

## **Impact of Goods and Services Tax (GST) in India**

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### **Abstract**

The Goods and Services Tax (GST), implemented in India on 1 July 2017, represents one of the most significant indirect tax reforms since independence. By subsuming multiple central and state taxes into a single unified tax structure, GST aimed to create a common national market, reduce tax cascading, improve compliance, and enhance economic efficiency. This paper examines the impact of GST on the Indian economy, focusing on its effects on businesses, consumers, government revenue, inflation, and overall economic growth. The study highlights both the positive outcomes and the challenges faced during implementation, concluding with an assessment of GST's long-term implications for India's economic development.

**Keywords:** Goods and Services Tax, Indirect Tax Reform, Indian Economy, One Nation One Tax, Economic Growth

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### **1. Introduction**

India's indirect tax system prior to GST was complex and fragmented, comprising multiple taxes such as excise duty, service tax, value-added tax (VAT), central sales tax (CST), entry tax, and luxury tax. These taxes differed across states, creating barriers to inter-state trade and resulting in a cascading effect of taxes. To address these issues, the Government of India introduced the Goods and Services Tax, a destination-based, multi-stage tax levied on value addition at each stage of the supply chain. GST was envisioned as a "One Nation, One Tax" system that would simplify taxation, enhance transparency, and boost economic growth.

### **2. Objectives of GST**

The primary objectives behind the introduction of GST in India include:

- To eliminating the cascading effect of multiple indirect taxes
- To creating a unified national market
- To Simplifying the tax structure and improving ease of doing business
- To enhancing tax compliance through technology-driven administration

**215 National Conference On "Contemporary Issues In Global Business Management Practices" 25 & 26 February, 2026 by University Arts & Science College (Autonomous), Kakatiya University.**

- To increasing government revenue by widening the tax base

### 3. Structure of GST in India

GST in India follows a dual model, consisting of:

- Central Goods and Services Tax (CGST)
- Levied by the Central Government
- State Goods and Services Tax (SGST)
- Levied by State Governments
- Integrated Goods and Services Tax (IGST):
- Levied on inter-state supplies and imports
- GST is levied under multiple tax slabs—0%, 5%, 12%, 18%, and 28%—to accommodate socio-economic diversity and protect essential goods.

### 4. Impact of GST on the Indian Economy

#### 4.1 Impact on Businesses

GST has simplified the tax process by replacing numerous indirect taxes with a single system. Input Tax Credit (ITC) allows businesses to claim credit for taxes paid on inputs, thereby reducing costs and improving competitiveness. Logistics and supply chain efficiency has improved due to the removal of inter-state check posts.

However, small and medium enterprises (SMEs) faced initial challenges such as compliance costs, frequent return filings, and adapting to digital platforms. Over time, these issues have been partially addressed through simplified return systems and increased exemption limits.

#### 4.2 Impact on Consumers

For consumers, GST has led to price reductions in several goods due to the elimination of tax cascading. Increased transparency ensures that taxes are clearly indicated on invoices. However, some services and luxury goods became more expensive under higher tax slabs, affecting consumer spending patterns in certain sectors.

#### 4.3 Impact on Government Revenue

GST has improved tax compliance through mandatory registration, e-invoicing, and online return filing. The widening of the tax base and reduction in tax evasion has strengthened long-term revenue prospects for both central and state governments. Short-term revenue fluctuations were observed initially, but collections have shown steady improvement over time.

#### *4.4 Impact on Inflation*

GST had a mixed impact on inflation. While essential goods were largely exempt or taxed at lower rates, higher taxes on services led to marginal increases in service-sector prices. Overall, inflationary impact remained moderate due to careful rate structuring.

#### *4.5 Impact on Economic Growth*

By improving efficiency, reducing logistics costs, and encouraging formalization of the economy, GST has contributed positively to India's long-term economic growth. The integration of markets has enhanced competitiveness and attracted investment, supporting sustainable development.

### **5. Challenges of GST Implementation**

Despite its benefits, GST implementation faced several challenges:

- Complexity due to multiple tax slabs
- Frequent changes in rules and rates
- Technological issues with the GST Network (GSTN)
- Compliance burden on small businesses
- Continuous policy reforms and stakeholder consultations have been necessary to address these issues.

### **6. Advantages of GST**

- Removal of cascading effect of taxes
- Increased transparency and accountability
- Boost to "Make in India" initiative
- Improved ease of doing business
- Strengthening of cooperative federalism

### **7. Disadvantages of GST**

- High compliance requirements
- Multiple tax rates instead of a single rate
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- Initial slowdown in certain sectors
- Dependence on digital infrastructure

### **8. Conclusion**

The Goods and Services Tax is a landmark reform that has fundamentally transformed India's indirect tax system. While the transition posed significant challenges, the long-term benefits of GST in terms of economic efficiency, transparency, and growth outweigh the short-term difficulties. With continuous

# United International Journal of Multidisciplinary Research

ISSN: 3048-6726(UIJMR)Impact Factor: 6.934 (SJIF)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

www.ujmr.in Vol-3, SpecialIssue-2,2026

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improvements in policy design, technology, and administration, GST has the potential to serve as a strong foundation for India's evolving economy.

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