United International Journal of Multidisciplinary Research
(UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

Evolution of India's Indirect Tax System and GST

Dr. Kamsali Jayaprakash,

Lecturer in commerce,

Department of commerce, St. Joseph's Degree College, Sunkesula road, Kurnool, AP, India

Mail Id: karjpr2013@gmail.com, Phone: 9490663101

Article Received:10-02-2026 Article Modified:20-03-2026

Article Accepted:25-03-2026 Article Published:26-03-2026

DOI:10.37854/UIJMR.2026.3.1.297

Abstract

India's indirect tax system has undergone a significant transformation over the decades, evolving from a complex and fragmented structure of multiple taxes to a unified and streamlined regime under the Goods and Services Tax (GST). Prior to GST, the indirect tax framework in India was characterized by the coexistence of central and state-level taxes such as excise duty, service tax, value added tax (VAT), octroi, and entry tax, leading to cascading effects and inefficiencies in tax administration. The introduction of GST on 1 July 2017 marked a historic reform aimed at creating a "one nation, one tax" system by subsuming various indirect taxes into a single comprehensive levy. This paper examines the historical evolution of India's indirect tax system, the rationale behind the implementation of GST, and its structural framework. It also evaluates the impact of GST on economic efficiency, ease of doing business, revenue generation, and cooperative federalism. While GST has simplified tax compliance and improved transparency through digitalization, challenges such as compliance burden for small businesses, technological issues, and rate rationalization persist. The study concludes that GST represents a paradigm shift in India's taxation landscape, with long-term benefits outweighing short-term transitional challenges.

Keywords: Indirect Tax System, Goods and Services Tax (GST), Tax Reform, VAT, Cascading Effect, Fiscal Federalism, Tax Compliance, Economic Efficiency

United International Journal of Multidisciplinary Research
(UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

1. Introduction:

The indirect tax system in India plays a crucial role in generating government revenue and regulating the consumption of goods and services. Indirect taxes are those taxes that are not levied directly on individuals' income but are imposed on goods and services, with the burden ultimately borne by the final consumer. These taxes are collected by intermediaries such as manufacturers, wholesalers, and retailers, who pass them on to the government. Traditionally, India's indirect tax system was characterized by a complex structure involving multiple taxes imposed by both the Central and State Governments, including excise duty, customs duty, service tax, and value added tax (VAT).

Over time, this system evolved in response to the growing needs of the economy, industrial development, and globalization. However, the presence of multiple taxes often led to issues such as cascading effects, lack of uniformity, and increased compliance burden for businesses. To address these challenges and to create a more streamlined and efficient taxation framework, India undertook significant reforms, culminating in the introduction of the Goods and Services Tax (GST) in 2017 through the 101st Constitutional Amendment Act. This marked a major shift towards a unified tax system aimed at promoting transparency, ease of doing business, and the creation of a common national market.

2. Pre-Independence:

During the pre-independence period, the system was relatively simple, with major revenues derived from customs duties and excise duties, primarily aimed at supporting colonial administration rather than economic development. The pre-independence tax system was designed primarily for colonial revenue extraction.

Table 1: Pre-Independence Indirect Tax Structure

Tax Type	Description	Objective
Customs Duty	Tax on imports and exports	Protect British trade interests
Excise Duty	Tax on goods like salt, alcohol, tobacco	Revenue generation
Salt Tax	Tax on essential commodity	Monopoly and control

Chart 1: Revenue Composition (Pre-Independence)

3. After independence:

The government significantly expanded the scope of indirect taxation to mobilize resources for planned economic growth. The Central Government levied taxes such as central excise duty

United International Journal of Multidisciplinary Research
(UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

and customs duty, while State Governments imposed sales tax, entry tax, octroi, purchase tax, luxury tax, and entertainment tax. This multiplicity of taxes led to several structural issues, including the cascading effect of taxation, where tax was levied on already taxed values, resulting in higher costs of goods and services.

3.1. MODVAT System:

In an effort to address these inefficiencies, the government introduced the Modified Value Added Tax (MODVAT) scheme in 1986, which allowed manufacturers to claim input tax credit on excise duties paid on raw materials. Although MODVAT marked a significant step towards reducing the cascading effect, its scope was limited to the manufacturing sector and did not cover services or state-level taxes.

3.2. Service tax:

The economic liberalization reforms of 1991 further accelerated tax reforms by emphasizing rationalization of tax rates, simplification of procedures, and broadening of the tax base. A major development during this period was the introduction of service tax in 1994, recognizing the growing importance of the service sector in the Indian economy. Initially applied to a limited number of services, it was gradually expanded to cover a wide range of service activities and became a substantial source of revenue for the central government.

3.3. Value Added Tax (VAT):

Another important reform was the implementation of Value Added Tax (VAT) by most states in 2005, which replaced the earlier sales tax system. VAT allowed input tax credit at the state level and reduced the cascading effect to some extent. However, it failed to achieve complete uniformity across states, as different states adopted varying tax rates and policies. Despite these reforms, the indirect tax system continued to suffer from major shortcomings, including lack of coordination between central and state taxes, multiple compliance requirements, and barriers to inter-state trade due to taxes like octroi and entry tax. These challenges increased the cost of doing business and hindered the creation of a unified national market.

India reformed its taxation system to support **economic development and welfare**.

Table 2: Post-Independence Indirect Tax System

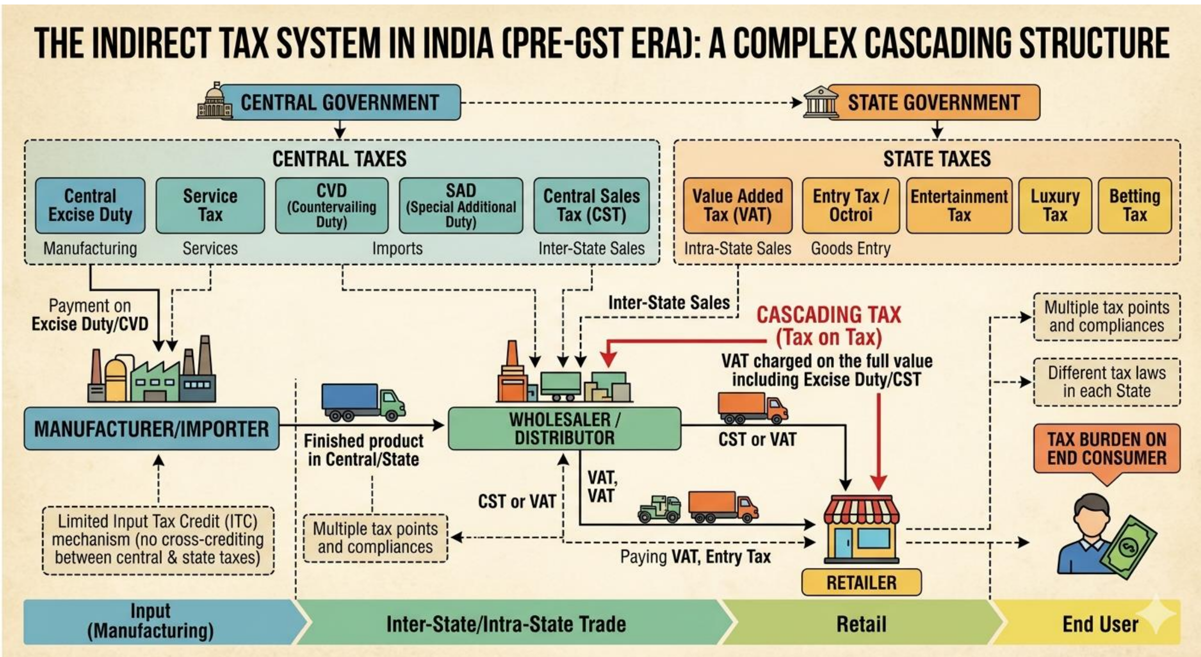
Tax Type	Introduced By	Key Feature
Excise Duty	Central Government	Tax on manufacturing (1947)
Sales Tax	State Governments	Tax on sale of goods (1960)
Service Tax	Central Government	Tax on services (from 1994)
VAT	State Governments	Reduced cascading effect (2005)
GST	Central & State	Unified tax system (2017)

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

Comparative Analysis

Table 3: Pre vs Post-Independence Indirect Tax System

Basis	Pre-Independence	Post-Independence
Objective	Revenue extraction	Economic development
Structure	Fragmented	Multi-layered → Unified (GST)
Tax Base	Narrow	Broad
Equity	Regressive	Improved (partially)
Administration	Unorganized	Systematic



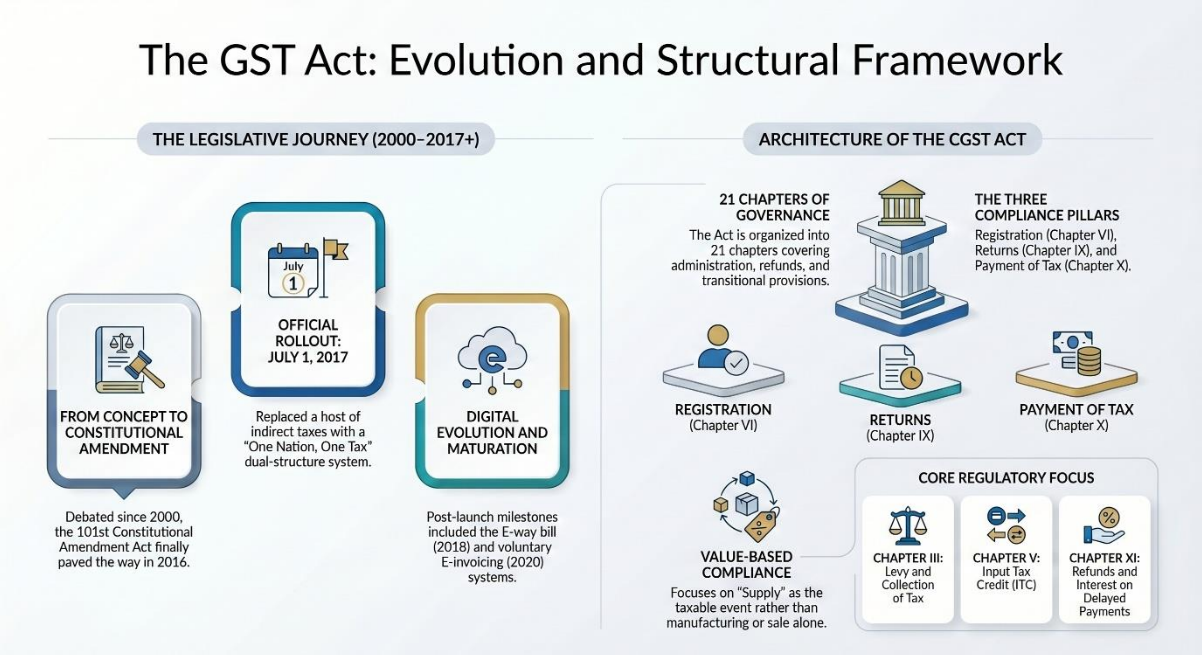
Overall, the pre-GST indirect tax regime in India was marked by structural inefficiencies and administrative complexities. While reforms such as MODVAT, service tax, and VAT attempted to improve the system, they were insufficient to address the fundamental issues of fragmentation and cascading taxation. These limitations highlighted the urgent need for a comprehensive tax reform, ultimately leading to the introduction of GST through the 101st Constitutional Amendment Act, which aimed to create a unified, efficient, and transparent indirect tax system in India.

4. GST transform the previous indirect tax system

The implementation of the Goods and Services Tax (GST) on July 1, 2017, represented the largest indirect tax reform since India's independence, fundamentally altering the nation's

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

economic landscape. It transformed a fragmented system of multiple levies into a unified, destination-based tax focused on the "supply" of goods and services.



The transformation brought by GST can be categorized into several key areas:

4.1. Subsuming Multiple Indirect Taxes:

GST replaced a plethora of overlapping central and state taxes that created a complex compliance environment.

- Central Taxes Subsumed: These included Central Excise Duty, Service Tax, Additional Duties of Customs (CVD), and various surcharges and cesses.
- State Taxes Subsumed: Major state-level taxes like Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Luxury Tax, and Entertainment Tax (except those levied by local bodies) were absorbed into the new system.

4.2. Elimination of the Cascading Effect:

The previous system often resulted in "tax on tax" (cascading effect) because credits for taxes levied by the Central Government were generally not available as a set-off for taxes levied by State Governments, and vice versa.

- Seamless Input Tax Credit (ITC): GST introduced an uninterrupted chain of ITC where tax paid at every stage of the supply chain—from manufacturing to consumption—can be used as a set-off for tax at the subsequent stage.
- Value Addition Focus: By allowing these offsets, businesses effectively only pay tax on the "value added" at their specific stage, which reduces the overall tax burden and lowers the final price for consumers.

United International Journal of Multidisciplinary Research
(UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

4.3. Shift to a Destination-Based "Supply" Model:

Unlike the previous regime, which taxed activities like "manufacture" (Excise) or "sale" (VAT/CST), GST is a destination-based tax.

- Tax Follows Consumption: Tax revenue now accrues to the state where the goods or services are consumed, rather than where they were produced.
- Focus on Supply: The taxable event is now the "supply" of goods or services, which includes all forms of transactions such as sales, transfers, barters, and leases made for a consideration.

4.4. Adoption of a Dual GST Model:

To align with India's federal structure, a Dual GST model was adopted, allowing both the Centre and the States to levy taxes simultaneously on a single transaction.

- Components: Transactions within a state are subject to Central GST (CGST) and State GST (SGST) (or UTGST for Union Territories).
- Interstate Trade: The Integrated GST (IGST) is levied on all interstate supplies and imports, ensuring a uniform rate across state borders.
-

4.5. Digital Transformation and Transparency

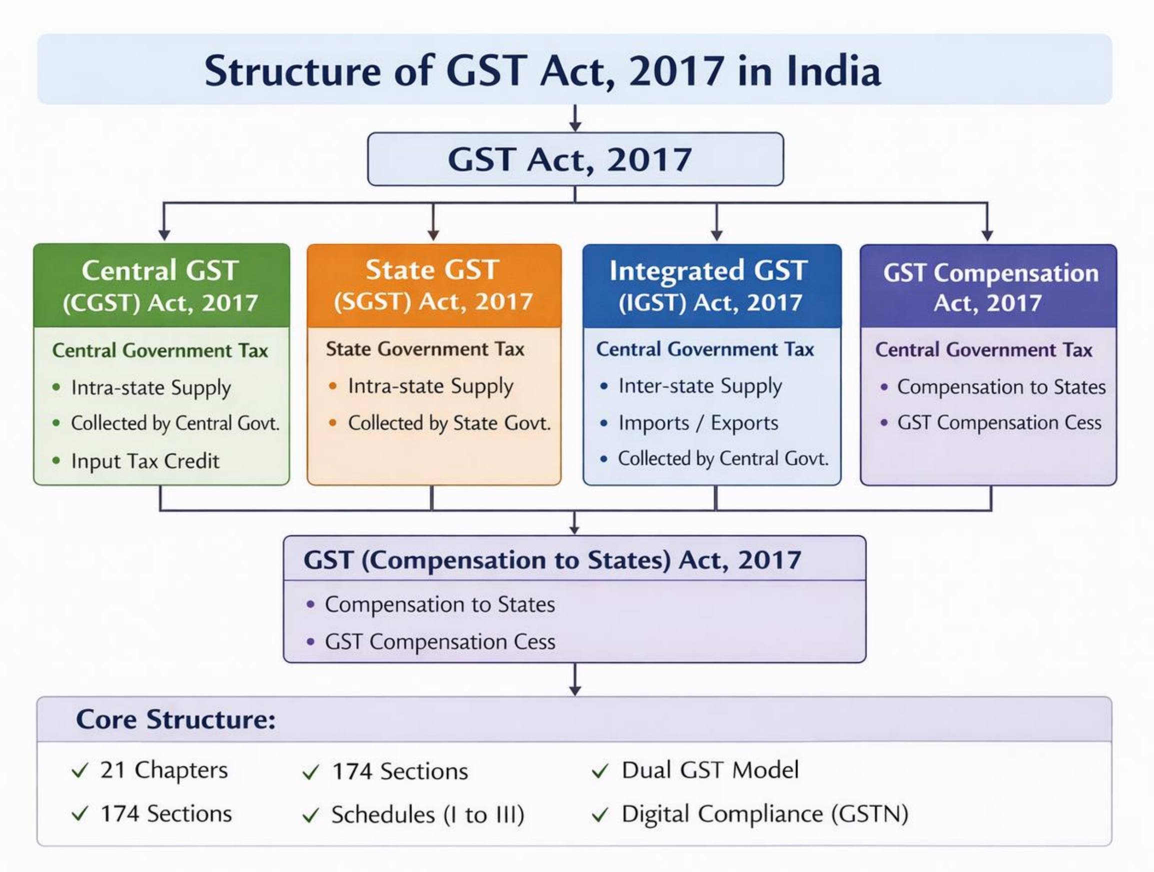
The system moved from manual processes to a fully digital platform managed by the Goods and Services Tax Network (GSTN).

- Unified Interface: The GSTN provides a common IT infrastructure for registration, return filing, and payments for all taxpayers across India.
- Enhanced Tracking: New mechanisms like the E-way bill system (for tracking goods in movement) and e-invoicing were introduced to improve transparency and combat tax evasion.
- Simplified Compliance: Taxpayers now use a uniform format for submitting returns periodically to both Central and State authorities, significantly reducing transaction costs.

4.6. Rationalization of Tax Structures

While the system originally launched with a four-tier rate structure (5%, 12%, 18%, and 28%), the GST Council continues to rationalize these rates. By late 2025, the system moved toward a two-tier structure featuring a merit rate of 5% for essentials and a standard rate of 18%, with a 40% demerit rate for "sin goods" and luxury items.

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026



Chapter Number	Chapter Name	Section Range	Key Provisions Summary	Primary Focus	Applicability	Source
I	PRELIMINARY	1 to 2	Covers the short title, extent of the Act to the whole of India, and provides a comprehensive list of 121 definitions essential for the Act's interpretation.	Legal Framework and Definitions	Applies to the whole of India; includes specific definitions like 'actionable claim', 'business', 'goods', and 'services'.	[1]
II	ADMINISTRATION	3 to 6	Specifies the appointment and	Administration	Central Government	[1-3]

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

			classes of officers, their powers, and the authorization of State or Union territory tax officers as proper officers.		and tax officers; establishment of administrative hierarchy and delegation of powers.	
III	LEVY AND COLLECTION OF TAX	7 to 11	Defines the scope of supply, tax liability on composite and mixed supplies, levy and collection mechanisms (including reverse charge), composition levy, and power to grant exemptions.	Levy	All intra-State supplies of goods or services except alcoholic liquor for human consumption; applies to taxable persons.	[1, 4, 5]
IV	TIME AND VALUE OF SUPPLY	12 to 15	Sets rules for determining the point in time when the liability to pay tax arises for goods and services and the methods for valuing taxable supplies.	Supply Determination	Registered persons making taxable supplies; covers vouchers, reverse charge scenarios, and related party transactions.	[1]
V	INPUT TAX CREDIT	16 to 21	Detail eligibility and conditions for taking Input Tax Credit (ITC), apportionment of credit, blocked credits, and procedures for job work and Input	Input Tax Credit	Registered persons using goods or services for business purposes; includes specific rules for banking	[1, 4, 6]

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

			Service Distributors (ISD).		companies and pipelines.	
VI	REGISTRATION	22 to 30	Outlines who is liable for registration, exemptions, compulsory registration cases, procedures, amendment, and cancellation/revocation of registration.	Registration	Suppliers with aggregate turnover exceeding specified thresholds (lakhs) and special categories like casual taxable persons.	[1, 6-8]
VII	TAX INVOICE, CREDIT AND DEBIT NOTES	31 to 34	Provisions for issuing tax invoices, revised invoices, bills of supply, vouchers, and the issuance of credit and debit notes for price adjustments.	Documentation	Registered persons making supplies; includes specific rules for continuous supply and digital payment facilities.	[1, 6, 7]
VIII	ACCOUNTS AND RECORDS	35 to 36	Mandates maintenance of true and correct accounts and other records at the principal place of business and specifies a 72-month retention period.	Compliance	Every registered person, warehouse owners, and transporters.	[1, 4, 7]
IX	RETURNS	37 to 48	Procedures for furnishing details of outward and inward supplies,	Compliance	Registered persons, ISDs, non-resident taxable persons,	[1, 4]

			monthly/quarterly returns, matching mechanisms, annual returns, and the role of GST practitioners.		and TDS/TCS deductors/collectors.	
X	PAYMENT OF TAX	49 to 53	Methods for payment of tax, interest, and penalties using electronic ledgers, interest on delayed payments, and provisions for Tax Deduction at Source (TDS) and Tax Collection at Source (TCS).	Revenue Collection	All persons liable to pay tax, interest, or penalty; includes E-commerce operators and government departments.	[1, 4, 6, 7]
XI	REFUNDS	54 to 58	Procedures for claiming refunds of tax and interest, interest on delayed refunds, and the establishment/utilization of the Consumer Welfare Fund.	Refunds	Taxpayers with unutilized ITC, exporters, and notified agencies like the UN.	[1]
XII	ASSESSMENT	59 to 64	Covers self-assessment, provisional assessment, scrutiny of returns, and assessment of non-filers and unregistered persons.	Assessment	Registered and unregistered persons; protective assessments in special cases.	[1]

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

XIII	AUDIT	65 to 66	Provisions for audit by tax authorities and 'special audit' by chartered or cost accountants in complex cases.	Audit	Registered persons selected for verification of turnover, taxes paid, and ITC availed.	[1]
XIV	INSPECTION, SEARCH, SEIZURE AND ARREST	67 to 72	Empowers officers to inspect business premises, search and seize goods/documents, arrest for specified offences, and summon persons for evidence.	Enforcement	Taxable persons, transporters, and warehouse operators suspected of tax evasion.	[1]
XV	DEMANDS AND RECOVERY	73 to 84	Procedures for demand of tax (non-fraud and fraud cases), recovery modes (garnishee, distraint), and provisional attachment of property.	Recovery	Persons who have not paid or short-paid tax; includes provisions for payment in installments.	[1]
XVI	LIABILITY TO PAY IN CERTAIN CASES	85 to 94	Defines liability in cases of business transfer, agent-principal relations, amalgamation/merger, liquidation, and death or partition of Hindu Undivided Family (HUF).	Liability Scope	Transferees, directors of private companies, partners of firms, and guardians/trustees.	[1]
XVII	ADVANCE RULING	95 to 106	Establishment of the Authority and	Advance Ruling	Registered persons or those	[1]

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

			Appellate Authority for Advance Ruling to provide certainty on tax questions prior to supply.		seeking registration requesting clarification on classification, time/value, or liability.	
XVIII	APPEALS AND REVISION	107 to 121	Sets the structure for appeals to the Appellate Authority, GST Appellate Tribunal, High Court, and Supreme Court, plus Revisional Authority powers of Commissioners.	Appeals	Any person aggrieved by decisions/orders ; includes monetary limits for departmental appeals and departmental officers.	[1, 4]
XIX	OFFENCES AND PENALTIES	122 to 138	Lists specific offences and corresponding penalties, detention/seizure rules for goods in transit, prosecution parameters, and compounding of offences.	Enforcement	Taxable persons and others who contravene Act provisions; includes companies, officers, and offending persons.	[1, 4]
XX	TRANSITIONAL PROVISIONS	139 to 142	Facilitates the migration of existing taxpayers and treatment of CENVAT credit, job work, and pending refund claims from earlier laws.	Transition	Persons registered under previous laws (Central Excise, Service Tax, VAT).	[1]

United International Journal of Multidisciplinary Research
(UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

XXI	MISCELLANEOUS	143 to 174	A broad range of provisions including job work procedures, anti-profiteering measures, GST compliance rating, and the power of the government to make rules/repeal Acts.	Miscellaneous Regulatory Matters	General applicability; includes experts, GST practitioners, and E-commerce operators.	[1]

Annual Gross GST Collection in India
(From GST Introduction to 31 March 2026)

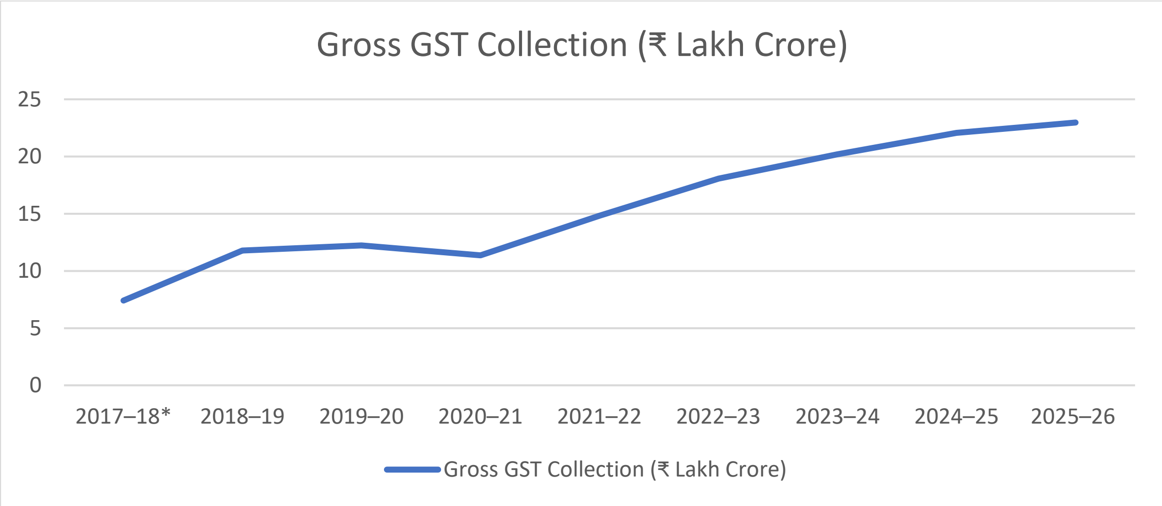
Financial Year	Gross GST Collection (₹ Lakh Crore)	Growth over Previous Year
2017–18*	7.41	—
2018–19	11.77	58.8%
2019–20	12.22	3.8%
2020–21	11.37	-7.0%
2021–22	14.83	30.4%
2022–23	18.08	21.9%
2023–24	20.18	11.6%
2024–25	22.08	9.4%
2025–26	**22.97**	**4.0%**)
(up to 31 March 2026)		

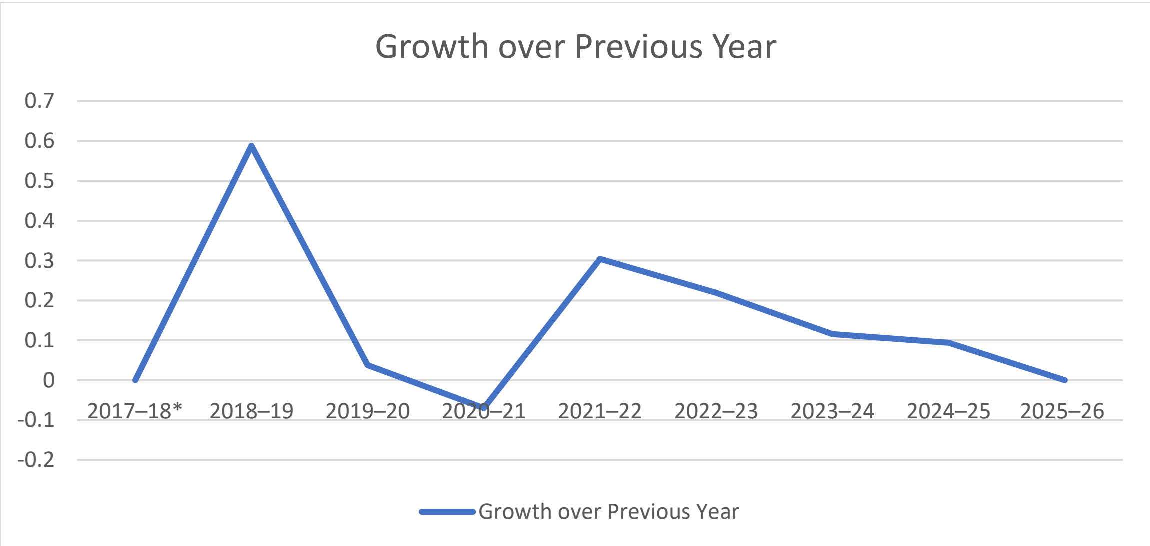
(The Economic Times)

Note: *GST was introduced on **1 July 2017**, therefore FY 2017–18 represents only nine months of GST collections.

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

Growth Trend (Line Graph)





Overall Trend

- **Overall direction:** Strong upward trend.
- **Only decline:** FY 2020–21 due to COVID-19.
- **Collections have more than tripled** since GST's first partial year.
- Average monthly GST collections have increased from around **₹82,000 crore** in 2017–18 to nearly **₹1.9 lakh crore** in 2025–26. (YouTube)

Key Drivers of Growth

- Expansion of the GST taxpayer base.
- Mandatory e-invoicing.

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

- E-way bill system.
- Data analytics and AI-based compliance monitoring.
- Increased digital payments.
- Formalization of businesses.
- Strong economic growth and higher consumer spending.
- Better enforcement against tax evasion.

This trend demonstrates that GST has become one of the Government of India's most important and steadily growing sources of indirect tax revenue.

Major GST Contributing States in India (FY 2025–26)

GST collections are closely linked to a state's economic activity, industrial production, service sector, imports, exports, and consumer spending. States with large industrial bases and major metropolitan cities contribute the highest GST revenue.

Rank	State/UT	Major Economic Activities	Approximate Share in India's GST Revenue*
1	Maharashtra	Manufacturing, Banking, Financial Services, Automobile, Petroleum, Mumbai Port	15–17%
2	Karnataka	Information Technology, Software Services, Biotechnology, Manufacturing	9–10%
3	Gujarat	Petrochemicals, Textiles, Chemicals, Ports, Exports	8–9%
4	Tamil Nadu	Automobile, Electronics, Textiles, Manufacturing	7–8%
5	Uttar Pradesh	FMCG, Manufacturing, Trade, Construction	6–7%
6	Haryana	Automobile, Manufacturing, Warehousing, Services	5–6%
7	Delhi (NCT)	Wholesale Trade, E-commerce, Financial Services	5–6%
8	Telangana	IT, Pharmaceuticals, Biotechnology, Real Estate	4–5%
9	West Bengal	Trade, Ports, Steel, Tea, Manufacturing	4–5%
10	Rajasthan	Cement, Mining, Textiles, Tourism	3–4%

United International Journal of Multidisciplinary Research
(UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

*Approximate shares vary from year to year depending on economic activity and GST settlements.

Key Factors Influencing GST Contributions

- Size of the state's economy (Gross State Domestic Product).
- Industrial and manufacturing output.
- Service sector activity (IT, banking, telecommunications).
- Population and consumer spending.
- Number of GST-registered taxpayers.
- Volume of imports and exports.
- E-commerce and digital transactions.
- Compliance levels and tax administration efficiency.

Interpretation

- Maharashtra consistently leads GST collections due to its diversified economy and concentration of corporate headquarters.
- Southern states (Karnataka, Tamil Nadu, and Telangana) contribute heavily because of strong IT, manufacturing, and pharmaceutical sectors.
- Western states (Maharashtra and Gujarat) remain dominant because of ports, exports, petrochemicals, and large manufacturing industries.
- Northern states such as Uttar Pradesh, Haryana, and Delhi benefit from large consumer markets, logistics, and trade.
- Together, the top 10 states account for roughly 70–75% of India's total GST collections, highlighting the concentration of economic activity in these regions.

References:

[1] As on 30.09.2020 THE CENTRAL GOODS AND SERVICES TAX ACT, 2017 (12 OF 2017) AS AMENDED BY THE - CBIC-GST
[2] Structure of GST in India: Two-Tier GST Tax Structure Breakdown - ClearTax
[3] What is Dual GST Model in India: Meaning, Features, Structure, Benefits - ClearTax
[4] History of GST in India Explained with Timelines - ClearTax
[5] Scope of Supply under GST: Analysing Section 7 & Schedules-I, II, III - TaxGuru
[6] Input Tax Credit Mechanism - GST Council
[7] Reverse Charge Mechanism - GST Council
[8] What is GSTN (Goods and Services Tax Network)? - ClearTax