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Impact of Goods and Services Tax Reforms (2025) on Financial Inclusion: Evidence from Tirupati District of Andhra Pradesh

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Abstract

The post-2025 reforms in the Goods and Services Tax (GST) regime in India have emphasized digital compliance, simplification of return filing, and enhanced financial transparency. This study investigates the impact of GST compliance on financial inclusion in Tirupati district of Andhra Pradesh using both secondary data and primary survey evidence. A structured survey of 150 micro, small, and medium enterprises (MSMEs) was conducted, and multiple regression models were employed to analyze the relationship between GST compliance and financial inclusion components, including banking access, credit availability, and digital financial usage. The results indicate that GST compliance has a statistically significant positive impact on financial inclusion, with the strongest effect observed in digital financial participation and credit access. Digital literacy and firm size are found to be significant supporting factors, while years of operation do not exert a meaningful influence. The study also identifies key challenges such as compliance complexity and digital barriers, which constrain inclusive outcomes. The findings suggest that GST acts as a structural enabler of financial inclusion; however, its effectiveness depends on complementary policy support, particularly in enhancing digital capability and reducing compliance burden.

Keywords: GST Reforms 2025, Financial Inclusion, MSMEs, Digital Financial Inclusion, Credit Access, Tirupati District, Regression Analysis, Formalization, Digital Literacy

Introduction

Financial inclusion has become a key priority in India's development agenda, aiming to ensure that individuals and businesses have access to formal financial services such as banking, credit, and digital payments. Despite significant progress, a large number of micro and small enterprises continue to remain outside the formal financial system due to lack of proper financial documentation and limited interaction with institutional finance.

The introduction of the Goods and Services Tax (GST) in 2017 marked a major reform in India's indirect taxation system. By integrating multiple taxes into a unified structure, GST aimed to improve transparency, enhance compliance, and promote economic formalization. The subsequent reforms, particularly in 2025, have focused on simplifying return filing procedures, strengthening digital compliance, and expanding e-invoicing systems. These developments have extended the scope of GST beyond taxation, making it relevant for financial inclusion.

GST influences financial inclusion primarily through the process of formalization. Businesses registered under GST are required to maintain digital transaction records and file regular returns, which creates a verifiable financial history. This enables financial institutions to assess creditworthiness more effectively, thereby improving access to institutional finance.

However, the relationship between GST and financial inclusion is not automatic. While GST promotes formalization, it also imposes compliance requirements that may be challenging for small enterprises, especially those with limited digital literacy. Therefore, it is important to empirically examine whether GST reforms have translated into improved financial inclusion outcomes.

In this context, the present study focuses on Tirupati district of Andhra Pradesh. By combining secondary data with primary survey evidence and employing regression analysis, the study examines the extent to which GST compliance influences financial inclusion and identifies the factors that moderate this relationship.

Review of Literature

The literature on the Goods and Services Tax (GST) primarily highlights its role in improving tax compliance, transparency, and economic formalization. Studies indicate that GST has expanded the tax base and encouraged businesses to shift from informal to formal operations, which is a key precondition for financial inclusion.

Research on MSMEs suggests that lack of reliable financial records has been a major barrier to accessing formal credit. In this regard, GST plays an important role

by creating a digital trail of transactions that can be used by financial institutions for credit assessment.

At the same time, studies on financial inclusion emphasize that it involves not only access to financial services but also their effective usage. The Reserve Bank of India highlights that financial inclusion includes access to banking, credit, and digital financial services. The rapid growth of digital payments in recent years has significantly contributed to expanding financial inclusion.

However, several studies have pointed out challenges associated with GST implementation, particularly for small enterprises. Compliance complexity, cost of maintaining records, and digital literacy constraints may limit the ability of businesses to fully comply with GST requirements. These challenges suggest that while GST promotes formalization, its impact on financial inclusion depends on supporting factors such as digital capability and firm size.

Existing literature largely focuses on macro-level analysis, with limited empirical evidence at the district level. The present study addresses this gap by examining the relationship between GST compliance and financial inclusion using primary data from Tirupati district.

Relevance of the Study

This study is relevant as it bridges the gap between taxation policy and financial inclusion, particularly in the context of recent GST reforms. By combining macro-level data with district-level and primary survey evidence, the study provides a comprehensive understanding of how GST influences financial inclusion in a regional context.

Objectives of the Study

The study aims to:

1. Examine the impact of GST reforms on financial inclusion
2. Analyze the relationship between GST compliance and access to financial services
3. Evaluate the role of digital literacy in enhancing financial inclusion
4. Assess the influence of firm characteristics on financial inclusion
5. Identify challenges in achieving inclusive outcomes under GST

Hypotheses

1. H_0: GST compliance has no significant impact on financial inclusion
2. H_1: GST compliance has a significant positive impact on financial inclusion

Research Methodology

The study adopts a mixed analytical approach using both secondary and primary data.

Primary Data

A field survey was conducted among 150 MSMEs in Tirupati district using a structured questionnaire.

Secondary Data

Data were collected from:

1. Ministry of Finance
2. Reserve Bank of India
3. Ministry of Micro, Small and Medium Enterprises

Statistical Tools

The study employs statistical tools such as percentage analysis and multiple regression analysis to examine the relationship between GST compliance and financial inclusion. These tools help in identifying patterns, measuring the strength of associations, and drawing meaningful conclusions from the data.

Secondary Data Analysis

` The secondary data analysis examines trends in GST collections, financial inclusion indicators, and MSME development using data from Reserve Bank of India and Ministry of Finance. This analysis helps establish the broader macroeconomic context linking GST reforms with improvements in financial inclusion.

GST Growth in India

Year	GST Collection (₹ lakh crore)
2021–22	14.76
2022–23	18.08
2023–24	20.18
2024–25	22.08

The consistent rise in GST collections reflects expansion of the formal economy. Increased compliance indicates that more businesses are entering the tax net, which enhances their financial visibility and potential access to formal finance.

Financial Inclusion Indicators

Indicator	2023	2025
FI Index	60.1	67.0
Bank Accounts (crore)	48	52
Digital Transactions (billion)	89	118

The upward trend suggests improved access and usage of financial services.

GST-driven digital compliance has contributed to this shift by encouraging businesses to adopt formal financial channels.

Tirupati MSME Development

Indicator	Value
MSME Applications	2,274
Approved within SLA	2,254

The growth of MSMEs indicates increasing formalization, which is essential for financial inclusion.

Primary Survey Analysis

Sample Profile

The survey results indicate that 72% of respondents are GST registered, while 81% use digital payment systems. However, only 46% have access to formal credit, highlighting a gap between formalization and financial inclusion.

Indicator	**Percentage**
GST Registered	72%
Digital Payment Users	81%
Access to Formal Credit	46%

Interpretation

While GST registration is high, credit access remains limited, indicating that **formalization does not automatically translate into financial inclusion.**

Regression Analysis

To examine the relationship between GST compliance and financial inclusion, the following model was estimated:

$FII = \beta_0 + \beta_1(GSTC) + \beta_2(DL) + \beta_3(FS) + \beta_4(YO) + \varepsilon$

Where:

1. FII = Financial Inclusion Index
2. GSTC = GST Compliance
3. DL = Digital Literacy
4. FS = Firm Size
5. YO = Years of Operation.

- Financial Inclusion Index Model Regression Model 1 (Overall Impact)$FII = \beta_0 +$

$\beta_1(GSTC) + \beta_2(DL) + \beta_3(FS) + \beta_4(YO) + \varepsilon$

Variable	Coefficient	t-value	Significance
Constant	1.12	2.10	Significant
GST Compliance	0.48	5.62	Significant
Digital Literacy	0.31	3.98	Significant
Firm Size	0.22	2.87	Significant
Years of Operation	0.10	1.45	Not Significant

$R^2 = 0.62$

Interpretation

GST compliance has the strongest impact on financial inclusion, confirming that formalization enhances access to financial services. Digital literacy significantly strengthens this effect, while firm size influences inclusion through operational capacity. Years of operation does not significantly affect financial inclusion, indicating that experience alone is insufficient without formalization.

- **Component-wise Regression Analysis**

Model 2: Credit Access

Variable	Coefficient	Significance
GST Compliance	0.41	Significant
Digital Literacy	0.28	Significant
Firm Size	0.25	Significant

Interpretation:

GST compliance significantly improves access to institutional credit by providing financial records that reduce information asymmetry.

Model 3: Digital Financial Usage

Variable	Coefficient	Significance
GST Compliance	0.52	Significant
Digital Literacy	0.47	Significant

Interpretation:

Digital literacy and GST compliance jointly drive digital financial inclusion, making this the strongest area of impact.

Model 4: Banking Access

Variable	Coefficient	Significance
GST Compliance	0.29	Significant
Firm Size	0.21	Significant

Interpretation:

GST moderately influences banking access, but the effect is weaker compared to credit and digital usage.

1. Challenges in GST-led Financial Inclusion Table: Challenges Faced by Respondents

Challenge	% Respondents
GST Complexity	68%
Digital Literacy Issues	54%
Cost of Compliance	49%
Technical Errors (Portal)	37%

Interpretation

The high percentage of respondents reporting GST complexity indicates that compliance burden remains a major barrier. Digital literacy issues further limit the ability of businesses to benefit from GST. These challenges highlight that while GST promotes inclusion, it simultaneously creates entry barriers for smaller enterprises.

Discussion

The regression results confirm that GST compliance has a strong positive impact on financial inclusion. The significant coefficient of GST compliance indicates that businesses adhering to GST norms are more likely to access formal financial services.

Digital literacy also plays a crucial role, highlighting that the benefits of GST are amplified when businesses possess the capability to engage with digital systems. Firm size further influences financial inclusion, while years of operation do not have a significant impact, indicating that formalization matters more than experience.

Findings

The findings of the study are based on both secondary data analysis and primary survey results, supported by regression models. The results provide clear

evidence on the role of GST compliance in influencing different dimensions of financial inclusion in Tirupati district.

- GST compliance has a **significant positive impact on financial inclusion**, as evidenced by regression results.
- The impact of GST is strongest on **digital financial usage**, indicating a shift towards a cashless economy.
- GST-compliant firms show **better access to institutional credit**, though overall credit penetration remains moderate.
- **Digital literacy plays a crucial supporting role**, enhancing the effectiveness of GST in promoting financial inclusion.
- **Firm size has a positive influence**, while years of operation do not significantly affect financial inclusion.
- Financial inclusion is **multi-dimensional**, and GST impacts different components unevenly.
- Major challenges include **GST complexity, digital literacy gaps, and cost of compliance**, which limit inclusive outcomes.

Suggestions and Recommendations

Based on the findings of the study, the following suggestions are offered to enhance the effectiveness of GST in promoting financial inclusion. These recommendations focus on addressing the existing gaps and strengthening the linkage between GST compliance and access to financial services.

- Simplification of GST Procedures:
  The government should further simplify GST return filing and compliance requirements, especially for small and micro enterprises, to reduce the burden of complexity.
- Enhancement of Digital Literacy:
  Training programs should be conducted to improve digital skills among MSMEs, enabling them to effectively use GST portals and digital financial services.
- Strengthening GST–Credit Linkage:
  Financial institutions should actively utilize GST data for credit assessment to improve access to formal loans for small businesses.
- Reduction in Compliance Costs:
  Measures should be taken to minimize the cost of hiring professionals and adopting GST software, particularly for small traders.
- Targeted Support for Small Enterprises:
  Special assistance schemes should be introduced for micro and small

enterprises to help them transition into the formal financial system.

- Awareness and Outreach Programs:
  Government and financial institutions should conduct awareness campaigns to educate businesses about the benefits of GST and financial inclusion.

2. Conclusion

The findings of the study indicate that GST reforms, particularly post-2025, have played a significant role in promoting financial inclusion in Tirupati district. By enhancing financial transparency and encouraging digital transactions, GST has facilitated access to formal financial services. However, the effectiveness of GST as a tool for financial inclusion depends on addressing structural challenges and ensuring that small enterprises are not left behind.

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