taxable value of goods or services or both or the value of supplies made against consideration.
iii. **Multi Point Tax:** This tax is a multiple point tax which is levied on the increased value of the commodity on its supply at every stage from its production to the final consumer.
iv. **Exempted Goods and Services:** Under the Goods and Services Tax more than 160 goods and services have been declared tax free on which this tax is not levied.
v. **Types of Goods and Services Tax:** There are four type of GST SGST, CGST, UTGST and IGST is charge in India with dual GST concept.
vi. **Rate of Goods and Service Tax:** The rates of Goods and Services tax are mainly divided into 7 categories. These rate are 0%, 5%, 18%, 40%.

Benefits and Advantages of GST

The Goods and Services Tax (GST) is a comprehensive indirect tax introduced in India to replace multiple indirect taxes levied by the Central and State Governments. It aims to create a unified tax system, simplify tax compliance and improve transparency in business transactions. GST has provided several benefits to businesses, consumers and the government by reducing tax complexity and promoting a more integrated national market (Kumar, 2025).

Major Benefits and Advantages of GST:

i. **Simplification of the Tax System:** GST replaced several indirect taxes with a common tax framework, making taxation easier to understand and administer.
ii. **Creation of a Unified Market:** It promotes the free movement of goods and services across states by reducing differences in indirect taxation.
iii. **Reduction of Tax Cascading:** Input Tax Credit helps businesses claim credit for taxes already paid, reducing the effect of tax-on-tax.
iv. **Improved Transparency:** GST transactions are recorded through an online system, which improves transparency and reduces the scope for tax evasion.
v. **Ease of Compliance:** Online registration, return filing and tax payment have made many GST-related processes more convenient for taxpayers.
vi. **Increased Government Revenue:** Better reporting and improved compliance have strengthened tax collection.
vii. **Benefits to Consumers:** Greater transparency in taxation and reduction in cascading taxes can contribute to more reasonable and competitive prices.

Challenges of GST

Despite its significant advantages, the implementation of GST has also created several challenges for businesses and taxpayers. The transition to a new tax system required changes in accounting procedures, invoicing practices and compliance mechanisms. Small businesses, in particular, may face difficulties due to compliance costs and limited technical knowledge (B.Buvishmi, 2026).

Major Challenges of GST:

i. **Complex Compliance Requirements:** Regular return filing, invoicing and record maintenance can be difficult for some taxpayers.
ii. **Burden on Small Businesses:** Small enterprises may face additional costs for accounting software, professional assistance and GST compliance.
iii. **Technical and Digital Issues:** Dependence on online systems can create difficulties where taxpayers have limited digital skills or poor internet connectivity.
iv. **Frequent Changes in Rules:** Changes in tax rates, procedures and compliance requirements can create uncertainty for businesses.
v. **Working Capital Issues:** Delays in refunds or input tax credit can temporarily affect the working capital of businesses.

vi. **Initial Implementation Difficulties:** Businesses required time and resources to understand and adapt to the new GST framework.

vii. **Inter-State Compliance:** Businesses operating across different states may still face additional procedural and administrative requirements.

LITERATURE REVIEW

(Shambharkar et al., 2025) investigates the influence of GST on the Indian economy, with a particular emphasis on its effects on inflation, economic development, tax compliance, and various business sectors. Greater openness, higher government income, and a better organised tax system have all resulted from the implementation of GST. Businesses, especially those in manufacturing and logistics, have profited from lower operating costs and streamlined procedures. However, the GST Network's (GSTN) technological issues, frequent tax rate changes, and compliance obligations have presented difficulties for small and medium-sized businesses (SMEs). The study emphasises both the benefits and challenges of implementing GST. Although it has expanded the tax base, decreased tax evasion, and improved ease of doing business, initial disruptions and industry-specific difficulties have caused obstacles. In order to optimise the advantages of GST, the report also addresses policy proposals including streamlining tax structures, enhancing digital infrastructure, and better assisting small enterprises.An important stage in India's economic restructuring is the GST.

(Dandona, 2025) contribute to the current body of literature by providing a comprehensive understanding of the multifaceted effects of GST on economic development in India. This study attempts to evaluate the direct effect of GST on state-level economic activity by evaluating changes in GSDP following GST implementation. The paper evaluates the effects of GST on economic growth from 2017 to 2023 by using panel regression analysis and assessing several models, such as constant effect, fixed effect, and random effect models. This analysis clarifies the complex link between GST income and economic progress as determined by GSDP in different Indian states. The results continuously show a strong positive correlation between GSDP and GST income, suggesting that higher GST revenue is linked to stronger state-level economic activity. Policymakers, academics, and stakeholders may make informed decisions and formulate policies targeted at fostering inclusive and sustainable development across Indian states by analysing changes in GSDP after GST adoption.

(Ganesh, 2025) Using secondary data, this study analyses the sector-specific effects of GST 2.0, concentrating on important sectors like pharmaceuticals, real estate, textiles, agriculture, automobiles, consumer durables, and hospitality. According to the report, the reform has boosted sectors demand and growth, reduced consumer costs, and made necessities more affordable. Additionally, the operational burden on MSMEs and retailers has been greatly lessened by compliance improvements including pre-filled returns and quicker refund systems. The overall data indicates that GST 2.0 is a catalyst for economic change, promoting formalisation, improving supply chain transparency, and furthering India's aspirations for sustainable and equitable growth, even if some sectors still suffer transitional hurdles. The study comes to the conclusion that even though GST 2.0 has benefited all parties involved, ongoing policy improvement and focused awareness campaigns are required to guarantee equitable and long-term tax compliance.

(R et al., 2026) The potential for GST 2.0 and Micro, Small, and Medium-Sized Enterprises (MSMEs) to revolutionise the Indian economy is examined in this paper. MSMEs, the backbone of India's industrial and services sectors, are essential to the country's GDP, employment, and export growth. Simultaneously, GST 2.0 is a planned enhancement of the original Goods and Services Tax system with the goals of promoting a shared national market, improving tax compliance, and streamlining procedures. The study looks at how MSMEs' formal incorporation in the GST 2.0 tax system might lead to increased competitiveness, better access to financing, and increased transparency. Additionally, it examines how MSMEs deal with the costs of compliance, digitalisation, and regulatory awareness. The research is to evaluate the combined effects of GST changes and MSME expansion on economic growth, employment creation, and sustainable development using a combination of qualitative observations and quantitative data. In order to promote sustainable and fair economic growth, the research ended with policy recommendations to improve MSME support systems and maximise the application of GST 2.0.

(Rajput, 2026) Using data from ten FMCG companies, the research paper quantitatively analyses the effects of the Goods and Services Tax (GST) on the FMCG sector. The goal of the study is to evaluate how GST has affected businesses and if it has made the tax system easier to understand and more transparent. FMCG is a significant sector of the Indian economy, propelled by shifting lifestyles, accessibility, and consumer awareness. Because

FMCG businesses have historically kept warehouses and depots across many states for tax efficiency, GST has had a substantial impact on the industry. By lessening the cascading effect of taxes and facilitating greater use of input tax credits, the introduction of GST is anticipated to increase supply-chain efficiency. The report emphasises GST's possible advantages as well as its difficulties for FMCG businesses. Additionally, it looks at how well GST has worked in nations where it has already been put into place, offering insights into potential ramifications for the FMCG sector in India.

OBJECTIVE OF THE STUDY

There are main object of study of this research paper:

1. To understand the basic knowledge of GST.
2. To know the advantage and challenges of GST
3. To study the impact of GST on different Sector in India
4. To know the impact of GST in Indian Economics.

RESEARCH METHODOLOGY

This study is based on exploratory research and based on secondary data of journals, articles, newspaper and magazine. Secondary data was extensively used for the study.

IMPACT OF GST ON INDIAN ECONOMY

There are many impact of GST on Indian Economy.

a. GST helpful to increase the GDP of India.
b. GST increase the Government revenue.
c. It will create more employment opportunities.
d. It will reduce the cost of tax compliance and transaction cost.
e. It provides the goods and services at lower cost.
f. GST will facilitate ease of doing business in India.
g. GST collection cost is also very low.
h. GST also helpful to reducing transportation cost of goods.

GST collection sector has been provided by the Government yet however below is the collection break up as per the constitution of the business.

GST IMPACT ACROSS SECTORS

The implementation of Goods and Services Tax (GST) has affected almost all major sectors of the Indian economy. By replacing multiple indirect taxes with a unified tax structure, GST has influenced product prices, business costs, supply chains and tax compliance. The major sector-wise impacts are as follows:

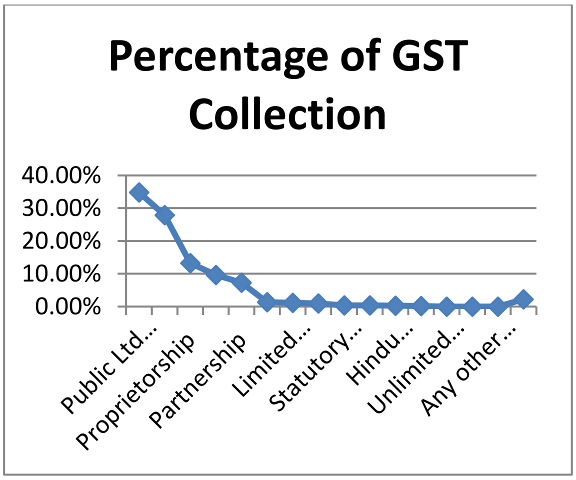
i. **Electronics and Appliances:** GST has influenced the prices and distribution of products such as televisions, air conditioners and refrigerators. The movement of several products to lower tax slabs has reduced the tax burden in certain categories.
ii. **Designer Clothing and Watches:** GST has brought greater uniformity in the taxation of branded clothing and watches. The applicable rate depends on the product's classification and value.
iii. **FMCG Sector:** GST has simplified taxation and distribution of fast-moving consumer goods. Input Tax Credit has also helped reduce the cascading effect of taxes and improve supply-chain efficiency.
iv. **Automobile Sector:** GST has replaced multiple indirect taxes on automobiles with a common tax structure, simplifying interstate trade and influencing vehicle prices.
v. **Textile Sector:** GST has formalised taxation across the textile value chain and reduced tax cascading through the Input Tax Credit mechanism.
vi. **Construction and Real Estate:** GST has increased transparency in the taxation of construction activities and influenced construction costs and property prices.
vii. **Banking and Financial Services:** GST applies to various financial services and has required banks and financial institutions to modify their billing, accounting and compliance systems.
viii. **Logistics and Transportation:** GST has facilitated the interstate movement of goods and encouraged more efficient warehousing and distribution systems.

Table No. 1

Business Types	Percentage of GST Collection
Public Ltd Company	34.85%
Private Ltd Company	27.94%
Proprietorship	13.28%
Public Sector undertaking	9.64%
Partnership	7.29%
Society / Club / Trust / AOP	1.38%
Limited Liability Partnership	1.18%
Government Department	0.99%
Statutory Body	0.39%
Foreign Company	0.38%
Hindu Undivided Family (HUF)	0.25%

Local Authority	0.21%
Unlimited Company	0.01%
Foreign Limited Liability Partnership	0.00%
Any other body notified by committee	0.00%
Other	2.24%
Total	100%

Source: https://gstcouncil.gov.in/gst-revenue



CONCLUSION

The implementation of GST has proven to be a landmark reform in India's indirect taxation system, replacing a fragmented multi-tax structure with a unified, transparent, and technology-driven framework. The study establishes that GST has contributed positively to GDP growth, increased government revenue, expanded the taxpayer base, and enhanced ease of doing business through simplified compliance and reduced tax cascading via Input Tax Credit. Sector-wise analysis reveals mixed but largely favorable outcomes across FMCG, automobiles, textiles, electronics, real estate, and logistics, with improved supply-chain efficiency and pricing transparency. At the same time, challenges such as compliance burden on small businesses, technical and digital barriers, frequent rule changes, and working capital constraints from delayed refunds remain areas of concern. Continuous policy refinement, simplification of return-filing procedures, strengthening of digital infrastructure, and targeted support for MSMEs are essential to maximize GST's benefits. Overall, GST represents a significant step toward building an integrated national market and a more formalized, transparent, and growth-oriented Indian economy.

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