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A STUDY ON GST AND ITS ROLE IN INDIAN TAX REFORMS

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Abstract:

The Goods and Services Tax (GST), implemented in India on 1st July 2017, represents one of the most significant indirect tax reforms in the country's economic history. It was introduced with the objective of replacing a complex and fragmented system of multiple indirect taxes levied by the Central and State governments. This study aims to examine the concept of GST and analyze its role in transforming the Indian tax system. The paper adopts a descriptive and analytical research approach based on secondary data collected from government reports, GST Council publications, journals, and official websites. The study highlights how GST has simplified the tax structure, eliminated the cascading effect of taxes, enhanced transparency through technology, and promoted ease of doing business. It also emphasizes the role of GST in widening the tax base, improving compliance, and strengthening cooperative federalism through the GST Council. However, the study identifies certain challenges such as multiple tax rate slabs, compliance burden on small businesses, and frequent procedural changes. The paper concludes that despite initial implementation challenges, GST has played a crucial role in modernizing India's indirect tax system and has laid a strong foundation for a unified and efficient tax regime in the long run.

Keywords: Goods and Services Tax (GST), Indian Tax System, Indirect Tax Reforms, Input Tax Credit, GST Council, Cooperative Federalism, Tax Compliance, Economic Impact, GST Network (GSTN)

Introduction:

Taxation is a vital instrument of economic policy and an important source of revenue for government functioning and development activities. A well-structured tax system promotes economic growth, ensures equity, and enhances administrative efficiency. In India, the indirect tax system before the introduction of the Goods and Services Tax (GST) was highly complex, characterized by multiple taxes levied at different stages by the Central and State governments. This fragmented structure resulted in cascading effects of taxes, increased compliance costs, and barriers to free movement of goods across states. To address these limitations and modernize the indirect tax framework, the Government of India introduced the Goods and

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Services Tax (GST) on 1st July 2017. GST is a comprehensive, destination-based indirect tax levied on the supply of goods and services. It subsumed various central taxes such as excise duty and service tax, as well as state taxes like value-added tax (VAT), entry tax, and entertainment tax. The introduction of GST marked a paradigm shift in India's taxation policy by establishing the principle of "One Nation, One Tax."

GST is widely regarded as one of the most significant tax reforms in independent India. It aims to simplify the tax structure, eliminate the cascading effect of taxes through the input tax credit mechanism, and enhance transparency by adopting a technology-driven tax administration system. The establishment of the GST Council has further strengthened cooperative federalism by facilitating consensus-based decision-making between the Centre and States.

Objectives of the Study:

1. To understand the concept, structure, and features of the Goods and Services Tax (GST) in India and to examine the evolution of the indirect tax system in India before the implementation of GST.
2. To analyze the role of GST in simplifying and reforming the Indian tax structure and to study the impact of GST on government revenue, businesses, and consumers.
3. To assess the effectiveness of GST in reducing tax cascading and improving tax compliance.
4. To identify the major challenges faced in the implementation of GST in India.
5. To suggest suitable measures for improving the efficiency and effectiveness of the GST system.

Review of Literature:

Kelkar Committee (2003) emphasized the need for comprehensive indirect tax reforms in India to remove cascading effects and improve efficiency. The committee strongly recommended the adoption of a unified GST system to simplify taxation and enhance revenue productivity.

KPMG (2016) highlighted that GST would be a major reform in India's indirect tax regime by subsuming multiple taxes into a single system. The study observed that GST could improve ease of doing business, reduce logistics costs, and promote transparency through technology-based compliance.

Rao and Chakraborty (2017) analyzed GST as a destination-based tax and noted that it would strengthen cooperative federalism in India. Their study pointed out that

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the GST Council plays a crucial role in balancing the interests of both the Centre and the States.

Research Methodology:

Research methodology refers to the systematic approach adopted to collect, analyze, and interpret data in order to achieve the objectives of the study. The present study follows a structured methodology to examine the role of Goods and Services Tax (GST) in Indian tax reforms. The study is **descriptive and analytical in nature**. It seeks to describe the structure of GST and analyze its role in reforming the Indian indirect tax system. Sources of Data the study is based on **secondary data**, which has been collected from the Government publications and reports of the **GST Council**, Reports of the **Reserve Bank of India (RBI)**, Ministry of Finance publications, Research articles, journals, and working papers, Books on taxation and public finance, Official websites related to GST and Indian taxation etc.,

Limitations of the Study:

- The study relies only on secondary data, which may have inherent limitations.
- Frequent changes in GST rules and rates may affect comparability of data.
- The study does not include primary data such as surveys or interviews.

Overview of GST in India:

The Goods and Services Tax (GST) is a comprehensive indirect tax system introduced in India on **1st July 2017** with the objective of creating a unified national market. GST replaced a complex framework of multiple indirect taxes levied by the Central and State governments, thereby simplifying the tax structure and improving efficiency in tax administration. It is a **destination-based tax**, meaning that tax revenue accrues to the state where goods or services are consumed rather than where they are produced.

Structure of GST in India:

- **CGST (Central Goods and Services Tax):** Levied by the Central Government on intra-state supplies
- **SGST (State Goods and Services Tax):** Levied by State Governments on intra-state supplies
- **IGST (Integrated Goods and Services Tax):** Levied by the Central Government on inter-state supplies and imports

This structure ensures an equitable sharing of tax revenue between the Centre and the States.

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GST Rate Structure

GST in India is levied at multiple rate slabs, namely **0%, 5%, 12%, 18%, and 28%**, along with special rates for certain goods such as gold and precious stones. Essential goods are taxed at lower rates, while luxury and sin goods attract higher rates. The rate structure is periodically reviewed and revised by the GST Council.

Input Tax Credit (ITC) Mechanism

One of the key components of GST is the **Input Tax Credit mechanism**, which allows taxpayers to claim credit for taxes paid on inputs and input services used in the course of business. This mechanism ensures tax is levied only on value addition at each stage and helps reduce overall tax burden.

GST Council

The **GST Council** is the apex decision-making body under GST, comprising representatives from the Central and State governments. It plays a crucial role in recommending tax rates, exemptions, policy changes, and procedural reforms, reflecting the principle of **cooperative federalism**.

GST Network (GSTN)

GST compliance in India is supported by the **GST Network (GSTN)**, a technology platform that facilitates online registration, return filing, payment of taxes, and refunds. GSTN enhances transparency, efficiency, and ease of compliance for taxpayers.

Indian Tax System: Pre-GST vs Post-GST

The Indian indirect tax system has undergone a significant transformation with the introduction of the Goods and Services Tax (GST). A comparison of the pre-GST and post-GST tax regimes highlights the extent to which GST has reformed India's taxation structure.

Indirect Tax System Before GST

Before the implementation of GST, India followed a **multi-layered and fragmented indirect tax structure**. Different taxes were levied by the Central and State governments at various stages of production and distribution. Major taxes included **Central Excise Duty, Service Tax, Value Added Tax (VAT), Entry Tax, Octroi, Luxury Tax, and Entertainment Tax**.

This system resulted in **cascading effects of taxes**, as tax was levied on tax, increasing the overall cost of goods and services. Lack of uniformity across states, multiple tax rates, and complex compliance procedures created barriers to inter-state trade and increased the compliance burden on businesses.

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Indirect Tax System after GST

The introduction of GST replaced most indirect taxes with a **single, comprehensive tax system**. GST integrated both goods and services into a unified tax framework and introduced a destination-based taxation principle. Under GST, taxes are levied at each stage of value addition with the availability of **Input Tax Credit (ITC)**.

The post-GST regime significantly reduced physical barriers such as check posts, facilitated seamless inter-state movement of goods, and enhanced transparency through a digital tax administration system.

Role of GST in Indian Tax Reforms:

The introduction of the Goods and Services Tax (GST) marks a watershed moment in the history of Indian tax reforms. It represents a shift from a fragmented and complex indirect tax system to a unified, transparent, and technology-driven tax regime. GST has played a crucial role in restructuring India's taxation framework and strengthening the overall efficiency of the tax system.

1. Simplification of the Indirect Tax Structure

GST replaced numerous central and state indirect taxes with a single tax framework. This simplification reduced complexity, minimized overlapping taxes, and provided clarity to taxpayers. By integrating goods and services under one tax, GST eliminated artificial distinctions that existed in the earlier tax regime.

2. Elimination of Cascading Effect of Taxes

One of the most significant contributions of GST to tax reforms is the removal of the cascading effect of taxes. The **Input Tax Credit (ITC)** mechanism allows seamless credit across the supply chain, ensuring that tax is levied only on value addition. This has reduced the overall tax burden on goods and services.

3. Expansion of Tax Base

GST has broadened the tax base by bringing more businesses into the formal economy. Mandatory registration, invoice matching, and digital reporting have improved compliance and increased the number of registered taxpayers, thereby strengthening revenue generation.

4. Promotion of Cooperative Federalism

The establishment of the **GST Council** has institutionalized cooperative federalism in India. It provides a platform for the Centre and States to jointly decide tax rates, exemptions, and policies, ensuring balanced fiscal decision-making and uniformity across the country.

5. Enhancement of Transparency and Accountability

GST is supported by a robust technology platform, the **GST Network (GSTN)**, which enables online registration, return filing, tax payments, and refunds. This digital framework has reduced human intervention, minimized corruption, and enhanced transparency in tax administration.

6. Facilitation of Ease of Doing Business

GST removed inter-state barriers and check posts, enabling smooth movement of goods across state boundaries. Reduced logistics costs and uniform tax rates have improved operational efficiency and contributed to India's improved ranking in ease of doing business.

Impact of GST on Indian Economy:

The implementation of the Goods and Services Tax (GST) has had a significant impact on the Indian economy by transforming the indirect tax system and influencing various economic sectors. As a comprehensive tax reform, GST has affected government revenue, businesses, consumers, and overall economic efficiency.

1. Impact on Government Revenue

GST has contributed to improving tax revenue by widening the tax base and enhancing compliance. The introduction of a technology-driven system, invoice matching, and e-way bills has reduced tax evasion and increased transparency. Over the years, GST collections have shown steady growth, indicating improved revenue mobilization for both the Central and State governments.

2. Impact on Economic Growth

By eliminating cascading taxes and reducing production and logistics costs, GST has enhanced efficiency in the supply chain. A unified national market has facilitated better allocation of resources, improved productivity, and supported long-term economic growth. GST has also encouraged investment by creating a predictable and transparent tax environment.

3. Impact on Businesses and MSMEs

GST has simplified taxation for businesses by replacing multiple taxes with a single system. For large enterprises, uniform tax rates and seamless input tax credit have reduced operational complexities. However, Micro, Small, and Medium Enterprises (MSMEs) initially faced challenges related to compliance, return filing, and technological adaptation. Government initiatives such as the composition scheme and simplified returns have helped ease these difficulties.

4. Impact on Consumers

GST has influenced prices of goods and services by reducing the tax burden on many essential commodities while increasing it on luxury and sin goods. The elimination of cascading taxes has helped stabilize prices in the long run. Enhanced transparency ensures that consumers are better informed about tax components included in prices.

5. Impact on Inflation

In the short term, GST had a mixed impact on inflation due to rate adjustments across sectors. However, in the long run, reduced production costs and efficient tax administration have contributed to price stability.

6. Impact on Formalization of the Economy

GST has accelerated the formalization of the Indian economy by encouraging businesses to register, maintain proper records, and adopt digital payment systems. This has increased accountability, improved data availability, and strengthened policy planning.

Challenges in GST Implementation:

Despite being one of the most significant tax reforms in India, the implementation of the Goods and Services Tax (GST) has faced several challenges. These challenges have affected taxpayers, administrators, and policymakers, especially during the initial years of implementation.

1. Multiple Tax Rate Structure

One of the major challenges under GST is the existence of multiple tax rate slabs such as 0%, 5%, 12%, 18%, and 28%. This multi-rate structure increases classification disputes, compliance complexity, and administrative burden, particularly for businesses dealing with a wide range of products.

2. Compliance Burden on Small Businesses

Small traders and MSMEs face difficulties due to frequent return filing requirements, complex procedures, and technological dependence. Although schemes such as the composition scheme were introduced, compliance costs remain relatively high for small taxpayers.

3. Technical Issues with GST Portal

The GST Network (GSTN) initially faced several technical glitches, including issues related to return filing, invoice matching, and system downtime. Although improvements have been made, occasional technical challenges still affect smooth compliance.

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4. Frequent Changes in Rules and Procedures

GST laws, rates, and return formats have undergone frequent amendments. These continuous changes create confusion among taxpayers and professionals, making compliance and planning difficult.

5. Lack of Awareness and Training

Many small businesses and traders lack adequate knowledge and understanding of GST provisions. Insufficient training and awareness programs have led to unintentional non-compliance and dependency on tax professionals.

6. Input Tax Credit (ITC) Related Issues

Delays in refunds, restrictions on ITC claims, and mismatches in invoices pose challenges for businesses. Blocking of working capital due to delayed ITC has been a major concern, particularly for exporters and MSMEs.

Findings of the Study:

1. The introduction of GST has significantly simplified India's indirect tax system by subsuming multiple central and state taxes into a unified framework.
2. GST has effectively reduced the cascading effect of taxes through the Input Tax Credit mechanism, leading to greater tax efficiency.
3. The adoption of technology through the GST Network (GSTN) has improved transparency, accountability, and tax administration.
4. GST has widened the tax base by bringing more businesses into the formal economy and improving compliance.
5. The establishment of the GST Council has strengthened cooperative federalism and facilitated consensus-based tax policymaking.
6. GST has positively impacted inter-state trade by removing physical barriers and reducing logistics costs.

Suggestions:

1. The GST rate structure should be further rationalized by reducing the number of tax slabs to simplify compliance and minimize disputes.
2. Compliance procedures and return filing systems should be simplified, especially for MSMEs and small taxpayers.
3. Continuous upgrading and stabilization of the GST portal is necessary to ensure smooth and error-free compliance.
4. Awareness programs and training initiatives should be strengthened to educate taxpayers about GST provisions and procedures.

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5. The Input Tax Credit and refund mechanisms should be streamlined to reduce delays and ease working capital constraints.
6. Greater coordination between Central and State tax authorities is required to ensure uniform interpretation and enforcement of GST laws.

Conclusion:

The Goods and Services Tax (GST) represents a landmark reform in India's taxation history and has played a crucial role in transforming the indirect tax system. By simplifying the tax structure, eliminating cascading taxes, enhancing transparency, and promoting ease of doing business, GST has laid the foundation for a unified and efficient tax regime. Although the implementation of GST has faced several challenges, continuous policy reforms and technological improvements have strengthened its effectiveness over time. With further rationalization and simplification, GST has the potential to contribute significantly to India's economic growth and fiscal stability in the long run.

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