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GST Reforms and Their Impact on Entrepreneurship, MSMEs, and Livelihoods in Andhra Pradesh: A Pathway to Viksit Bharat 2047

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Abstract

The vision of Viksit Bharat @ 2047 places strong emphasis on structural fiscal reforms, digital governance, and inclusive economic growth. The Goods and Services Tax (GST), introduced in 2017, represents one of the most transformative tax reforms in India's post-independence era. Moving towards next-generation GST reforms, the system is now characterized by digital compliance, e-invoicing, artificial intelligence-based monitoring, and data-driven tax administration. This paper critically examines the evolving GST framework and its implications for entrepreneurship, MSMEs, employment generation, and sustainable livelihoods in Andhra Pradesh. Using a conceptual and policy-analytical method based on secondary data sources such as Economic Surveys, GST Council reports, and MSME statistics, the study evaluates sectoral impacts across agriculture, manufacturing, services, exports, and digital economy sectors. The paper identifies implementation challenges including compliance burden, digital divide, rate complexity, and federal fiscal concerns. Finally, it proposes strategic policy recommendations aligned with sustainable development goals and India's long-term developmental vision.

Keywords: GST Reforms, Entrepreneurship, MSMEs, Employment, Andhra Pradesh, Fiscal Federalism, Viksit Bharat 2047

1. Introduction

The Goods and Services Tax (GST), implemented on July 1, 2017, marked a watershed moment in India's fiscal history, subsuming a multiplicity of indirect taxes into a unified national framework. As India aspires to become a developed nation by 2047—the centenary of its independence—the GST regime has undergone significant evolution, transitioning from its initial implementation phase to what is now characterized as "GST 2.0" . This next-generation reform agenda emphasizes digital compliance, artificial intelligence-based monitoring, and data-driven tax administration, fundamentally reshaping the entrepreneurial landscape.

Andhra Pradesh, with its unique economic composition spanning coastal fisheries, agriculture, automobile manufacturing, pharmaceuticals, and traditional handicrafts, represents a microcosm of India's developmental challenges and opportunities. The state's economic trajectory is deeply intertwined with the GST framework, making it an instructive case for understanding how tax reforms influence entrepreneurship, MSME viability, employment generation, and sustainable livelihoods.

This paper critically examines the evolving GST framework and its multi-sectoral implications for Andhra Pradesh. Using a conceptual and policy-analytical method based on secondary data from Economic Surveys, GST Council reports, MSME statistics, and official government communications, the study evaluates sectoral impacts, identifies implementation challenges, and proposes strategic policy recommendations aligned with the Viksit Bharat 2047 vision.

2. The Evolution of GST: From Implementation to GST 2.0

2.1 The Genesis of GST

The GST regime represented a paradigm shift in India's indirect taxation architecture, replacing a fragmented system of central and state levies with a unified tax structure. Active GST registrations have grown from approximately 65 lakh in 2017 to over 1.52 crore by April 2025, reflecting expanded economic formalization and increased participation in the tax net . Gross GST collections have demonstrated consistent growth, rising from ₹11.37 lakh crore in 2020-21 to ₹22.08 lakh crore in 2024-25 .

2.2 GST 2.0: Rationalization and Digital Transformation

The 56th GST Council meeting in September 2025 approved a comprehensive overhaul of the tax regime, streamlining the rate structure to two principal brackets—5% and 18%—alongside a 40% slab for sin and luxury goods . This rationalization, effective from September 22, 2025, represents a significant policy shift aimed at making a wide range of goods more affordable while simplifying compliance.

The digital transformation of GST administration has been equally transformative. The government has leveraged advanced technologies including Artificial Intelligence (AI), Machine

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Learning (ML), and Data Analytics to monitor compliance and proactively detect potential tax evasion . Key digital initiatives include:

· E-invoicing integration for automatic invoice reporting and real-time compliance validation, with the threshold for B2B transactions progressively lowered to ₹5 crore

· Mandatory Aadhaar-based authentication for new GST registrations

· Automated blocking of e-Way Bill generation for taxpayers who fail to file returns for two consecutive months

·AI-driven risk assessment for GST refund applications and taxpayer audits

These technological interventions aim to reduce the compliance burden on honest taxpayers while focusing enforcement efforts on non-compliant entities.

3. Sectoral Impact Assessment: Andhra Pradesh

3.1 Fisheries and Marine Economy

Andhra Pradesh contributes 41% of India's fish production, with the sector accounting for 7.4% of the state's GSDP and providing livelihoods to approximately 14.5 lakh people across nine coastal districts . The GST rate rationalization has significantly benefited this sector, with reductions on fish oils, extracts, preserved products, fishing gear, diesel engines, pumps, aerators, and key chemicals from 12% or 18% to 5% .

These reductions lower input costs for small processors and traditional fishing communities, strengthening Andhra's competitive position in global seafood exports. The state accounts for over 30% of India's seafood exports, shipped primarily from Visakhapatnam Port to markets including the US, China, the EU, Southeast Asia, and the Middle East .

3.2 Dairy Sector

Andhra Pradesh ranks fourth nationally in milk production, supporting 24 lakh farmers, many of whom are women in self-help groups and cooperatives . Major brands like Heritage and Vijaya anchor collection, chilling, processing, and retail networks across the state. The GST reforms have provided substantial relief:

· UHT milk and paneer: Zero GST (from 12%)

· Ghee and butter: 5% (from 12%)

· Ice-cream: 5% (from 18%)

These reductions lower consumer prices, boost demand, and generate higher incomes for dairy farmers and SHG-led cooperatives in districts such as Krishna, Srikakulam, West Godavari, East Godavari, Guntur, Chittoor, and Vizianagaram .

3.3 Automobile and Auto Components

Andhra Pradesh has emerged as a key auto hub with major plants of Kia, Isuzu, Hero, and Ashok Leyland alongside over 100 auto-component MSMEs in Anantapur, Chittoor, Visakhapatnam, and Nellore districts . The sector employs more than 11,000 people, including skilled technicians, ITI diploma holders, and engineers.

The GST reduction from 28% to 18% on three-wheelers, small cars, and motorcycles (up to 350cc engine capacity), with a uniform 18% rate on all auto parts, has made vehicles and spares approximately 8% cheaper . This eases affordability for consumers, reduces working capital pressures for OEMs, and strengthens the competitiveness of Andhra's auto exports to Europe, the USA, and South Korea.

3.3 Pharmaceuticals and MedTech

Andhra Pradesh is home to over 250 bulk drug and API units across Anakapalli, Visakhapatnam, Atchutapuram, Naidupeta, and Pydibhimavaram, employing more than 89,000 highly skilled workers in manufacturing and R&D . Global companies including Dr. Reddy's, Aurobindo Pharma, GSK, Lupin, and Biocon operate in the state, with exports led by the USA (52%), South Africa, and China.

The GST exemptions on 30 cancer drugs (from 12% to nil) and reductions from 12% to 5% on medicines for personal use make healthcare more affordable . The AP MedTech Zone (AMTZ) in Visakhapatnam, housing over 100 manufacturing units, has benefited from GST reductions from 18% to 5% on medical devices like thermometers and medical apparatus, strengthening exports to over 80 countries.

3.5 Renewable Energy

Clusters in Kurnool, Kadapa, and Anantapur have positioned Andhra Pradesh as a frontrunner in renewable energy adoption, with capacity growing more than seven-fold between 2014 and 2024 . The GST rate cuts are poised to boost this sector further, though concerns persist regarding tax inversions where inputs attract 18% while finished renewable energy equipment is taxed at 5% .

3.4 Handicrafts and Traditional Industries

Andhra Pradesh is renowned for its GI-tagged Etikoppaka and Kondapalli toys, stone carvings, and leather puppetry. The GST reforms have provided a boost to these traditional livelihoods, preserving cultural heritage while enhancing market competitiveness .

4. MSMEs and Entrepreneurship: The GST Interface

4.1 The Significance of MSMEs

Micro, Small, and Medium Enterprises (MSMEs) constitute the backbone of India's economy, contributing 31% to GDP, 35% to manufacturing, and 46% to exports . The sector's significance is particularly pronounced in Andhra Pradesh, where MSMEs span agriculture, fisheries, textiles, auto components, and handicrafts.

4.2 GST 2.0 Benefits for MSMEs

The GST reforms have provided targeted relief to MSMEs through several mechanisms:

· Simplified rate structure: The rationalization to 5% and 18% slabs reduces compliance complexity for small businesses

· Lower input costs: Reductions on raw materials, machinery, and auto parts ease working capital pressures

· Enhanced competitiveness: Lower costs improve the export potential of MSME products

· Digital compliance support: Technology-enabled systems reduce the compliance burden on honest taxpayers

4.3 Persistent Challenges for MSMEs

Despite these benefits, significant challenges remain:

Inverted Duty Structure (IDS): A critical concern is the tax structure where GST paid on inputs (18%) exceeds the tax on finished products (5%). This forces manufacturers in sectors such as food processing, FMCG, and pharmaceuticals to wait months for refunds, despite the prescribed 30-day timeline . Empower India estimates that India's MSME sector faces a ₹30 lakh crore credit gap, further aggravated by blocked ITC refunds .

Compliance Burden: While digital systems aim to simplify compliance, small businesses often lack the technical capacity and resources to navigate complex GST procedures. The Andhra Pradesh High Court's recent ruling on digital signature requirements and composite assessment orders underscores the procedural intricacies that can entrap unwary small businesses .

Classification Disputes: The Andhra Pradesh Chambers of Commerce and Industry Federation highlighted that fruit pulp-based carbonated beverages were wrongly classified under the 40% GST slab, impacting small and medium manufacturers in agrarian states . This misclassification affects businesses that support farmers and processors.

5. Challenges in Implementation

5.1 Compliance Burden and Digital Divide

The digital transformation of GST administration, while enhancing efficiency, has created a significant digital divide. Small businesses in rural Andhra Pradesh, particularly in traditional sectors like handicrafts and fisheries, often lack the digital infrastructure and literacy to seamlessly comply with e-invoicing, e-way bill generation, and online return filing requirements.

5.2 Fiscal Federalism and State Revenue Concerns

The GST framework has fundamentally altered Centre-State fiscal relations. Andhra Pradesh's financial dynamics have been complicated by the reform's implementation. Former Chief Minister Y.S. Jagan Mohan Reddy cited CAG data showing State GST revenues contracted by 24.20% in April 2025 compared to the previous year . The CPI(M) criticized the Andhra Pradesh government for not seeking compensation for potential income loss, while finance ministers of other southern states had demanded compensation from the Centre .

5.3 Rate Complexity and Classification Issues

Despite rationalization, classification complexities persist. The 40% slab on certain products, including luxury vehicles and sin goods, and the classification disputes around fruit-based

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beverages demonstrate ongoing challenges . The withdrawal of Input Tax Credit for hoteliers despite reduced GST on rooms under ₹7,500 has created financial hardship for small hospitality businesses .

5.3 Fraud and Evasion

GST fraud remains a significant challenge, primarily driven by fraudulent Input Tax Credit (ITC) claims through fake invoices and shell companies. Between 2020 and January 2025, 86,711 cases of GST evasion were detected, with revenue loss exceeding ₹6.79 lakh crore. The DGGI Visakhapatnam unit alone uncovered a ₹643.81 crore fake invoice fraud involving 302 shell companies. This fraud not only causes revenue loss but also creates an unfair market for legitimate businesses, particularly MSMEs.

6. Strategic Policy Recommendations

6.1 Addressing the Inverted Duty Structure

The government should broaden the refund scope under Section 54(3) of the CGST Act to include input services and capital goods, currently excluded despite services forming a major part of operating costs in sectors such as e-commerce and food processing . The definition of "Net ITC" should be redefined to capture all input costs, and automated refund systems should be introduced to improve working capital access for MSMEs .

6.2 Strengthening Digital Infrastructure and Capacity Building

Targeted digital literacy programs for MSMEs, particularly in rural areas, are essential to bridge the digital divide. The government should establish GST facilitation centers in industrial clusters to provide hands-on support for small businesses in compliance procedures. The successful implementation of provisional refunds for inverted duty structures (90% of claimed amount) should be expanded and streamlined.

6.3 Fiscal Federalism and State Compensation

A robust compensation mechanism should be established to address state revenue gaps arising from rate rationalization. The Andhra Pradesh government should actively engage with the GST Council to ensure fair compensation for revenue shortfalls, as advocated by the CPI(M) and other stakeholders.

6.3 AI-Enabled Compliance with Human Oversight

While AI and ML technologies enhance fraud detection and compliance monitoring , a balance must be struck between automated enforcement and taxpayer protection. The Andhra Pradesh High Court's ruling on procedural requirements for show-cause notices and assessment orders underscores the need for due process .

6.5 Sector-Specific Interventions

Fisheries: Continued support through reduced input costs and infrastructure development for cold storage and processing facilities.

Dairy: Promotion of SHG-led cooperatives and women's entrepreneurship in dairy value chains.

Auto Components: Enhancing support for MSMEs in auto component manufacturing to leverage the state's position as an auto hub.

Handicrafts: Digital platforms for marketing GI-tagged products with simplified GST compliance for artisans.

7. Alignment with Viksit Bharat 2047

The GST reforms align closely with the Viksit Bharat 2047 vision across multiple dimensions:

· Inclusive Economic Growth: By reducing costs for essential goods and services, the reforms benefit households and small businesses, particularly in rural and semi-urban areas

· Digital Governance: Technology-enabled tax administration positions India as a leader in digital governance, enhancing transparency and efficiency .

· Manufacturing and Exports: Lower input costs and simplified compliance strengthen India's position as a global manufacturing and investment destination .

· Employment Generation: By supporting MSMEs, the reforms contribute to job creation in labor-intensive sectors.

Union Minister Piyush Goyal termed the GST reforms as a "progressive step towards achieving the vision of Atmanirbhar Bharat" and called upon citizens to unite for the collective resolve to make India a Viksit Bharat by 2047 .

8. Conclusion

The evolution of GST from its 2017 implementation to the GST 2.0 reforms represents a significant milestone in India's fiscal transformation. For Andhra Pradesh, a state with diverse economic sectors ranging from fisheries and dairy to automobiles and pharmaceuticals, the reforms have brought both opportunities and challenges. The rate rationalization has reduced costs for consumers and eased working capital for MSMEs, particularly in fisheries, dairy, pharma, and auto sectors .

However, persistent challenges—including the inverted duty structure, compliance burden, digital divide, classification issues, and fiscal federalism concerns—require urgent policy attention. The ₹30 lakh crore credit gap facing MSMEs, exacerbated by blocked ITC refunds, threatens the vibrancy of India's small business ecosystem .

To realize the vision of Viksit Bharat 2047, the GST framework must continue to evolve, balancing technological innovation with procedural fairness, rate simplification with fiscal prudence, and digital enforcement with taxpayer protection. The Andhra Pradesh case demonstrates that inclusive, sustainable growth requires not only well-designed tax policies but also robust implementation mechanisms, stakeholder engagement, and capacity building at the grassroots level.

As India moves forward, the GST system must remain an engine for inclusive economic growth, entrepreneurship, and sustainable livelihoods, ensuring that the benefits of reform reach every fishing family, dairy farmer, auto worker, and artisan across Andhra Pradesh and beyond.

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