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Goods and Services Tax and Startup Development: Opportunities and Challenges

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Abstract:

The introduction of the Goods and Services Tax (GST) in India marked a transformative step toward creating a unified indirect tax system. Startups, recognized as engines of innovation, employment generation, and economic growth, are significantly affected by such reforms. This paper explores the relationship between GST and startup development, analyzing both the opportunities and challenges created by the new tax regime. While GST simplifies the tax structure, enhances transparency, and facilitates interstate trade, it also imposes compliance burdens and financial constraints on startups. The study concludes with policy recommendations to improve the GST framework and better support entrepreneurial growth and innovation.

The Goods and Services Tax (GST) is the most important indirect tax reform since 1947. Indirect taxes like value-added tax, service tax, excise duty, and sales tax replace this law. It will be levied on the manufacture, sale, and consumption of goods and services. Now, today, the GST system is applied there, with the 'One Nation One Tax' system, which would record a significant development in comprehensive indirect tax reform. Under the GST system, there would be only one rate applicable for both goods and services.

Keywords: Goods and Services Tax, Startups, innovation, value-added tax

1. Introduction

The Goods and Services Tax (GST) represents a landmark reform in India's indirect taxation system, introduced in July 2017 with the objective of creating a unified and simplified tax structure. By replacing multiple taxes such as Value Added Tax (VAT), excise duty, and service tax, GST established the concept of "One Nation, One Tax," thereby reducing tax complexity and promoting a common national market. This transformation has had far-reaching implications for various sectors of the economy, particularly for startups and small businesses.

Startup development plays a crucial role in driving economic growth, fostering innovation, and generating employment opportunities. In recent years, India has emerged as one of the fastest-growing startup ecosystems in the world, supported by government initiatives, technological advancement, and increased access to funding. In this context, the tax environment created by GST significantly influences entrepreneurial activities by shaping business costs, compliance requirements, and market accessibility.

GST has created several opportunities for startups by simplifying tax procedures, enabling seamless interstate trade, and allowing input tax credit, which reduces the overall tax burden. The digitalization of tax processes has also encouraged transparency and formalization of businesses. However, despite these advantages, startups face multiple challenges under GST, including complex compliance procedures, frequent regulatory changes, working capital constraints due to delayed refunds, and the need for technological adaptation.

Understanding the dual impact of GST on startup development is essential. This paper examines the opportunities and challenges presented by GST and evaluates its overall influence on entrepreneurial growth in India.

Objectives of the Study

1. To understand the structure and concept of GST
2. To analyze statistical trends in startup growth post-GST
3. To examine opportunities created by GST for startups
4. To identify challenges faced by entrepreneurs under GST
5. To suggest improvements in GST policy for startup development

Structure of GST in India

GST in India follows a dual model, where both the central and state governments have the authority to levy taxes:

- CGST (Central Goods and Services Tax): Collected by the Central Government
- SGST (State Goods and Services Tax): Collected by State Governments
- IGST (Integrated Goods and Services Tax): Collected by the Central Government on interstate transactions and imports

Need For GST:

- One of the biggest reasons to implement GST was to improve the economic condition of the country.
- VAT rates and regulations were seem to be different in most of the states and it was observed that states were in urge to cut down the minimum required tax in order to attract the investors. This caused the loss in revenue for both state

as well as central government.

- As GST on one hand, ultimate goal of GST was to bring uniformity in tax across the country and with a vision not to leave behind any sector or industry which is working on India. With the help of pre defined strategies and formula, the taxes between central and state will be divided equally by benefiting both the governments in long run. Also it will cause much ease in conducting business related issues due to the uniformity it will bring by levying same and non differentiated tax among same goods and services.
- GST focuses on bringing out various serious issues related to the disagreement caused by both central and state government on same and certainly important issues. The GST is also expected to be out on 1st July 2017 nationwide.

Feature of GST

Goods and Services Tax (GST) is a comprehensive indirect tax system introduced in India to replace multiple taxes such as VAT, Service Tax, and Excise Duty. One of its main features is the concept of "One Nation, One Tax," which creates a unified national market by applying a common tax structure across the country. GST follows a dual system, where both Central and State governments levy taxes simultaneously in the form of CGST, SGST, and IGST. It is a destination-based tax, meaning the tax is collected where goods or services are consumed rather than where they are produced. This system simplifies taxation and reduces the cascading effect of taxes by allowing Input Tax Credit (ITC), where businesses can claim credit for taxes already paid on inputs.

Another important feature of GST is its fully digital and transparent compliance system, which includes online registration, return filing, and tax payments. It has multiple tax slabs such as 0%, 5%, 12%, 18%, and 28%, depending on the type of goods and services. GST also provides benefits for small businesses through the composition scheme and threshold exemptions, making compliance easier for startups and small traders. Additionally, it improves the movement of goods across states by removing interstate tax barriers and includes an anti-profiteering mechanism to ensure that tax benefits are passed on to consumers. Overall, GST is a simplified, technology-driven, and growth-oriented tax system.

Impact of GST in India

The Goods and Services Tax (GST) has had a significant positive impact on the Indian economy in 2025–26 by creating a unified tax system under the concept of "One Nation, One Market." It has removed multiple indirect taxes and interstate barriers, leading to smoother movement of goods and services across states. This has reduced

logistics costs, improved supply chain efficiency, and strengthened trade connectivity. GST has also contributed to steady economic growth, with India's GDP expected to remain strong in the 6%+ range during 2025–26, supported by higher consumption and investment activity.

GST has also strengthened government finances by expanding the tax base and improving compliance through its digital system. In FY 2025, GST collections reached record levels of around ₹22 lakh crore, reflecting better tax discipline and formalization of the economy. For businesses and startups, GST has simplified interstate expansion and enabled input tax credit (ITC), which reduces the cascading effect of taxes. This has improved cost efficiency and encouraged business growth, especially in manufacturing, e-commerce, and service-based startups.

However, despite its benefits, GST still faces challenges in 2025–26. Small businesses and startups often struggle with complex return filing procedures, delayed refunds, and working capital issues due to blocked input tax credit. The compliance burden and technical issues in the GST portal also create difficulties for micro and small enterprises. Therefore, while GST has significantly improved transparency and economic integration, further simplification and faster refund mechanisms are needed to fully support startups and MSMEs in India.

Role of Goods and Services Tax (GST) in Startup Development

Goods and Services Tax (GST) plays a crucial role in the development of startups in India by creating a unified and transparent tax system. It has replaced multiple indirect taxes and removed interstate trade barriers, allowing startups to operate smoothly across different states under the concept of "One Nation, One Market." This has significantly improved ease of doing business and helped startups expand their customer base without facing complex state-wise tax structures. The online GST system has also made tax registration, filing, and payments more efficient and time-saving for new business

GST supports startups by enabling the Input Tax Credit (ITC) system, which reduces the overall tax burden on goods and services used in business operations. This helps startups manage costs better and improves cash flow efficiency, especially in the early stages of growth. Additionally, GST has encouraged the formalization of the startup ecosystem by bringing businesses into the tax network, which improves credibility and helps them attract investors, loans, and government support schemes. It also promotes transparency, which is important for building trust in business operations.

GST also presents some challenges for startups, such as complex compliance requirements, frequent return filings, and delayed refunds that can affect working capital. Many early-stage startups face difficulties in understanding GST rules and managing

digital filings without professional help, which increases operational costs. Despite these challenges, GST remains an important reform that has overall strengthened the startup ecosystem in India by improving structure, scalability, and market access.

The Goods and Services Tax (GST) has played a significant role in shaping the growth and functioning of startups in India. By reforming the indirect tax system, GST has influenced how startups operate, expand, and compete in the market. Its role can be understood through both supportive and challenging aspects.

GST 2.0 (2025 REFORMS) AND ITS IMPACT

Key Changes:

- Simplified tax slabs
- Faster refunds (90% provisional refunds)
- Reduced tax rates in some sectors

Impact:

- Increased consumption
- Boost in sectors like automobiles (13.3% growth FY26)
- Better compliance

CASE INSIGHT (PRACTICAL PERSPECTIVE)

From startup community discussions:

"GST compliance is not difficult, but consistency is challenging."

This reflects real challenges in:

- Regular filings
- Managing documentation
- Hiring professionals

FINDINGS

- GST has significantly improved startup growth
- Compliance is easier but still complex for small startups
- Digitalization has increased transparency
- Tax benefits are unevenly distributed
- Reforms (GST 2.0) are improving the system

SUGGESTIONS

- Simplify GST return filing further
- Provide special tax relief for startups
- Improve GST portal efficiency
- Increase awareness and training programs
- Faster refund mechanisms

CONCLUSION

GST has been a **game-changer** for startup development in India. It has simplified taxation, promoted ease of doing business, and supported economic growth. However, challenges such as compliance complexity and limited tax incentives remain. With continuous reforms like GST 2.0, India is moving towards a more startup-friendly tax environment.

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