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GST and Start Up Eco System in India- Tax Environment, Innovation and Entrepreneurial Growth

Dr. B.Venkata Ramana,
Lecturer in Economics, S.G.A. Govt. Degree College (A), Yellamanchili
Ankapalli Dist, ramanabv1967@gmail.com

Dr.B.Sudhakara Rao,
Lecturer in economics SRR&CVR Govt. Degree College (A)
Vijayawada, bsr76799@gmail.com
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Abstract

The Goods and Services Tax (GST) has transformed the indirect tax structure in India by introducing a unified and transparent tax regime. This reform has significant implications for the start-up ecosystem, which is a key driver of innovation, employment generation, and economic growth. India currently hosts over 2 lakh recognized start-ups, making it one of the world's largest start-up ecosystems. Start-ups encounter obstacles such as compliance expenses and requirements for digital filing. This research investigates how GST influences the tax landscape and assesses its effect on innovation and the growth of the startup ecosystem. The analysis evaluates entrepreneurial development and market expansion following the implementation of GST, promoting entrepreneurial advancement in India. Additionally, the paper emphasizes identifying the advantages and challenges that start-ups experience within the GST framework. The findings indicate that GST has positively influenced the business environment and encouraged entrepreneurial activities. The paper concludes that, when properly implemented, GST serves as an impetus for innovation-driven growth and enhances India's status as a global start-up hub.

Key Words: Goods and Service Tax (GST), Start-ups, Entrepreneur, innovation, growth, MSMEs, Market Expansion

Introduction

The Goods and Services Tax (GST), implemented on July 1, 2017, represents a landmark reform in India's taxation system. It subsumed various indirect taxes, including VAT, service tax, and excise duty, into a single, comprehensive tax framework. By unifying the tax structure, GST seeks to eliminate complexities, ensure greater efficiency, and facilitate a seamless national market while improving the ease of doing business. The start-up ecosystem, which is a major force behind innovation, job creation, and economic expansion, will be significantly impacted by this reform. India presently has one of the biggest starts up ecosystems in the world, with over 2 lakh recognized start-ups. Start-ups face challenges like the cost of compliance and the need for digital filing. The impact of GST on the tax system is examined in this study.

GST has had a revolutionary effect on business, resulting in cost reductions, improved operational efficiency, and heightened market competitiveness. It has also helped start-ups in India by streamlining tax compliance, boosting cash flow, facilitating interstate trade, and creating a more structured business environment. The nation's start-ups have grown and developed as a result of these advantages. (CA Rishabh, and Maheshwari 2023).

India's start-up ecosystem has experienced a significant transformation with the introduction of the Goods and Services Tax (GST), which replaced a fragmented tax structure with a unified "One Nation, One Tax" system. Even though market access and transparency have improved, start-ups still have to deal with a challenging environment of cash flow issues and compliance requirements.. According to NASSCOM (2021) reports, 60% of start-ups agree that GST makes taxation easier by combining different taxes. India is now one of the world's biggest startup ecosystems.

Review of Literature:

Stricter compliance requirements and delayed tax refunds present serious obstacles, despite the GST streamlining taxation and lowering logistics costs. Additionally, the study makes recommendations for how policy makers can streamline GST procedures and start-ups can enhance their compliance strategies, allowing Indian start-ups to grow internationally. To fully realize these advantages, policymakers and startups must work together (Atharva Singh, 2025). It was projected that the GST reform would increase government revenue by reducing transaction costs, rising tax compliance, and expanding the tax base (World Bank, 2018).

About 30 percent of startups encountered technical issues with the GST Network (GSTN) portal, which resulted in filing delays and penalties for the companies (The Economic Times, 2017)

The study identifies key challenges such as limited practical knowledge, low confidence in return filing, frequent issues with the GST portal, dependence on consultants, and high compliance costs. The study emphasizes how technology can make compliance easier and how startups are impacted by the need for streamlined processes and organized training programs. According to the study's findings, GST compliance is still a major obstacle for Pune startups. Despite the fact that the GST was designed to make taxes simpler, its intricate processes, frequent changes, and technical limitations have made it more difficult for startups to manage their operations (Mrs. According to Mehak Amrut Shejwalkar[1], Ms. Dipteemayee Choudhary[2] (2016) and Harshit ", Kartik" Ronak (2025), small businesses had to switch to GST due to new tax regulations, online GST filing, and compliance requirements. But as time went on, GST offered a more straightforward tax system, relief from the cascading effect of multiple taxes, and increased transparency.

Objectives of the Study

1. To analyse the impact of GST on innovation and startup ecosystem growth.
2. To evaluate entrepreneurial Growth and market expansion after GST implementation.
3. To identify challenges faced by startups under the GST regime

Methodology:

Descriptive le Mean and Growth rate and analytical research, data collected from secondary sources from DPIIT , various Government reports , research journals, and used Comparative statistical analysis (pre-GST vs post-GST),

Statistical tools used :

1. Simple Linear Regression used to analyze the impact of entrepreneurial growth on market expansion to measure cause–effect relationship and to estimate how much market expansion (GST revenue) changes with entrepreneurial growth
2. Regression model Y= a+bX was usd to calculate analyze the impact of entrepreneurial growth on market expansion
3. Trend Analysis used to tudy year-wise changes and helps identify growth pattern after GST

Descriptive statistics are employed to examine the pattern and growth of variables. Table 1: Impact of GST on innovation and start-up ecosystem growth

Year	Entrepreneur's (GST registrations (in Crore)	GST Revenue (₹ lakh Crore)
2017	65	7.2
2018	110	11.8
2019	120	12.2
2020	125	11.4
2021	130	14.8
2022	140	18.1
2023	150	20

Source: GST revenue figures., CBIC (Central Board of Indirect Taxes and Customs) & Ministry of Finance

The table shows a steady increase in GST registrations from 65 crore in 2017 to 150 crore in 2023, indicating growing entrepreneurial activity and expansion of the start-up ecosystem. This upward trend suggests that GST has contributed to formalizing businesses and encouraging new startups to register under a unified tax system. GST revenue also shows an overall rising pattern, increasing from ₹7.2 lakh crore in 2017 to ₹20 lakh crore in 2023, reflecting improved tax compliance and economic growth. However, there is a slight decline in revenue in 2020 (₹11.4 lakh crore), likely due to economic disruptions during that period. Despite this temporary setback, both registrations and revenue recovered strongly in the subsequent years, highlighting resilience in the start-up ecosystem. Overall, the data indicates that GST has positively influenced innovation and entrepreneurial growth by expanding the tax base and strengthening revenue generation.

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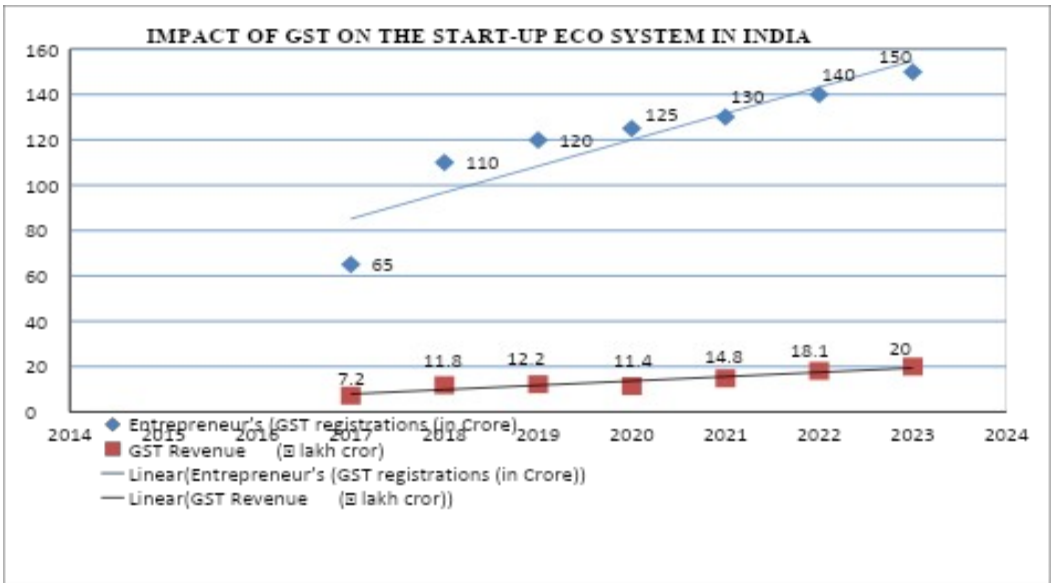


Figure 1: Impact of GST on innovation and start-up ecosystem growth

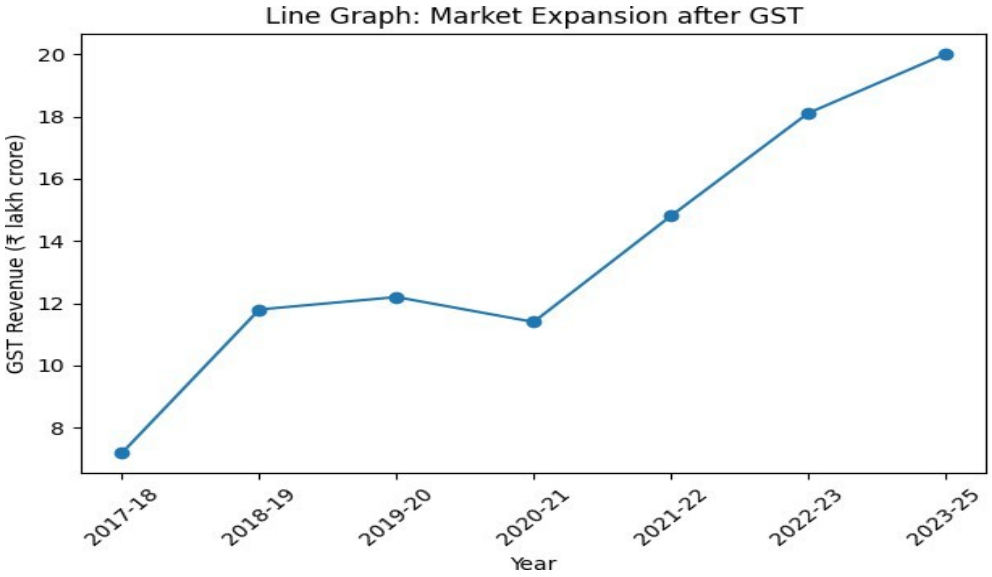
Simple Linear Regression is employed to analyze the effect of entrepreneurial growth on market expansion in the post-GST period. The estimated regression model, $Y = -2.12 + 0.13X$, indicates the nature of the relationship between entrepreneurial activity (independent variable) and market expansion (dependent variable). The positive coefficient (0.13) clearly suggests a positive relationship between the two variables.

During the study period, the number of entrepreneurs increased significantly from 65 to 150, while GST revenue rose from ₹7.2 lakh crore to ₹20 lakh crore. This simultaneous growth after the implementation of GST reflects a strong association between entrepreneurial expansion and market growth. The regression results confirm that as entrepreneurial activity increases, market expansion also improves. Since this upward trend is observed in the post-GST period, it implies that GST has played a supportive role in strengthening the startup ecosystem by promoting business growth and widening market opportunities**.** Table 2: Entrepreneurial Growth and market expansion after GST in India:

Year	Entrepreneur's (GST registrations (in Crore)	GST Revenue (₹ lakh cror)
2017-18	0.65	7.2
2018-19	1.1	11.8
2019-20	1.2	12.2
2020-21	1.25	11.4
2021-22	1.3	14.8
2022-23	1.4	18.1
2023-24	1.45	20 above
2024-25	1.5+	21 above

Source: GST revenue figures., CBIC (Central Board of Indirect Taxes and Customs) & Ministry of Finance

The statistical analysis clearly shows a strong positive relationship between entrepreneurial growth and market expansion after GST implementation. The increasing trend and high correlation coefficient (0.893) confirm that GST has significantly contributed to the development of the startup ecosystem and expansion of markets in India." Figure 2: Market Expansion of After GST in India



The above graph shows an overall upward trend. The line graph shows year-wise GST revenue from 2017–2025. A small decline in 2020–21 (COVID impact), after that, sharp growth indicates: increase in entrepreneurial activity and expansion of market size. It clearly shows the trend a trend relationship between entrepreneurial growth and market expansion over time

Challenges faced by start-ups under the GST regime:

1. While 65% of startups encounter technical difficulties, the majority (70%) benefit from digital filing. (NCAER studies on GST impact)
2. Annual compliance costs reached ₹13–17 lakh for manufacturing MSME (Binary semiotics & FICCI)
3. Compliance is challenging for startups due to their inability to comprehend GST regulations, various tax rates, and frequent filing requirements (World Bank 2019 & CII) reports)
4. Accountants, tax consultants, and GST filing software are extra expenses that small startups must pay, which raises operating costs.

5. Filing monthly and annual returns is a burden, particularly for startups with little funding and staff. (National Institute of Public Finance and Policy
6. Startups frequently experience delays on the GST portal, server errors, and login issues that impact timely filing and payments. (Reports from CAG)
7. Funds become blocked when input tax credit (ITC) is delayed, which affects daily operations and cash flow. (RBI and MSMES Survey)
8. A lot of startups don't know enough about GST regulations, which can result mistakes, fines, and ineffective tax planning. MSMES survey Surveys shows a large percentage of startups depends on external consultants due to lack of expertise.
9. The classification of goods and services is complicated by the various GST slabs (5 percent, 12 percent, 18 percent, and 28 percent).9 Economic Survey of India)
10. Start-ups must pay tax under RCM in certain cases, growing compliance accountability and financial straining.(Central Board of Indirect Taxes)
11. Non-compliance, even if unpremeditated, leads to forfeits and legal complications, which startups find difficult to manage. (Central Board of Indirect Taxes)
12. Export-oriented startups face interruptions in GST refunds, affecting liquidity and business expansion. (Reports of Federation of Indian Export Organizations)
13. GST is completely online, which creates difficulties for startups lacking technical infrastructure or digital skills (NITI Aayog reports)
14. Startups demonstrate a basic understanding of GST; however, they lack adequate practical compliance skills. A majority of respondents find it difficult to file GST returns on time. There is a high reliance on consultants, which increases compliance costs, while frequent issues with the GST portal adversely impact the accuracy and timeliness of filings. (Mrs. Mehak Amrut Shejwalkar Et. al)

Findings:

1. GST has a moderately positive impact on innovation and start up ecosystem growth**.**
2. GST has improved market access and supported entrepreneurial growth.
3. Start-ups face difficulties due to frequent return filing, complex rules, and multiple tax rates and GST has increased compliance burden, especially for small start-ups.

4. Many start-ups face GST portal issues and lack proper knowledge, leading to errors and penalties and GST has increased compliance burden, especially

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