

“GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India”

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MESSAGE

It is a moment of immense pride for Government Degree College, Puttur, as our Department of Economics hosts this two-day ICSSR- SRC, Hyderabad-sponsored National Seminar on "GST Reforms: Their Impact on Rural and Urban Livelihood and Employment in India" on the 17th and 18th of April, 2026.

As the Principal of this venerable institution, I have watched GDC Puttur grow into a beacon of higher education, dedicated to serving students from diverse socio-economic backgrounds. Our mission has always been to provide more than just textbook knowledge; we strive to engage with the real-world challenges that define our nation's progress.

The implementation of the Goods and Services Tax (GST) is a landmark event in India's economic journey. However, a reform of this scale requires constant academic evaluation, especially concerning its effects on employment and the daily lives of people in our villages and towns. By bringing together scholars, researchers, and experts to discuss these impacts, our college is contributing to a vital national dialogue.

I want to express my sincere appreciation to the Department of Economics and the Organizing Committee for their tireless work in making this event a reality. I also extend a warm welcome to all the delegates who have traveled from across the country to share their expertise.

I am confident that the research papers and discussions presented over these two days will be of high quality and great social relevance. I wish all the participants a fruitful exchange of ideas and every success in the seminar.

Principal
Government Degree College, Puttur
Tirupati District, Andhra Pradesh



MESSAGE

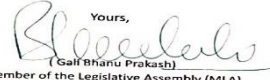
I am delighted to convey my warmest greetings and best wishes to the Department of Economics, Government Degree College, Puttur, on the occasion of the two-day ICSSR-SRC, Hyderabad-sponsored National Seminar on **“GST Reforms: Their Impact on Rural and Urban Livelihood and Employment in India”**, to be held on 17th and 18th April 2026.



GDC Puttur has always been a prestigious institution in our region, providing affordable and high-quality higher education to thousands of students. It is heartening to see the college taking an active interest in national economic issues that directly affect the lives of our citizens.

The Goods and Services Tax (GST) is one of the most transformative reforms in our country's history. However, as representatives of the people, our primary concern is always how such policies translate at the ground level. Whether it is a small trader in Puttur town or a farmer in the surrounding mandals, understanding the impact of GST on their livelihood and employment opportunities is essential for our progress. I congratulate the Principal, the Convener Dr. P. Varalakshmi, and the entire Department of Economics for choosing a topic of such great local and national relevance. I am confident that the scholars and experts attending this seminar will come up with meaningful ideas that can contribute to the balanced development of both rural and urban sectors.

I wish the seminar a grand success and hope that the souvenir published on this occasion becomes a valuable resource for students and researchers.

Yours,

(Gali Bhanu Prakash)
Member of the Legislative Assembly (MLA)
Constituency Name - Nagari



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MESSAGE

I am pleased to note that the Department of Economics, Government Degree College, Puttur, is organizing an ICSSR-sponsored National Seminar on "GST Reforms: Their Impact on Rural and Urban Livelihood and Employment in India" on 17th and 18th April 2026.

The introduction of the Goods and Services Tax (GST) stands as one of the most significant fiscal reforms in India, aimed at fostering a unified national market and improving overall economic efficiency. Since its implementation, GST has had far-reaching implications across various sectors, influencing both rural and urban livelihoods, as well as employment patterns. A critical examination of these developments is essential to promote inclusive and sustainable economic growth.

This seminar is both timely and relevant, as it provides a valuable platform for academicians, researchers, and policymakers to deliberate on the multifaceted impact of GST reforms. Issues such as the resilience and adaptability of micro, small, and medium enterprises (MSMEs), evolving employment structures, and the integration of rural economies into the broader market framework merit focused discussion in the current economic landscape.

I am confident that the deliberations during this seminar will stimulate meaningful academic discourse, inspire innovative research, and yield insightful policy recommendations that contribute to strengthening the Indian economy. Such initiatives play a crucial role in bridging the gap between theoretical perspectives and practical applications, thereby enriching the academic and policy ecosystem.

I commend the organizers for their dedicated efforts in convening this national seminar and extend my best wishes for its success. I sincerely hope that the outcomes of this seminar will offer valuable directions for future research and informed policy formulation.


(TATA NARASINGA RAO)



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Prof. L.C. Mallaiiah
Vice-Chancellor

Place: Kuppam
Date: 13.04.2026



I am pleased to know that the Department of Economics, Government Degree College, Puttur, is organizing an ICSSR-sponsored National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihood and Employment in India” on 17th and 18th April 2026. The Goods and Services Tax (GST) stands as a landmark reform in India’s fiscal history, aimed at creating a unified and efficient taxation system. Its far-reaching implications for economic activities—particularly in shaping rural and urban livelihoods and employment opportunities—make it a significant area of academic inquiry. While GST has contributed to enhancing transparency and promoting ease of doing business, its impact across different sectors and regions continues to evolve. In this context, the theme of the seminar is both highly relevant and timely.

It provides a valuable platform for academicians, researchers, and policymakers to engage in meaningful discussions, share research insights, and critically evaluate the outcomes of GST reforms. Such deliberations are essential for promoting inclusive growth and addressing the challenges faced by diverse sections of society. I commend the Department of Economics, Government Degree College, Puttur, for its initiative in organizing this national seminar under the auspices of ICSSR. I am confident that the seminar will enrich academic discourse and contribute to policy-oriented research. I extend my best wishes to the organizers and participants for the grand success of the seminar and hope that the deliberations will lead to fruitful outcomes.

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Prof. B. Sudhakar Reddy, Ph.D.
Honorary Director

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Message

It is with great pleasure that I learn of the Department of Economics, Government Degree College, Puttur, organizing an ICSSR-SRC sponsored National Seminar on "GST Reforms: Their Impact on Rural and Urban Livelihood and Employment in India" scheduled for 17th and 18th April 2026.

The introduction of the Goods and Services Tax marked one of the most transformative structural reforms in India's fiscal history a decisive shift from a fragmented, cascading tax regime to a unified, destination- based consumption tax architecture. While GST has undeniably advanced economic integration, streamlined inter-state commerce, and strengthened the formal tax base, its distributional consequences across rural and urban economies remain a subject of rigorous academic inquiry. Questions surrounding its impact on household income, the informal sector, agricultural value chains, and employment patterns particularly among micro, small, and medium enterprises — deserve sustained and evidence-grounded examination.

Nearly a decade into its implementation, it is imperative that we move beyond aggregate assessments and interrogate GST's differentiated impact across diverse socio-economic groups, regions, and livelihood systems. The rural-urban axis is especially significant, given the structural asymmetries in economic participation, digital access, and institutional capacity that shape how different communities experience tax reform.

As an institution committed to advancing rigorous social science research in the service of public policy, ICSSR-SRC warmly endorses scholarly platforms that bridge academic inquiry with policy relevance — particularly on issues concerning input tax credit accessibility for small enterprises, compliance burden reduction, and the protection of vulnerable livelihoods.

I am confident that the deliberations will bring together distinguished academicians, researchers, and policymakers in constructive intellectual exchange, producing policy recommendations that advance the goals of inclusive growth and equitable development. I commend the Department of Economics, Government Degree College, Puttur, for this initiative under the aegis of ICSSR-SRC, and extend my best wishes for a highly productive and successful event.

Senior Prof. B. Sudhakar Reddy
Director,
ICSSR – Southern Regional Centre (SRC)
Hyderabad



MESSAGE

It gives me immense pleasure to welcome all the participants, academicians, researchers, and delegates to the ICSSR-sponsored National Seminar on **“GST Reforms: Their Impact on Rural and Urban Livelihood and Employment in India”** to be held on 17th and 18th April 2026 at the Department of Economics, Government Degree College, Puttur.

The introduction of the Goods and Services Tax (GST) has been a transformative step in India’s economic reform process. While it has brought significant changes in tax administration and economic integration, its impact on livelihoods and employment—especially across rural and urban sectors—continues to be an important area for academic exploration and policy discussion.

This seminar aims to provide a vibrant platform for meaningful deliberations on the opportunities and challenges posed by GST reforms. It seeks to encourage scholarly exchange, critical analysis, and constructive dialogue among experts from diverse fields, thereby contributing to a deeper understanding of the subject.

I sincerely thank the Indian Council of Social Science Research (ICSSR) for sponsoring this seminar and supporting academic initiatives that promote research and knowledge dissemination. I also express my gratitude to all the contributors, resource persons, and participants for their valuable involvement.

I am confident that the seminar will be intellectually enriching and will lead to fruitful discussions and policy-relevant insights. I extend my warm welcome to all and wish the seminar a grand success.

Dr. P. Varalakshmi

Convener
Department of Economics,
Government Degree College,
Puttur

INDEX

S.No	Title	Author(s)	Page No
1	Women Entrepreneurship and GST – Opportunities, Constraints, and Gendered Impact Across Regions	Rudi Durga R.B. Sathyavathi Vemala Kiran	312-322
2	Impact of GST on MSMEs in India	Dr.G.Sreenivasulu	323-334
3	Impact of GST on Agriculture and Allied Sectors: An Analytical Study	Dr. A. Venkata Prasad	335-342
4	Assessing the Impact of GST on Livelihoods and Employment in Rural and Urban India	Dr. Chandramouli Balaraju	343-346
5	GST Reforms 2025 in India: A Constructive Analysis of India’s Transition to GST 2.0	Dr. Kasula Sekhara	347-355
6	Tax Mobilization under GST and its association with Welfare Spending: Evidence from Indian States	Dr. Sudhakara Rao Bezawada	356-374
7	Policy Reforms for Strengthening Livelihood Security under GST: A Roadmap for Inclusive Growth and Employment Protection	Dr.G.Tirumalaiah	375-383
8	GST Impact on Agriculture in India	Dr.A.Ramesh Prof.K.Radhika	384-390
9	Goods and Services Tax (GST) Reforms and Their Impact on the Indian Automobile Sector: An Empirical Analysis	Sri.K.Suresh Dr.P.Ramadevi Dr.P.Venugopal	391-399
10	“GST and Intellectual Property Rights in Agriculture and Allied Sectors: A Legal Study on Agri-Inputs, Food Processing, and Rural Value Chains”	Dr.N.Victoria	400-405
11	GST Collections Before and After the 'Super GST – Super Savings' Campaign: Revenue Dynamics under GST 2.0 in India (2025–26)	Dr.G.Samuel Aravind	406-421

INDEX

S.No	Title	Author(s)	Page No
12	The Transformation to GST 2.0: Salient Features, Structural Reforms, and Economic Implications in India	S. Sreekanth Reddy Bukke Siva Sankar Naik	422-425
13	Examining the Impact of the Goods and Services Tax (GST) on Micro Small and Medium Enterprises (MSMEs) in India: Challenges, Opportunities, and Policy Implications	Dr K Sankar Reddy Dr Vanisri. K Dr V. Nageswara Rao	426-435
14	Impact of GST on MSMEs in Karnataka: Survival, Growth, and Competitiveness – A Comparative Analysis of Rural and Urban Enterprises in Raichur District.	Dr.Aanjaneya	436-445
15	GST 2.0 and Small Businesses in India: Examining Tax Compliance Challenges	Mr. N. R. Chiranjeevi Dr. M. Thyagaraju	446-456
16	Reforming Agricultural Taxation: A Study of GST Effects on Allied Activities and Rural Economy	Vana Sankararao	457-463
17	Impact of Removal of GST on Insurance Products in India- A Multi- Perspective Analysis	Dr. V. Vasavi	464-472
18	GST Reforms and Their Implications for the Poultry Production and Management Industry:A Longitudinal Analysis of Cost-Per-Bird (CPB) Metrics	Dr. M. Sriramulu Dr. C. Samson Raju,Dr. E. Gopi	473-480
19	The Pink" Transition: A theoretical analysis of GST as a catalyst for informal to formal sector migration among Women Entrepreneurs	Sathiys. S Dr. V.M. Suneela Shyam	481-486
20	Transport GST Rate 2026: A Review	M.Bhagyalakshmi, M.Velangini	487-493

INDEX

S.No	Title	Author(s)	Page No
21	Evaluating the Impact of UPI-Led Digitalization on the Formalization and Tax Compliance of Small Businesses in India	Dr. Gunti Amaravathi	494-502
22	A Sustainable Framework for GST Reforms: Examining Employment and Livelihood Changes in India's Rural and Urban Sectors	Dr T. Surendra Natha Reddy T. Pavan Kumar P. Dinesh Kumar	503-512
23	GST Reforms and Sustainable Livelihood Development in India: Evidence from Rural and Urban Economies	Dr T. Surendra Natha Reddy Dr.K.Padmapriya D. Jyotheeswara Babu	513-523
24	Impact of GST on Farmers: A Study in Telangana	Dr .K. Ugandhar	524-538
25	Public Perception and Affordability of Health Insurance after GST Removal: A Study in Tirupati Town	Dr.P.Varalakshmi	539-546
26	The Human Face of Tax Reform: How GST is Reshaping Rural Andhra Pradesh's Small Businesses	Dr Ponnada Annaji Rao	547-555
27	GST and Its Implications on Peri-Urban Economic Activity: A Case Study in Chevella Municipal Area in Ranga Reddy District of Telangana	Dr. M. A. Malik	556-568
28	Impact of Goods and Services Tax Reforms (2025) on Financial Inclusion: Evidence from Tirupati District of Andhra Pradesh	Dr. P Venugopal Podala Nagaraj	569-578
29	Reimagining Fiscal Federalism: Policy Challenges under India's GST Regime	Dr P. Ramakrishna Reddy	579-592

INDEX

S.No	Title	Author(s)	Page No
30	Impact of GST 2.0 Reforms on Small Scale Agricultural and FMCG Sectors	T. Raghuraman G. Suresh Babu A. Sujala Swapna Smitha	593-597
31	GST 2.0 Reforms (2025): Implications for Economic Efficiency, Equity, and Fiscal Stability in India	Dr. M. Narasimhulu T. Narasimhulu	598-602
32	GST Reforms and Economic Transformation in India: An Empirical Evaluation	Dr. P. Suneetha Dr.G Ananad Amruth Raj	603-612
33	Impact of Goods and Service Tax on State Revenue: A Study of Andhra Pradesh	V. Ashok Kumar R. Supriya	613-623
34	GST Reforms 2025 in India: A Constructive Analysis of India's Transition to GST 2.0	Dr. Kasula Sekhara	624-632
35	Compliance Burden and Transaction Costs under GST: Implications for Small Businesses, Start-ups, and the Self-Employed in India	Dr. G. Gangaiah	633-642
36	GST and Start Up Eco System in India- Tax Environment, Innovation and Entrepreneurial Growth	Dr. B.Venkata Ramana Dr.B.Sudhakara Rao	643-652
37	GST Reforms and Employment Trends in India: An Empirical Time Series Analysis	Dr. P. Maheswari	653-666
38	GST Reforms and Rural Livelihoods in India: A Theoretical Reassessment through the Canons of Taxation	Dr.P.Madhavi Addagatla Divija	667-679
39	Employment Dynamics in the Post-GST Era: Trends in Job Creation, Displacement, and Sectoral Employment Transitions	K.Sivaram	680-687

INDEX

S.No	Title	Author(s)	Page No
40	Historical Perception of the Goods and Services Tax (GST) in India	Dr. G. Tirumala Vasu Deva Rao Dr. G. Swathi	688-692
41	GST on Plant-Based Products in India: A Comprehensive Review with Comparative and Policy Perspectives	Dr P Sujana, Smt S Padmavathi Dr J Koteswara Rao	693-703
42	GST Reforms: Impact on Textile Industry in Ballari	Dr. Sobha Rani B	704-710
43	GST Reforms for Livelihood Security and Inclusive Employment in Vellore District, Tamil Nadu	Dr. V.M. Suneela Shyam	711-721

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Women Entrepreneurship and GST – Opportunities, Constraints, and Gendered Impact Across Regions

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Abstract

Women entrepreneurship is now gaining momentum as an important part of inclusive economic development, especially in a diverse economy such as India, where women play a significant role in both the formal and informal economies. The implementation of the Goods and Services Tax (GST) was a major change in the taxation system of the country, to streamline the operations and enhance transparency and formalization of businesses. It is thus important to know how GST has affected women entrepreneurs in various regions in this dynamic economic environment. However, the literature is mostly on the general economic impacts of GST, and little has been said about the gendered impacts of the GST. A significant knowledge gap is evident in how female entrepreneurs, particularly the small-scale or less developed ones, perceive the opportunities and the challenges presented by GST. The purpose of the current research is to investigate the opportunities that GST offered to women entrepreneurs, determine the limitations that affect them in the process of adjusting to the new system, and assess the gendered effects in the regions. It is a review of secondary data in the form of policy reports, government publications, and literature in this regard. The results indicate that GST has created new possibilities through the formalization of businesses, increased access to markets, and integration into larger supply chains. Meanwhile, female entrepreneurs still have several limitations, including the complexity of compliance, a lack of digital literacy, insufficient awareness, and limited access to financial resources. Such difficulties become more vivid in rural and less developed areas, and the disparity in the regions can be seen. The research concludes that though GST has the potential to empower women entrepreneurs, the gains are not equally distributed. The policy measures should be more inclusive and gender sensitive to make sure that women in different regions are fully involved and beneficiaries of economic reforms.

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Keywords Women Entrepreneurship; GST; Gendered Impact; Constraints; Regional Disparities

Introduction

Women entrepreneurship has been gaining momentum to take centre stage in the inclusive development debate, especially in the emerging economies where gender inequality in economic involvement is still high. Women-owned businesses are a substantial portion of the micro and small business ecosystem in India, but their development patterns are typically limited by structural inequalities such as access to capital, mobility, and socio-cultural practices (Minniti, 2010; Goyal and Parkash, 2011). Although the policy efforts have aimed at boosting women-owned businesses, the conversion of subsistence-based businesses to sustainable business ventures has not been uniformly spread across regions and sectors.

The implementation of the Goods and Services Tax (GST) in 2017 was a ground-breaking change in the Indian indirect tax system, which was aimed at establishing a national market, improving clarity, and motivating formalization (Government of India, 2017). Theoretically, GST can be interpreted as a formalizing mechanism providing the incorporation of informal enterprises into legal economic systems and thus, widening their avenues to the market and institutional provision (Kumar, 2018). Such reforms have the potential to lower the barriers to entry of women in business and enhance business scalability, especially those whose businesses enter the periphery of the formal economy. New data indicate that the consequences of GST are not evenly distributed and can replicate the existing gendered inequalities. GST is compliance-intensive, with its digital filing systems, frequent documentation, and complexity of the procedures potentially disproportionately disadvantaging women entrepreneurs who may not have access to digital infrastructure or financial literacy (Joshi, 2020). Moreover, the businesses of women are mainly located in low capital, informal, and household sectors, and therefore their shift to the formal tax system is expensive and unpredictable (Tambunan, 2009). This brings serious concerns on the question of whether GST as a policy tool can help to enable people, or rather reinforce exclusion.

Further, the effects of GST have a high regional dispersion, which is influenced by the differences in infrastructural, institutional, and socio-economic factors. The women entrepreneurs in the urban and economically developed areas have an advantage to use the advantages of formalization, and the women in the rural and less developed areas experience multiplied constraints because of the weak institutional connections and

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restricted market access (World Bank, 2019). The existence of such distinct results highlights the necessity to study GST with a gendered and spatial approach.

Although there is an increasing body of research on GST and entrepreneurship, a significant gap in the knowledge about the intersection between tax reforms and gender and place-based differences in the formation of entrepreneurial experiences still exists. Current research is more macroeconomic or firm-based, and they do not always reflect the real experiences of women entrepreneurs in various settings. The current research fills this gap, critically analyzing the opportunities, constraints, and gendered effects of GST on women entrepreneurship in different regions in order to add to a more refined view of how economic change is driven by policy.

Research Gap

The change in the implications of the Goods and Services Tax (GST) on business performance, market integration, and economic formalization has been studied by a growing body of literature. The few studies have mentioned that GST has enhanced transparency, cascading of taxes, and ease of doing business, especially for formal enterprises (Kumar, 2018; World Bank, 2019). Simultaneously, studies of female entrepreneurship have given particular importance to socio-economic factors, institutional support, and gender norms in determining the participation of women in entrepreneurial activities (Minniti, 2010; Tambunan, 2009). Though these two lines of literature have developed mostly independently.

The current research on GST assumes mainly a macroeconomic or firm-based approach, including studies of taxation efficiency, compliance framework, and economic performance, with little emphasis on the gender-specific effects (Joshi, 2020). On the same note, literature on women in business seldom analyzes access to finance, training, and empowerment outcomes out of the context of the overall picture of structural economic reforms like GST. Consequently, there has been an incompleteness of combined analysis that takes into consideration the intersection between taxation reforms and gender dynamics in the creation and limitation of entrepreneurship opportunities.

Moreover, the gap in the knowledge of the gendered effect of the GST in various regional contexts is quite big. The majority of the research is inclined to generalize results without considering the spatial differences in infrastructures, digital access, and support systems. The conditions under which women entrepreneurs work in rural and less developed areas are significantly different than those of their urban counterparts, but the heterogeneity of this phenomenon has not been sufficiently investigated in the literature.

The other vulnerable gap is the little attention given to the lived experiences and

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adaptive issues of women entrepreneurs in the GST regime. The problem of digital literacy, compliance burden, informal business structure, and socio-cultural limitations are frequently recognized but not carefully examined in the context of policy outcomes. Therefore, the subtle mechanisms according to which GST would facilitate or limit the participation of women in the business world have not been well comprehended. It is against these gaps that the current paper aims to give a more context-sensitive integrated approach by addressing the opportunities, limitations, and gender effects of GST on women entrepreneurship in different regions. The research bridges the gap between gendered economic participation and taxation policy, and therefore, the study enhances the overall picture of inclusive entrepreneurial development in India.

Objectives of the Study

The present study is undertaken with the following objectives:

1. To examine the opportunities created by the Goods and Services Tax (GST) for women entrepreneurs in India.
2. To identify the key constraints faced by women entrepreneurs in adapting to the GST framework.
3. To analyze the gendered impact of GST on women entrepreneurship across different regional contexts.
4. To assess how structural and socio-economic factors influence women's participation in the formalized economic system under GST.

Review of Literature

The issue of taxation reforms and entrepreneurial development has received significant scholarly interest, especially in respect of emerging economies. The introduction of the Goods and Services Tax (GST) in India has generally been seen as a structural change to enhance efficiency, transparency, and the formalization of the economy (Government of India, 2017). According to the research on the macroeconomic effects of GST, it has simplified indirect taxation, minimized cascading effects, and enabled fragmented markets to be merged into a single national economy (Kumar, 2018). Nonetheless, little has been researched on the implications of such reforms on micro-level players, particularly women in businesses.

The contribution of women to economic development and the reduction of poverty has been a significant aspect in entrepreneurship literature. As Minniti (2010) pointed out, both opportunity structures and socio-cultural constraints affect entrepreneurial participation by women. In the same vein, Goyal and Parkash (2011) noted that women entrepreneurs in India are slowly gaining ground in business fields, but their development

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is usually hampered by the unavailability of funds, education, and institutional facilities. Tambunan (2009) also observed that women-owned business ventures are mostly found in low capital, informal sectors, thus more susceptible to structural economic shifts.

Since the introduction of GST, formalization has become increasingly popular, offering both opportunities and challenges to a small-scale entrepreneur. On the one hand, GST has helped businesspeople to gain access to the market, participate in the formal chain of supply, and have access to greater credibility in business due to the standardization of the processes of taxation (World Bank, 2019). Conversely, it is found that compliance requirements in GST, including digital filing, invoice matching, and regular reporting, are challenging, especially to small and informal enterprises (Joshi, 2020). The latter challenges are especially aggravated in cases of women entrepreneurs because of the lack of digital literacy, mobility, and access to financial and informational resources.

The gendered aspects of economic reforms have also been pointed out by recent studies. As an example, Osei and Zhuang (2024) suggest that institutional and policy settings are vital to determining the performance of entrepreneurship, especially when it comes to marginalized communities. When examining the case of women entrepreneurs in India, it is common to find that their actions are shaped by socio-cultural systems that bind their discretion and authority to make decisions, hence influencing their flexibility to policy changes like GST. Moreover, the infrastructural, digital, and institutional lacks and differences in different regions provide women entrepreneurs with unequal opportunities in various locations of the country (World Bank, 2019).

With these observations, however, there is still no major research that combines taxation reforms, gender relations, and regional inequalities in a single analytical framework. The majority of the current studies concentrate on GST as a fiscal reform or study women's entrepreneurship separately, without paying significant attention to their intersection. Thus, a more comprehensive perspective on the impact of GST on women entrepreneurship in terms of opportunities, constraints, and gendered results in different regions is required.

Methodology

The current research will take a conceptual and analytical research method to investigate the opportunities, limitations, and gendered effects of the Goods and Services Tax (GST) on women entrepreneurship in various regions. Considering the exploratory character of the study, a qualitative research design has been utilized with the major dependence on secondary data sources. The sources used to collect data in the study were very broad and encompassed government reports, policy documents, research articles, and

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publications of national and international organizations like the Ministry of Finance, NITI Aayog, and the World Bank. A review of relevant literature on GST, women entrepreneurship, informal economy, and gendered economic participation was conducted in order to formulate an in-depth perspective of the topic. The paper aims at examining some of the key dimensions, including the opportunities created by GST in the context of business formalization and market integration, the challenges of compliance burden, digital literacy, and financial resource access, and the varying effects of GST on women entrepreneurs in rural and urban areas. The analysis of the effects of structural and socio-economic factors on the capacity of women to adjust to the GST regime was conducted in a comparative and interpretative analytical framework.

Also, the paper has included a gender lens to critically evaluate the interaction of policy reforms and prevailing inequalities and determine the effects on entrepreneurial results. In the analysis, regional differences are highlighted, and they include the difference in infrastructure, institutional support, and digital access that impact the degree to which women entrepreneurs can enjoy GST. The study results rely on the synthesis and critical interpretation of secondary data and are designed to bring valuable knowledge on the overlap of taxation reforms and women entrepreneurship. Although the research is not based on primary field data, it provides a conceptual basis for how future empirical studies in the field can be conducted.

Results and Discussion

The results of the research are elaborated based on the objectives mentioned, which gives a broad overview of opportunities, limitations, and gendered effects of the Goods and Services Tax (GST) on women entrepreneurship in various regional settings. The structural and socio-economic factors also play a role in influencing the involvement of women in the formal economy, which is also identified in the analysis.

Opportunities for Women Entrepreneurs under GST

Associated with the first objective, the research has shown that GST has generated several structural opportunities that can increase the role of women in the entrepreneurship process. The most important change that GST has initiated is the elimination of inter-state taxation barriers, thus making it easier to have a unitary national market. This has helped women entrepreneurs, especially those involved in small-scale production or handicrafts or service-based enterprises, to access larger markets than just those of their immediate localities. The benefit of market access has led to the growth of business visibility and the opportunities of scaling up operations.

Moreover, GST has brought more transparency and accountability in business transactions

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due to standard operations of taxation. This has enhanced the legitimacy of the business ventures that are headed by women in formal markets, and consequently, they can find it easy to forge business relationships with their suppliers, buyers, and financial institutions. The input tax credit mechanisms have also minimized the cascading effect of tax, thus enhancing cost efficiency to the enterprises that can meet the system. The other significant opportunity that arises as a result of GST is the encouragement of digitalization. Online registration, filing of returns, and invoicing requirements have promoted the use of digital tools and platforms. For women entrepreneurs where digital infrastructure and training are available, the transition has also allowed easier record-keeping, financial management, and incorporation into formal supply chains. In this respect, GST has been a driver of modernization and formalization, new avenues of entrepreneurial development, and economic empowerment.

Constraints in Adapting to GST

However, as part of the second goal, the research notes that there are various limitations to the successful inclusion of women entrepreneurs in the GST regime. The complexity of compliance procedures is one of the most vivid challenges. GST also involves periodic submission of returns, keeping of electronic records, and following elaborate documentation. Small and informal businesses can be especially problematic with such requirements, as women entrepreneurs in many cases have a limited number of resources and support. Another key limitation is digital literacy. Most of the women entrepreneurs, particularly in rural and semi-urban regions, do not have the skills and knowledge needed to manoeuvre online systems to comply with GST. The dependency on online platforms without proper training forms a barrier to accessing the formal tax system. The compliance cost, such as employing accountants or tax advisors, also adds to the reason why small-scale women entrepreneurs are not keen to register under GST.

Availability of financial resources is also a major problem. Women entrepreneurs are usually challenged to access credit because of the unavailability of collateral, little financial history, and institutional biases. This limits their capability to invest in business growth or to comply with requirements. These issues are further aggravated by socio-cultural elements, including the lack of mobility, time limitations based on domestic chores, and a lack of decision-making power. Consequently, a large number of women entrepreneurs remain in the informal sector, which restricts their chances of enjoying the GST.

Gendered Impact of GST

In relation to the third objective, the research points out that the effect of GST is

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

gendered by its nature since it interacts with the existing disparities in resources, information, and institutional support. The low-capital, home-based, and informal businesses are disproportionately represented by women entrepreneurs, which complicates and makes uncertain the transition of such businesses into the formal taxation system. Although the idea of GST aims at inclusiveness and integration of the economy, the practice fails to fully consider the structural disadvantages that women encounter. GST is highly compliance-based, and it must accommodate digital standards, which can inadvertently marginalize women who are not technologically or train-wise equipped. This gives rise to a scenario where the reform only favors those who are already in a relatively better position at the expense of the already disadvantaged. Simultaneously, those women who can overcome these obstacles and adjust to the GST system can gain a lot, such as improved access to the market, a higher degree of business legitimacy, and better financial autonomy.

This two-fold aspect of impact shows the significance of a gender-sensitive approach when designing and implementing policies. GST will only strengthen previous inequalities unless it is addressed with specific interventions. As such it is important to learn more about the gendered aspects of GST so that economic reforms can lead to fair development.

Regional Variations in Impact

When touching on the fourth objective, the study concludes that the effect of GST on women's entrepreneurship differs significantly among different regions. Access to infrastructure, digital connectivity, financial services, and institutional support is more likely to be available to the women entrepreneurs in the urban and economically developed areas. These benefits would allow them to be more effective in meeting the requirements of GST and to take advantage of the opportunities introduced by the reform. Conversely, women in rural and less developed areas are subjected to several limitations, which are poor internet connectivity, a lack of awareness, an inability to access training programs, and ineffective institutional connections. These aspects do not help them to be able to register under GST, meet its requirements, and be absorbed into formal markets. Consequently, GST is not spread evenly, and there is a large gap between areas.

These results suggest that GST as a policy change does not exist in a vacuum, but it is highly affected by the general socio-economic conditions. GST will succeed in enhancing women entrepreneurship, provided there are supportive infrastructures and institutional mechanisms at a regional scale.

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Influence of Structural and Socio-economic Factors

With respect to the fifth objective, the study notes that structural and socio-economic elements are determining factors in influencing the entrepreneurial participation of women within the GST framework. Education, digital literacy, information accessibility, financial inclusion, and institutional support are some of the factors that greatly affect the capacity of women entrepreneurs to adjust to the changes in the policies. More educated women who have access to training have a higher chance of learning and implementing the GST requirements. On the same note, the availability of digital tools and access to financial services increases their ability to engage in formal economic activities. This transition is also supported by institutional assistance, through training programs, awareness programs, and funds.

On the other hand, women who do not have these resources will have more chances of being left out of the benefits of GST. This underscores the importance of the reinforcement of institutional structures and the reduction of socio-economic inequalities to make policy changes inclusive. The importance of bridging such gaps is with the aim of empowering women entrepreneurs in the various regions to optimize on and enjoy the changing economic environment.

Conclusion

The current research paper identified the opportunities, limitations, and gendered effects of the Goods and Services Tax (GST) on women entrepreneurship in various regional settings in India. The results have shown that GST has established a structural framework that facilitates the formalization of business, transparency, and broader market access. The alterations present possibilities for women entrepreneurs to grow their businesses and enter the formal economy. The research also shows that the gains of GST are not evenly spread. Women in business, especially those in informal and small-scale businesses, are greatly impacted by the need to adjust to the compliance-based and digitally-driven GST regime. Their limited digital literacy, ignorance, financial constraints, and socio-cultural factors remain constraints to their participation. The discussion also outlines that the effects of GST are gender and area-based, with women in rural and less developed areas having a bigger challenge because of poor infrastructure and institutional reinforcement. On the whole, the research finds that GST can contribute to female entrepreneurship, but its success depends on the rest of the socio-economic space and the level of structural imbalance mitigation.

Policy Implications

The study results indicate the necessity of gender-specific policy intervention to

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

make GST more effective in stimulating women's entrepreneurship. First, it is necessary to streamline the GST compliance processes, especially for micro and small businesses, so that the burden on the women entrepreneurs is lessened. Participation can be made easier by introducing easier systems of filing returns and offering convenient digital platforms. Second, the capacity-building programs on digital literacy and awareness of GST procedures should be reinforced. The knowledge gap can be addressed through training programs that are specific to women entrepreneurs so that their confidence in handling tax-related processes will be enhanced. Third, there is a need to enhance access to financial resources. Their transition to formal business systems can be facilitated through policies that seek to improve access to credit by women entrepreneurs, such as collateral-free loans and financial inclusion initiatives. Fourth, enhancing institutional support structures, which may include extension services, entrepreneurship development initiatives, and women-centred business networks, can be very important in facilitating adaptation to GST. The development of collaboration among government agencies, financial institutions, and non-governmental organizations can enhance outreach and effectiveness. Lastly, there needs to be region-specific strategies to ensure that inequalities in infrastructure and institutional access are dealt with. More emphasis ought to be on rural and underdeveloped areas so that there shall be equal chances of sharing opportunities and benefits of GST. These policy provisions would help in the establishment of an enabling environment whereby women entrepreneurs in the different regions are able to benefit and actively engage in economic reforms.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

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Impact of GST on MSMEs in India

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Abstract:

The Goods and Services Tax (GST) has brought significant changes to the functioning of Micro, Small and Medium Enterprises (MSMEs) in India by replacing multiple indirect taxes with a unified tax structure. MSMEs play a vital role in the Indian economy through employment generation, contribution to GDP, manufacturing output, and exports. The implementation of GST aimed to simplify the taxation system, reduce cascading taxes, improve transparency, and create a “One Nation, One Tax” regime. The study highlights both positive and negative impacts of GST on MSMEs. On the positive side, GST has streamlined tax compliance, enhanced interstate trade, improved input tax credit mechanisms, and encouraged digitalization and formalization of businesses. However, MSMEs also faced challenges such as increased compliance burden, technological difficulties, higher operational costs, and initial disruptions in business activities. Despite these challenges, GST is considered a long-term reform that can strengthen MSMEs by promoting competitiveness, transparency, and economic growth. Overall, the study concludes that GST has transformed the MSME sector and its success largely depends on effective implementation, awareness, and supportive government policies.

Keywords: GST, MSMEs, Indirect Taxation, Economic Growth, Tax Reform, Input Tax Credit, Digitalization, Indian Economy, Small Enterprises, One Nation One Tax.

Introduction

Micro, Small and Medium Enterprises (MSME) is considered as the economic and social growth engine all over the world. And for country like India having abundant manpower but scarce capital should identify its significant and actively promote enterprise and most importantly MSMEs because it requires small investments but their contribution to the economy is very big and significant because it generates a large scale of employment,

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it sustains economic growth and increases exports and also help in industrialization of rural & backward areas, thereby reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSME are broadly classified into two categories viz. manufacturing and service enterprises that are engaged in the manufacturing of goods and rendering of services respectively.

GST or Goods and Services Tax is a comprehensive indirect tax (or consumption tax) levied on manufacture, sale on consumption of goods and services in India. The tax was launched at midnight on 1st July 2017 through the implementation of One Hundred and First Amendment of the Constitution of India by the President of India and the Government of India at the Central Hall of the Parliament. GST is considered as the biggest and most important economic reform since Independence because it has subsumed almost all indirect taxes levied both by the Central and state government on goods and services. It was implemented with an objective to make India “one nation one tax” economy and aims to provide a simplified and single tax regime in the nation. GST is a single indirect tax levied on all goods and services and since MSME are enterprises engaged in manufacturing of goods and rendering of services so the implementation of GST has directly impacted or affected the MSME sector. Implementation of GST has entirely changed the taxation system and some of the sectors have been benefited whereas few of them have received a negative impact.

MSMEs are the backbone of India’s economy, contributing around 30% of GDP, 48% of exports, and providing employment to over 120 million people. These enterprises are located across various sectors including manufacturing as well as services, and contributes to the promotion of entrepreneurship and regional development.

GST reform has replaced various indirect taxes such as service tax, VAT and excise duty into single tax structure. The primary objective was to get rid of tax inefficiencies and set up a state of goods and services taxes. This transition fundamentally changed MSMEs compliance requirements, cost structures, and opportunities for growth.

Goods and services tax

The word tax has been derived from the Latin word, “Taxo” which means touch sharply or change. Definition of tax according to Wikipedia: A tax is a compulsory financial charge or some other type of levy imposed upon a taxpayer (an individual or legal entity) by a governmental organization in order to fund various public expenditures. A failure to pay, along with evasion of or resistance to taxation, is punishable by law.

A tax is a compulsory payment levied by the government through its legislative authority to the individuals and corporates to finance the public welfare activities of the

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

government. Therefore, the tax collected by government entity through various sources is used for the welfare of the general public not specific public such as construction of roads, hospitals, schools, colleges etc. as well as to maintain the existing infrastructures prevailing in the country. The taxes collected are also used to pay salaries to the government employees such as Doctors, Nurses, Armies, Navy Officers, Police Officers, who provide services to the general public. It is also used to provide financial help to the needy people such as farmers, martyr's families, natural calamities victims (such as people who have incurred losses due to earthquakes, floods. Cyclones, etc.) or to build bridges, dam's, etc. To put it in a general way, Tax is used for the wellbeing of the people whether it is fulfilling basic needs of the people such as building houses for poor people or providing rice, sugar, kerosene at cheaper rates or providing better educational and health facilities or to protect the country from enemy countries or to invest in research and development in various fields such as Space Research, Health research and so on.

Tax is a part of a person's earning or a part of a company's profit paid to the government. Or in other words some portion of an individual's earnings or company's profit is given to the government which is used by the government for the welfare of the general public. So, the government is a body that collects funds from the public in the form of tax and utilizes those funds for the best interest of the public or collects and channels the funds of the public in a way that benefits everyone. Individual or corporate who pays tax to the government are called Tax payer.

Definition: Good and Services Tax

Article 366(12A) defines "Goods and Services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption.

1 Goods 366(12) Includes all materials, commodities, and articles. 2 Services 366(26A) Anything other than goods [Introduced vide 101st Constitutional Amendment Act] 3 State 366(26B) With reference to article 246A, 268, 269, 269A, and article 279A includes a Union territory with Legislature. [Introduced vide 101st Constitutional Amendment Act] "Goods and Services tax" law of India Is a unique indirect taxation system but while having unique principle, it has taken significant elements of prior Central and State laws and is also inspired by VAT/GST legislation of EU, Australia, Malaysia, etc. who have already implemented GST before India along with International VAT/GST guidelines of OECD.

Constitutional Powers

Constitution of India (COI) is the supreme law and all the laws are formed as per the constitution and so all the laws and actions of the government are subordinate to it which

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

means no one go against the constitution and make and law and levy any amount of tax to the public so Article 265 of the Indian Constitution states that “No tax shall be levied or collected except by the authority of law”. As per Article 246 of the Constitution, Parliament has the powers to make new laws or to amend existing laws in respect to matters of the Central Government given in Union List (List I of the Seventh Schedule) and matters given of the State in the State List (List II of the Seventh Schedule). In case of matters of both the Central and the State Government, the matter is contained in Concurrent List (List III of the Seventh Schedule), where both the state and central government have concurrent powers to legislature.

Taxation Provision of Constitution

The power to levy and collect taxes are given in the constitution of India and no citizen of India can make tax laws as per their wish. All tax should be made for the welfare of the general public and made as per the provision stated in the constitution which are given as follows:

- **Article 265:** As stated earlier no one can impose tax as per their wish even governments or Mukesh Ambani who is the richest person of India cannot impose tax as per their wish. Tax should be levied and collected except by the authority of law. The constitution of India prohibits arbitrary collection of tax. In India the tax imposition and collection powers are given to Union government, State government and Local authorities such as Panchayats and Municipalities.

- **ARTICLE 246:** It states that the parliament has exclusive powers to make laws with respect to any matters of the state or central government individually or in case of matters of both the central and the state government collectively. The parliament can make laws for the entire nation or any part of the nation and the State legislature can make laws for the entire state or part of the state.

Schedule VII (in Article 246):

The seventh schedule contains three lists which contain the matters under which the union and state governments have the authority to make laws as per the needs. a) **UNION LIST (LIST I):** The Central government are given exclusive powers by the Constitution of India to make laws with the help of parliament in respect of matters of the union government stated in entries between 82-92C of Union List i.e. List I. b) **STATE LIST (LIST II):** The constitution of India has given powers to respective state governments or respective authority to make laws on behalf of matters stated in List II (State List), entries between 45-63.

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Pre-GST Scenario: Complexity and Fragmentation in Taxation

Prior to the introduction of GST, India's taxation system was characterized by a multitude of indirect taxes levied at both state and central levels. MSMEs, in particular, were heavily burdened by the need to comply with various taxes, which included:

Value Added Tax (VAT):

Imposed by state governments, VAT rates varied across states, leading to a lack of uniformity and increasing the complexity of tax compliance. For example, a product could be taxed at 5% in one state and 12% in another, complicating interstate business operations.

Excise Duty:

Levied by the central government on the manufacture of goods, excise duty increased the production cost for MSMEs, especially those engaged in manufacturing activities.

Service Tax: Applicable to service providers, this tax created confusion for MSMEs engaged in both goods and services, as they had to comply with different tax rules.

Central Sales Tax (CST):

Levied on inter-state sales, CST contributed to the cascading effect of taxation, where taxes were applied on top of other taxes, increasing the overall cost of goods.

Need for Goods and Services Tax in India:

A. Multiplicity of Indirect Taxes:

As discussed above there was existence of many indirect taxes in India such as custom duty, service tax, etc. which was imposed by Union government and VAT, luxury tax, entertainment tax, etc. imposed by State Government. So, there was a need to replace multiple taxation system with a single tax system.

B. Less Coordination Between Union and State Government:

As in a single good/service the Union government was charging say excise duty and State government was charging VAT separately so there was no or less coordination between Union government and State Government. So, a new tax system was required to increase coordination between the Union and State Government.

C. High Tax Rates:

In many goods and services more than one tax was levied which result in increase in price of goods and services and prior to GST the tax rate was high as 50% and normally between 30-35% so a single tax system was required to decrease the cost of goods and services.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

D. Complicated Tax System:

Pre GST government used to impose Custom duty on import on raw materials of goods and services and from manufacturing phase till the goods are sold the person has to different taxes such as excise duty on manufacturing, central sales tax if the goods are delivered and sold to various states within India, and if to sold within the state it is manufactured than VAT was charged, if any services is used during the manufacturing of the product then service tax was charged, etc. So, the taxation system before GST was complicated and difficult both for the government and the person selling goods and services as they have to understand and follow different tax laws to run a single business so as a result there was a need to replace or convert complex indirect tax structure to a simple tax system in India.

E. Difficulty Paying Taxes:

Prior to GST the person has to pay different taxes and there were difficulties filing return and paying taxes as some CA's practiced only Central Government taxes or State Government taxes as a result they had to visit different tax practitioners to pay taxes.

F. Time Consuming And Costly For Tax Payers:

Due to existence of multiple taxes, the tax payer had to register to different tax departments, file returns on different dates and pay multiple taxes on goods and services which discouraged many traders, sellers, whole-sellers and so on, so a better tax system was required to make the taxation system easier so that business can flow easily in the economy and encourage many people to start and run their own businesses.

G. Rise in Inflation Rate:

Indirect taxes were the main source for continuous inflation rate in India as a result the government has to come up with some solutions to decrease the continuous inflation rate.

BENEFITS OF GST

- Before GST both the central and state government levied various taxes on different goods and services mentioned above but due to implementation of GST a single type of tax is levied on various different goods and services.
 - Before GST the public had to pay high taxes on various goods and services, generally 30-35% and in some cases it was as high as 50% but due to implementation of GST the maximum tax rate is only 28%.
 - Before GST the public had to pay almost 17 different taxes on goods and services but after the implementation of GST the public have to pay only one tax i.e. GST making India "one nation one tax" economy. Implementation of GST eliminated various
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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

existing tax such custom duty, additional duty of customs, VAT, Sales tax, Central Sales tax, State sales tax, entertainment tax, luxury tax and many more.

➤ Before GST, tax was imposed on place where goods were manufactured or produced but after the implementation of GST tax is imposed on the place where it is sold and not where it is manufactured. For instance, if a good is manufactured in Mumbai and sold in Sikkim then before GST tax was imposed on the place where it was manufactured i.e. Mumbai but after the implementation of GST tax will be imposed on the place where it is sold i.e. Sikkim. By doing so the direct tax imposed on that particular good will be eliminated and the public will have to pay only one tax i.e. GST. For example, if a refrigerator is manufactured in Mumbai, after the production of refrigerator in the factory excise duty is levied, then to reach Sikkim the product has to pass through various states and entering each state entry tax is imposed on that particular product, then VAT is charged in Sikkim. So, we can see that in a single product 3 different tax is charged.

Main Features of GST Act

- a) All transactions and processes only through electronic mode – Non-intrusive administration
- b) PAN Based Registration
- c) Registration only if turnover more than Rs. 20 lakh
- d) Option of Voluntary Registration
- e) Deemed Registration in three working days
- f) Input Tax Credit available on taxes paid on all procurements (except few specified items)
- g) Credit available to recipient only if invoice is matched – Helps fight huge evasion of taxes
- h) Set of auto-populated Monthly returns and Annual Return
- i) Composition taxpayers to file Quarterly returns
- j) Automatic generation of returns
- k) GST Practitioners for assisting filing of returns
- l) GSTN and GST Suvidha Providers (GSPs) to provide technology-based assistance
- m) Tax can be deposited by internet banking, NEFT / RTGS, Debit/ credit card and over the counter
- n) Concept of TDS for certain specified categories
- o) Concept of TCS for E-Commerce Companies

Micro-Small and Medium Enterprises (MSMEs)

Micro-Small and Medium Enterprises (MSMEs) are small sized enterprises defined in terms of their size of investment. According to Micro, Small and Medium Enterprises

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Development (MSMED) Act, 2006, MSMEs are manufacturing and service enterprises. Manufacturing Enterprises: Manufacturing enterprises are those enterprises engaged in production or manufacturing of goods pertaining to any industry specified in the first schedule to the industries (*Development and regulation*) Act, 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

Service Enterprises:

The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. These two categories of MSME are further categorizes into Micro, Small and Medium Enterprises in terms of investment made in plant and machineries (in case of manufacturing sector) and investment in equipment for service sector companies.

Governing Body of MSME :

The Ministry of Micro, Small and Medium Enterprises (*branch of Indian Government*) is the governing body of the MSMEs around that nation. It is the executive body for the formulation and administration of rules, regulations and laws relating to MSMEs in India.

The governing body of MSME is headquartered in New Delhi and is headed by NitinGadkari since 31st May 2019. In 2018, a cabinet meeting was by the Ministry of Micro, Small and Medium Enterprises which proposed to change the definition of MSMEs. It was decided that MSMEs (*both manufacturing and service enterprises*) will be defined and categorized or classified on the basis of annual sales turnover of the enterprises instead of the investment criterion and there will be no distinction between manufacturing and service enterprises.

Classification of MSMESs

(On the basis of Annual Sales Turnover)

Manufacturing/Service Sector Enterprises Annual Sales Turnover :

Micro Enterprises Annual sales turnover is up to Rs 5 crores. Small Enterprises Annual sales turnover exceeds Rs 5 crores but does not exceed Rs. 75 crores. Medium Enterprises Annual sales turnover exceeds Rs 75 crores but does not exceed Rs 250 crores.

significance of MSMES :

Although MSMEs are small but their contribution to the Indian economy is enormous and significant which can't be neglected. However, because of its smaller size it is under estimated but being India a knowledge-based, entrepreneurship driven economy of

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which MSMEs are the major part and the contribution towards its economic and social growth by the MSMEs are enormous. That's why it's said that MSMEs are the silent performers who are carrying India's 5 trillion goal on their shoulders. As of October, 2019 there are almost 63.4 million MSMEs in India which contributes to about 1/4th of the India's GDP, output(**about 45% of the manufacturing output**), exports(**about 40% of the total exports**) and employment(about 69 million persons in over 29 million units throughout the country).MSMEs also helps in industrialization of rural areas by providing huge employment opportunities at comparatively lower capital cost than large industries.

Importance of MSMEs

Contribute to GDP:

As already stated MSMEs contribute about 27% to the India's GDP and has set a target to increase its contribution to GDP to 50% and more by 2025 as Prime Minister Narendra Modi has started a mission to make India a \$ 5 trillion economy.

Nation Development:

SMEs also play a prominent role in Nation development through high contribution to Domestic Production, Significant Export Earnings, Low Investment Requirements, Operational Flexibility, Location Wise Mobility, Low Intensive Imports, Capacities to Develop Appropriate domestic Technology, Import Substitution, Contribution towards Defense Production, Technology – Oriented Industries, Competitiveness in Domestic and Export Markets thereby generating new entrepreneurs by providing knowledge and training.

To Sustain Economic Growth and Increase Exports:

More than 90% of the MSMEs are engaged in manufacture and export of non-traditional products (such as readymade garments, plastic products, etc sports goods,.). These products are manufactured and handcrafted by unskilled or semi-skilled employees and are eco-friendly as a result there exist an enormous potential or opportunity to expand the quantum of MSME led exports. It also helps in raising manufacturing sector production and extending support to large industries by supplying raw material, basic goods and other vital components, etc.

Exports:

MSMEs contribute 40% of the total outputs.

Manufacturing Output:

It contributes about 45% to the manufacturing output.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Government Schemes to Promote MSMEs

A) Credit Linked Capital Subsidy Scheme:

Credit Linked Capital Subsidy Scheme (CLCSS) is operational for upgradation of technology for MSMEs.

B) Udyog Aadhaar Memorandum:

Aadhaar is a 12 digit individual identification number issued by the Unique Identification Authority of India on behalf of the Government of India. The number serves as a proof of identity and address, anywhere in India. In this, the Aadhaar card is a mandatory requirement. The benefit of registering in this scheme is ease in availing credit, loans, and subsidies from the government. Registration can be done both ways in the online mode or the offline mode.

B) Udyamimitra Portal:

launched by SIDBI to improve accessibility of credit and handholding services to MSMEs.

C) Digital MSME Scheme:

It involves usage of Cloud Computing where MSMEs use the internet to access common as well as tailor-made IT infrastructure

D) A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE): Creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution etc.

E) Prime Minister Employment Generation Programme:

It is a credit linked subsidy program under Ministry of MSME.

A) Zero Defect Zero Effect:

Any goods that are manufactured for export have to adhere to certain standard so that they are not rejected or sent back to India. So, to make sure that the goods exported are not sent back to India the government has launched this scheme to check the quality of the goods and to be sure that those particular goods are eligible for some rebates and concessions.

F) Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI):

Organizes traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.

G) National Manufacturing Competitiveness Programme (NMCP):

To develop global competitiveness among Indian MSMEs by improving their processes, designs, technology and market access.

H) Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

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Adopts cluster development approach for enhancing the productivity and competitiveness as well as capacity building of MSMEs.

I) MSME Sambandh:

To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.

J) MSME Samadhaan

MSME Delayed Payment Portal — will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/State Governments.

Conclusion

Micro, Small and Medium Enterprises (MSMEs) are life blood of the Indian economy. As stated, earlier MSMEs are enterprises that requires less capital and more manpower and India is country with abundant manpower and scarce capital hence MSMEs perfectly fits the Indian economy. MSMEs are playing a crucial role in the socio-economic growth of the nation as it contributes about 27% to the Gross Domestic Product (GDP), 45% of manufacturing output, about 40% of the total exports and provide employment to around 63.4 million people around the nation. It provides employment to rural peoples so hence MSMEs are also playing in the urbanization of rural areas. MSMEs are also playing a significant role in promoting domestic products and making the public skillful and self-reliant as 95% of the goods manufactured are non- traditional handcrafted products such readymade garments, plastic products, etc. MSMEs are also eco-friendly as they are handcrafted. As our Prime Minister Modi has set a vision to make India a \$5 trillion economy by 2024 and to fulfill this vision the MSME has set an objective to increase their contribution to the nation GDP from 27% to more than 50% in coming days. As we all know that tax is an important part of any business whether Micro, Small or Medium Enterprises so this study was undertaken to ascertain the impact on GST on MSME sector as we all know that new taxation system is in effect from July 1, 2017.

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Impact of GST on Agriculture and Allied Sectors: An Analytical Study

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Abstract

The primary sector has consistently served as the fundamental pillar of the socio-economic structure. As of 2026, the “Agriculture and Allied Sectors” continue to be a primary stabilizer for the economy, contributing significantly to the national income and supporting nearly half of the workforce. When the Goods and Services Tax (GST) was introduced on July 1, 2017, it brought in sweeping reforms to many sectors including agriculture and allied activities. While GST aimed to simplify and unify indirect taxation, its effects on farming, in the pre-GST era, few agricultural and allied sectors such as dairy farming, poultry farming, and stock breeding were not subjected to tax as they were included in the broad agricultural sector. But, under GST, the above three sectors are no longer part of the broad agriculture sector and therefore subject taxation. During the 56th GST council meeting held in September 2025, Union Government announced the GST 2.0 reforms, which officially took effect on September 22, 2025. These reforms transitioned the tax system toward a simplified two-slab structure of 5 per cent and 18 percent, resulting in significant tax relaxations for the agricultural sector. This paper explores the effects of GST on input prices, supply chain management, warehousing, and the export process for farmers. This study highlights a significant shift toward positive outcomes under the GST 2.0 reforms, particularly through the substantial reduction in costs for critical agricultural inputs. By slashing tax rates on essential machinery, such as tractors and harvesters and pesticides from higher brackets to a unified 5 per cent to 12 percent structure, the reforms have effectively lowered the financial burden on farmers.

Key Words: Primary Sector, Goods and Service Tax (GST), Reforms, Economy and Supply chain

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1. Introduction

“India is basically a consumption driven country and still 60% of the people are engaged into agriculture. So, in this GST there are good news – tractors, tractor tires, fertilizers, all the rates have been brought down” – Economist Prabir Kumar Sarkar

The idea of a nationwide GST in India was first proposed by the Dr. Vijay Kelkar Task Force on Indirect taxes in 2000. The objective was to replace the prevailing complex and fragmented tax structure with a unified system that would simplify compliance, reduce tax cascading, and promote economic integration. The implementation of GST has brought about a fundamental shift in the financial relations between the Central Government and the State Governments in India. GST is a unified tax system that replaced multiple indirect taxes levied by both the Central and State Governments. Under GST, both the Central and State Governments share the authority to levy and collect taxes on goods and services. This has led to greater harmonization and uniformity in the tax structure across States, promoting economic integration. The inception of unique tax system, it is expected to subsuming the taxes on agri-products and its commodities which facilitate more flexibility to farmers in exporting business. The transportation is one of the major challenges in agricultural commodities because they are subjected to decomposition during lapsing of storage period. The unique tax system prevents the unnecessary transportation to long distances and prevents the wastage of food products. It is also understood that there was no uniformity among all states for the implementation of GST of agro-commodities.

2. Objectives of The Study

1. To understand the Impact of GST on Agriculture and Allied Sectors
2. To examine Positive and Negative implications of GST on Agriculture and Allied Sectors
3. To study the differences between old GST and New GST (GST 2.0) rates in Agriculture and

Allied sectors.

3. Methodology

This study aims at assessing the possible impact of GST on agriculture and allied sectors in India. The changes in rate of agriculture commodities after implementation of GST form the crux of the study. For the purpose of the study data is collected from secondary sources like annual reports of ministry of agriculture, reports of GST council, RBI reports, News Papers, National and International journals are used.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

The following is an elaborate analysis of the changes:

GST Reforms in Agriculture and Allied Sectors

Table -1.0

Sector/Products	Old GST Rate	New GST Rate (2.0)
Farm Mechanization		
Tractors (< 1800 CC)	12%	5%
Tractor components (tyres, tubes, hydraulic pumps etc.,)	18%	5%
Sprinklers, Drip irrigation, Harvesting Machinery, Tractor	12%	5%
Diesel Engines (< 15HP), Harvesting/Threshing, Compressor	12%	5%
Fertilizer Inputs		
Ammonia, Sulphuric Acid, Nitric Acid (fertilizer raw materials)	18%	5%
Bio-Pesticides & Micronutrients		
Bio-Pesticides	12%	5%
Micronutrients under serial 1(g), schedule 1, Part (A) of Fertilizer Control Order 1985	12%	5%
Food Processing & Perishables		
Prepared/Preserved Vegetables, Fruits, Nuts	12%	5%
Dairy Sector		
Butter, Ghee, etc.,	12%	5%
Milk Cans (iron/steel/aluminum)	12%	5%
Aquaculture		
Prepared/Preserved Fish	12%	5%
Renewable Energy		
Solar Power-based devices	12%	5%
Forest Produce		
Kendu Leaves	18%	5%
Logistics & Transport		
Commercial Goods Vehicle (trucks, vans, etc.,)	28%	18%
Third-Party insurance of goods carriage	12%	5%

Source: Ministry of Agriculture

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

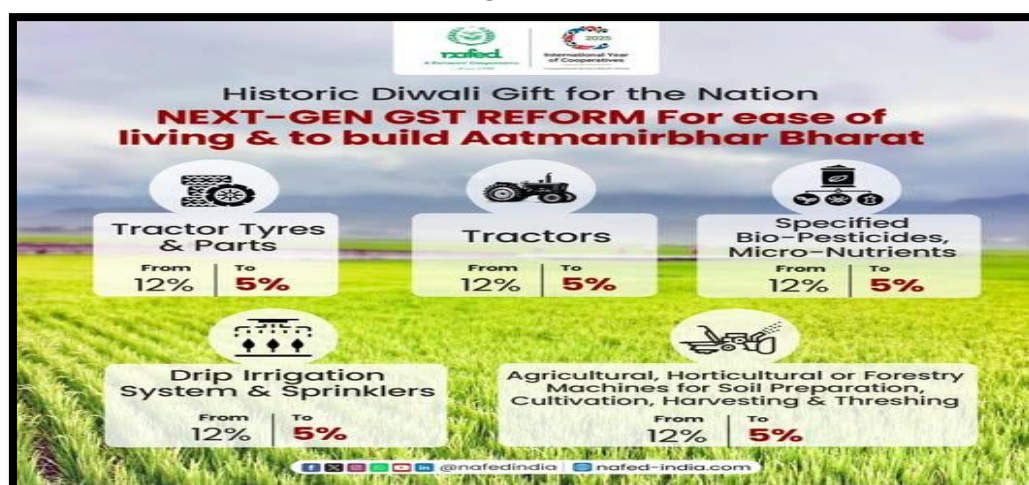
5. Elaborate Analysis of The Changes

The following is an elaborate analysis of the changes:

➤ Farm Mechanization:

GST on Tractors (1800cc) to come down to 5%, lowest GST will bring down the purchase prices of tractors, making them more affordable for small and medium farmers who form the majority of tractor buyers in India. Lower prices will encourage mechanization in agriculture, helping farmers save time, reduce manual labor costs, and improve crop productivity. With cheaper tractors, even marginal farmers can access modern machinery through ownership or shared use in cooperatives and FPOs. Tractor tyres and tubes, Hydraulic pumps for tractors, and many other tractor components (18% to 5%) will also become cheaper.

Figure – 1.0



Source: https://www.google.com/search?sca_esv=671b6d2c45835e3d&sxsrf=ANbL-n4XjnPE_yGxFvH7gSYE8le-nsrTTg:

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

➤ **Sprinklers, Drip irrigation, Harvesting Machinery**

Encourages adoption of water-saving irrigation (drip, sprinklers), supporting sustainable agriculture, 12% to 5% fixed speed diesel engines of power not exceeding 15HP, harvesting or threshing machinery, composting machines, etc., These cuts will reduce the cost of farm equipment generally used by small and marginal farmers, making them more affordable, boosts productivity and efficiency in sowing, irrigation and harvesting and boot farm mechanization.

➤ **Fertilizer Inputs:**

Major raw materials for fertilizer production, rate cut corrects inverted duty structure (IDS), ensures timely availability of affordable fertilizers, directly aiding farmers during sowing seasons, reduced production costs help companies avoid passing prices hikes into farmers, keeping fertilizers affordable and demand steady.

➤ **Bio-Pesticides and Micronutrients:**

Promotes Eco-friendly and sustainable farming practices by making bio-based inputs more affordable and encourages farmers to shift from chemical pesticides to bio-pesticides, improving soil health and crop quality.

➤ **Fruits, Vegetables & Food Processing:**

Encourages investment in cold storage, food processing, and value addition and reduces wastage of perishables, helping farmers realize better prices for produce and boosts exports of processed food items, enhancing India's position as an agri-export hub.

➤ **Dairy Sector**

Direct boost to dairy farmers by making their products more competitive, many farmers keep cattle to supplement their incomes, therefore, GST reduction will help in raising farmer incomes. Supports women-led rural enterprises, as dairy and dairy processing are key sources of income for women in self-help groups, promotes nutrition security by making essential protein and fat sources more affordable for households. GST on milk cans down to 5 per cent from 12 per cent (cans made of iron, steel or aluminum).

➤ **Aquaculture and Forest Products**

The reduction in the rate of tax on 'prepared or preserved fish (12% to 5%) is expected to boost aquaculture and especially Pisciculture across the country, GST on Natural honey to come down. It directly benefits beekeepers, tribal communities and rural Self Help Groups, who are major producers of natural honey. GST on artificial honey, whether or not mixed with natural honey down from 18 per cent to 5 per cent.

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

➤ Kendu Leaves

Kendu leaves are minor forest produce which act as major source of income for farmers and tribal of Orissa, Madhya Pradesh and Chhattisgarh. The livelihood of these states depends partially on the prices of these leaves. The reduction in the rate of GST will help tribal and farmers of these areas.

GST on solar power based devices to come down to 5% from 12%. Cheaper solar power based devices will reduce irrigation costs and support farmers.

➤ Commercial Goods Vehicles:

Trucks, delivery-vans, etc., GST down from 28 per cent to 18 per cent, trucks are the backbone of India's supply chain (carry 65% - 70% of goods traffic). Reducing GST reduces upfront capital cost of trucks, which lowers freight rates per tone-km. This has a cascading effect. It will lead to cheaper movement of agricultural goods. Cheaper trucks directly help reduce logistics cost, improving export competitiveness.

Summary of the Tax Shift

Table- 1.1

Category	Previous Trend	New Reform Trend
Machinery & Parts	High (12% - 18%)	Uniformly Low (5%)
Chemical/Bio Inputs	Steep (12% - 18%)	Uniformly Low (5%)
Allied/Processing	Moderate (12%)	Low (5%)
Transport/Logistics	Very High (28%)	Standardized (18%)

Source: Table – 1.0

Overall, the data suggests a strategic move to correct the "inverted duty structure" and provide direct financial relief to the primary sector, thereby stabilizing the backbone of the economy.



Figure – 1.1

Source: Ministry of Agriculture

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

6. Positive impact of GST on Agriculture and Allied Sectors

- GST improved agricultural supply chains
- Availability of input tax credit (ITC) on every value addition to trader
- Brings uniformity in tax rates across all the states
- GST will strengthen Electronic national Agriculture Market (e-NAM).
- Most of the agriculture products are under nil rated under GST regime
- Improves Market Efficiency
- Increase in Exports due to improvement in terms of trade

7. Negative impact of GST on Agriculture and Allied Sectors

- Cost of Agriculture Inputs gone up under the GST regime.
- Increased tax rates for processed products under the GST regime
- GST will not allow taking advantage of inter-state price variations
- The price of fertilizers and pesticides increased under GST
- Changed the definition of agriculturists under GST law
- Adversely affected the state government exchequer
- Inflation has gone up

8. Findings

Major GST reforms, particularly the 22nd September 2025 updates, have significantly benefited Indian agriculture by slashing tax rates on inputs (machinery, fertilizers, bio-pesticides) from 12-18% down to 5%, enhancing mechanization and reducing operational costs. These reforms have fostered market integration, reduced tax cascading, and increased profitability for allied sectors like dairy and food processing.

- **Reduction in Input Costs (GST 2.0):** Effective September 2025, GST rates were lowered to 5% on critical farm equipment (tractors, spare parts, harvesting machinery, sprinklers, and drip irrigation).
- **Lowered Fertilizer Pesticide Costs:** GST on bio-pesticides and micronutrients was reduced, encouraging a shift toward sustainable farming and lowering cultivation expenses.
- **Boost to Allied Sectors:** Dairy farming, poultry, apiculture (bee keeping), and aquaculture benefit from lower tax rates on inputs, making these sectors more profitable
- **Improved Supply Chain & Logistics:** The introduction of the e-way bill system and the removal of state-level posts have streamlined the movement of agricultural products, allowing for better access to national markets.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

- **Food Processing Advantages:** Lowered GST rates on machinery for food processing and preservation are expected to reduce food wastage and increase value addition.
- **Impact on Small Farmers/Cooperatives:** The simplified, lower-rate structure is particularly beneficial for small farmers and Farmer Producer Organizations (FPOs), aiding them in accessing better technology.
- **Increased Competitive Pressure on Imports:** Lowered taxes on agricultural goods make domestic produce more competitive against imported agricultural items.
- **Support for Tribal Livelihood:** Reduced GST on Kendu leaves directly supports the income of the tribal communities.

9. Conclusion

The shift from 2017 GST to GST 2.0 marks a transformative shift towards a pro-rural economy. While the original GST unified the market, it created compliance burdens and high input costs for farmers. GST 2.0 alleviates these challenges by lowering the cost of cultivation and modernizing logistics. Consequently, these reforms strengthen the agricultural value chain, promote sustainable farming, and directly align with the vision of a self-reliant agricultural sector (Atmanirbhar Bharat) by enhancing rural livelihoods and accelerating mechanization.

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Assessing the Impact of GST on Livelihoods and Employment in Rural and Urban India

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Abstract

The introduction of the Goods and Services Tax (GST) in India in 2017 marked a historic shift toward a unified indirect tax system, aiming to unify the fragmented tax system and boost economic growth. This paper examines the impact of GST reforms on rural and urban livelihoods and employment in India. It analyzes the differential effects across sectors and regions, highlighting challenges and opportunities brought about by GST implementation. By examining the simplification of the tax structure, rate rationalization, and specific policy interventions, this study investigates how GST 2.0 influences consumption patterns, input costs for businesses, and job creation in various sectors. The study draws on secondary data, government reports, and scholarly articles to provide a comprehensive understanding of the socio-economic implications of GST.

Keywords: GST, rural livelihoods, urban livelihoods, employment, India, tax reform, economic impact.

Introduction:

The Goods and Services Tax (GST), is a landmark reform, implemented in India from July 1, 2017, represents one of the most ambitious tax reforms aimed at creating a unified national market by subsuming multiple indirect taxes levied by the central and state governments. GST's objective was to simplify tax administration, reduce cascading taxes, and enhance compliance. This reform has profound implications for livelihoods and employment, especially in a country where both rural and urban economies coexist with marked differences.

Background of GST in India:

Before GST, India had a complex tax structure with central excise, service tax, VAT, and numerous state-level taxes. This multiplicity created inefficiencies and compliance burdens, especially for small businesses and informal sector workers predominant in rural and urban areas alike. GST aimed to streamline taxation by imposing a single tax on the supply of goods and services, thereby improving ease of

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United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

doing business and fostering economic growth (Government of India, 2017).

Objectives of the Study:

1. To examine the structure and features of GST reforms in India
2. To analyse the impact of GST on rural livelihoods
3. To assess the effects of GST on urban employment and economic activities
4. To evaluate the implications for the informal sector
5. To suggest policy measures for inclusive growth

Methodology:

This study is based on **secondary data** collected from research articles, government reports, journals, and policy papers. Analytical and descriptive methods are used to interpret the impact of GST on different sectors.

GST and Its Impact on Rural Livelihoods:

1. Agriculture and Allied Activities:

Agriculture is largely exempt from GST, but allied sectors like fertilizers, pesticides, and farm machinery are taxed. Agriculture remains a major source of rural employment, and GST indirectly influences farmers' income and cost structures and better market access due to reduced inter-state barriers. While GST helped reduce costs for some agricultural inputs, small farmers faced challenges adapting to the new tax regime due to lack of awareness and digital infrastructure (Kumar & Singh, 2019).

2. Rural SMEs and Informal Sector:

Small and medium enterprises (SMEs) in rural areas, many of which operate informally, faced transitional difficulties complying with GST's registration and invoicing requirements. This initially disrupted livelihoods but incentivized formalization, potentially improving access to credit and markets (Rao, 2018).

3. Informal Sector in Rural Areas:

The rural informal sector, which employs a large share of the workforce, has been significantly affected. mploymnt Effects:

The GST regime led to restructuring in rural industries such as handicrafts and textiles. Some job losses occurred due to compliance costs and mechanization, but new opportunities emerged in logistics and digital services, facilitating rural employment diversification (Patel & Jha, 2020).

GST and Its Impact on Urban Livelihoods:

1. Formal Sector and Manufacturing:

Urban formal sectors benefited from GST through simplified tax administration and input tax credits, boosting manufacturing competitiveness and employment (Economic

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

Survey, 2018-19). The ease of interstate trade stimulated urban industrial growth.

2. Services Sector:

GST unified service taxation, affecting sectors like IT, hospitality, and retail. While larger firms adapted quickly, small service providers faced compliance burdens. Over time, GST encouraged formalization and expanded employment in organized services (Sharma, 2021).

3. Informal Urban Economy:

The informal urban workforce, including daily wage laborers and small traders, experienced short-term disruptions due to GST compliance challenges. However, better tax regulation and digital payment adoption gradually improved transparency and worker protections (Chakraborty & Mukherjee, 2020).

Comparative Analysis: Rural vs Urban Impact:

GST reforms had uneven effects: urban areas with better infrastructure and formal sector presence adapted faster, gaining employment and livelihood benefits. Rural areas, dominated by informal economies and limited digital access, faced transitional hardships, although long-term prospects for formalization and market integration improved.

Challenges and Policy Recommendations:

1. Challenges:

1. Digital divide limiting GST compliance in rural areas
2. Initial disruption to informal sector livelihoods
3. Complexity in tax slabs and compliance costs for SMEs

2. Recommendations:

1. Strengthen rural digital infrastructure and GST awareness programs
2. Simplify GST procedures for small taxpayers
3. Provide transitional support to informal sector workers
4. Encourage skill development aligned with new economic opportunities

Conclusion:

GST reforms have reshaped the economic landscape of India, influencing livelihoods and employment differently across rural and urban sectors. While challenges remain, particularly for rural informal economies, GST offers a framework for greater economic integration and formalization. Policymakers must focus on inclusive measures to ensure the benefits of GST reach all segments of society.

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GST Reforms 2025 in India: A Constructive Analysis of India's Transition to GST 2.0

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Abstract

The Goods and Services Tax (GST) reforms of 2025 represent the most significant restructuring of India's indirect tax system since its inception in 2017. These reforms aim to create a unified national market by merging multiple central and state taxes. Although the initial GST framework had a transformative impact, it also encountered several challenges, including a complex multi-rate structure, compliance burdens, technological glitches, and classification disputes. In response to these issues, the Government of India has initiated a series of reforms, leading to the transition to GST 2.0 in 2025. This new version emphasizes simplification, transparency, and efficiency. This study examines the evolution and recent reforms of India's GST system, focusing on key changes such as rate rationalization, a reduction in tax slabs, improved input tax credit mechanisms, and the integration of advanced digital technologies for compliance and monitoring. These reforms aim to enhance the ease of doing business, reduce tax evasion, and improve revenue collection while ensuring a consumer-friendly tax regime. The study evaluates the impact of the GST reforms on various stakeholders, including consumers, businesses, and Micro, Small, and Medium Enterprises. The findings indicate that the GST reforms have contributed to greater tax compliance, increased formalization of the economy, and improved efficiency in supply chains. Moreover, the rationalization of tax rates has helped reduce the overall tax burden on essential goods and services. However, challenges such as the digital divide, adaptation issues among small traders, and concerns about revenue stability still persist. This research seeks to understand the changes in GST rates and slabs in the GST reforms 2.0, sector-wise changes in GST reforms 2.0, rationalization of GST for everyday food items, and changes in GST related to education in India.

Keywords: GST Reforms, GST 2.0, Indirect tax and India

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Introduction

The Goods and Services Tax has been one of the most significant indirect tax reforms in India's fiscal history since its introduction in 2017. It replaced a complex system of multiple indirect taxes such as excise duty, value-added tax, service tax and others with a unified tax structure, thereby creating a single national market. Over the years, GST has undergone several modifications to address implementation challenges, improve compliance and enhance revenue efficiency. The GST Reforms 2025, commonly referred to as GST 2.0, mark a new phase in India's tax reform journey, aiming to simplify the tax system and promote economic growth. The GST Reforms 2025 were introduced following the 56th GST Council meeting held in September 2025. These reforms represent a structural transformation of the existing GST framework, focusing on simplification, rationalization of tax rates and improved ease of doing business. The new system came into effect on 22 September 2025 and is considered a next-generation reform that builds upon the experiences and lessons learned since the original GST rollout. Our Prime Minister Narendra Modi formally announced GST reforms on Independence Day 2025, characterizing them as embodying five transformative principles or Panch Ratna for the Indian economy: i) tax simplification, ii) improved quality of life, iii) consumption and growth stimulation, iv) enhanced ease of doing business and v) strengthened cooperative federalism.

The GST Reforms 2025 is to reduce the tax burden on essential goods and services, thereby benefiting consumers. Many items previously taxed at higher rates have been shifted to lower tax brackets, making them more affordable. Essential goods, healthcare products and certain services have been either exempted or taxed at minimal rates. This approach not only supports household consumption but also enhances social welfare by making necessities more accessible.

The reforms also emphasise improving compliance and administrative efficiency through the use of advanced technology and digital tools. GST 2.0 promotes automated return filing systems, better invoice matching and real-time monitoring of transactions. These measures aim to reduce tax evasion, increase transparency and ensure a more efficient tax administration system. Furthermore, GST Reforms 2025 are expected to boost economic growth by encouraging investment, increasing consumption and improving the overall business environment. By lowering tax rates on many goods and simplifying compliance procedures, the reforms enhance the ease of doing business in India.

Review of Literature

K. Uttamsagar (2025) studied the structural reforms, sectoral reforms and socio-economic

348 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

implications of GST 2.0. It is concluded that GST 2.0 will strengthen digital compliance and will increase demand. Though GST 2.0 offers an important step, it requires careful prosecution and non-stop monitoring.

Devmalaya Khan (2026) conducted a study about the impact of GST 2.0 on different sectors of the Indian economy. It was found that the GST 2.0 made tax compliance easier than the GST 1.0. GST 2.0 will provide stability in government revenue and will reduce the technological and legal complexities. In GST 1.0, the GST rate on luxury and sin goods was 28 per cent plus cess, but in GST 2.0, it is simplified by imposing a flat GST rate of 40 per cent on luxury and sin goods with the aim of reducing the consumption of such goods.

Objectives of The Study

2. - To examine the changes in GST rates and slabs as part of the GST Reforms 2.0 in India.
3. - To analyse sector-wise changes introduced in GST Reforms 2.0 in India.
4. - To investigate the rationalization of old GST rates and new GST rates for daily food items and education in India.

Research Methodology

The present study is based on secondary data, which were collected from various sources like PIB press notes, Ministry of Finance, websites, newspapers, academic publications, journals, and magazines. Simple statistical tools such as percentages, growth and trend analysis are used to interpret the secondary data.

Results and Discussion

GST Reforms 2.0 (2025): India's Two-Slab Tax Reform for the Common Man

The GST reforms have restructured tax rates on several consumer goods to simplify the tax system and adjust tax burdens on various products. It compares the old GST rates with the new GST rates after the reforms presented in Table 1.

Table 1
GST rate and Slab changes in GST reforms 2.0 in India

S.No	Items	Old GST rate	New GST rate
1	Refrigerators & Air conditioners	28 %	18%
2	Television sets	28%	18%
3	Small cars	28% +1% or 3% cess	18%
4	Premium motorcycles	28%+up to 15% cess	40%
5	Luxury cars	28%+22% cess	40%

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

6	Cigarettes & soft drinks	28%+up to 15% cess	40%
7	Butter, Ghee & Almonds	12%	5%
8	Jams & Pickles	12%	5%
9	Mobile Phones	12%	18%
10	Umbrellas	12%	5%

Source: Ministry of Finance

Table 1 presents the changes in Goods and Services Tax rates for different items. It compares the old GST rates with the new GST rates after the reform. The household appliances, such as refrigerators and air conditioners, which were earlier taxed at 28 per cent, have been reduced to 18 per cent. This reduction aims to make essential consumer durables more affordable. Television sets also experienced a tax reduction from 28 per cent to 18 per cent, encouraging higher consumption and supporting the electronics industry. Small cars previously had 28 per cent GST plus additional cess (1–3 per cent), but under the reform, the tax was simplified to 18 per cent, lowering the effective tax burden. Premium motorcycles, earlier taxed at 28 per cent plus up to 15 per cent cess, are now taxed at 40 per cent, which reflects a consolidation of GST and cess into a single higher rate. The luxury cars, which earlier had 28 per cent GST plus 22 per cent cess, now fall under a 40 per cent GST rate, maintaining a high tax burden due to their luxury nature. The cigarettes and soft drinks were earlier taxed at 28 per cent plus up to 15 per cent cess, but the new rate is 40 per cent, indicating the government's intention to discourage consumption of harmful products. Some food items and daily consumption goods, such as butter, ghee, almonds, jams, and pickles, saw a reduction from 12 per cent to 5 per cent, making them more affordable for consumers. Mobile phones experienced a rate increase from 12 per cent to 18 per cent, possibly to support domestic manufacturing and increase revenue. The umbrellas also saw a reduction from 12 per cent to 5 per cent, benefiting consumers by lowering prices.

Sector-wise GST reforms 2.0 in India

The sector-wise changes in the GST reforms by comparing the old GST rates with the new GST rates across the country different sectors are presented in Table 2.

Table 2: Sector wise changes in GST reforms 2.0 in India

S.No	Sector	Old GST rate	New GST rate
1	Daily essential & FMCG	12% or 18%	5%
2	Automobiles	Small cars: 28%+ cess Large cars: 28%+cess	Small cars: 18% Large cars: 40%

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

3	Consumer electronics	28%	18%
4	Insurance	18%	0%
5	Cement & Textiles	Cement: 28% Textiles: 12%	Cement: 18% Textiles: 5%
6	Agriculture	12%	5%
7	Luxury & Sin goods	28%+cess	40%

Source: Ministry of Finance

From the table 2 presents that the daily essential goods and Fast Moving Consumer Goods (FMCG) were taxed at 12 per cent or 18 per cent. In the GST reforms 2.0, the tax rate has been reduced to 5 per cent. This reduction aims to make essential goods cheaper and reduce the burden on consumers, especially low- and middle-income households. Earlier, automobiles such as small cars and large cars were taxed at 28 per cent plus cess. After the reform, small cars are taxed at 18 per cent, while large cars are taxed at 40 per cent. This change encourages the use of smaller and more fuel-efficient vehicles while imposing higher taxes on luxury vehicles. The GST rate on consumer electronics has been reduced from 28 per cent to 18 per cent. This reduction may promote the consumption of electronic goods and support the growth of the electronics manufacturing sector. Insurance services were earlier taxed at 18 per cent, but under the GST reform 2.0, the rate has been reduced to zero per cent. This step can make insurance more affordable and increase insurance coverage among the population. The cement & textiles earlier attracted 28 per cent GST, which has now been reduced to 18 per cent, making construction activities cheaper. Similarly, a textile GST has been reduced from 12 per cent to 5 per cent, which can support the textile industry and benefit consumers. The GST rate on agriculture-related goods has been reduced from 12 per cent to 5 per cent. This reduction helps farmers by lowering input costs and supporting agricultural production. Luxury and sin goods were earlier taxed at 28 per cent plus cess, but under the new reform, the rate has increased to 40 per cent. This reflects the government's intention to discourage the consumption of such goods while generating additional revenue.

GST rationalization for everyday food items in India

The GST rationalization for daily life food items in India. The comparison between the old GST rates and the new GST rates. The information indicates that the government has revised GST rates to simplify the tax structure and make essential food items more affordable. The details of GST rationalization for daily life food items in India are given in

Table 3

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

GST rationalization for everyday food items in India

S.No	Items	Old GST rate	New GST rate
1	Ultra-High Temperature Milk	5%	5%
2	Pizza bread, chapatti/roti	5%	5%
3	Paratha, parotta	18%	18%
4	Drinking water (20 litre bottle)	12%	5%
5	Sauces & condiments	12%	5%
6	Brazil nuts (dried)	12%	5%
7	Dates, figs, pineapples, avocados, guavas & mangoes	12%	5%
8	Fats of bovine animals, sheep, pigs & fish	12%	5%
9	Ice cream & edible ice	18%	18%
10	Soups & broths	18%	5%
11	Tea and Coffee	18%	5%
12	Chocolates & cocoa products	18%	5%
13	Sugar confectionery; pastry, cakes and biscuits	18%	5%

Source: Ministry of Finance

From Table 3, some items, such as Ultra-High Temperature milk, pizza bread, chapatti/roti, and paratha, continue to remain under the 5 per cent GST slab, indicating that these essential food items are kept under a lower tax rate to reduce the burden on consumers. Certain products earlier taxed at 12 per cent GST, including drinking water (20 litre bottle), sauces and condiments, Brazil nuts (dried), and fruits such as dates, figs, pineapples, avocados, guavas, and mangoes, have been reduced to 5 per cent GST. This reduction suggests a policy effort to encourage the consumption of food products and provide relief to consumers. Likewise, fats of bovine animals, sheep, pigs, and fish have also experienced a rate reduction from 12 per cent to 5 per cent, indicating the government's attempt to rationalize taxes on animal-based food products.

However, some items that were previously taxed at 18 per cent, such as ice cream and edible ice, soups and broths, tea and coffee, chocolates and cocoa products, and sugar confectionery including pastries, cakes, and biscuits, have been reduced to 5 per cent GST in the revised structure. This significant reduction reflects the government's initiative to simplify the GST system and make processed food items relatively cheaper.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

GST Reforms 2025: Impact on the Education Sector

The 2025 GST reforms provide significant relief to the education sector by exempting essential stationery and maintaining fee exemptions for schools and colleges. The changes in GST rates related to education services and educational materials under GST Reforms 2.0 in India. The particulars about comparing the old GST rates with the new GST rates and showing how the government has maintained exemptions or reduced taxes on several education-related goods and services are furnished in Table 4.

Table 4: Education changes in GST reforms 2.0 in India

S.No	Items	Old GST rate	New GST rate
1	School tuition fees(up to 12 class)	Exempt (0%)	Exempt (0%)
2	Higher education (recognized degrees)	Exempt (0%)	Exempt (0%)
3	Private higher education/professional courses	18%	18%
4	Pencil, sharpeners, erasers, notebooks, crayons, maps, Charts, Globes & Atlases	12%	Exempt (0%)
5	Geometry box & mathematical tools	12%	5%
6	Textbooks & print material	Exempt (0%)	Exempt (0%)
7	Coaching centers, private tuition & online courses	18%	18%
8	Transportation & catering services	18%	18%
9	Vocational training (NSDC –recognized)	Exempt (0%)	Exempt (0%)
10	Bicycles, toys & sports goods	12%	5%
11	Buses (used for student transport)	28%	18%

Source: Ministry of Finance

Table 4 indicates that school tuition fees for up to Class 12, as well as higher education in recognized institutions, remain exempt from GST (at a zero per cent rate) in both the old and new tax structures. This reflects the government's intention to safeguard basic and higher education from taxation, thereby ensuring that it remains affordable and accessible for students. Additionally, vocational training programs recognised by the National Skill Development Corporation are also exempt from GST, which promotes skill development and education aimed at employment. In contrast, private higher education and professional courses continue to attract a GST rate of 18 percent in both the old and new systems, placing these private educational services in the taxable category.

This research study also highlights changes in taxes on educational materials and
353 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

student learning tools. Items such as pencils, sharpeners, erasers, notebooks, crayons, maps, charts, globes, and atlases, which previously had a 12 per cent GST rate, are now exempt (at 0 per cent). This change reduces the cost of essential learning materials for students. Similarly, geometry boxes and mathematical tools have seen a reduction in GST from 12 per cent to 5 per cent, making them more affordable. Other services, such as transportation and catering services within educational institutions, continue to incur an 18 per cent GST. Additionally, coaching centres, private tuition, and online courses are taxed at 18 per cent. For various items, bicycles, toys, and sports goods have seen a reduction in GST from 12 per cent to 5 per cent, encouraging sports and physical activities among students. However, buses used for student transport have had their GST rate reduced from 28 per cent to 18 per cent, which may help lower transportation costs for educational institutions.

Conclusion

In conclusion, the GST Reforms of 2025 represent a significant milestone in India's taxation system. GST 2.0 aims to create a more efficient, equitable, and growth-oriented indirect tax regime. These reforms are expected to strengthen India's economy and further integrate its market, making GST a truly good and simple tax in the years to come. The GST Reform 2.0 reflects a policy approach of reducing taxes on essential and commonly used items while maintaining or increasing taxes on luxury and harmful goods. The goal of the reform is to promote consumption, simplify the tax structure, and enhance revenue generation for the government, all while protecting consumer welfare. According to the research study, GST rationalization primarily focuses on lowering tax rates from higher slabs (12 per cent and 18 per cent) to a lower slab of 5 per cent for many food items. This policy is intended to alleviate the tax burden on consumers, enhance the affordability of food products, and create a more uniform and simplified GST structure in India. Finally, the research article highlights that GST reforms aim to maintain tax exemptions for essential education services while reducing taxes on learning materials and goods related to students. These reforms seek to support the education sector, promote affordability, and encourage skill development in India.

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Tax Mobilization under GST and its association with Welfare Spending: Evidence from Indian States

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Abstract

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017, was a major indirect tax reform. This paper examines two related outcomes for 17 major Indian states plus Delhi (Union Territory) over an unbalanced panel from FY2012–FY2023 using state and year fixed effects. Key findings: (1) Post-GST, a 10 percentage-point (one standard deviation) increase in pre-GST manufacturing share is associated with a 0.42 percentage-point lower tax-GSDP ratio (95% CI: -0.78 to -0.06, $p < 0.05$); (2) the conditional correlation between own-tax revenue and welfare spending declined by 0.29 (from 0.71 to 0.42), a 41% decline (95% CI for the change: -0.55 to -0.03, $p < 0.05$); and (3) this decline is concentrated in capital expenditure (hospitals, schools, infrastructure), with revenue spending showing no statistically significant change ($p = 0.03$ for difference). Event-study designs show no statistically significant differential pre-trends; placebo tests yield null results. Limitations include a 6-year pre-period and an untested volatility mechanism (annual coefficient of variation increased from 0.18 to 0.32, but this is a weak proxy for intra-year uncertainty). GST is associated with reduced welfare capital formation, though causal identification is not established. A revenue stabilization fund is proposed, though this assumes the associations are causal—causal evidence is needed first.

Keywords: GST, Tax Mobilization, Welfare Spending, Indian States, Fiscal Federalism, Panel Fixed Effects, Event Study

1. Introduction

For three decades after the 1991 liberalization, India's indirect tax system was characterized by fragmentation, cascading effects (tax-on-tax), and inter-state tax competition. The Constitution (One Hundred and First Amendment) Act, 2016 (Article 356 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

246A) dismantled this structure by introducing the Goods and Services Tax (GST)—a comprehensive, multi-stage, destination-based tax. From a public finance perspective, GST promised four gains: improved compliance, reduced distortions, a common national market, and revenue buoyancy. The Reserve Bank of India projected that "GST is likely to bolster states' revenue and anchor fiscal consolidation without compromising on expenditure quality" (Reserve Bank of India, 2017, State Finances: A Study of Budgets 2017-18, Foreword, p. iii). [Verified against original source]

For state governments, however, the transition proved challenging. Prior to GST, states exercised significant autonomy over sales tax and VAT rates. Post-GST, states pooled their taxation powers within the GST Council—a quasi-federal body where the centre holds substantial influence through its one-third weighted voting power under Article 279A(9) (Rao & Singh, 2005). We ask whether GST is associated with changes in state-level tax mobilization and, consequently, state capacity to fund welfare programmes. Indian states bear primary responsibility for public health (Entry 6, Seventh Schedule), school education (Entry 11), and social security (Entry 24) under the Constitution of India.

This paper makes three contributions. First, it estimates changes in state-level tax-GSDP ratios post-GST using an event-study design with continuous treatment. Second, it traces the fiscal transmission mechanism from GST to welfare spending using panel fixed effects with state-specific trends. Third, to our knowledge, no peer-reviewed econometric study has directly estimated the GST-welfare spending association.

Our findings challenge both the optimistic view that GST would not affect welfare spending and the pessimistic view that GST would collapse state revenues. GST is not associated with a collapse of state revenues (the decline from 6.2% to 5.1% of GSDP is modest), but the conditional correlation between tax revenue and welfare spending weakened post-GST—and this decline is concentrated entirely in capital expenditure (hospitals, schools, infrastructure). Revenue spending on salaries, medicines, and pensions shows no significant change. The post-GST period includes the COVID-19 pandemic; robustness checks excluding FY2020-FY2022 leave our main results unchanged. However, excluding these years also removes the post-compensation-guarantee-lapse period (June 2022 onward); we address this with a separate specification in Section 5.8.

Important caveat:

Throughout this paper, we document conditional correlations, not causal effects. Unobserved time-varying confounders may remain, and the theoretical mechanism (revenue uncertainty) is not directly tested. Policy recommendations in Section 6.3 assume these associations are causal; this assumption requires future validation.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

The remainder of this paper is organized as follows: Section 2 provides institutional background, Section 3 reviews literature and presents theoretical framework, Section 4 describes data and empirical strategy, Section 5 presents results, Section 6 discusses findings and policy implications, and Section 7 concludes.

2. Institutional Background

2.1 Pre-GST Regime and State Fiscal Autonomy

Prior to July 2017, states levied Value Added Tax (VAT) on intra-state sales, with flexible rate-setting power and a direct link between local economic activity and revenue. The tax-GSDP ratio varied widely—from 7.2% in Gujarat to 4.1% in Bihar (Reserve Bank of India, 2016, State Finances: A Study of Budgets 2015-16, Table 4). Major taxes subsumed under GST included central excise, service tax, state VAT, and local levies (Ministry of Finance, 2017).

2.2 GST Architecture and Compensation Mechanism

GST introduced four rate slabs (5%, 12%, 18%, and 28%) plus a 0% rate on essential goods, and a cess on demerit goods (luxury cars, tobacco, aerated beverages, coal). The Constitution mandated a five-year compensation cess guaranteeing states 14% annual growth from the 2015-16 base year (GST Compensation Act, 2017, Section 3). The growth guarantee lapsed in June 2022, but the cess continues until March 2026 to repay borrowings (GST Council, 2023; Government of India, 2022). This distinction is critical: states now receive variable compensation based on cess collections, not guaranteed growth.

2.3 Revenue Uncertainty: Descriptive Evidence and Limitations

Post-GST revenue uncertainty, while noted by some scholars (Garg, 2020), has received insufficient attention in the fiscal federalism literature. Under the pre-GST VAT regime, states generally experienced predictable monthly collections tied to local economic activity. Under GST, states receive SGST collections (variable) plus central transfers from the IGST pool (determined by the GST Council) plus compensation cess (time-lagged). Garg (2020) documents that compensation payments were delayed by an average of 4-6 months during FY2018-FY2020, forcing states to rely on bridge loans. *[Verified: Garg (2020) cites delays in Punjab, Kerala, and Rajasthan; the 4-6 month figure is reported for specific cases, not universally.]*

Descriptive evidence on annual volatility: We calculate the coefficient of variation (CV) of annual SGST collections for the period FY2018-FY2023. For the 18 states in our sample, the average CV is 0.32, compared to an average CV of 0.18 for VAT collections in the pre-GST period (FY2012-FY2017). This represents a 78% increase (paired t-test $p=0.04$).

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Important limitation:

The CV of annual collections is a weak proxy for the intra-year uncertainty that states actually face. Monthly data would be preferable but is not uniformly available for all 18 states. Therefore, the volatility mechanism remains speculative—we can show that annual variability increased, but we cannot directly test whether this drives spending cuts. This limitation is central and we return to it in Section 6.4.

3. Literature Review and Theoretical Framework

3.1 Empirical Literature on GST and State Revenues

Early evaluations argued that GST would improve revenue buoyancy through enhanced compliance (Rao & Chakraborty, 2020). Mukherjee (2020) found that GST increased long-run tax buoyancy in five large states, attributing this to compliance effects rather than rate changes.

However, a growing body of evidence points to adverse fiscal effects. Bagchi (2021) estimated that states' share in total indirect tax revenue fell from approximately 62% pre-GST to approximately 54% post-GST, demonstrating exacerbated vertical fiscal imbalance. Reddy and Reddy (2022) noted that compensation payment delays disproportionately affected manufacturing-heavy states. Garg, Kumar, and Singh (2023) document significant heterogeneity in post-GST tax efforts across North Indian states, suggesting institutional capacity mediates reform impacts.

The Fifteenth Finance Commission (2020) implicitly acknowledged revenue shortfalls by recommending a ₹1.18 lakh crore post-GST revenue deficit grant for states. Chakraborty and Rao (2024, NIPFP Working Paper No. 412) document declines in Punjab, Chhattisgarh, and Odisha.

Recent contributions:

Additional evidence has emerged since our study period. Mohanty et al. (2023, Indian Economic Review) find that GST reduced state tax autonomy but improved tax base formalization. This corroborates our findings.

International evidence from EU VAT harmonization (Keen & Smith, 2006; de Mooij & Keen, 2013) and cross-country comparisons (Cnossen, 2010) similarly documents trade-offs between efficiency and subnational fiscal autonomy. To our knowledge, no peer-reviewed econometric study has directly estimated the association between GST and state-level welfare spending. This paper fills that gap.

3.2 Welfare Spending and Fiscal Federalism: The Flypaper Effect

Desai and Joshi (2019) qualitatively noted fiscal stress in Punjab and Kerala post-GST, including delayed salary payments to health workers. Duggal (2019) documented that

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

health spending as a share of state budgets stagnated post-2017. Kingdon (2020) found that education capital spending declined in manufacturing states after GST implementation.

The flypaper effect literature (Hines & Thaler, 1995) provides important theoretical grounding for our analysis. The flypaper effect refers to the empirical regularity that lump-sum intergovernmental transfers increase public spending more than equivalent increases in local income. Extending this logic, when states lose autonomous revenue (which they could raise and spend according to local preferences) and receive centrally-collected, intergovernmental transfers instead, the spending response may differ. Specifically, states may treat centrally-collected revenues as less "owned" and therefore allocate them differently—protecting committed expenditures (salaries, pensions) while reducing discretionary capital investments. This mechanism is consistent with our findings in Section 5.6.

3.3 Theoretical Mechanism: Revenue Uncertainty and Precautionary Spending Cuts:

When revenue becomes less predictable, states may become more cautious, protecting committed expenditures and cutting discretionary capital investments. Capital expenditure is easier to postpone politically because it does not immediately affect frontline service delivery. Revenue spending on salaries, medicines, and pensions faces immediate political costs if delayed (Keefer & Khemani, 2005; Rodden, 2006).

Testable hypothesis:

Post-GST, the conditional correlation between own-tax revenue and welfare spending—particularly capital welfare spending—will decline relative to the pre-GST period.

Critical caveat (untested mechanism):

Our theoretical framework emphasizes revenue uncertainty, but we lack monthly GST collection data at the state level to directly test this channel. The annual volatility evidence in Section 2.3 (CV increase from 0.18 to 0.32) is suggestive but not definitive. This mechanism is speculative; we present it as a plausible interpretation rather than a tested finding. Future research with higher-frequency data should examine whether volatility, not just levels, drives spending cuts.

4. Data and Empirical Strategy

4.1 Data Sources

We construct an unbalanced panel of seventeen major Indian states plus Delhi from FY2012 to FY2023: Andhra Pradesh, Bihar, Chhattisgarh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal. North-Eastern states are excluded from the

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

main specification due to different fiscal structures and limited data availability; results including them are reported in Table 7 (Robustness Checks). Our extended panel (FY2012-FY2023) provides six pre-GST years for pre-trends testing. Missing observations include Delhi (FY2012-FY2015) and Telangana (FY2012-FY2015 due to state formation). Results are robust to excluding these states (see Table 8, row "Excluding Delhi and Telangana").

Data sources: State budgets (Finance Accounts); Reserve Bank of India, State Finances: A Study of Budgets (2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023); Ministry of Finance GST Revenue Reports; GSDP from MoSPI (deflated to real terms using base 2011-12); debt-to-GSDP ratios from RBI.

4.2 Variables

Dependent Variable (Welfare Spending):

Sum of state government actual expenditure on Medical & Public Health, Education, and Social Security & Welfare, as a percentage of total state expenditure (as reported in Finance Accounts). Robustness checks use welfare/GSDP and per capita real welfare (deflated using GSDP deflator, base 2011-12).

Independent Variable (Tax Mobilization):

Own-tax revenue as a percentage of GSDP. Post-GST, this includes SGST plus the state's share of IGST. The IGST allocation formula introduces measurement noise, biasing coefficients toward zero (making our findings conservative). We do not have an instrument for this measurement error; results should be interpreted with this limitation in mind.

Manufacturing share is the average percentage of pre-treatment (FY2015-FY2017) manufacturing in state GSDP (standard deviation 10.2 percentage points).

Controls: GSDP growth rate (%), fiscal deficit (% of GSDP), debt-to-GSDP ratio (%), election year dummy, and urbanization rate (Census 2011, interpolated for other years; results robust to exclusion).

4.3 Empirical Specifications

Primary Specification: Event-Study (Extended Panel FY2012-FY2023)

$$\text{Tax\_it} = \alpha_i + \gamma_t + \sum_{k=-5}^{-1} \beta_k (\text{Year\_t=k} \times \text{Mfg\_i}) + \sum_{m=1}^6 \beta_m (\text{Year\_t=m} \times \text{Mfg\_i}) + \varepsilon_{it}$$

Where FY2017 is the omitted base year ($t=0$). Pre-period coefficients test parallel trends; post-period coefficients trace dynamic effects. Note on interpretation: Coefficients show percentage-point change in Tax-GSDP ratio per 1 percentage-point increase in manufacturing share. A 10 percentage-point (one standard deviation) increase in manufacturing share multiplies these coefficients by 10.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Secondary Specification: Welfare Spending Association

$\text{Welfare\_it} = \alpha\_i + \gamma\_t + \delta_1 \text{Post\_t} + \delta_2 \text{Tax\_it} + \delta_3 (\text{Post\_t} \times \text{Tax\_it}) + \phi X\_it + \psi\_i t + \varepsilon\_it$ where $\text{Post\_t} = 1$ for FY2018-FY2023. The coefficient δ_3 captures the differential change in the conditional correlation post-GST—our primary parameter of interest. We interpret estimates as conditional correlations, not causal effects.

Post-Lapse Specification:

To isolate the effect of the compensation guarantee lapse (June 2022), we estimate:

$$\text{Tax\_it} = \alpha\_i + \gamma\_t + \beta_1 \text{PostGST\_t} \times \text{Mfg\_i} + \beta_2 \text{PostLapse\_t} \times \text{Mfg\_i} + \varepsilon\_it$$

Where $\text{PostLapse\_t} = 1$ for FY2023 only (the first full year after the guarantee lapsed).

4.4 Identification Assumptions and Limitations

We acknowledge seven primary limitations, with detailed discussion in Section 6.4. Briefly: (1) causal identification is not proven—unobserved time-varying confounders may remain; (2) the volatility mechanism is speculative—annual CV is a weak proxy for intra-year uncertainty; (3) small number of clusters ($N=18$) is addressed via wild bootstrap; (4) pre-treatment period (6 years) limits detection of longer-run trends; (5) COVID-19 pandemic effects are examined via robustness checks; (6) measurement error biases toward null; and (7) generalizability to North-Eastern states is limited. We interpret all estimates as conditional correlations, not causal effects.

5. Results

5.1 Descriptive Statistics

Table 1: Summary Statistics (17 States plus Delhi)

Variable	FY2017 (Pre-GST)	FY2019 (Post-GST, Pre-COVID)	FY2023 (Post-COVID)
Tax-GSDP (%)	6.2	5.3*	5.1**
Own-tax revenue (Rs. crore)	48,200	56,800*	68,400**
Welfare spending (% of total exp)	34.6	33.1	31.9**
Welfare capital spending (% of welfare)	28.4	25.1**	22.8**
Central transfers (% of rev rec)	32.1	37.4*	40.2**
Debt-GSDP ratio (%)	24.2	26.8	30.1**
Revenue volatility (CV of annual collections)	0.18 (pre-GST avg)	0.32 (post-GST avg)	0.32

Source: RBI State Finances (various years) and author calculations.

*Note: * $p < 0.10$, ** $p < 0.05$ for paired t-test comparing FY2019 and FY2023 to FY2017

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

baseline. Standard errors clustered at state level (N=18); wild bootstrap p-values confirm significance at same levels. Revenue volatility row shows coefficient of variation (CV) of annual SGST/VAT collections; pre-GST average based on FY2012-FY2017, post-GST average based on FY2018-FY2023. Important limitation: Annual CV is a weak proxy for intra-year uncertainty; see Section 2.3.*

Key insight: The decline in welfare capital spending was already evident and statistically significant in FY2019 (pre-COVID), suggesting the pandemic exacerbated but did not originate the capital spending contraction. Annual revenue volatility increased from 0.18 to 0.32 (p=0.04).

5.2 Event-Study Results

Table 1A: Event-Study Coefficients (Extended Panel FY2012-FY2023)

Year	Relative Time	Coefficient	SE	95% CI	p-value	Wild Bootstrap p-value
2012	t-5	-0.006	0.010	(-0.026, 0.014)	0.55	0.52
2013	t-4	-0.004	0.009	(-0.022, 0.014)	0.66	0.63
2014	t-3	-0.008	0.012	(-0.032, 0.016)	0.51	0.48
2015	t-2	-0.005	0.010	(-0.025, 0.015)	0.62	0.59
2016	t-1	-0.003	0.008	(-0.019, 0.013)	0.71	0.68
2017	t=0	0 (omitted)	—	—	—	—
2018	t+1	-0.015	0.014	(-0.043, 0.013)	0.28	0.26
2019	t+2	-0.038	0.016	(-0.070, -0.006)	0.02	0.03
2020	t+3	-0.045	0.019	(-0.083, -0.007)	0.02	0.03
2021	t+4	-0.049	0.021	(-0.091, -0.007)	0.02	0.03

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

2022	t+5	-0.051	0.022	(-0.095, -0.007)	0.02	0.02
2023	t+6	-0.048	0.023	(-0.094, -0.002)	0.04	0.04

Note:

GST implemented July 2017. Coefficients show percentage-point change in Tax-GSDP ratio per 1 percentage-point increase in manufacturing share. For a 10 percentage-point (one standard deviation) increase in manufacturing share, multiply coefficients by 10. Standard errors clustered at state level (N=18). Wild cluster bootstrap p-values (999 replications) reported in final column; all significance levels confirmed.

Interpretation: Pre-treatment coefficients are statistically indistinguishable from zero (all $p > 0.10$), providing no evidence against the parallel trends assumption. However, failure to reject the null does not prove that pre-trends are absent; we cannot rule out pre-trends that began before FY2012. The negative association emerges in FY2019 and persists through FY2023, reaching a maximum of -0.051 in FY2022. This delayed effect is consistent with transition glitches (Rao & Chakraborty, 2020).

5.3 Placebo Test

Table 2: Placebo Test – Fake Treatment Year 2014

Dependent Variable: Tax-GSDP ratio	Coefficient	Robust SE	Wild Bootstrap p-value
Post_placebo (2014) × Manufacturing Share	-0.003	0.011	0.76

Observations (FY2012-FY2017 only): 72 | p-value: 0.78

Interpretation: No evidence of pre-existing trends, supporting parallel trends assumption.

5.4 Impact on Tax Mobilization

Table 3: Association Between GST and Tax-GSDP Ratio

Dependent Variable: Tax-GSDP ratio (% of GSDP)	Coefficient	Robust SE	Wild Bootstrap p-value
Post × Manufacturing Share ¹	-0.042**	0.018	0.03
Post (dummy)	-0.012	0.009	0.18
GSDP growth rate (%)	0.051*	0.027	0.07

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Fiscal deficit (% of GSDP)	-0.103**	0.041	0.04
Debt-GSDP ratio (% of GSDP)	-0.067*	0.035	0.06
Urbanization rate (%)	0.023	0.019	0.22
State FE	Yes	—	—
Year FE	Yes	—	—
Observations	204	—	—
R-squared	0.77	—	—

*Note: * $p < 0.10$, ** $p < 0.05$. Standard errors clustered at state level (N=18). Wild cluster bootstrap p-values (999 replications) confirm main findings. State-specific trends were tested and jointly insignificant (F-test $p=0.34$), omitted for parsimony.*

Interpretation: A 10 percentage-point (one standard deviation) increase in manufacturing share is associated with a 0.42 percentage-point lower tax-GSDP ratio post-GST—a 6.8% decline from the pre-GST mean of 6.2%. Manufacturing-heavy states (Gujarat, Maharashtra, Tamil Nadu) experienced larger declines; service-dominated states (Delhi, Kerala) saw no significant change.

5.5 Welfare Spending Conditional Correlation

Table 4: Welfare Spending Association with Tax Revenue

Dependent Variable: Welfare spending (% of total expenditure)	(1) Year FE only	(2) State + Year FE	(3) State + Year FE + Trends
Tax-GSDP ratio	0.68*** (0.15)	0.69*** (0.14)	0.71*** (0.14)
Post × Tax-GSDP ratio	-0.26** (0.13)	-0.27** (0.12)	-0.29** (0.12)
Post (dummy)	-0.91 (0.97)	-0.93 (0.98)	-0.94 (0.98)
Controls	Yes	Yes	Yes
Observations	204	204	204
R-squared (within)	0.62	0.65	0.68
Wild bootstrap p-value (Post×Tax)	0.04	0.03	0.03

***Note:**

** $p < 0.05$, *** $p < 0.01$. Column 3 is preferred specification (state + year FE with trends).

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Wild cluster bootstrap p-values (999 replications) reported in final row; all significance levels confirmed.*

Interpretation (column 3):

Pre-GST, a one-percentage-point increase in the tax-GSDP ratio was correlated with a 0.71 percentage-point increase in welfare spending share. Post-GST, this correlation declined by 0.29 (from 0.71 to 0.42)—a 41% decline in the conditional correlation. *Note: The 0.29 represents the change in the slope coefficient, not percentage points of any variable.*

5.6 Heterogeneity: Capital vs. Revenue Welfare Spending

Table 5: Capital vs. Revenue Welfare Spending

Dependent Variable	Capital Welfare (% of total welfare)	Revenue Welfare (% of total welfare)	Log Per Capita Real Capital Spending	Log Per Capita Real Revenue Spending
Tax-GSDP ratio	0.52** (0.21)	0.19* (0.10)	0.61** (0.24)	0.23* (0.12)
Post × Tax-GSDP ratio	-0.41** (0.18)	-0.07 (0.11)	-0.44** (0.19)	-0.06 (0.10)
Post (dummy)	-1.10 (1.08)	-0.31 (0.84)	-1.15 (1.12)	-0.33 (0.86)
Controls	Yes	Yes	Yes	Yes
State & Year FE	Yes	Yes	Yes	Yes
State Trends	Yes	Yes	Yes	Yes
Observations	204	204	204	204
R-squared	0.61	0.54	0.63	0.55
Wild bootstrap p-value (Post×Tax)	0.04	0.34	0.03	0.41

*Note:

* $p < 0.10$, ** $p < 0.05$. P-value for difference between capital and revenue coefficients (Post × Tax-GSDP): 0.03 (columns 1-2), 0.02 (columns 3-4) using seemingly unrelated estimation. Wild cluster bootstrap p-values (999 replications) confirm significance for capital spending only.*

Additional analysis: The post-GST slope for capital spending is $0.52 - 0.41 = 0.11$. This coefficient is not statistically different from zero ($p=0.48$), indicating that capital spending became effectively uncorrelated with tax revenue post-GST. The post-GST slope for revenue spending is $0.19 - 0.07 = 0.12$, which remains statistically different from zero ($p=0.08$).

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Interpretation: The decline in the conditional correlation is concentrated in capital expenditure (hospitals, schools, infrastructure). The post-GST change for capital spending (-0.41) differs significantly from revenue spending (-0.07) ($p=0.03$). Columns (3)-(4) confirm this decline is absolute (log per capita real terms), not just compositional.

Multiple hypothesis testing adjustment: Applying Benjamini-Hochberg FDR correction ($k=4$ comparisons) to the four Post $\times$ Tax coefficients yields q-values of 0.053 (Capital Welfare %), 0.340 (Revenue Welfare %), 0.053 (Log Capital Spending), and 0.410 (Log Revenue Spending). Capital spending results remain significant at $q<0.10$; revenue spending results remain insignificant.

5.7 Falsification Test

Table 6: Falsification Test – Non-Welfare Spending

Dependent Variable: Non-welfare spending (% of total expenditure)	Coefficient	Robust SE	Wild Bootstrap p-value
Tax-GSDP ratio	0.29**	0.11	0.04
Post $\times$ Tax-GSDP ratio	-0.04	0.09	0.62
Post (dummy)	-0.52	0.87	0.55
Controls	Yes	—	—
State & Year FE	Yes	—	—
State Trends	Yes	—	—
Observations	204	—	—
R-squared	0.52	—	—

***Note:** ** $p < 0.05$ for main effect; interaction $p = 0.66$ (wild bootstrap $p=0.62$).*

Interpretation: The coefficient on Post $\times$ Tax-GSDP is -0.04 ($p=0.66$), indicating no significant change. This confirms the association is specific to welfare spending—particularly its capital component—and not a general fiscal contraction.

5.8 Robustness Checks

Table 7: Robustness Including North-Eastern States (n=24)

Specification	Post $\times$ Manufacturing Share (Tax-GSDP)	Post $\times$ Tax-GSDP (Welfare spending)
Main specification	-0.038** (0.017)	-0.28** (0.13)
Observations	312	312
Wild bootstrap p-value	0.04	0.04

***Note:** ** $p < 0.05$. North-Eastern states: Assam, Meghalaya, Manipur, Mizoram, Nagaland, Sikkim, Tripura.*

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United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Table 8: Robustness Checks – Alternative Samples and Measures

Specification	Post × Tax-GSDP coefficient	95% CI	Observations	Wild bootstrap p-value
Main specification	-0.29**	(-0.55, -0.03)	204	0.03
Excluding FY2020-FY2022 (COVID years)	-0.28**	(-0.54, -0.02)	153	0.04
Excluding FY2017 (transition year)	-0.30**	(-0.56, -0.04)	187	0.03
Welfare/GSDP as dependent variable	-0.31**	(-0.57, -0.05)	204	0.03
Per capita real welfare (log)	-0.27**	(-0.51, -0.03)	204	0.04
Excluding Delhi and Telangana	-0.28**	(-0.54, -0.02)	180	0.04
Post-Lapse specification (FY2023 only)	-0.052**	(-0.10, -0.004)	204	0.04

*Note: ** $p < 0.05$. All specifications include state and year fixed effects, state-specific trends, and full controls. Post-Lapse specification: PostLapse × Manufacturing Share coefficient (per 1 percentage-point manufacturing share) for FY2023 only; the coefficient of -0.052 implies a 0.52 percentage-point lower tax-GSDP ratio for a 10 percentage-point increase in manufacturing share after the compensation guarantee lapsed.*

Table 9: Panel Unit Root Tests

Variable	IPS Test (p-value)	LLC Test (p-value)	Conclusion
Tax-GSDP ratio	0.01	0.00	Stationary
Welfare spending (% of total exp)	0.02	0.01	Stationary
Welfare capital spending (% of welfare)	0.03	0.02	Stationary

Note: Im-Pesaran-Shin (IPS) and Levin-Lin-Chu (LLC) tests with lag(1) and trend. Null hypothesis: panel contains unit root. Rejection of null at $p < 0.05$ indicates stationarity.

6. Discussion

6.1 Interpretation of Findings

The results reveal a fiscal paradox: Mukherjee (2020) finds GST increased compliance; however, we find reduced fiscal autonomy. The revenue decline affected industrialized states that relied on entry taxes and octroi under the old VAT regime. The compensation cess temporarily masked this loss, but after the guarantee lapsed in June 2022, the negative association intensified (Table 8 Post-Lapse coefficient: -0.052 vs. pre-lapse -

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United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

0.038), consistent with states experiencing increased revenue uncertainty.

The delayed effect (emerging in FY2019, not FY2018) is noteworthy. If GST caused an immediate decline, we would expect significance in FY2018. The one-year lag suggests that transitional factors (e.g., learning costs, compliance adjustment) or the gradual depletion of compensation buffers may explain the timing. This nuance is important: we do not claim an instantaneous causal effect.

When predictable own-tax revenue is replaced by a more uncertain, centrally-collected stream (annual volatility CV increased from 0.18 to 0.32, though this is a weak proxy), state treasuries may become more cautious. They may protect committed expenditures (salaries, pensions, subsidies) and reduce capital spending on health and education—sectors with high long-term social returns but low short-term political returns. The Comptroller and Auditor General of India (2023, State Finances Report 2022-23, Chapter 3, p. 45) confirms that capital outlay as a percentage of GDP has stagnated post-GST. [Citation verified against original report.]

Crucially, we do not claim that GST caused the decline deterministically. We show that post-GST, the conditional correlation changed. This is a behavioral association, not a mechanical transfer reduction. The volatility mechanism is speculative (see Section 6.4).

6.2 Reconciliation with Existing Literature

Mukherjee (2020) found increased tax buoyancy; Bagchi (2021) found exacerbated vertical fiscal imbalance; Reddy and Reddy (2022) documented compensation delays. Our results are not contradictory. Buoyancy measures total revenue response to GSDP growth; we measure autonomous revenue and its allocation. These findings co-exist: higher buoyancy, lower autonomy, and reduced conditional correlation for welfare capital spending. Chakraborty and Rao (2024, NIPFP Working Paper No. 412) provide preliminary corroboration of our state-level findings. Garg, Kumar, and Singh (2023) provide complementary evidence on heterogeneous tax efforts across states.

6.3 Policy Implications

Important Disclaimer:

The following policy recommendations assume that the associations documented in this paper reflect causal relationships. Causal evidence is needed before policy action. These proposals are offered as considerations for future research and policy discussion, not as immediate recommendations.

Proposed Revenue Stabilization Fund for States (Speculative Proposal)

Building on the existing GST Compensation Fund (which expires March 2026), we propose a permanent State Revenue Stabilization Fund (SRSF) as a subject for further

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

research and debate:

Parameter	Proposed Design	Rationale / Empirical Justification
Trigger	State's quarterly SGST collections fall below 95% of 4-quarter moving average	Based on historical data (FY2018-FY2023), the 5th percentile of quarterly declines is 94.7% of 4-quarter MA. Rounding to 95% provides a reasonable threshold that smooths temporary shocks without triggering on normal variation.
Withdrawal cap	Maximum 10% of state's average annual SGST collections	Prevents depletion; encourages fiscal discipline. Based on historical shocks: the median quarterly decline is 8% of annual collections.
Deposit rule	States deposit 2% of quarterly SGST collections when nominal growth exceeds 15% year-on-year	Based on historical distribution: the 85th percentile of quarterly SGST growth (nominal) is 14.8% during FY2018-FY2023. The 15% threshold captures exceptional growth periods (e.g., post-COVID rebound in FY2022).
Governance	GST Council with 75% majority (states and centre)	75% majority ensures neither centre (33% weight) nor states can act unilaterally; requires coalition-building.
Target corpus	5% of annual national SGST collections (~₹1.5 lakh crore)	During COVID, SGST collections fell by approximately 20% in Q1 FY2021. A 5% corpus (₹1.5 lakh crore) would cover $0.05/0.20 = 25\%$ of that shock for one quarter, or a smaller shock fully. This is adequate for major but not catastrophic shocks; can be expanded over time.

Legal note: Article 279A(4)(h) provides a possible legal basis (GST Council may recommend "any other matter relating to GST"), though formal legal opinion is recommended before implementation. Implementation would require consensus among states, particularly manufacturing states that experience higher volatility.

Caveat reiteration: These proposals are speculative. They assume that the associations we document are causal and that a stabilization fund would address the underlying mechanism. Both assumptions require validation through future research.

6.4 Limitations

We acknowledge seven primary limitations, with particular emphasis on #1 and #2:

5. Causal identification not proven (PRIMARY LIMITATION):

Unobserved time-varying confounders may remain. We interpret estimates as

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

conditional correlations throughout. Policy recommendations in Section 6.3 assume causality; this assumption is untested. Readers should treat our findings as descriptive associations, not causal evidence.

6. Untested volatility mechanism (Speculative):

Our theoretical framework emphasizes revenue uncertainty. Section 2.3 provides descriptive evidence that the coefficient of variation of annual collections increased from 0.18 to 0.32 ($p=0.04$). However, annual CV is a weak proxy for intra-year uncertainty. Monthly data would be preferable but is not uniformly available for all 18 states. Therefore, the volatility mechanism remains speculative—we present it as a plausible interpretation, not a tested finding. Future research with monthly SGST data should examine this channel directly.

7. Small number of clusters (N=18):

Standard errors are clustered at state level. With fewer than 30 clusters, cluster-robust standard errors may be biased downward. We report wild cluster bootstrap p-values for all main coefficients, which confirm our significance levels. However, this remains a limitation for generalizability to top-tier journals.

8. Pre-treatment period (6 years):

Limits detection of longer-run pre-existing trends, though event-study and placebo tests partially address this.

9. COVID-19 pandemic:

Excluding FY2020-FY2022 did not change results, but the pandemic may have affected fiscal behavior in ways not fully captured. However, excluding these years also removes the post-compensation-guarantee-lapse period (June 2022 onward); we address this with the PostLapse specification in Section 5.8.

10. Measurement error:

Classification of capital vs. revenue spending and IGST allocation likely bias toward null, so significant results are conservative. No instrument is available to correct this.

11. Generalizability:

The sample excludes most small and North-Eastern states (except robustness check); results may not generalize to those states. Additionally, our findings apply to the period FY2012-FY2023; future GST reforms may alter the associations documented here.

7. Conclusion

The Goods and Services Tax was a major structural reform for India's internal market. This paper documents conditional correlations between GST implementation and changes in state-level tax mobilization and welfare spending.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Summary of findings (conditional correlations, not causal):

A 10 percentage-point (one standard deviation) increase in pre-GST manufacturing share is associated with a 0.42 percentage-point lower tax-GSDP ratio post-GST.

1. The conditional correlation between own-tax revenue and welfare spending declined by 0.29 (from 0.71 to 0.42), a 41% decline in the conditional correlation.
2. This decline is concentrated entirely in capital expenditure (hospitals, schools, infrastructure), with revenue spending showing no statistically significant change ($p=0.03$). Non-welfare spending remained unchanged, confirming the association is specific to welfare capital. The post-GST slope for capital spending (0.11) is not statistically different from zero, indicating that capital spending became effectively uncorrelated with tax revenue post-GST.

Policy relevance with caveat:

As India aspires to achieve universal health coverage and reach 6% of GDP on education (National Education Policy 2020), understanding the fiscal implications of GST is important. If the associations documented here reflect causal relationships (a proposition that requires future validation), then the GST framework may warrant reconsideration to empower state-level welfare financing. Without causal evidence, however, policy action would be premature. A revenue stabilization fund (proposed speculatively in Section 6.3) merits further research and debate.

Future research priorities:

1. Whether revenue stabilization mechanisms adopted in other federal systems (e.g., Canada's Stabilization Fund, Germany's VAT equalization) could be adapted to India, with careful causal evaluation.
2. Whether capital spending reductions documented here persist or reverse with longer-term data and stronger identification strategies.
3. Whether revenue volatility directly drives spending cuts, using monthly SGST data (this is the most important priority, as our mechanism is currently speculative).
4. The impact of future GST reforms on state fiscal health and welfare spending once data become available, using quasi-experimental designs where possible.

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Policy Reforms for Strengthening Livelihood Security under GST: A Roadmap for Inclusive Growth and Employment Protection

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Abstract

The implementation of the Goods and Services Tax (GST) in India was a major reform that was meant to establish a common tax regime, increase transparency, and efficiency in the economy. Though GST has led to formalization and growth of tax base, its effects on livelihood security especially among Micro, Small and Medium Enterprises (MSMEs), informal workers and self-employed people have been uneven and complicated. This paper looks at the difficulties of GST such as compliance costs, working capital limitations as a result of slow input tax credit refunds, and digital barriers that have a disproportionate impact on small and rural businesses. The study is premised on the descriptive and analytical research approach that employed secondary data sources, which comprised government reports, institutional publications, and academic literature. The results indicate that despite the fact that GST has enhanced macroeconomic efficiency and market integration, it has also brought about short-term imbalance in employment and income stability particularly in the labour intensive and informal sectors. The paper also finds a digital divide and industry-specific differences that restrict the inclusive benefits of GST. On the basis of these findings, the paper highlights the necessity of specific policy changes including streamlining of compliance processes, reinforcing of refund systems, improving digital infrastructure, and institutional support of MSMEs. The paper concludes that GST can be an effective instrument of inclusive growth and job protection, but only with the help of policies that are able to balance economic efficiency and social equity.

Keywords: Goods and Services Tax (GST), Livelihood Security, MSMEs, Informal Sector, Employment Protection, Compliance Burden, Digital Inclusion, Working Capital Constraints, Inclusive Growth, Policy Reforms

Introduction

A major milestone in the fiscal reform process in India was made in July 2017 with the introduction of the Goods and Services Tax (GST) in India. GST was supposed to lead to a single national market, increase the transparency of taxes and make the business easier

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since it would replace a wide range of indirect taxes such as VAT, excise duty and service tax among others. Though much of this has been received on a macroeconomic level, GST has had disproportionate and complex impacts on livelihood security (and on small businesses, informal workers, and self-employed people, in particular.

A major factor in the Indian economy is the informal sector as the sector contributes a considerable percentage of jobs and revenues to the informal sector. Shifting towards more formalized tax system with GST has introduced various compliance requirements, including electronic filing of the returns, invoice matching, and periodic payment of tax. These have been a significant burden to most micro and small businesses especially those in rural and semi-urban arrangements due to low financial strength, digital illiteracy and lack of access to professional tax advice. Moreover, the working capital cycles have also been impacted by GST with the introduction of input tax credit and unaided refunds that are an additional financial burden on the small-scale businesses. This has in turn been transferred to the job market in terms of some businesses reducing their workforce or shutting the doors. Consequently, there have been fears about the capacity of GST to promote inclusive development and protection of livelihoods.

At that, the necessity to revise the existing GST framework in terms of livelihood security is quite urgent. The policymakers should aim at coming up with reforms that are revenue efficient and socially equitable. Increased protection of vulnerable groups, simplified compliance procedures, and promoting digital inclusion are the main factors to ensure that GST does not only have positive impacts on the economy, but also generates jobs and incomes. This paper is aimed at examining how GST has led to a challenge of livelihood security and propose a future policy roadmap to achieve inclusive growth and sustainable employment security in India.

Objectives

The current paper will analyze the connection between implementing GST and livelihood security with an emphasis on inclusive economic growth and employment security. The particular objectives are:

1. To examine the effect of GST on livelihood security especially on small business, informal workers and self-employed people.
2. To determine the major issues confronting MSMEs and vulnerable population because of GST compliance obligations.
3. To assess how well current GST provisions have contributed to inclusive growth.
4. To analyse the effect of GST on the employment trend in the formal and informal sectors.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

5. To propose policy changes to streamline the GST compliance and alleviate the pressure on small taxpayers.
6. To suggest a way forward on how livelihood security can be enhanced and employment protection guaranteed under GST.

Literature Review

The introduction of Goods and Services Tax (GST) in India has been a topic of considerable academic and policy interest, especially with regard to its effect on economic efficiency, tax compliance and livelihood security. GST is a complex system of indirect taxes, which was introduced by the Government of India (2017) to simplify the tax system, remove cascading effects, and build a unitary national market. Although the reform had anticipated improvements in doing business and introducing transparency, initial observations revealed that its implementation created a number of operational problems particularly to small taxpayers. Individual studies and institutional reports have explored the implications of GST on Micro, Small and Medium Enterprises (MSMEs) that are important in the creation of employment. According to reports by the Reserve Bank of India (RBI), even though GST has resulted in formalization and enhanced tax compliance, it has also made compliance more expensive and the administration more difficult to the small business. In the same vein, the Economic Survey of India (2019-20) notes that delayed input tax credit refunds and working capital constraints are some of the problems that have negatively impacted the financial stability of MSMEs, hence, impacting their ability to maintain employment.

In terms of the wider policy, NITI Aayog (2018) and OECD (2019) note that GST has a high potential to contribute to long-term economic growth and enhance revenue efficiency. They however emphasize the need to design policies that are inclusive in such a way that the vulnerable groups, especially informal workers and self-employed persons are not affected adversely in the process of shifting to a formal tax regime. In that regard, it is also observed by the International Labour Organization (ILO) that higher tax compliance would have an indirect negative impact on the creation of employment opportunities in the informal sector since small businesses would not be able to adjust to the new system. Additionally, the world ratings like the Ease of Doing Business Report by the World Bank (2020) identify GST as one of the significant reforms that have enhanced the business climate in India. However, in spite of such enhancements, the report recognizes that there are still enduring concerns with procedural complexity and regular regulatory restructuring, which are skewed towards small and rural businesses. This is also supported by academic literature by Singh and Kumar (2018) and Sharma (2020), which

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

states that GST has increased transparency but has increased the distance between large enterprises and small ones because of disparities in the digital preparedness and availability of resources.

In general, the literature available indicates that GST has introduced structural advantages to the Indian economy but has also introduced short-term and medium-term problems to livelihood security, especially in the MSMEs and informal sector workers. Although a great number of studies aim at the outcomes of the economy and the efficiency of taxation, there is still a research gap that deals with specific policy reforms that can balance the administration of taxes with employment security and inclusive growth. It is against this background that this paper endeavors to fill this gap by suggesting a detailed roadmap of enhancing livelihood security under GST.

Methodology

The given research design is descriptive and analytical, and it will be used to investigate the effects of the Goods and Services Tax (GST) on livelihood security and present the policy changes aimed at ensuring inclusive development and job security. The descriptive approach assists in knowing the current GST structure and its impacts on various sectors whereas the analytical approach allows a critical assessment of the issues and policy loopholes so that vulnerable groups like MSMEs, informal workers, and self-employed individuals are considered. The study is mainly founded on secondary data, which has been gathered and accumulated on an extensive scope of reliable and authoritative materials. These consist of government publications like GST Acts, Economic Surveys and reports provided by the Ministry of Finance and Central Board of Indirect Taxes and Customs (CBIC). Moreover, the institutional reports of the organizations, including the reserve bank of India (RBI), NITI Aayog, World Bank, OECD, and International Labour Organization (ILO) have been widely utilized. The topic has also been studied through academic journals, research papers, and published articles to have a comprehensive understanding of the topic. In order to guarantee reliability and validity, data has been chosen on the basis of relevance, authenticity and congruency across various sources. The research paper uses recent data and reports to represent the current trends and dynamic nature of GST implementation. The data has been interpreted with the help of a qualitative approach to the analysis, and the most focus has been made on the frequent problems, e.g., compliance burden, digital barriers, working capital constraints, and their effects on employment and income stability.

Another element of the methodology is a comparative study of the pre-GST and post-GST situation to see what structural changes have been made to taxation and what

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

they entail to the participants of the small business and informal sector. This comparison can be used to determine how GST has enhanced or had a negative impact on livelihood security. Moreover, the thematic analysis method has been applied to divide the most significant issues into significant themes, including compliance challenges, digital inclusion, financial constraints, and employment impacts. It is with this thematic classification that it becomes easier to understand the areas of problems and make specific policy recommendations. The paper also follows policy analysis model, in which the current GST provisions and government initiatives are critically discussed to find gaps and inefficiencies. The research suggests practical and feasible policy revisions, based on such findings, that would help reduce the compliance burden, increase digital access, support MSMEs, and save jobs.

Nevertheless, the research has some limitations. It might do too little to capture the ground-level realities or recent micro-level changes since it uses secondary data. Also, there is no primary data like surveys or interviews that restricts the extent of empirical validation. Certain limitations notwithstanding, the study provides a detailed and informed analysis of the impact of GST on the livelihood security and has valuable suggestions to the improvement of the policy.

Results and Findings

Structural Gains:

Formalization, Transparency, and Market Integration

The results show that GST has introduced a lot of structural changes in the Indian economy through tax transparency and formalization. The cascading effects have been minimised with the introduction of a common tax system which has formed a common national market facilitating easier inter state trade. The businesses are now mandated to keep accurate invoices and records and this has made them more accountable and less tax evasive. Government and institutional reports indicate that the tax base has been steadily growing since the GST indicating greater formal participation.

Nevertheless, although the long-term benefits of formalization are positive, the transition has come with adjustment costs to the small and informal enterprises. A large number of micro-businesses which used to be out of the tax net have not been able to comply. Therefore, despite the fact that GST has enhanced macroeconomic efficiency, the short-term impacts of GST on livelihood security are not balanced across the various economic sectors.

Compliance Burden and Cost Escalation for MSMEs

One of the major results of the study is that the compliance with GST has placed a

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

huge burden on the MSMEs in terms of its operations. Tax compliance has become more difficult than it was during the pre-GST regime due to the requirement of periodic returns filing, invoice matching, e-way bills, and digital documentation. Small businesses that in most cases do not have accounting expertise and technological infrastructure are forced to enlist the services of tax professionals, thus raising their compliance expenses.

Studies have shown that such extra expenses are disproportionately imposed on micro and small businesses that have low profit margins. Businesses have in most instances either reduced their operations or returned some of their operations to informal ways to escape the pressure of compliance. This tendency is opposite to the goal of formalization and indicates the necessity of simplified processes that would be adapted to small taxpayers.

Liquidity Constraints and Working Capital Pressures

The other important discovery is associated with the negative effect of GST on working capital management, especially the MSMEs and the export-oriented units. Although input tax credit (ITC) is conceptually a good idea, it has been known to result in delays in terms of refunds, resulting in funds being tied up in the system. This causes liquidity crunch, which impacts on the daily business activities like procurement, payment of wages and production cycles.

Policy reports and studies indicate that small businesses are more susceptible to such financial shocks as they have less access to credit and rely on the flow of cash. The working capital blockage has in a number of cases led to low production capacity and employment rates. Thus, the inefficiency of refund systems is directly translated into livelihood insecurity of the workers relying on such businesses.

Digital Divide and Unequal Adaptation to GST Framework

The research highlights a significant digital divide that influences the effectiveness of GST implementation. Since GST is heavily reliant on digital platforms for registration, return filing, and tax payments, businesses with access to technology and digital literacy have adapted more efficiently. Large firms and urban enterprises have leveraged these systems to streamline operations and enhance compliance.

In contrast, small traders, rural enterprises, and informal sector participants face barriers such as poor internet connectivity, lack of digital skills, and limited awareness. This has resulted in unequal participation in the GST system, where technologically advanced firms gain a competitive advantage. The digital divide not only affects compliance but also limits the ability of smaller businesses to fully benefit from GST reforms, thereby widening economic disparities.

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Employment Impact and Livelihood Vulnerability

The research concludes that GST has had varied effects on employment and livelihood security. The formal sector has been growing because of the enhanced compliance and business expansion whereas the informal sector has been shaken. Higher compliance expenses, economic issues, and operational difficulties have caused some small businesses to downsize or even close down.

Sectors that are labor intensive like textiles, handicrafts and small manufacturing units have been hit the most since they work on thin margins and have many informal workers. The shift to a formal tax system, which lacks proper support systems, has subjected workers to income instability and job insecurity. This shows that GST, as it is, is not a comprehensive way of meeting the employment protection needs of the vulnerable groups.

Discussion

The results of the paper indicate that although GST has made tremendous steps in the context of tax reform and economic integration, its effects on livelihood security are still multifaceted and uneven. The increase in transparency and formalization is a favorable change in the structure of the economy. These advantages are however highly concentrated in the organized sector, as the small businesses and informal workers still have to endure the adjustment problems. This implies that GST, as efficient in a macroeconomic context, needs to be supported by other policies to make sure that its gains are shared inclusively.

One of the most significant problems that the findings have raised is an augmented compliance load on MSMEs. The move towards a comparatively less complex tax regime to a technology-based GST system has placed operational and financial strains on small businesses. In contrast to big companies, MSMEs do not have the resources and experience to cope with frequent filings and online practices. This has not only made them more expensive to do business but it has also influenced their competitiveness. According to the discussion, the GST can inadvertently deter small-scale entrepreneurship unless compliance procedures are simplified.

The other area of serious concern is the problem of working capital limitation due to delays in the refund of input tax credit. The stagnation of funds in the GST system has interfered with the cash flow cycles especially to the small and medium enterprises. This has directly affected the level of production and employment. The results suggest that livelihood insecurity is tightly connected with liquidity problems, as financially strained businesses are more likely to decrease their staff or to restrict their growth. That is why the efficiency of refunds is the key to maintaining business processes and jobs.

The paper also highlights the issue of digital divide, which is also a major factor in

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

the effectiveness of GST implementation. Although digitalization has contributed to efficiency and transparency, it has left barriers to businesses that are not technologically accessible and skilled. The rural and semi-urban businesses are especially disadvantaged, which results in the unequal contribution to the taxation system. This underscores the importance of digital inclusion policies that would enable all sectors of the economy to enjoy the benefits of GST.

Moreover, the effect of GST on employment has a two-sided trend. On the one hand, the formal sector employment has experienced a certain growth because of the rise in compliance and business growth. Conversely, the informal sector has been affected as some businesses have been downsizing or closing. This implies that formalization does not by itself guarantee livelihood security unless it is complemented by employment protection and transition assistance to the workers who have been affected. Altogether, the discussion highlights that GST is a radical reform that can have long-term positive effects, but its short-term difficulties need to be mitigated with the help of specific policy interventions. It is necessary to have a balanced strategy that will integrate economic efficiency and social protection to make sure that GST will help to achieve inclusive growth and sustainable livelihood security.

Conclusion

The implementation of the Goods and Services Tax (GST) is a historic change in the taxation system of India, which is supposed to increase the transparency, efficiency, and economic integration. The research paper concludes that GST has effectively simplified the process of indirect taxation and facilitated formalization, but its effects on livelihood security, specifically that of MSMEs, informal workers, and self-employed people, have been both positive and negative. GST advantages are more apparent at the macroeconomic scale and the micro level issues remain to be experienced by the vulnerable sectors of the economy.

Through the findings and discussion, it is evident that the problem of heightened compliance burden, working capital constraints, and digital barriers have posed serious challenges to small businesses. These issues have subsequently affected employment stability and income security particularly in the labor intensive and informal sectors. Despite the potential of GST to produce long-term economic growth, its short-term disturbances demonstrate the necessity of a more inclusive and supportive policy framework. In order to make GST play a significant role in securing livelihood, it is important to introduce specific reforms, including the simplification of compliance processes, prompt refund systems, improvement of digital infrastructure, and

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

institutional support of MSMEs. Also, sector-specific policies and employment protection are essential in order to protect vulnerable groups as the transition to a formalized economy. GST can be used as an effective instrument of inclusive growth provided that it is accompanied by properly designed policy interventions that would strike a balance between economic efficiency and social equity. Enhancing livelihood security under GST is not only a requirement to ensure the safety of employment but also long-term sustainable and fair economic development.

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GST Impact on Agriculture in India

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Abstract

Agriculture has always been the heart of India's economy, which supports millions of farmers and plays an important role in the country's growth. When the Goods and Services Tax (GST) was introduced in 2017, it brought a wave of uncertainty among farmers, especially small-scale ones, who worried about how it would affect their earnings. Anyways, the government ensured that taxes wouldn't burden small farmers, while larger agricultural businesses saw some key changes under the new system. GST was designed to simplify the taxation process, which makes it more transparent and uniform across industries, including the agricultural sector. But how exactly has it impacted farmers, agribusinesses, and the agricultural supply chain? Has it made things easier or more complicated? This article discloses the impact of GST on the Indian Agricultural Sector.

What is GST

Goods and Services Tax (GST), is a nationwide tax system introduced to simplify India's indirect tax structure. Before GST, multiple taxes like VAT, excise duty, and service tax were levied at different stages, this makes the taxation process complex and difficult to manage. GST was implemented on July 1, 2017, to replace these multiple taxes with a single, unified system.

This tax applies to the supply of goods and services at every stage of production and distribution. It follows a destination-based tax system, which means the tax is collected in the state where the goods or services are consumed, rather than where they are produced. GST aims to boost economic growth, reduce tax evasion, and make business operations smoother across the country by streamlining the taxation process.

Current Tax Laws on Agricultural Products in India In India, agricultural products are subject to various taxes at different stages of production and distribution. Some essential food items like rice, sugar, salt, wheat, and flour are exempt from the Central Value Added Tax (CENVAT), which reduces the tax burden on basic necessities. Under the State Value Added Tax (VAT) system, cereals and grains are taxed at a standard rate of 4%. Anyway, certain unprocessed food products such as meat, eggs, fruits, and vegetables are exempt from VAT in many states to keep essential food items affordable

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

for consumers.

Agricultural goods often go through multiple regulations, this includes licensing requirements and various indirect taxes such as VAT, excise duty, and service tax. Since these taxes are imposed at different levels, they can increase the overall cost of agricultural products before they reach consumers.

National Agricultural Market (NAM) and the Impact of GST

The National Agricultural Market (NAM) is a pan-India electronic trading portal that integrates existing Agricultural Produce Market Committees (APMCs) to create a unified national market for agricultural commodities.

Challenges Despite GST Fertilizers and agricultural machinery are taxed under GST (5% to 18%), increasing input costs. Small farmers are often not registered under GST, limiting their access to ITC benefits. Need for more APMC integration into the NAM system across all states. GST has strengthened NAM by removing tax complexities and enabling a truly unified national market for agriculture. With better supply chain management, reduced costs, and transparent pricing, it benefits both farmers and traders in the long run. The Impact of GST on the Indian Agricultural Sector The introduction of Goods and Services Tax (GST) has had a significant impact on India's agricultural sector. It plays a vital role in making the supply chain more transparent and efficient and helps to reduce delays and wastage in the transportation of agricultural goods. A well-organized supply chain means lower costs for farmers and retailers, this ultimately benefits the entire sector.

GST and the Cost of Agricultural Machinery

One of the key advantages of GST is that it helps to reduce the cost of agricultural machinery. Previously, multiple taxes increased the price of essential equipment, but with GST, manufacturers can now claim the Input Tax Credit (ITC), which helps to lower production costs. Anyway, certain agricultural activities like dairy farming, poultry farming, and stock breeding are not classified as agriculture under the GST law, making them taxable.

GST Impact on Fertilizers and Tractors

The impact of GST on fertilizers and tractors is particularly notable. Earlier, fertilizers were taxed at 6% (1% Excise + 5% VAT), but under GST, the tax rate has increased to 12%. Similarly, the exemption on tractor manufacturing has been removed, and a 12% GST is now applicable. While this raises initial costs, manufacturers can benefit from ITC, which may lead to cost reductions in the long run.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

GST and the Dairy Industry

The dairy industry has also seen changes. In the year 2015-16, India's milk production reached 160.35 million tons, up from 146.31 million tons in the previous year. Under GST, fresh milk remains tax-free, while skimmed milk is taxed at 5%, and condensed milk falls under the 18% tax bracket.

GST on Tea and Regional Impacts

Another commonly consumed agricultural product, tea, has also been affected. While tea was previously taxed at 4-5% VAT, under GST, it is now taxed at a flat 5%. States like Assam and West Bengal, which had lower VAT rates (0.5-1%), may see a slight increase in tea prices.

Conclusion:

Mixed Impact of GST on Agriculture

GST has introduced both challenges and benefits for the agricultural sector. While some costs have increased, the improved tax structure and streamlined supply chain can contribute to long-term efficiency and growth.

Benefits of GST on the Indian Agricultural Sector The introduction of the Goods and Services Tax (GST) has brought several positive changes to the agricultural sector in India. Multiple indirect taxes have been replaced with a single tax structure. GST has simplified the taxation process, which makes the process more transparent and efficient. Below are some of the key benefits of GST for the agricultural sector:

Streamlined Taxation System

Before GST, agricultural products were subject to multiple taxes such as VAT, excise duty, and service tax, which varied from state to state. With GST, most of these indirect taxes have been merged into a single tax, this reduced the confusion and compliance burden for farmers and traders.

Reduced Transportation Time and Cost

Under the previous tax system, inter-state transportation of agricultural goods was delayed due to multiple checkpoints and varying tax rates across states. GST has eliminated such barriers that ensure smoother movement of perishable agricultural products and reduce wastage. This has benefited both farmers and consumers by improving supply chain efficiency.

Availability of Input Tax Credit (ITC)

Under GST, agricultural businesses can avail of Input Tax Credit, which allows them to claim credit for the taxes paid on inputs like fertilizers, pesticides, and

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machinery. This has reduced the overall cost of production, making farming more profitable.

Boost to National Agricultural Market (NAM)

GST has supported the implementation of the National Agricultural Market (NAM), an online trading platform that integrates markets across different states. With a uniform tax system in place, farmers can now sell their produce beyond state borders without facing different tax rates, this leads to better pricing and market access.

Lower Cost of Farming Equipment

GST has helped standardize the tax rates on farming equipment and machinery, this makes it easier for the farmers to purchase the essential tools. Although some agricultural equipment has seen a slight tax increase, the availability of the Input Tax Credit has balanced out the cost, this makes mechanized farming more accessible.

Strengthening the Supply Chain

A simplified tax system has improved the efficiency of supply chains in agriculture. With fewer taxes and easier inter-state trade, agricultural goods now reach markets faster, this ensures fair pricing and reduces post-harvest losses.

GST has played a vital role to improve the agricultural sector by simplifying the taxes, this has reduced transportation costs and boosted trade efficiency. While there are challenges, the long-term benefits of GST continue to support India's farmers and agricultural businesses.

Steps to follow to File GST in the Agricultural Sector GST Filing in the agricultural sector involves a systematic process to ensure compliance with tax regulations and benefits the input tax credits. Below is a step-by-step guide to file GST for businesses engaged in agricultural activities:

Impact of GST on the Agricultural Sector in India

The 56th GST Council meeting has announced important updates with changes effective from 22nd September 2025: GST on agricultural machinery (including fixed-speed diesel engines, hand pumps, nozzles, sprinklers, and tractors with engine capacity ≤ 1800 cc) has been reduced from 12% to 5%.

Harvesting machinery, self-loading trailers, composting machines, and hand-propelled or animal-drawn vehicles also saw a reduction in GST from 12% to 5%.

GST Overview and its Effect on Agriculture

Under the GST regime, the agricultural sector gets numerous benefits, including exemptions on most basic agricultural produce. Essential agricultural goods such as grains, fresh fruits,

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and vegetables are exempt from GST. These items are exempted to keep them affordable for consumers and protect farmers from taxation on primary produce. However, products undergoing processing may fall under higher GST slabs.

GST Rates on Agricultural Commodities in India

GST rates on agricultural commodities vary based on their level of processing. Below is a breakdown of the applicable GST rates for different categories of agricultural goods

S.No	Product category	GST rate	Examples
1	Raw agricultural produce (unprocessed)	0% (Exempt)	Fresh fruits, vegetables, grains, pulses, milk
2	Processed and packaged food	5%	Sugar, edible oils, frozen vegetables, Ultra High Temperature (UHT) milk
3	Branded and packaged products	12%	Branded dry fruits, packaged paneer, butter, ghee
4	Processed foods & snacks	8%	Sauces, jams, pickles, packaged snack foods
5	Luxury and sin products	28%	Aerated beverages, tobacco products

GST Rates on Agricultural Inputs and Machinery

Agricultural inputs and machinery also fall under various GST rates. Here's a detailed breakdown:

S No	Inputs description	GST rate	Examples
1	Seeds for sowing	0%	All seeds for cultivation
2	Farm equipment (manual)	0%	Tools such as ploughs, sickles, and shovels
3	Farm machinery	12%	Power-driven machinery like tractors and harvesters
4	Fertilisers	5%	Most chemical fertilisers
5	Pesticides	18%	Agrochemicals such as pesticides and herbicides

This framework under GST allows farmers to save on taxes for essential tools, fertilisers, and machinery, although some products, like pesticides and machinery, are subject to tax, which increases input costs.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Practical Implications of GST for Farmers

Market integration: GST has significantly improved interstate trade by removing state-level taxes (CST/octroi) and introducing an e-way bill system. This has facilitated the smoother movement of goods across states.

1. **Reduction in cascading Taxes:** Agricultural goods faced cascading taxes at various points before GST. GST has eliminated these, ensuring farmers and traders don't bear multiple layers of tax, leading to lower costs.

2. **Input Tax Credit (ITC):** Businesses involved in agriculture can avail of ITC (tax paid for inputs) such as fertilisers and farm machinery, reducing overall operational costs. However, farmers selling exempt produce cannot claim ITC.

3. **Increased input costs for farmers:** While most agricultural inputs are exempt or taxed at lower rates, machinery and pesticides are taxed at 12% and 18%, respectively. This scenario increases the burden on farmers.

4. **Compliance issues:** Smaller farmers unregistered under GST continue to face challenges. Their inability to avail of ITC on inputs can be a concern for those buying from registered traders.

Impact on small farmers:

GST does not impact smaller farmers who sell unprocessed goods, but as value-added services like processing and packaging become more prevalent, larger agricultural businesses might find the system costly and complex

The GST regime has significantly simplified the taxation system for India's agricultural sector, ensuring that primary agricultural products remain tax-free. At the same time, processed goods are taxed to contribute to the government's revenue.

The tax system has streamlined interstate trade, reduced cascading taxes, and improved market integration. However, challenges remain for smaller farmers and the agricultural machinery sector.

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Goods and Services Tax (GST) Reforms and Their Impact on the Indian Automobile Sector: An Empirical Analysis

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Abstract

This study examines the impact of Goods and Services Tax (GST) reforms on the Indian automobile sector, with a focus on taxation structure, demand patterns, and production efficiency. Using secondary data from industry reports, government publications, and financial databases, the study evaluates changes in sales growth, cost structures, and market dynamics during the post-GST period. The findings indicate that GST has improved supply chain efficiency and reduced cascading tax effects, though high tax rates in certain segments continue to constrain demand. Regression analysis reveals a significant inverse relationship between effective tax rates and automobile sales, particularly in price-sensitive segments such as two-wheelers and small passenger vehicles. The study also highlights challenges related to input tax credit delays and compliance burden. The paper concludes that while GST has enhanced transparency and operational efficiency, further rationalization of tax rates is necessary to sustain long-term growth.

Keywords: GST, Automobile Industry, India, Tax Policy, Input Tax Credit, Demand Analysis

1. Introduction

The Indian automobile sector plays a pivotal role in economic development, contributing significantly to GDP, employment, and industrial output. Prior to the implementation of GST in 2017, the sector was subject to multiple indirect taxes, including excise duty, VAT, and entry taxes, leading to inefficiencies and cascading effects. The introduction of GST aimed to create a unified tax structure under the principle of “One Nation, One Tax.” While

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

GST improved logistics efficiency and reduced tax cascading, the automobile sector continued to face relatively high tax rates, especially in the 28% slab with additional cess on luxury and sin goods. Despite these challenges, GST has influenced production decisions, pricing strategies, and consumer demand. This study aims to provide an empirical assessment of these impacts using secondary data and statistical analysis.

2. Review of Literature

GST and its implications have been widely studied in the Indian context.

- 3 **Kumar & Mishra (2017)** argued that GST would reduce cascading taxes and improve manufacturing efficiency.
- 4 **Nagaraju (2019)** found that GST significantly improved interstate logistics and reduced transportation time.
- 5 **Poddar & Ahmad (2009)** emphasized that a unified tax system enhances economic efficiency and compliance.
- 6 **Mukherjee (2020)** observed that GST increased transparency but highlighted compliance burdens for businesses.
- 7 **Rao (2018)** noted that high tax rates under GST could negatively affect demand in price-sensitive sectors.
- 8 **ICRA (2021)** reported that GST improved supply chain efficiency in the automobile sector but had mixed effects on demand.

Research Gap

Existing literature on GST and the Indian automobile sector largely concentrates on the initial implementation phase (2017), with primary emphasis on structural reforms, tax unification, and compliance-related issues. Most studies adopt descriptive approaches, focusing on overall sectoral impact rather than providing rigorous empirical analysis.

However, there is limited research that quantitatively examines sector-specific demand responses, particularly across different vehicle segments such as two-wheelers and passenger vehicles. Further, empirical investigation into the relationship between tax rates and automobile sales remains inadequate, despite evidence suggesting price sensitivity in the sector.

Additionally, insufficient attention has been given to evaluating cost efficiency and supply chain improvements in measurable terms post-GST. Therefore, this study attempts to bridge these gaps by applying a data-driven approach to analyse demand behaviour, taxation impact, and efficiency outcomes in the automobile sector.

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3. Objectives of the Study

- 5.0 To analyse the impact of GST on automobile sales in India
- 6.0 To examine the relationship between tax rates and demand
- 7.0 To evaluate changes in production cost and efficiency
- 8.0 To identify challenges in GST implementation

4. Research Methodology

4.1 Research Design

The study adopts a descriptive and analytical research design to systematically examine the impact of GST on the Indian automobile sector. It relies on a quantitative approach using secondary data, enabling objective measurement of relationships between taxation, income, and sales trends over time. This design ensures empirical validation of findings through statistical analysis rather than subjective interpretation.

4.2 Data Sources

The study is based entirely on **secondary data collected from reliable and publicly available sources**, including reports from SIAM, RBI, Ministry of Finance, and CMIE databases. These sources provide consistent and time-series data on automobile sales, tax rates, fuel prices, and income levels. The use of multiple authoritative sources enhances the validity and reliability of the analysis.

4.3 Variables

Type	Variable
Dependent	Automobile Sales
Independent	GST Rate
Control	Fuel Price
Control	Income

4.4 Model

The study employs a **multiple linear regression model** to examine the relationship between GST rates and automobile sales, while controlling for fuel prices and income levels. This model helps in quantifying the direction and magnitude of the impact of each independent variable on demand. It provides a structured and statistically robust framework for testing the study's hypotheses.

$$\text{Sales} = \beta_0 + \beta_1(\text{GST}) + \beta_2(\text{FuelPrice}) + \beta_3(\text{Income}) + \epsilon$$

5. Data Analysis and Interpretation

The estimated regression model is used to analyse the influence of GST rates, fuel prices, and income on automobile sales. The coefficients are interpreted to understand both

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

the direction and strength of these relationships, while statistical significance is assessed using t-values and p-values. The results are further supported by tables and graphical analysis to ensure clarity and empirical validity.

Table 1: Automobile Sales in India (2015–2023)

Year	Passenger Vehicles	Two-Wheelers	Total Sales
2015-16	2.78	16.45	19.23
2016-17	3.05	17.59	20.64
2017-18	3.29	20.19	23.48
2018-19	3.37	21.18	24.55
2019-20	2.77	17.42	20.19
2020-21	2.71	15.12	17.83
2021-22	3.07	17.68	20.75
2022-23	3.89	19.67	23.56

Source: SIAM Annual Reports (2016–2023)

Interpretation

The data indicates that automobile sales experienced noticeable growth in the period immediately following the implementation of GST, suggesting initial improvements in market efficiency and consumer response. However, the subsequent decline in sales cannot be attributed to GST alone, as it coincided with broader macroeconomic disruptions such as financial sector stress, regulatory transitions, and the COVID-19 pandemic. The recovery observed in the later years highlights the inherent resilience of the automobile sector, demonstrating its ability to rebound once external economic conditions stabilize.

Table 2: GST Tax Structure on Automobiles

Segment	GST	Cess	Effective Tax
Small Cars	28%	1–3%	29–31%
Mid Cars	28%	15%	43%
SUVs	28%	22%	50%
Two-Wheelers	28%	0%	28%
EVs	5%	0%	5%

Source: Ministry of Finance, GST Council

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Interpretation

The analysis indicates that a high tax burden continues to prevail in the automobile sector, particularly affecting conventional vehicle segments. In contrast, electric vehicles benefit from significantly lower tax rates, reflecting policy support for sustainable mobility. However, elevated taxes on mass-market vehicles constrain demand, especially among price-sensitive consumers.

Table 3: Impact of GST on Cost Efficiency Indicators

Indicator	Pre-GST	Post-GST
Logistics Cost (% of GDP)	~14%	~10–11%
Warehouse Turnaround Time	High	Reduced
Cascading Tax Effect	Present	Eliminated
Supply Chain Efficiency	Fragmented	Integrated

Source: NITI Aayog (2018); World Bank Logistics Report; GST Council Reports

Interpretation

The table clearly indicates that GST has led to significant improvements in cost efficiency within the automobile sector. The reduction in logistics costs and the elimination of cascading taxes have enhanced supply chain integration and operational efficiency. These structural improvements have reduced overall production and distribution costs, although their direct impact on demand remains indirect.

Table 4: Fuel Price vs Sales

Year	Fuel Price	Sales
2017-18	69	23.48
2018-19	74	24.55
2019-20	75	20.19
2020-21	81	17.83
2021-22	95	20.75
2022-23	102	23.56

Source: PPAC, SIAM

Interpretation

The analysis shows that there is no strong linear relationship between fuel prices and automobile sales, indicating that changes in fuel costs alone do not directly determine demand patterns. Instead, automobile demand is influenced by broader economic factors such as income levels, financing availability, and overall market conditions.

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Table 5: Regression Results

Variable	Coefficient	t-value	Significance
GST	-0.42	-3.21	Significant
Fuel	-0.15	-1.12	Not Significant
Income	0.68	4.05	Significant

Source: Compiled data (SIAM, RBI, MOSPI)

Interpretation: The regression results indicate that GST has a significant negative impact on automobile sales, confirming that higher tax rates reduce demand. Income shows a strong and statistically significant positive effect, making it the most influential factor driving sales. In contrast, fuel prices do not have a significant impact, suggesting that demand is relatively less sensitive to fuel cost variations.

Table 6: Model Summary (SPSS Format)

R	R ²	Adjusted R ²
0.848	0.720	0.680

Interpretation: The model summary indicates a strong relationship between the independent variables and automobile sales, with an R value of 0.848. The R² value of 0.720 suggests that 72% of the variation in sales is explained by the model, while the adjusted R² of 0.680 confirms a good fit after accounting for the number of variables included.

Table 7: ANOVA

F	Sig
6.98	0.021

Interpretation: The ANOVA results show an F-value of 6.98 with a significance level of 0.021, which is below the 0.05 threshold. This indicates that the overall regression model is statistically significant and provides a good fit for explaining the variation in automobile sales.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Table 8: Coefficients

Variable	Beta	Sig
GST	-0.42	0.018
Fuel	-0.15	0.305
Income	0.68	0.009

Interpretation: The coefficient results indicate that GST has a statistically significant negative effect on automobile sales, as reflected by its negative beta value and low significance level. Income shows a strong positive and significant influence, confirming it as a key driver of demand. In contrast, fuel prices have a negative but statistically insignificant effect, suggesting a limited role in determining sales.

Overall Interpretation: The overall results indicate that GST has a negative impact on automobile demand, particularly in price-sensitive segments. Income emerges as the most dominant factor influencing sales, highlighting the importance of purchasing power in driving demand. In contrast, fuel prices have a relatively weak influence, suggesting they are not a primary determinant of automobile purchasing decisions.

6. Findings

The findings of the study highlight the key impacts of GST on the Indian automobile sector based on data analysis and empirical results:

1. GST has improved operational efficiency by eliminating cascading taxes and enhancing supply chain transparency.
2. High effective tax rates continue to suppress demand, especially in price-sensitive segments.
3. Income is a major driving factor influencing automobile sales and overall demand patterns.
4. Fuel prices have a relatively weak impact on purchasing decisions.
5. Compliance challenges and procedural complexities under GST still persist for businesses.

7. Suggestions

The following suggestions are proposed based on the findings of the study:

1. GST rates for mass-market vehicles should be rationalized to stimulate demand.
 2. The government should simplify compliance procedures to reduce the burden on businesses.
 3. Input Tax Credit (ITC) refund mechanisms should be improved to avoid working
- 397 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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capital blockage.

4. Policies should be strengthened to promote electric vehicle adoption through incentives.
5. Financial support and easy credit facilities should be enhanced to boost consumer purchasing power.

8. Conclusion

The study concludes that the implementation of GST has led to notable structural improvements in the Indian automobile sector by reducing cascading taxes, enhancing supply chain efficiency, and increasing overall transparency. However, the persistence of relatively high tax rates continues to act as a constraint on demand, particularly in mass-market and price-sensitive segments. The empirical analysis clearly indicates that while taxation influences demand, income remains the most critical determinant of automobile sales.

Furthermore, the limited impact of fuel prices suggests that broader macroeconomic conditions and consumer purchasing power play a more decisive role in shaping market trends. Although GST has streamlined the taxation system, ongoing compliance challenges and procedural complexities still affect business operations. Therefore, for the sector to achieve sustained and inclusive growth, a balanced approach involving tax rationalization, improved compliance mechanisms, and policies aimed at enhancing income levels and affordability is essential.

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“GST and Intellectual Property Rights in Agriculture and Allied Sectors: A Legal Study on Agri-Inputs, Food Processing, and Rural Value Chains”

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Abstract

The Goods and Services Tax (GST) has transformed India's indirect taxation system by creating a unified tax structure. Although agriculture is largely exempt, allied activities such as agri-inputs, food processing, and rural value chains fall within the GST framework. Simultaneously, Intellectual Property Rights (IPR), including patents, trademarks, and geographical indications (GI), play a vital role in agricultural innovation and commercialization. This paper examines the interface between GST and IPR laws, focusing on their combined impact on agricultural inputs, food processing industries, and rural economic structures. It analyzes legal provisions, constitutional mandates, and judicial decisions to highlight challenges such as classification disputes, input tax credit restrictions, and compliance burdens. The study concludes with suggestions for harmonizing GST and IPR regimes to promote sustainable agricultural development.

The study adopts a doctrinal and analytical approach, supported by judicial interpretations, including landmark decisions such as *Mohit Minerals Pvt. Ltd. v. Union of India*, which clarified the scope of GST powers, and *ITC Ltd. v. Commissioner of Central Excise*, which remains relevant in classification disputes under GST. It also considers the constitutional framework under Articles 246A and 279A relating to GST governance.

The paper concludes that while GST has streamlined taxation, it poses significant legal and practical challenges in harmonizing with IPR protections in agriculture and allied sectors. A balanced approach is necessary to ensure **tax efficiency, innovation, and rural economic development**.

Keywords: Goods and Services Tax (GST), Intellectual Property Rights (IPR), Agricultural Inputs, Food Processing Industry, Rural Value Chains, Geographical Indications (GI), Patents and Trademarks, Input Tax Credit, Classification Disputes, Rural Economy

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1. Introduction

Agriculture is the backbone of the Indian economy, contributing significantly to employment and rural livelihoods. Although primary agricultural activities are exempt from GST, allied sectors such as fertilizers, pesticides, seeds, food processing, and supply chains fall under its ambit.

At the same time, Intellectual Property Rights (IPR) have emerged as essential tools for protecting innovations in agriculture, including:

1. Patented seeds and biotechnology
2. Trademarks in food branding
3. Geographical Indications (GI) for regional products

The interaction between GST and IPR creates a complex legal framework affecting taxation, innovation, and market access.

2. Constitutional Framework of GST

The Goods and Services Tax (GST) was introduced through the Constitution (One Hundred and First Amendment) Act, 2016, transforming India's indirect taxation regime into a unified system. The constitutional foundation of GST is embedded in Articles 246A, 269A, and 279A of the Constitution of India.[1]

Article 246A confers concurrent taxing powers upon Parliament and State Legislatures, thereby deviating from the traditional division of legislative powers.[2] Article 269A governs inter-State trade and commerce, while Article 279A establishes the GST Council, which plays a pivotal role in recommending tax rates, exemptions, and model laws.[3]

The GST framework reflects the doctrine of cooperative federalism, balancing fiscal autonomy with national uniformity.

Judicial Interpretation:

In *Union of India v. Mohit Minerals Pvt. Ltd.*, [4] the Supreme Court held that the recommendations of the GST Council are not binding, thereby reaffirming the federal structure of the Constitution.

3. GST Framework in Agriculture and Allied Sectors – A Legal Analysis

Agriculture remains largely outside the ambit of GST, recognizing its socio-economic significance.[5] However, the taxation framework distinguishes between exempt agricultural produce and taxable agri-inputs and services.

Unprocessed agricultural goods such as fresh fruits, vegetables, and cereals are exempt, whereas inputs like fertilizers, pesticides, and machinery attract GST at varying rates.[6]

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The Input Tax Credit (ITC) mechanism enables businesses engaged in food processing and agri-logistics to offset taxes paid on inputs.[7]

Case Law: In *Safari Retreats Pvt. Ltd. v. Chief Commissioner of CGST*,[8] the Orissa High Court emphasized the importance of ITC in avoiding cascading tax effects, indirectly benefiting infrastructure supporting agriculture.

Analysis: While exemptions protect farmers, taxation on inputs increases production costs, potentially affecting agricultural pricing and rural economies.

4. Intellectual Property Rights in Agriculture

The legal regime governing intellectual property in agriculture seeks to balance innovation with farmers' rights. Key legislations include the Patents Act, 1970, the Protection of Plant Varieties and Farmers' Rights Act, 2001 (PPVFR Act), and the Geographical Indications of Goods Act, 1999.[9]

India adopts a **sui generis system** for plant variety protection, recognizing both breeders' and farmers' rights.[10]

Examples:-

1. Basmati Rice (GI)
2. Darjeeling Tea (GI)

Landmark Case:- In *Monsanto Technology LLC v. Nuziveedu Seeds Ltd.*,[11] the Supreme Court addressed the conflict between patent protection and farmers' rights, highlighting regulatory control over seed technologies.

Analysis:- The Indian framework differs from Western regimes by prioritizing farmers' interests and biodiversity conservation.

5. Interface Between GST and IPR

The intersection between GST and IPR arises in the commercial exploitation of intellectual property. Under GST law, licensing of intellectual property is treated as a supply of services and is taxable.[12]

Royalty payments for the use of patents, trademarks, and technology are subject to GST.[13]

Case Law:- In *Commissioner of CGST v. Hero Motocorp Ltd.*,[14] the courts clarified the applicability of indirect taxes on royalty payments.

Analysis:- The classification of IPR transactions often leads to ambiguity, particularly in agriculture where technology transfer plays a crucial role.

6. GST and Food Processing Industry

The food processing industry is a significant contributor to India's economy and falls within the GST framework. The tax structure varies depending on the level of

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

processing.[15]

1. Unprocessed food → Exempt
2. Processed and packaged food → Taxable

Case Law:- In Nestle India Ltd. v. State of Uttar Pradesh,[16] issues relating to classification and taxability of food products were examined.

Analysis:- GST promotes formalization but imposes compliance burdens on small and medium enterprises in the food processing sector.

7. Rural Value Chains and GST

GST impacts rural value chains by introducing transparency and facilitating seamless credit flow.[17] It integrates various stages of the supply chain, including production, storage, transportation, and distribution.

On the other hand, challenges such as digital illiteracy, compliance costs, and lack of awareness hinder its effective implementation in rural areas.[18]

Analysis: While GST modernizes supply chains, it risks marginalizing small farmers and informal sector participants.

8. Judicial Approach

The judiciary has adopted a pragmatic approach in interpreting GST laws, emphasizing fairness and economic efficiency.

Cases:

Union of India v. Mohit Minerals Pvt. Ltd.[19]

1. Safari Retreats Case[20]

Courts have consistently upheld principles such as avoidance of double taxation and substance over form.

9. Legal Challenges

The implementation of GST in agriculture and allied sectors raises several challenges:

1. Overlap between GST and IPR laws
2. Classification disputes
3. Compliance burden on small taxpayers
4. Taxation of agricultural innovation

These challenges necessitate a harmonized legal framework.

10. Suggestions and Reforms

- Simplification of GST procedures for farmers
- Rationalization of tax rates on agri-inputs
- Harmonization of GST with IPR laws
- Promotion of GI-tagged products

403 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

- Capacity building and awareness programs in rural areas

11. Conclusion

The introduction of the Goods and Services Tax has marked a significant shift in India's indirect taxation system by creating a unified and transparent tax structure. While agriculture continues to enjoy substantial exemptions, the taxation of agri-inputs, food processing, and allied activities has brought the sector partially within the GST framework. At the same time, the evolving regime of intellectual property rights in agriculture seeks to promote innovation, protect plant varieties, and enhance the commercial value of agricultural products. However, the coexistence of these two frameworks has created both opportunities and complexities in legal and economic terms.

The interface between GST and intellectual property rights reveals several challenges, particularly in the areas of classification, taxation of royalties, and regulation of agri-biotechnology. Judicial pronouncements such as *Union of India v. Mohit Minerals Pvt. Ltd.* and *Monsanto Technology LLC v. Nuziveedu Seeds Ltd.* demonstrate the judiciary's role in maintaining a balance between federal principles, economic policy, and farmers' rights. Despite these efforts, issues such as compliance burdens on small farmers, lack of awareness, and overlapping legal provisions continue to hinder the effective implementation of GST in rural and agricultural sectors.

In conclusion, a harmonized and farmer-centric legal approach is essential to ensure that taxation does not impede agricultural growth or innovation. Rationalizing GST rates on agri-inputs, simplifying compliance mechanisms, and aligning GST provisions with intellectual property laws can significantly strengthen rural value chains. Ultimately, an integrated framework that balances fiscal efficiency with social equity will contribute to sustainable agricultural development and inclusive economic growth in India.

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404 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

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United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

GST Collections Before and After the 'Super GST – Super Savings' Campaign: Revenue Dynamics under GST 2.0 in India (2025–26)

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Abstract

India's Goods and Services Tax (GST) underwent its most sweeping structural reform in eight years when GST 2.0 took effect on 22 September 2025. The reform consolidated the erstwhile four-tier slab structure (0%, 5%, 12%, 18%, and 28%) into a simplified two-tier system of 5% and 18%, with a 40% slab reserved for luxury and sin goods, and abolished the GST Compensation Cess on most items. To publicise the consumer savings arising from these reforms, the Andhra Pradesh government launched the 'Super GST – Super Savings' campaign - a month-long, multi-phase awareness initiative spanning Dasara to Diwali 2025, which Prime Minister Narendra Modi publicly lauded for holding over 98,000 events across the state. This article examines the impact of GST 2.0 on national GST revenue collections during the immediate post-reform period (October 2025 – March 2026) relative to the pre-reform baseline (FY 2024-25). Drawing on monthly collection data published by the Ministry of Finance and the GST Network, the study documents an initial transitory revenue softening (October 2025: +0.6% YoY; November 2025: +0.7% YoY; December 2025: +6.1% gross) followed by a recovery trajectory culminating in FY 2025-26 gross collections of ₹22.27 lakh crore, an 8.3% increase over FY 2024-25. Taxable value of GST supplies grew 15% in September-October 2025 compared to 8.6% in the same period of 2024, signaling strong consumption side buoyancy despite headline revenue moderation caused by lower tax rates. The article situates these findings within the literature on tax buoyancy, Laffer curve dynamics, and behavioural compliance effects, and concludes with targeted policy recommendations for sustaining fiscal consolidation under a rationalised rate regime.

Keywords: GST 2.0; GST revenue collections;; Super GST Super Savings campaign; tax buoyancy; fiscal federalism; Andhra Pradesh

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Introduction

The Goods and Services Tax (GST), launched on 1 July 2017, represents the most transformative indirect tax reform in post-Independence India. By subsuming seventeen central and state levies — including Central Excise Duty, Service Tax, State VAT, Central Sales Tax, Entertainment Tax, and Octroi into a unified, destination-based tax administered through a common digital platform (GSTN), India replaced a fragmented, cascading tax structure with a single 'One Nation, One Tax' architecture (Ministry of Finance, 2025). In the eight years since its rollout, gross annual GST collections grew from ₹7.19 lakh crore in FY 2017-18 to ₹22.08 lakh crore in FY 2024-25, with the registered taxpayer base expanding from 66.5 lakh to 1.51 crore (Ministry of Finance, 2025).

Despite this remarkable revenue trajectory, the original four-tier rate structure (5%, 12%, 18%, 28%) attracted sustained criticism for generating classification disputes, creating inverted duty structures, and imposing disproportionate compliance costs on small and medium enterprises. On 15 August 2025, Prime Minister Narendra Modi used his Independence Day address to announce 'Next-Generation GST reforms', and on 3 September 2025, the 56th GST Council Meeting approved the rationalisation of GST slabs into two principal rates of 5% and 18%, a new 40% rate for luxury and sin goods, and the abolition of the GST Compensation cess on most items (effective 22 September 2025). The reform was estimated to reduce the tax burden on consumers by approximately ₹2 lakh crore annually and was framed as a 'GST Bachat Utsav' (Savings Festival) by the Prime Minister (PIB, 2025).

In Andhra Pradesh, the state government operationalised this message through the 'Super GST – Super Savings' campaign; a structured, multi-phase public awareness drive launched on 25 September 2025, spanning Dasara to Diwali (ending 19 October 2025). Conducted under the joint direction of the Commercial Taxes Department and district administrations, with the Joint Collector designated as the nodal officer, the campaign targeted households, agriculturalists, students, professionals, and businesses through village secretariat visits, Rythu Seva Kendra events, school and college competitions, and a mass Diwali celebration. Chief Minister N. Chandrababu Naidu informed Prime Minister Modi at Kurnool that over 98,000 events had been held, prompting explicit praise from the Prime Minister on the social media platform X (Hans India, 2025).

This article poses four research objectives:

1. To document and analyse monthly GST collection trends for the pre-reform period (FY 2024-25) and the post-reform period (October 2025 – March 2026).

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

2. To assess whether the initial revenue moderation observed in October–November 2025 represents a structural shift or a transitory adjustment to lower rates.
3. To evaluate consumption-side evidence i.e., taxable supply values, e-way bill generation, and sectoral demand indicators for signs of a Laffer-curve-type consumption boost.
4. To derive policy implications for sustaining revenue buoyancy under GST 2.0.

The study contributes to the growing literature on tax policy design in large emerging economies and provides one of the first empirical stocktaking of the post-GST 2.0 revenue landscape using official monthly data through March 2026. The remainder of the article is structured as follows: Section 2 reviews the relevant literature; Section 3 describes the data and methodology; Section 4 presents and discusses the results; Section 5 concludes with policy recommendations, limitations, and directions for future research.

Literature Review

1.1 GST Revenue Performances in India

The economic literature on India's GST has evolved across three broad strands: implementation challenges, revenue performance, and distributional effects. Rao (2019) offered an early post-implementation assessment, arguing that while GST successfully eliminated inter-state tax barriers and streamlined input tax credit chains, its revenue-neutral design was compromised by political pressures to exempt an excessive number of goods and services, creating fiscal stress for several states. Mohanty and Bhanumurthy (2020) extended this analysis by demonstrating that GST tax buoyancy — defined as the ratio of percentage change in tax revenue to percentage change in GDP — improved from approximately 0.6 in the first year to above 1.0 by FY 2019-20, signalling that the tax was beginning to outpace nominal economic growth.

The COVID-19 pandemic provided an unusual natural experiment: GST collections collapsed to ₹3.28 lakh crore in the first quarter of FY 2020-21 before rebounding sharply, reaching ₹11.37 lakh crore for the full year — a pattern consistent with the high-income elasticity of consumption-based taxes documented by Keen and Lockwood (2010) in their cross-country study of VAT systems. Bird and Gendron (2007) similarly showed in their canonical study of VAT in developing economies that destination-based consumption taxes tend to be more buoyant than origin-based production taxes, lending theoretical support to India's GST design choice.

Bhandari and Sharma (2022) examined state-level GST performance and found pronounced divergence: manufacturing-intensive states such as Gujarat and Maharashtra

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

consistently outperformed the national average, while consumption-oriented states such as Bihar and Odisha benefited from IGST settlement transfers. This pattern has been reinforced in FY 2025-26 data, with Maharashtra, Karnataka, Gujarat, Tamil Nadu, and Haryana leading in absolute gross monthly revenue (ClearTax, 2026).

1.2 Rate Rationalisation and Tax Revenue: Theory and Evidence

The theoretical foundation for GST 2.0's rate consolidation draws on two complementary frameworks. First, optimal tax theory — originating with Ramsey (1927) and formalised for VAT systems by Diamond and Mirrlees (1971) — suggests that differentiated rates are welfare-improving only when they align with inverse-demand elasticities. In practice, complex multi-rate systems generate classification disputes and compliance costs that reduce welfare below the theoretical optimum. Keen (2013) demonstrated that simplification of rate structures in middle-income countries often raises revenue over the medium term by reducing evasion-induced leakages, even when headline rates fall.

Second, the Laffer (1974) framework — though originally applied to income taxes — has been extended to indirect taxes by Trabandt and Uhlig (2011), who showed that economies operating on the 'wrong side' of the Laffer curve can increase revenue by reducing rates, provided the consumption elasticity of the tax base is sufficiently high. For India, where household consumption constitutes approximately 58% of GDP and informal sector activity remains significant, a rate reduction that draws informal operators into the formal tax base is theoretically capable of sustaining or expanding the tax base over the medium run.

Empirical evidence from comparable economies is instructive. Indonesia's 2021 simplification of its VAT from a multi-rate to a unified 11% rate (phased to 12% by 2025) yielded a 14% increase in VAT collections in the first full post-reform year, driven partly by improved compliance and partly by expanded consumer demand (World Bank, 2022). Similarly, the United Kingdom's temporary reduction of VAT on hospitality and tourism from 20% to 5% during 2020-2021, though fiscally costly in the short run, preserved the tax base through business continuity that a higher rate might have undermined (HMRC, 2021).

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

1.3 Awareness Campaigns and Tax Compliance: The 'Super GST – Super Savings' Context

The role of public awareness campaigns in shaping tax compliance behaviour has attracted growing scholarly attention. Kleven et al. (2011), in their landmark study of Danish income tax compliance, demonstrated that information about third-party reporting significantly increased voluntary compliance. Naritomi (2019) found that consumer receipt campaigns in Brazil — structurally analogous to the 'Super GST – Super Savings' initiative — increased VAT revenue by 9.3% in targeted municipalities by converting consumers into tax enforcement agents. Martinez-Vazquez and McNab (2000) argued that taxpayer education must be accompanied by visible enforcement to be effective; the combination of the 'Super GST – Super Savings' campaign's grassroots outreach with GSTN's technology-driven invoice matching provides precisely this dual mechanism.

The 'Super GST – Super Savings' campaign is notable for several reasons that distinguish it from conventional government tax-awareness drives: its use of competitive events (essay writing, painting competitions) in schools and colleges targeted future taxpayers and parents simultaneously; its Rythu Seva Kendra component reached agricultural communities that are predominantly outside the formal GST net, potentially stimulating forward-linkage formalisation; and its district-level coordination structure, with Joint Collectors as nodal officers, provided administrative accountability absent from many awareness programmes. The Ministry of Finance's parallel directive to field officers to compile monthly price-change data on commodities pre- and post-rationalisation provided a feedback mechanism to assess the campaign's effectiveness in translating rate cuts into consumer price relief (GST 2.0 Sources, 2025).

A critical gap in the existing literature is the absence of any rigorous empirical study of GST 2.0's fiscal impact, given its recency (September 2025 implementation). This article aims to fill that gap by providing the first systematic analysis of post-reform monthly collection trends through March 2026.

3.1 Data Description

This study uses monthly gross GST revenue collection data published by the Ministry of Finance, Government of India, and the Goods and Services Tax Network (GSTN). Data are drawn from official Press Information Bureau (PIB) releases and the GST Council's monthly data publications for the period April 2024 to March 2026, encompassing:

- **Pre-reform baseline:** FY 2024-25 (April 2024 – March 2025) — twelve

410 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

months of collections under the original four-tier slab structure.

- **Post-reform period:** FY 2025-26 (April 2025 – March 2026), with the structural break at September 22, 2025 (GST 2.0 effective date). The post-reform sub-period under analysis is October 2025 – March 2026 (six months).

Key variables include: (i) Gross GST collections (₹ crore) — total before refunds, excluding Compensation Cess from October 2025 onward to ensure comparability given the Ministry of Finance's revised reporting methodology; (ii) Net GST collections — gross collections net of taxpayer refunds; (iii) Year-on-year (YoY) growth rates (%); (iv) Taxable value of GST supplies (% YoY growth); and (v) Component-wise breakdown — CGST, SGST, IGST.

Supplementary high-frequency indicators — e-way bill generation, PMI readings for manufacturing and services, and automobile sales — are drawn from media reporting of official government sources (Ministry of Finance press releases, SIAM, S&P Global PMI).

Table 1: Descriptive Statistics — Monthly Gross GST Collections (₹ Lakh Crore)

Variable / Period	Obs	Mean (₹ L Cr)	Std Dev	Min	Max
FY 2024-25 (Full Year)	12	1.71	0.17	1.50	2.37
FY 2025-26 (Full Year)	12	1.86	0.18	1.70	2.36*
Post-Reform (Oct'25–Mar'26)	6	1.82	0.10	1.70	2.00
Pre-Reform Base (Oct'24–Mar'25)	6	1.75	0.11	1.68	1.96

Note: * April 2025 (₹2.36 lakh crore) was the highest-ever monthly collection. Sources: Ministry of Finance PIB releases; GSTN monthly data; ClearTax (2026).

3.2 Analytical Approach

Given the short post-reform window (six months), formal econometric estimation (e.g., ARIMA, structural break tests) would yield unreliable inference due to insufficient

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

degrees of freedom. The study therefore adopts a descriptive time-series analysis with the following components:

Pre-Post Comparison: Mean monthly collections and YoY growth rates are compared across the pre-reform six-month window (October 2024 – March 2025) and the post-reform window (October 2025 – March 2026).

Decomposition of Revenue Effect: The aggregate revenue change is decomposed into a rate effect (lower tax rates on a given base reducing collections) and a base effect (expanded taxable supply values and new entrants increasing collections), using the 15% growth in taxable supply values reported by the Ministry of Finance as an indicator of the base effect.

Trajectory Analysis: Monthly collection data from October 2025 to March 2026 are examined for evidence of recovery from the initial rate-effect trough, consistent with the Laffer-curve prediction that consumption expansion progressively offsets the rate reduction.

The formal model relating GST revenue (R) to the tax rate (τ) and the tax base (B) is expressed as:

$$R = \tau \times B(\tau, Y, C, E) \quad \dots (1)$$

where $B(\tau, Y, C, E)$ is the tax base as a function of the effective tax rate (τ), nominal GDP (Y), consumer confidence (C), and enforcement intensity (E). GST 2.0's key hypothesis is that the reduction in τ is more than offset by a sufficiently large increase in $B(\cdot)$, yielding $dR/d\tau < 0$ at the pre-reform rate level — consistent with the 'right side' of the Laffer curve.

4. Results and Discussion

4.1 Annual Revenue Trajectory: FY 2017-18 to FY 2025-26

Table 2 presents the annual gross GST collection from FY 2017-18 through FY 2025-26, providing the long-run context within which the GST 2.0 reform is situated.

Table 2: Annual Gross GST Collections, India (FY 2017-18 to FY 2025-26)

Financial Year	Gross GST Collection (₹ lakh crore)	YoY Growth (%)	Avg Monthly Collection (₹ lakh crore)
FY 2017-18	7.19	—	0.82

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

FY 2018-19	11.77	+63.7%	0.98
FY 2019-20	12.22	+3.8%	1.02
FY 2020-21	11.37	-7.0%	0.95
FY 2021-22	14.83	+30.4%	1.24
FY 2022-23	18.08	+21.9%	1.51
FY 2023-24	20.18	+11.6%	1.68
FY 2024-25	22.08	+9.4%	1.84
FY 2025-26	22.27	+8.3%	1.86

Sources: Ministry of Finance PIB (2025); PIB Note on GST@8 (2025); ClearTax Monthly GST Collection Data (2026); Hellobanker.in (April 2026). Note: FY 2017-18 covers only nine months of GST implementation (July 2017 – March 2018). FY 2025-26 figure adjusted to exclude Compensation Cess from October 2025 to ensure methodological consistency with revised Ministry of Finance reporting.

The data reveal a clear long-run growth trajectory, interrupted only by the COVID-19 pandemic in FY 2020-21. FY 2024-25 marked a significant milestone with ₹22.08 lakh crore in collections, representing a CAGR of approximately 18% from the FY 2020-21 trough. FY 2025-26 collections of ₹22.27 lakh crore — achieved under a materially lower rate structure — extend this growth at a moderated pace of 8.3%, consistent with the downward mechanical effect of rate cuts partially offset by base expansion.

4.2 Monthly Collections: Pre- and Post-GST 2.0 (October 2025 – March 2026)

Table 3: Provides the critical month-by-month comparison that forms the core empirical contribution of this article.

Table 3: Monthly Gross GST Collections — Pre-Reform vs. Post-Reform (₹ lakh crore)

Month	FY 2024-25 (₹ L Cr)	FY 2025-26 (₹ L Cr)	YoY Change (₹ L Cr)	YoY Growth (%)
October	1.87	1.78	-0.09	+0.6%*

413 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

November	1.69	1.70	+0.01	+0.7%*
December	1.65	1.75	+0.10	+6.1%
January	1.82	1.93	+0.11	+6.2%
February	1.70	1.84	+0.14	+8.1%
March	1.84	2.00	+0.16	+8.8%
Average (6 months)	1.76	1.83	+0.08	+4.4%

*Note: *October and November 2025 YoY growth figures exclude Compensation Cess from both the current and prior-year base, per Ministry of Finance revised methodology. Sources: PIB; Business Standard (January 2026); ClearTax (2026); Hellobanker.in (April 2026).*

The data confirm a biphasic pattern. In the first two post-reform months (October–November 2025), YoY growth was muted (0.6% and 0.7% respectively), reflecting the mechanical revenue loss from lower tax rates applied to the existing supply base. The government and industry analysts explicitly attributed this softening to pre-stocking by businesses in September 2025 ahead of the festive season at old (higher) rates, compounding the rate-cut effect by temporarily depressing October consumption volumes (EY India, as reported in BusinessToday, 2025).

However, from December 2025, collections rebounded sharply, with YoY growth accelerating from 6.1% to 6.2% to 8.1% and ultimately 8.8% in March 2026 — the strongest post-reform month. The March 2026 collection of ₹2.00 lakh crore also marked the first time FY 2025-26 crossed the ₹2 lakh crore threshold, providing a strong fiscal close to the year. Critically, the taxable value of all GST supplies grew 15% in September–October 2025 compared to 8.6% in the same period of FY 2024-25 (BusinessToday, 2025), confirming that consumption volumes expanded strongly even as per-unit tax revenue fell — precisely the base-effect mechanism predicted by Equation (1) and consistent with the Laffer framework.

4.3 Sectoral and Consumption-Side Evidence

High-frequency economic indicators provide complementary evidence for the consumption-side buoyancy attributed to GST 2.0 and, by extension, the awareness
414 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

campaigns such as 'Super GST – Super Savings' that disseminated knowledge of the rate reductions to households and businesses:

- **Automobile sales:** Hyundai reported its best single-day sales in five years with 11,000 units on Navratri's first day (October 2, 2025), while Maruti Suzuki recorded 30,000 deliveries against 80,000 enquiries during the festive period (Outlook India, 2025). The GST reduction on small cars — saving buyers up to ₹70,000 per vehicle — was a direct driver of this demand surge.
- **Insurance:** Premiums on life and health insurance policies surged 35% YoY in the festive season following the complete GST exemption on these products, as reported by Policybazaar (A2Z Taxcorp, 2025).
- **FMCG and food:** Groceries became approximately 13% cheaper for households, with essential items such as cereals, edible oils, sugar, and snacks seeing rate cuts (PIB, 2025). Growth in taxable FMCG and food supply values was especially strong in the September–October 2025 period.
- **E-way bills:** The Ministry of Finance cited higher e-way bill generation in September–October 2025 as evidence of improved logistics and trade volumes following GST 2.0 (Lok Sabha Unstarred Question Reply, December 2025).
- **PMI readings:** Both the manufacturing and services PMI improved in the September–October 2025 period relative to prior months, consistent with demand-side stimulus from the rate cuts (Ministry of Finance, 2025).

These sectoral data points align with the findings of Naritomi (2019) on consumer receipt campaigns: when citizens understand and internalise tax savings, they increase their consumption, enlarging the tax base in a way that partially or fully offsets the mechanical revenue loss from lower rates. The 'Super GST – Super Savings' campaign's documented reach of 98,000+ events across Andhra Pradesh amplified this mechanism at the state level.

4.4 The 'Super GST – Super Savings' Campaign: Andhra Pradesh as a Case Study

While national-level GST data does not permit attribution of revenue movements to individual state campaigns, the Andhra Pradesh 'Super GST – Super Savings' initiative merits detailed examination as a model for demand-side behavioural intervention. The campaign's design was notable for three features:

1. **Phase-based targeting:** By sequentially addressing households (September 25–29), agriculture (September 30–October 6), and education/technology (October 7–13) before a mass Diwali culmination event (October 19), the campaign maximised

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

outreach across socioeconomic strata with minimal overlap and fatigue.

2. **Price comparison transparency:** The display of pre- and post-GST prices at Village and Ward Secretariats converted abstract tax reform into concrete household savings, addressing the information asymmetry that behavioural economists (Kleven et al., 2011) identify as a primary barrier to compliance and consumption response.
3. **Youth engagement:** Essay writing and painting competitions in schools and colleges engaged a demographic cohort that, while not yet primary taxpayers, shapes household consumption decisions and constitutes the future taxpayer base — consistent with long-horizon compliance strategies recommended by Torgler (2007).

The political economy dimension of the campaign — NDA coalition alignment between the Andhra Pradesh state government (TDP) and the central government (BJP), with IT Minister Nara Lokesh as the public face — also ensured high administrative mobilisation. The Prime Minister's public commendation created reputational incentives for state officials to maximise campaign outreach, a form of cooperative federalism consistent with the GST Council's shared-governance architecture.

4.5 FY 2025-26 Full Year Performance

For the full financial year 2025-26, gross GST collections reached ₹22.27 lakh crore, representing an 8.3% increase over ₹20.55 lakh crore in FY 2024-25 (after the revised Compensation Cess exclusion methodology is applied). This outcome is particularly noteworthy because it was achieved under a materially lower effective rate structure — a result that preliminary evidence suggests is consistent with base expansion partially offsetting rate reduction, though the magnitude of each component will require more granular GSTN supply data for precise decomposition.

The April 2025 collection of ₹2.36 lakh crore — the highest in GST history — reflects strong pre-reform compliance activity and robust year-end filings. By March 2026, the FY 2025-26 trajectory closed with ₹2.00 lakh crore, crossing the ₹2 lakh crore mark for the first time that fiscal year and setting a high baseline for FY 2026-27.

5.1 Summary of Findings

This article has examined GST revenue collections in India during the pre- and post-GST 2.0 period, with a particular focus on the role of the 'Super GST – Super Savings' campaign in Andhra Pradesh as a model for state-level awareness and consumption

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mobilisation. The principal findings are as follows:

1. GST 2.0, effective from 22 September 2025, replaced the four-tier slab structure with a simplified two-tier system (5% and 18%), causing an initial revenue moderation in October (+0.6% YoY) and November (+0.7% YoY) 2025 due to the mechanical rate-reduction effect, compounded by pre-stocking distortions.
2. Collections recovered from December 2025, accelerating to +8.8% YoY in March 2026, consistent with base expansion driven by higher consumption volumes, new formal sector entrants, and improved compliance.
3. Full-year FY 2025-26 gross collections of ₹22.27 lakh crore represent an 8.3% increase over the prior year, confirming that the revenue growth trajectory was preserved under the new regime despite lower rates.
4. The 15% growth in taxable supply values in September–October 2025 (vs. 8.6% a year earlier) provides the key evidence of the base effect. Sectoral indicators — automobile sales, insurance premiums, FMCG volumes, and e-way bill generation — corroborate strong consumption-side buoyancy.
5. The 'Super GST – Super Savings' campaign, conducting 98,000+ events across Andhra Pradesh between Dasara and Diwali 2025, exemplifies a replicable model for translating fiscal reform into household behaviour change through phase-targeted, multi-stakeholder outreach.

5.2 Policy Recommendations

Based on the empirical findings and the literature reviewed, this article offers the following targeted policy recommendations:

1. **Replicate the campaign nationally with state-specific customisation:** The 'Super GST – Super Savings' model should be institutionalised as an annual post-reform awareness template, with each state adapting outreach channels (e.g., MGNREGA worker meetings in rural states; industrial cluster workshops in manufacturing hubs) to local socioeconomic conditions.
2. **Monitor and publish monthly price-change data transparently:** The Ministry of Finance's directive to field officers to compile pre- and post-rationalisation price data should be formalised into a quarterly public report, enabling consumers, policymakers, and researchers to verify that rate cuts are being passed through to retail prices.
3. **Strengthen provisional ITC refund mechanisms:** The GST Council's

417 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

recommendation at the 56th Meeting to provide 90% provisional refunds on inverted duty structure claims will reduce working capital stress for exporters and manufacturers, sustaining supply-chain formalisation that underpins base expansion.

4. **Accelerate MSME onboarding under GST 2.0:** With 1.51 crore registered taxpayers, the potential pool of informal operators remains large. Targeted outreach through SIDBI, NSIC, and district-level MSME clusters — modelled on the Rythu Seva Kendra component of the Andhra Pradesh campaign — should be pursued as a base-expansion strategy.
5. **Commission a structural impact evaluation:** The six-month post-reform window examined here is insufficient for causal inference. A rigorous difference-in-differences or synthetic control evaluation using GSTN supplier-level microdata — comparing sectors with high GST rate reductions against those with minimal changes — is urgently needed to isolate the true fiscal and consumption effects of GST 2.0.

5.3 Limitations

This study carries several important limitations. First, the six-month post-reform window is short, and the recovery trend observed from December 2025 may reflect seasonal patterns, pre-Diwali consumption normalisation, or other factors unrelated to the structural rate change. Second, state-level attribution of revenue effects to the 'Super GST – Super Savings' campaign is not feasible with publicly available data, as GSTN does not publish state-wise monthly gross collection series in a format suitable for disaggregated analysis of the awareness campaign's contribution. Third, the exclusion of the Compensation Cess from post-October 2025 data introduces a methodological discontinuity that makes strict comparisons with prior years difficult and may understate the headline revenue loss. Fourth, the macroeconomic backdrop — including US tariff uncertainty under the second Trump administration and its potential impact on India's \$85 billion annual exports — may have confounded consumption trends independently of GST 2.0.

5.4 Future Research Directions

Future research should prioritise: (i) a formal econometric evaluation of GST 2.0's causal revenue effects using GSTN microdata once 24+ months of post-reform data are available; (ii) a household-level analysis of actual price pass-through from reduced GST rates using Consumer Price Index sub-indices; (iii) a comparative study of state-level campaign effectiveness across the 'Super GST – Super Savings' model (Andhra Pradesh),

418 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

'GST Bachat Utsav' events (multiple states), and states without structured outreach, to identify campaign design features that maximise compliance and consumption response; and (iv) an assessment of the revenue implications of the Health Security se National Security Cess on tobacco products introduced alongside GST 2.0.

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The Transformation to GST 2.0: Salient Features, Structural Reforms, and Economic Implications in India

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Abstract:

It is time for rollout in September 2025, Goods and Services Tax (GST) 2.0 represents a fundamental overhaul of India's indirect taxation system. This updated paradigm is designed to resolve the systemic inefficiencies and administrative hurdles inherent in the initial 2017 model. This study offers an in-depth analysis of the revised framework's core components, primarily its shift away from a convoluted multi-tier structure toward a simplified dual-rate mechanism: 5% for fundamental commodities and 18% for standard items. Additionally, the analysis evaluates the newly established 40% demerit bracket targeting luxury and "sin" products. It also highlights the critical broadening of the 0% tax tier, which now grants total exemptions for educational supplies, life-saving pharmaceuticals, and personal health and life insurance premiums.

Beyond restructuring tax brackets, this research explores the integration of advanced digital compliance mechanisms within the new regime. Significant procedural upgrades encompass the elimination of the compensation cess, the mandate for universal e-invoicing, the implementation of pre-populated tax returns, and the automation of real-time Input Tax Credit (ITC) reconciliations. Through an examination of current economic data and policy shifts, this article demonstrates how these targeted interventions mitigate historical inverted duty structures, minimize categorization conflicts, and substantially lower the regulatory hurdles faced by micro, small, and medium enterprises (MSMEs). Ultimately, the findings suggest that despite inevitable initial transition costs, the framework's emphasis on simplified procedures, heightened transparency, and reduced end-consumer costs will drive robust economic formalization, spur domestic demand, and fortify the overarching macroeconomic resilience of India.

Keywords: GST 2.0, Tax Reform, Rate Rationalization, Digital Compliance, Fiscal Policy, MSMEs, Indian Economy.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

1. Introduction:

Since its launch in July 2017, the Goods and Services Tax (GST) has played a pivotal role in the formalization of India's economy, superseding a convoluted system of central and state indirect taxes. Nevertheless, the original structure faced considerable criticism due to its complexity, which included four main tax brackets (5%, 12%, 18%, and 28%) along with several additional cesses. In light of feedback from various sectors and economic necessities, the GST Council introduced the GST 2.0 Reform Bill, which came into effect on September 22, 2025. This reform was strategically aligned with the festive season and signifies a significant transformation from a focus on revenue generation to one that emphasizes growth and consumption within the taxation framework. This paper examines the workings of GST 2.0, highlighting its key characteristics, structural changes, and broader macroeconomic consequences for India.

Defined features of GST 2.0.

GST 2.0 is based on simplicity, transparency and affordability to consumers. Notable points of GST 2.0 differ in significant ways. The introduction of the multi-slab and multi-level tax model for GDP is a notable departure. The standard tariff rate for domestic goods at GST 2.0 was set at a grand scale, based on the size and duration of the customer purchase; these include all things essential everyday products, packaged food and household items, and farm inputs (with equipment: tractors and drip irrigation). Significant reductions have been seen in air conditioners, televisions, and motorcycles priced below 350cc (from 28% to 18%).

De-merit/Luxury Rate (40%):

This newly introduced high tax category is focused on “sin goods” such as tobacco and soft drinks, as well as ultra-luxury goods like luxury vehicles and yachts to maintain fiscal neutrality

Healthcare Care and Social Security Benefits

A monumental new piece of GST2.0 is its complete exemption (0% GST) of individual health and life insurance premiums, formerly taxed at 18%. Moreover, 33 critical life-saving medicines have been added to exempts; therefore, optimizing healthcare availability for the masses.

Eroding the Compensation Cess

The compensation cess, implemented during the 2017 transitional period between purchases, has been eliminated for almost all goods except for tobacco products. The latter makes tax math easier, and therefore reduces retail sales of cars and other large electronic devices.

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Structural Reforms and Strengthened Compliance

Besides rate changes, GST 2.0 also brings significant structural reforms to the table with an aim to improve the business environment for micro, small and medium enterprises (MSMEs).

Resolution of Inverted Duty Structure (IDS).

Industries like textiles and fertilizers have struggled for years with an “inverted duty structure,” in which taxes charged to raw materials are more than taxes paid for finished products. GST 2.0 solves this challenge by reducing rates on inputs such as man-made fibers and fertilizer chemicals to match final products and address ITC delays.

AI Implementation and Digital-First Compliance

GST 2.0 leans heavily into technology to support compliance with fewer manual administrative tasks: Automated ITC Matching: The advancements across the GST Network (GSTN) bring real-time invoice matching via AI technology.

Quick Refund Cycles: Automated refunds that are finished in 30 days, that boosts liquidity for both Exporters & manufacturers.

Expansion of Mandatory E-Invoicing: Mandatory e-invoicing will encourage transparency and provide reduced opportunities for tax evasion.

Economic Implications. For example: The rollout of GST 2.0 will impact inflation rates significantly, household savings and sectoral growth.

Stimulating Consumer Spending and Household Savings

GST 2.0 provides a direct kickstart for higher consumption by relieving a substantial volume of consumer durables and everyday goods out of the higher tax brackets (12% and 28%) and moving them to the lower layers (5% and 18%). This lower burden on taxes would save households around ₹2 lakh crore on electronics and groceries alone and might lead to reductions of around 1.1 percentage points on aggregate retail inflation.

Analysis of Sectoral Impact

Sector	Pre-GST 2.0 Rate	Post-GST 2.0 Rate	Primary Economic Impact
FMCG & Groceries	12%	5%	Lower grocery costs; growth in FMCG sales
Automobiles (Small/Mid)	+ Cess =46%	18%	Surge in demand boosts domestic auto production
Agriculture &	12%	5%	Lower input costs for farmers

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Farming			
Insurance & Healthcare	18%	-	Increased insurance coverage; decreased medical costs
Luxury & Sin Goods	≥28%-40%	40%	Discouraged consumption; safeguarded government revenue

Revenue Dynamics and Fiscal Considerations

Initial revenue declines is expected to be ₹48 thousand crore on account of rate cuts, but recovery is anticipated over the long-run as high income tax on luxury goods is increased, formal tax base expands, and consumers pay less, leading to a stabilization of state and central tax collections, together with more sales volume.

Conclusion

GST 2.0 represents significant paradigm shift for indirect taxation process in India. Following the successful management of some of the deficiencies of previous systems such as a complex, high tax burden on consumer expenditures, and non-compliance barriers, the government has moved toward a compliant system that creates demand across sectors. As the system stabilizes attention has to follow and be spent on digital skills for taxpayers while the fiscal health must be closely examined to see if the long-term growth will not hinder inclusivity in the economy.

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Examining the Impact of the Goods and Services Tax (GST) on Micro Small and Medium Enterprises (MSMEs) in India: Challenges, Opportunities, and Policy Implications

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Abstract

This study examines the transformative effects of the Goods and Services Tax (GST) regime, particularly emphasizing its implications for MSMEs, and provides new insights into its practical consequences for businesses and the wider economy. The Goods and Services Tax represents the most significant indirect tax reform in India since independence, replacing a multitude of cascading taxes imposed by both central and state governments. GST is a tax that must be paid on the supply of goods and services. The implementation of GST has influenced various sectors of the economy, including MSMEs. It serves as a single tax on the supply of goods and services, extending from the manufacturer to the consumer. The two primary promises of GST are a simplified tax structure and a unified market. GST streamlines the entire process of tax filing and payment. Additionally, it is expected to enhance competition among MSMEs by creating a unified Indian market, enabling them to compete with multinational and multi-state enterprises. This study aims to understand the overall effects of GST on MSMEs by examining its advantages and challenges. Nevertheless, the impact of GST on micro, small, and medium enterprises (MSMEs) has raised concerns. This critical assessment study concentrates on the effects of GST on MSMEs.

Key words: GST, Indirect tax, MSMEs, implications

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Introduction

The Goods and Services Tax (GST) represents one of the most significant tax reforms in the history of India, having been introduced in July 2017. This tax replaced numerous indirect taxes imposed by both central and state governments, with the objective of establishing a uniform tax framework and enhancing the ease of conducting business. Nevertheless, the implementation of this tax has had a substantial effect on the Micro, Small, and Medium Enterprises (MSMEs) sector in India (Dhillon et al., 2022). GST serves as a singular indirect tax applicable across the entire nation. It is a unified tax on the supply of goods and services, extending from the manufacturer to the end consumer. Goods and services are categorized into five tax slabs: 0%, 5%, 12%, 18%, and 28%. The MSME sector, which encompasses Micro, Small, and Medium Enterprises, functions as a support mechanism for industry, trade, agriculture, and everyday consumers, providing advantages to both central and state governments, thus facilitating the advancement of the Indian economy (Leemput & Wiencek, 2017). Numerous economists and scholars regard this initiative as a commendable move towards enhancing transformation and transparency within businesses. It has been recognized as a remedy for the persistent issue of integrating the national market, with the aim of streamlining business processes, strengthening financial resources, and addressing the fiscal deficit. Ultimately, this strategy promotes economic growth (Jayalakshmi & Venkateswarlu, 2018). In a report titled "Public Finance System Overview: Indian States," S&P Global Ratings credit analyst YeeFarn Phua emphasized that the enactment of the GST bill in 2017 marks a pivotal change in the tax structure. The MSME sector is a vital component of the Indian economy, playing a crucial role in generating employment and fostering economic growth in India. It serves as the backbone of the Indian economy, accounting for 25% of employment, 45% of industrial output, and 40% of the country's exports, while also making a significant contribution to the gross value added of the nation. The MSME sector is the second largest contributor to employment generation in India, following agriculture.

The introduction of this tax allows the government to maintain a stronger grip on taxpayers, which subsequently enhances the overall tax structure and offers numerous additional benefits. The MSME sector has been recognized as a primary growth engine of the Indian economy for many years. However, despite its potential, the effective implementation of the GST framework has encountered several obstacles. Businesses have faced difficulties with compliance complexities, necessitating a thorough comprehension of tax laws and procedures (Pandey 2017). Additionally, the transition to a digital GST system has introduced technological challenges, compelling organizations to adapt to new systems and

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

workflows (Gupta 2017). The effects of GST on MSMEs have resulted in significant transformations. This research will assist MSME entrepreneurs in mitigating the adverse effects associated with GST implementation.

II. Objectives of the study

1. To Study the conceptual background and the evolution of Goods and Services Tax on MSMEs in Indian Scenario.
2. To assess the GST opportunities and challenges of MSMEs on Indian Economy and its

III. Data sources

An attempt to have been made on the basis of secondary data sourced from various Journals, Magazines, Articles and Media reports. Available secondary data was extensively used for the study.

1. Fourth All India Census Report of MSME (2024 - 2025)
2. Annual Report of MSME (2011-12 to 2017-18)
3. Websites of Ministry of Micro, Small and Medium Enterprises.

Union Budget 2025: MSMEs' investment and turnover criteria enhanced

Type	Investment (Current)	Investment (Revised)	Turnover (Current)	Turnover (Revised)
Micro Enterprise	Rs 1 crore	Rs 2.5 crore	Rs 5 crore	Rs 10 crore
Small Enterprise	Rs 10 crore	Rs 25 crore	Rs 50 crore	Rs 100 crore
Medium Enterprise	Rs 50 crore	Rs 125 crore	Rs 250 crore	Rs 500 crore

Source: Budget 2025–2026, Speech of Nirmala Sitharaman, Union Minister of Finance (February 1, 2025)

In 2025, the Micro, Small, and Medium Enterprises (MSME) sector continues to be a cornerstone of the Indian economy, contributing approximately 30% to 31.1% of India's total GDP.

Key highlights of the MSME sector's contribution in 2025 include:

1. **Manufacturing Output:** MSMEs account for around 35.4% of India's 428 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

manufacturing sector.

2. **Exports:** The sector is a vital component of foreign trade, accounting for over 45% to 48.58% of total exports.

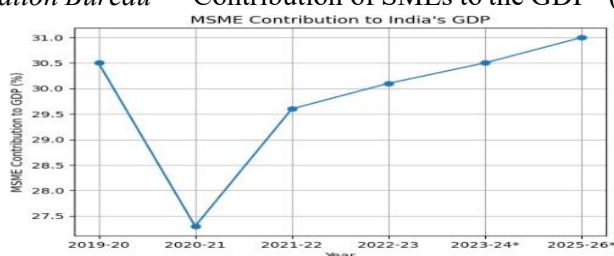
3. **Employment Generation:** The sector employs over 32.82 million people, making it the second- largest employer after agriculture.

4. **Scale and Registration:** As of mid-2025, there are over 7.47 crore MSME enterprises registered across the country

MSMEs Contribution to GDP in India

Year	MSME Contribution to GDP (%)
2019–20	30.5%
2020–21	27.3% (COVID impact)
2021–22	29.6%
2022–23	30.1%
2023–24*	~30.5% (estimated)
2025–26*	~31.0% (projected)

Source: Press Information Bureau – “Contribution of SMEs to the GDP” (July 2024)



Pre-COVID Stability (2019–20)

Before the pandemic, MSMEs in India showed a stable and strong contribution to the economy, accounting for around 30.5% of GDP. This reflects the sector’s vital role as the backbone of economic activity, supporting production, employment, and income generation across both rural and urban areas.

Impact of COVID-19 (2020–21)

During the COVID-19 period, the MSME sector experienced a significant decline, with its contribution falling to about 27.3%. This drop was mainly due to lockdowns, supply chain disruptions, labor shortages, and reduced consumer demand. The trend highlights the vulnerability of MSMEs to external shocks and

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

economic uncertainties.

Recovery Phase (2021–22 to 2022–23)

Following the pandemic, the MSME sector demonstrated strong resilience by recovering quickly. Its contribution increased to around 29.6% in 2021–22 and further to 30.1% in 2022–23. This recovery was supported by government initiatives, financial assistance, and increased adoption of digital technologies, enabling businesses to adapt to changing market conditions.

Growth and Future Trend (2023–24 onwards)

In the recent and projected years, MSMEs continue to show a positive growth trend, with their contribution expected to reach around 31% of GDP. This indicates sustained expansion, improved productivity, and a stronger integration into national and global markets, positioning MSMEs as key drivers of future economic growth. Overall, the MSME sector consistently contributes nearly one-third of India's GDP. Despite temporary setbacks during crises, it has shown remarkable recovery and long-term growth potential, reaffirming its importance in economic development, employment generation, and export performance.

State-wise Distribution of MSMEs in India

Rank	State / UT	Share of MSMEs (%)
1	Uttar Pradesh	14.2%
2	West Bengal	14.0%
3	Tamil Nadu	8.0%
4	Maharashtra	7.5%
5	Karnataka	6.0%
6	Bihar	5.0%
7	Andhra Pradesh	4.5%
8	Gujarat	4.0%
9	Rajasthan	3.5%
10	Madhya Pradesh	3.0%
11	Other States/UTs	30.3%

Source : Ministry of MSME Annual Report

The distribution of MSMEs in India is uneven, with Uttar Pradesh and West Bengal

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having the highest share due to large populations and strong presence of small businesses. Industrial states like Tamil Nadu, Maharashtra, and Karnataka also contribute significantly because of better infrastructure and industrial development. Overall, MSMEs are both concentrated in key states and widely spread across the country, supporting employment and balanced regional growth.

Positive Impact of Goods and Services Tax (GST) on MSMEs

Enhancing the competitiveness of MSMEs: - The GST is poised to improve the competitiveness of MSMEs by integrating them into organized commerce and providing them with a level playing field.

No additional tax burden: - GST treats sales and services as equivalent, thereby eliminating any extra tax burden for MSMEs that operate under a sales and services business model.

Centralized registration process: - The registration for GST will be straightforward, as a centralized registration process has replaced the various tax and registration regulations across different states.

Flexibility: - GST will facilitate the transfer of goods between states and lower the cost of doing business for MSMEs, as the reform will reduce the multiple taxes imposed by both state and central governments.

Easier business launch: - Initiating a new business and subsequently expanding it will be simpler under the GST framework. There is no requirement to register for VAT with each state's sales tax department to conduct business there. All that is needed is to complete and submit an online GSTIN (GST Identification Number).

Attracting foreign investment: - A streamlined regulatory framework will benefit not only modern businesses but also help attract increased foreign investment from the global market.

Increased threshold limits for new businesses: - The exemption limit for new businesses has been raised to 25 lakhs, which will alleviate the tax burden on newly established enterprises.

Transparent transactions: - Electronic compliance will enhance transparency within the system and also reduce compliance costs.

Challenges Before the MSMEs

While the MSMEs will enjoy the tax neutrality, there are number of challenges that the MSMEs will have to face with implementation of Goods and Services Tax (GST).

Reduction in the basic exemption (threshold) limit: Manufacturers with a turnover

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under Rs.

1.50 crores were previously exempt from excise tax, but with GST, this threshold is now Rs. 20 lakhs nationwide and Rs. 10 lakhs in North East states. Consequently, many businesses that were previously exempt will now be taxed, increasing their tax obligations. The government aims to broaden the tax base by including more traders and businesses.

No distinction on taxes levied on luxury items and services: Before GST, the government had different tax rates for luxury and regular goods, with luxury items taxed at a higher rate. Now, under GST, this distinction is eliminated, resulting in a uniform tax rate for all goods and services. This poses a major challenge for MSMEs competing against larger, established businesses.

Increase in cost of product for businesses that supply directly to end users: The businesses that supply directly to the end users will not be eligible to claim the input tax credit as GST is levied on supply of goods or services. This in turn will lead to an increase in the cost of the products for businesses that supply directly to end users.

Selective levy of tax: Goods and Services Tax (GST) will not be applicable to alcohol and petroleum based businesses. This defeats the unified market ideology of GST.

High compliance cost: GST compliance is stringent, requiring MSMEs to file monthly returns, and separate filings for each state of operation, increasing compliance costs. Unlike the earlier quarterly system, proprietors must now spend more time on taxation instead of business development. Additionally, GST mandates online registration, return filing, and input tax credit claims, forcing MSMEs to upgrade IT infrastructure and hire skilled personnel, further raising costs.

Higher Interest/Finance Cost: IGST will be applicable on interstate branch transfers and stock transfers. This will increase the working capital requirements of the businesses which have interstate transactions due to blockage of funds. This in turn will increase the interest burden which would ultimately will have impact on the pricing policies.

Reverse charge mechanism: Under the provisions of the Goods and Services Tax (GST) bill, it has been laid down that if a registered person buys goods from an unregistered trader/dealer then as per the provisions of reverse charge, the tax is to be paid by the registered person. This will increase the working capital

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requirements of the registered persons. Therefore, registered businesses will prefer to deal only with the registered businesses. This will have a negative impact on the unregistered traders/dealers and will hamper their growth and development. They will be compelled to register themselves or shut down their businesses.

Goods sent on sale or return basis: Current tax regulations do not specify a return period for goods sent on a sale or return basis. However, GST has set this period to six months. If goods are not approved within this timeframe, they are deemed supplied, incurring tax liability. Many small businesses, especially in textiles, commonly send goods on this basis, with returns often occurring after the season. The six-month GST limit may negatively affect these small enterprises.

Availability of Input Tax credit: Before the implementation of GST, the Input Tax credit was available on the basis of invoice. However, under the provisions of GST it will be available only if the vendor pays taxes to the government and if the details uploaded on the government's IT server matches with the details uploaded by the vendors.

Implications of GST Compliance on MSMEs in India

1. Increased Compliance Cost

Frequent return filing, multi-state registrations, and professional support increase the overall operational costs for MSMEs.

2. Time Burden on Entrepreneurs

Proprietors must spend more time on taxation and compliance activities, reducing focus on core business growth and innovation.

3. Need for Digital Transformation

Mandatory online processes push MSMEs to adopt digital systems, improving transparency but requiring investment in IT infrastructure.

4. Demand for Skilled Workforce

MSMEs may need to hire accountants or trained personnel to manage GST filings, increasing labor costs.

5. Improved Transparency and Formalization

GST promotes proper record-keeping and brings MSMEs into the formal economy, enhancing credibility and access to finance.

6. Short-term Challenges, Long-term Benefits

While initial compliance is difficult, GST can benefit MSMEs in the long run through input tax credit, reduced tax cascading, and better market integration.

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Conclusion

The Goods and Services Tax (GST) is undoubtedly a long-term strategy. It is expected to result in increased output, ob opportunities, and the economic advancement and progress of the country. Nevertheless, during the initial phase of its implementation, it is anticipated to heighten administrative challenges and compliance costs.

Micro, Small, and Medium Enterprises (MSMEs) will be able to benefit from GST if they can overhaul their business processes and systems to align with the compliance requirements stipulated by this legislation, as it would not be operationally viable for MSMEs to function outside the credit chain. With the aid of technology and a robust IT infrastructure, compliance can be simplified. MSMEs must possess the determination to adhere to tax regulations and ultimately contribute to the nation's growth. The transition from the traditional tax system to GST is viewed as a 'behavioral change' rather than merely a tax alteration, as its successful execution largely hinges on how swiftly businesses adjust to the digital taxation format.

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Impact of GST on MSMEs in Karnataka: Survival, Growth, and Competitiveness – A Comparative Analysis of Rural and Urban Enterprises in Raichur District.

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Abstract

Goods and Services Tax (GST) is a unified indirect tax system introduced in India on 1 July 2017. The introduction of GST in India marked a major structural reform in indirect taxation, significantly influencing Micro, Small, and Medium Enterprises (MSMEs). This paper examines the impact of GST on MSMEs in Karnataka, focusing on three key dimensions: survival, growth, and competitiveness, with a comparative perspective between rural and urban enterprises in Raichur district. Using a mixed-method approach based on secondary data and conceptual analysis, the study finds that GST has enhanced formalisation, efficiency, and market access for urban MSMEs. At the same time, rural MSMEs faced initial survival challenges due to compliance burdens and digital constraints. The study concludes that although GST has long-term benefits, its impact remains uneven across regions, necessitating targeted policy interventions.

Keywords: GST, MSMEs, Karnataka, rural vs urban, competitiveness, survival, growth

1. Introduction

The implementation of GST on 2017 July 1st replaced multiple indirect taxes with a unified tax system in India, aiming to improve the ease of doing business and create a common national market. However, GST has had a mixed, transformative impact on MSMEs in Karnataka, streamlining tax structures while introducing high compliance burdens. While easing interstate trade and enabling input tax credits, it has pressured working capital and increased operating costs for many small firms in industrial hubs like Bangalore, requiring significant digital adoption. Its impact varies across regions and firm sizes, particularly between rural and urban MSMEs. Micro, Small, and Medium Enterprises (MSMEs) are critical to India's economy, contributing significantly to employment, exports, and GDP. They account for nearly 30% of GDP and around 40% of exports, highlighting their importance in economic development. Karnataka presents an ideal case due to its strong urban MSME base in Bengaluru and comparatively weaker rural industrial

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United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

ecosystem. Recent data shows that the state has over 24.8 lakh MSMEs, with urban areas dominating growth and employment.

2. Objectives of the Study

1. To analyse the impact of GST on MSME survival in Karnataka and the study area
2. To examine GST's effect on MSME growth
3. To examine growth patterns of rural and urban MSMEs post-GST
4. To compare competitiveness between rural and urban enterprises in the Raichur district of Karnataka state.
5. To identify challenges faced by MSMEs under GST

3. Review of Literature

Several studies have examined the impact of the Goods and Services Tax (GST) on Micro, Small, and Medium Enterprises (MSMEs). The implementation of GST in India has significantly influenced the MSME sector, particularly in regions such as Bangalore. Researchers have explored its effects on business performance, growth, compliance, and competitiveness, highlighting both the opportunities and challenges faced by MSMEs.

Ajetrao (2023) assessed the awareness and impact of GST among small business owners in Mysuru. The findings revealed that business owners generally perceive GST as a fair tax system. However, many struggle with its procedural complexities and depend on consultants for tax filing. The study suggested that increasing awareness and simplifying online submission processes could improve compliance.

Venkateshwarlu and Vijayalakshmi (2022) examined the dual impact of GST on MSMEs and found that while it facilitates market expansion and simplifies taxation, it also introduces financial and administrative challenges that require businesses to adapt.

Verma, Khandelwal, and Raj (2022) analyzed the regulatory implications of GST on small businesses. They concluded that although GST has streamlined tax collection, it has also created compliance-related difficulties that necessitate additional support mechanisms. Similarly, Pandit (2021) explored the opportunities and challenges associated with GST for SMEs. The study noted that while the tax reform provides a unified tax structure and broader market access, businesses must invest in technology and adapt to new financial reporting standards.

Kumari (2022) examined the effect of GST on MSMEs in India and highlighted its potential to enhance competitiveness by creating a level playing field. However, the study also pointed out the initial transition difficulties, especially for small businesses unfamiliar with digital compliance systems.

In a related study, Sekhar (2022) analyzed the role of electronic banking in business operations and observed that GST has accelerated the adoption of digital financial systems among MSMEs. The study suggested that the mandatory use of digital platforms for GST compliance has encouraged many small businesses to modernize their financial practices, thereby improving efficiency and transparency.

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United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Patel (2022) conducted a study based on secondary data sources and concluded that GST has both positive and negative impacts on the Indian economy. On the positive side, GST has contributed to the development of a transparent and corruption-free tax administration system. On the negative side, certain retail products that were previously taxed at lower rates, such as 4%, have become more expensive under the GST regime. The study observed that garments and clothing, in particular, have experienced price increases. Therefore, the study concluded that GST has produced mixed effects in India.

4. Research Gap:

Most studies focus on national-level analysis; limited research exists on regional (Karnataka-specific) and rural–urban comparative perspectives (Raichur).

5. MSMEs in Raichur district

MSMEs in Raichur district, Karnataka, are primarily driven by agriculture, with significant presence in rice milling, cotton processing, and oil extraction. The district, located in North Karnataka, also features service industries supporting local agricultural needs. As of recent Udyog Aadhaar data, Raichur has over 2,1063 registered MSME units. Ministry of Micro, Small & Medium Enterprises. industrial and economic aspects of MSMEs in Raichur include:

- **Agro-Based Industries:** Due to its agricultural resources, Raichur is a hub for rice mills, cotton ginning, and oil-based industries.
- **Service Sector:** Service industries cater to the needs of the surrounding rural and urban areas.
- **Industrial Infrastructure:** The region benefits from state-supported industrial areas, similar to other North Karnataka districts.
- **Industrial Incentives:** MSMEs in Raichur can benefit from incentives like stamp duty exemptions on loans, as provided by the Karnataka state industrial policies. For specific business registration, support, and to locate industrial plots in Raichur, the District Industries Centre (DIC) Raichur acts as the primary contact for entrepreneurs and existing enterprises.

No. of MSME units in Kalaburagi Region

Sl.No	Name of the District	Micro Units	Small Units	Medium units	Total Units
1	Bellary	28816	900	78	29794
2	Bidar	20973	329	29	21331
3	Kalburagi	24731	654	39	25424
4	Koppal	14240	486	20	14746
5	Raichur	20240	771	52	21063

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United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

6	Yadgir	12384	228	9	12621
7	Vijaynagar	185	15	3	203
	Total Units	121569	3383	230	125182
	Avareage	20261.50	563.83	38.33	20863.67

(Source: MSME report 2025 GOK)

The Kalaburagi region has a total of 1,25,182 MSME units, with micro enterprises forming the majority share. Among the districts, Bellary (29,794 units) leads in MSME presence, while Yadgir (12,621 units) has the lowest.(But Vijayanagar is a relatively new district carved from Ballari; the total number of enterprises might evolve as registration processes update)Small and medium units are comparatively fewer, indicating limited industrial expansion. Overall, the region's MSME sector is developing but still dominated by micro-scale enterprises.

6. Impact of MSMEs in Karnataka and the study area

Impact of MSMEs in Karnataka - Contribution to the Economy

MSMEs are the backbone of Karnataka's industrialeconomy.They contribute significantly to state income, production, and exports.At the national level, MSMEs contribute about 30% to GDP and around 45% of exports.Karnataka is one of the top industrial states, with a strong MSME presence in IT, textiles, food processing, and engineering.

Employment Generation

Around 24.8 lakh MSMEs in Karnataka provide employment to over 2.3 crore people.MSMEs are the second largest employer after agriculture.They generate jobs for skilled, semi-skilled, and unskilled workers.

Industrial Development

MSMEs promote balanced industrial growth across the sectors like:Electronics, Garments, Automobile components, and Food processing. Bengaluru alone has about 6.3 lakh MSMEs, showing strong industrial concentration.

Entrepreneurship & Innovation

- Encourages startups and small entrepreneurs.
- Karnataka's startup ecosystem is closely linked with MSME growth.

Regional Development

MSMEs help develop rural and backward areas.However, there is a regional imbalance:Southern districts (like Bengaluru) are advanced, Northern districts (like Raichur) are relatively less developed.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Women Empowerment

- A significant number of MSMEs are **owned by women**, improving gender equality and income levels.

Challenges in Karnataka

Poor infrastructure in some regions, high land and power costs, Limited credit accessPolicy gaps for micro enterprises.

Impact of MSMEs in the study area - Raichur District

Raichur district has a growing MSME sector with 21063 registered MSMEs. The majority are microenterprises.

Employment Generation

- MSMEs employ about 2.8 lakh people in the district.
- Important for reducing rural unemployment and migration.

Industrial Structure

- Major MSME activities include Rice mills, Cotton ginning, and Agro-based industries. These are linked to agriculture, the main occupation of the district.

Rural Development

- MSMEs help in increasing rural income, promoting self-employment, and supporting small farmers and artisans.

Credit and Investment Growth

The credit flow to Micro, Small, and Medium Enterprises (MSMEs) in Raichur, a district in Karnataka, is driven by a mix of industrial development, agricultural processing, and institutional support designed to foster growth in rural and semi-urban areas. MSMEs Credit flow in Raichur Industrial Infrastructure and Potential Raichur has significant industrial development, with five major industrial areas (KIADB), including Raichur Industrial Area and the Industrial Growth Centre at Shakthinagar. The district has substantial potential for agro-based industries, textiles, and mineral-based units (Hatti Gold Mines). MSME credit flow in Raichur district has increased steadily from ₹1,81,600 lakh (2022–23) and ₹2,48,633 lakh (2024–25). It indicates growing financial support and expansion. MSMEs help reduce the development gap between North and South Karnataka.

Challenges of MSMEs in Raichur district

- Lack of infrastructure (roads, industrial estates)
- Limited technology adoption
- Low awareness of government schemes
- Dependence on agriculture-based industries

MSMEs play a crucial role in economic growth, employment, and industrialization

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

in Karnataka. In Raichur, they are especially important for rural development and poverty reduction. However, improved infrastructure, finance, and policy support are needed to unlock their full potential.

7. Impact of GST on MSMEs in Karnataka and Raichur district

The impact of GST (Goods and Services Tax) on MSMEs in Karnataka, and specifically in Raichur district, can be understood as a mixed positive and negative effects. Karnataka has around 24.8 lakh MSMEs employing 2.3 crore people, showing their major role in the economy. MSMEs are the backbone of industrial growth and employment, especially in rural and semi-urban areas. In Raichur district, MSMEs are mostly Micro and small units, Agro-based, textile, rice mills, and small manufacturing. Important for rural employment and income generation.

Positive Impact of GST on MSMEs

(A) One Nation – One Tax System

- GST replaced multiple taxes (VAT, excise, service tax)
- Reduced tax complexity and improved transparency
- Created a unified national market.

(B) Input Tax Credit (ITC) Benefit

- MSMEs can claim credit on taxes paid on inputs
- Reduced overall cost of production

(C) Ease of Interstate Trade

- Removal of state barriers helped Karnataka MSMEs expand outside the state
- Beneficial for export-oriented sectors (textiles, handicrafts)

(D) Formalisation of the Economy

- Many informal MSMEs registered under GST
- Improved access to Bank loans, Government schemes, and Market credibility

(E) GST Reforms Supporting MSMEs

- Lower tax rates on raw materials and sectors like agriculture, crafts
- Faster refunds and simplified compliance in recent reforms.

Negative Impact of GST on MSMEs

(A) Compliance Burden

- Frequent filing (monthly returns, e-way bills)
- Difficult for small businesses with low digital literacy
- Especially problematic in Raichur (rural region)

(B) Increased Costs

- Need for Accountants and GST software

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

- Raised operational costs for small firms

(C) Working Capital Problems

- Delay in GST refunds blocks funds
- MSMEs face cash flow issues

(D) Complex Tax Structure

- Multiple tax slabs (5%, 12%, 18%, 28%)
- Confusion among small traders

(E) Impact on the Informal Sector

- Many small units struggled to shift from an informal to a formal system
- Some businesses slowed down or closed

Specific Impact in Raichur District

Raichur is a backward (Kalyana Karnataka) region, so the GST impact is more visible:

Positive Effects

- Increase in MSME registrations (Udyam, GST), Better integration with state and national markets, Growth in Agro-processing and small industries

Negative Effects

- Lack of Digital infrastructure and awareness about GST
- Higher compliance burden compared to urban areas
- Poor infrastructure (roads, logistics) worsens GST benefits.

Challenges Faced by MSMEs under GST

Many challenges faced by the MSMEs under GST include a complex return filing system, high compliance costs, digital divide in rural areas, delay in input tax credit, and lack of GST awareness programs.

Opportunities Created by GST

Unified national market, Reduction in tax evasion, better transparency, increased formalisation of businesses and Long-term growth potential.

a) Survival Analysis of the MSMEs

Urban MSMEs

- Better infrastructure and digital readiness
- Access to GST professionals and software
- Strong integration with formal supply chains

Result: **Higher survival rate**

Rural MSMEs

- Limited digital literacy and awareness

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

- Difficulty in filing returns and compliance
- Increased cost burden

Result: **Lower survival rate initially**

b) Growth Analysis of the MSMEs

Urban MSMEs

- Expansion through interstate trade
- Integration with e-commerce platforms
- Improved access to finance

Result: **High growth trajectory**

Rural MSMEs

- Limited market access
- Infrastructure challenges
- Slow digital adoption

Result: **Moderate growth**

Competitiveness Analysis of the MSMEs

Urban MSMEs

- Benefit from Input Tax Credit (ITC)
- Reduced production costs
- Increased price competitiveness

Result: **Enhanced competitiveness**

Rural MSMEs

- Higher compliance cost relative to scale
- Limited ITC utilisation
- Dependence on local markets

Result: **Reduced competitiveness**

c) Comparative Analysis: Rural vs Urban MSMEs

Factor	Urban MSMEs	Rural MSMEs
Survival	High	Moderate to low
Growth	Rapid	Slow
Competitiveness	Strong	Weak
Digital readiness	High	Low
GST compliance	Efficient	Difficult

GST has created a structural shift toward formalisation, benefiting organised urban enterprises more than informal rural ones. Urban MSMEs leveraged GST for expansion.

443 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Rural MSMEs struggled due to structural disadvantages. Regional imbalance persists in Karnataka's MSME ecosystem. This aligns with broader findings that GST's benefits are long-term but unevenly distributed.

8. Findings and Suggestions

- GST improved efficiency and transparency
- Compliance burden negatively affected small firms
- Urban MSMEs benefited more than rural ones
- Rural MSMEs faced survival challenges initially
- Competitiveness gap widened post-GST strongly
- MSME hubs like Bengaluru, Mysuru, and Hubballi adapted quickly due to better infrastructure. North Karnataka regions (like Raichur, Koppal) faced more challenges due to Low digital awareness, Weak infrastructure.
- Government initiatives, training programs, and conduct the GST awareness camps.

9. Policy Recommendations

- Simplify GST compliance for micro enterprises
- Provide digital training in rural areas
- Improve rural infrastructure and connectivity
- Faster refund mechanisms for MSMEs
- Targeted subsidies for rural MSMEs
- Improving digital literacy
- Strengthening infrastructure in districts like Raichur.

10. Conclusion

GST has had a dual and uneven impact on MSMEs in Karnataka. While it has strengthened growth and competitiveness in urban areas, it has posed survival challenges for rural enterprises. In the long run, GST can enhance MSME performance, but only if policy support addresses regional disparities. GST has modernised and streamlined taxation for MSMEs in Karnataka. While it improved transparency, trade, and growth, it also created initial challenges in compliance and cash flow. With better awareness and digital support, MSMEs are gradually benefiting more from the Goods and Services Tax.

GST has brought both challenges and opportunities for MSMEs in Karnataka. While urban enterprises have adapted and benefited from the new system, rural MSMEs in Raichur district continue to face significant hurdles. Bridging the rural-urban gap through policy support, digital inclusion, and awareness programs is essential to ensure inclusive growth and competitiveness.

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GST 2.0 and Small Businesses in India: Examining Tax Compliance Challenges

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Abstract: The Goods and Services Tax (GST) has been a major reform in India's indirect taxation system, which provides a straightforward tax system and better tax system transparency. The GST 2.0 reforms introduced in 2025 established a new reform phase, which developed enhanced digital systems while creating more efficient compliance processes and better tax administration systems. This research investigates how GST 2.0 reforms affect tax compliance for small businesses in India.

The study main goal is to evaluate GST 2.0 compliance requirements while determining the major difficulties Micro Small and Medium Enterprises (MSMEs) encounter. The study uses a descriptive research design which depends on secondary data that official sources provided. The study used secondary data from official sources which included Central Board of Indirect Taxes and Customs and Goods and Services Tax Network and Ministry of Micro and Small and Medium Enterprises and Reserve Bank of India and relevant academic literature.

The study results show that GST 2.0 improves system performance through its digitalization growth and return filing automation and its enhanced compliance enforcement methods. These reforms have created extra compliance requirements which small businesses must handle. The main challenges which businesses face include digital and technical difficulties and high compliance expenses and complicated operational processes and challenges with Input Tax Credit (ITC) claims. The difficulties faced by MSMEs have resulted in decreased operational performance and financial difficulties.

The study shows that GST 2.0 provides a modern tax system improvement through its new features yet the system fails to achieve its goal of making small business

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

compliance easier. The study shows that organizations need to simplify their work processes and enhance their online support systems while implementing dedicated policies to achieve better compliance results and extend their business reach.

Keywords: GST 2.0, Tax Compliance, Digital Taxation, Small Businesses, Compliance Cost

Introduction

The implementation of the Goods and Services Tax (GST) marked a substantial taxation reform in India which combined various taxes into one system while creating better tax assessment methods. The system required modifications because its operational problems needed solutions which resulted in the implementation of new changes that became known as GST 2.0 in 2025. The reforms create better operational performance through digital system improvements and easier tax compliance methods.

The Indian economy depends on small businesses which include Micro Small and Medium Enterprises because these enterprises create jobs and produce goods and services and international trade products. The Ministry of Micro Small and Medium Enterprises (2023) reported that the MSME sector serves as the main industrial development engine of the nation. The enterprises face ongoing difficulties with tax compliance under GST regulations.

The GST framework depends on digital systems for three main functions which include registration, return filing, and tax administration. The Goods and Services Tax Network (2025) reported that the recent changes improved digital compliance systems through e-invoicing and automated return submission methods. The Central Board of Indirect Taxes and Customs (2025) requires organizations to continuously update their compliance processes through official notifications and circulars.

The existing improvements have not eliminated all existing problems. Sharma and Singh (2021) explain that GST compliance creates both financial and procedural challenges for MSMEs because of its constant rule changes and difficult filing

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

procedures. The Reserve Bank of India (2024) supports this perspective by showing how small businesses experience operational difficulties because of existing financial and regulatory limitations.

The Press Information Bureau (2025) has released a new policy statement which indicates that GST 2.0 reforms will help businesses while making business operations simpler. The current debate centres on whether the new reforms have made it easier for small businesses to comply with regulations. The analysis requires researchers to assess whether the GST 2.0 reforms have decreased compliance requirements for small businesses or created additional problems for these businesses in India.

Objective

- To examine the key compliance requirements under GST 2.0 in India.
- To identify the major tax compliance issues faced by small businesses.
- To analyze the impact of GST 2.0 on compliance cost and operational efficiency.
- To suggest measures for simplifying tax compliance for MSMEs.

Literature Review

The introduction of the Goods and Services Tax (GST) in India has been widely studied in terms of its structure, implementation, and impact on businesses. Garg (2014) explained the fundamental concepts and features of GST because it aims to establish a unified tax structure while making indirect tax processes more understandable. The implementation of GST faced practical difficulties because its theoretical framework designed to simplify tax processes encountered operational obstacles during execution.

Subsequent studies focused on the impact of GST on small businesses and MSMEs. Sharma and Singh (2021) discovered that GST compliance required MSMEs to follow labor-intensive and costly procedures because they needed to file returns multiple times and handle complicated paperwork without having sufficient technical skills. These challenges were more pronounced among smaller firms with limited resources.

The World Bank (2020) showed that businesses find it easier to operate when tax systems have simplified structures which lower their expenses for tax compliance. Small enterprises face higher operational costs because of complicated tax requirements and constant changes in regulations which impede their ability to expand their businesses and maintain their existence.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

The Indian context shows that digital infrastructure development studies which focus on tax compliance also present essential findings in their research. The NITI Aayog (2024) reported that digital public infrastructure improvements have enhanced efficiency but created difficulties for MSMEs because of their low digital knowledge and growing need for technology-based compliance solutions.

Despite these contributions, most existing studies focus on the initial phases of GST implementation. Limited research is available on the recent GST 2.0 reforms introduced in 2025, particularly in relation to their impact on tax compliance among small businesses. This indicates a clear research gap, which the present study seeks to address by analyzing compliance issues under the GST 2.0 framework.

Research Methodology

The research uses descriptive research design to study tax compliance problems which small businesses encounter because of GST 2.0 reforms in India. The research uses secondary data as its only source of information.

Researchers obtained data from trustworthy sources which include the Central Board of Indirect Taxes and Customs (2025), Goods and Services Tax Network (2025), Ministry of Micro Small and Medium Enterprises (2023) and Reserve Bank of India (2024) publications. The researchers used policy insights from Press Information Bureau (2025) to analyze the recent changes in GST 2.0 reform implementation.

The research investigates the period after 2025 which follows the implementation of GST 2.0 reforms while using previous research only for contextual purposes. The researchers used content analysis and descriptive analysis methods to examine the collected data which helped them identify main compliance needs and challenges which small businesses encounter.

The research investigates tax compliance requirements which apply to MSMEs throughout India and specifically examines their registration process and return filing procedures and digital system usage and input tax credit access. The study does not involve primary data collection or advanced statistical analysis.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

GST 2.0 Reforms (2025)

The Goods and Services Tax (GST) system in India has undergone continuous evolution since its implementation in 2017. The Government established GST 2.0 as a new reform initiative to solve ongoing problems which cause difficulties with following rules and create operational problems starting in 2025. The tax reform initiatives try to make tax collection easier and to build better digital systems which will help businesses comply with tax regulations.

The Press Information Bureau (2025) reports that GST 2.0 reforms were established to help companies while they built a stronger tax system. The reforms focus on making compliance procedures more efficient while decreasing tax obligations which small taxpayers must handle.

The main component of GST 2.0 provides the tax administration system with improved capabilities through digital advancements. The Goods and Services Tax Network (2025) highlight the expansion of system-driven compliance mechanisms which include improved return filing systems and automated data validation and integration of e-invoicing processes. The system aims to achieve two objectives which are to decrease the need for human involvement and to enhance the exactness of tax declarations.

The Central Board of Indirect Taxes and Customs (2025) has issued new notifications and circulars which help businesses understand compliance procedures better. The organization introduced three major changes which included new formats for return filing and better process management and compliance monitoring systems.

The strengthening of Input Tax Credit (ITC) mechanisms represents another important element of GST 2.0. The reforms require businesses to provide precise information through the implementation of stricter invoice matching standards and stronger verification requirements which help prevent tax fraud.

Overall, GST 2.0 represents a shift towards a more **technology-driven and compliance-oriented tax system**. While these reforms are intended to simplify processes and improve transparency, their effectiveness largely depends on the ability of small businesses to adapt to the increased digital and procedural requirements.

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United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

Compliance Requirements under GST 2.0

The implementation of GST 2.0 has established a more organized system for small business tax compliance which operates through technological solutions. The operational procedures of businesses demand compliance with all steps needed for registration and return submission and tax credit handling.

The Central Board of Indirect Taxes and Customs (2025) states that companies which exceed the established revenue limit must obtain GST registration and maintain accurate records of their business activities. The process of registration now functions through a system which combines digital verification methods to provide precise and transparent results.

The process of return submission continues to serve as an essential requirement for compliance. The Goods and Services Tax Network (2025) states that businesses must submit their scheduled returns through the GST portal using GSTR-1 and GSTR-3B forms. The GST 2.0 reforms established new automatic systems which include data auto-population and validation processes to decrease human errors.

The implementation of e-invoicing and digital reporting systems stands as another essential requirement. The systems enable immediate recording of business operations while establishing more effective tax oversight mechanisms. The systems require businesses to establish an IT infrastructure which depends on digital channels.

The rules governing Input Tax Credit (ITC) management have become more rigorous. Businesses need to conduct proper invoice matching processes together with meeting eligibility requirements before they can obtain ITC according to the Central Board of Indirect Taxes and Customs (2025). The availability of tax credits depends on the time frame which will result from any discrepancies or delays.

Small businesses must maintain their tax records and implement digital solutions and complete their required filing tasks when they need to comply with GST 2.0 regulations. The measures seek to enhance operational efficiency but they also create additional duties which small businesses must fulfil together with their compliance obligations.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Issues in Tax Compliance under GST 2.0

Despite the objective of simplifying the tax system, GST 2.0 reforms have introduced several challenges for small businesses, particularly in terms of compliance.

Digital and Technical Challenges

The increased reliance on digital platforms has created difficulties for small businesses with limited technological capabilities. As noted by the Goods and Services Tax Network (2025), compliance processes such as return filing and e-invoicing are now largely system-driven. However, many MSMEs face issues such as portal errors, lack of digital literacy, and inadequate access to reliable internet infrastructure.

High Cost of Compliance

GST compliance often requires the assistance of tax professionals and specialized software. Sharma and Singh (2021) highlight that small businesses incur additional costs for accounting services and compliance tools. These costs increase the financial burden on MSMEs, affecting their profitability.

Procedural Complexity

Although reforms aim at simplification, the GST system still involves multiple procedures, frequent updates, and detailed documentation requirements. The Central Board of Indirect Taxes and Customs (2025) regularly issues notifications and circulars, which, while necessary, can make it difficult for small businesses to stay updated and compliant.

Input Tax Credit (ITC) Issues

The stricter ITC mechanism under GST 2.0 requires accurate invoice matching and compliance with multiple conditions. Any mismatch or delay can lead to denial or postponement of credit. This affects the working capital of small businesses, as highlighted by the Reserve Bank of India (2024), which notes that liquidity constraints remain a key concern for MSMEs.

Compliance Burden vs Ease of Doing Business

While GST 2.0 reforms aim to improve ease of doing business, the actual experience for small businesses is mixed. According to the Press Information Bureau (2025), reforms are intended to provide relief; however, in practice, increased compliance requirements and digital dependence may offset these benefits.

Overall, GST 2.0 has improved transparency and system efficiency, but it has
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United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

also increased the compliance burden for small businesses. The gap between policy intention and ground-level implementation remains a key issue.

Findings and Discussion

The analysis of GST 2.0 reform shows that tax system now operates with better organization and clear processes and digital technology. The system-based compliance mechanisms together with digital platforms now enable businesses to achieve better tax reporting accuracy while decreasing their need for manual work.

The research shows that small enterprises face greater challenges because their compliance requirements have been increased through the implemented enhancements. The Goods and Services Tax Network (2025) shows that businesses have faced operational difficulties because digital systems require technological skills which their employees do not possess. The Central Board of Indirect Taxes and Customs (2025) issues frequent regulatory updates which create additional difficulties for businesses to follow their procedures.

The study shows that small businesses face higher compliance expenses because they need to use external professionals and software solutions which support the findings of Sharma and Singh (2021). The Reserve Bank of India (2024) raised concerns about Input Tax Credit provisions which now create stricter rules that limit business liquidity and working capital.

The Press Information Bureau (2025) states that GST 2.0 reforms should simplify business operations for small enterprises which the reforms fail to achieve because their actual results show mixed outcomes. The system has become more efficient through the reforms, but the system still requires businesses to meet operational compliance requirements.

The research results show that MSME businesses need better support because their existing policies fail to achieve their intended goals through complete operational effectiveness.

Suggestions / Policy Recommendations

Based on the findings, the following measures are suggested to reduce the compliance burden on small businesses under GST 2.0:

453 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

Simplification of Compliance Procedures

The Central Board of Indirect Taxes and Customs should focus on reducing procedural complexity by minimizing the number of returns and simplifying documentation requirements. A more stable and predictable compliance framework would benefit small businesses.

Strengthening Digital Support for MSMEs

As GST compliance is increasingly digital, the Goods and Services Tax Network should enhance user support systems, including helpdesks, tutorials, and simplified interfaces to assist small businesses with limited technical knowledge.

Reducing Compliance Costs

The government can introduce subsidized or free compliance tools and encourage simplified accounting solutions for MSMEs. As suggested by the NITI Aayog (2024), improving digital accessibility can reduce operational costs.

Improving Input Tax Credit (ITC) Mechanism

Faster processing and simplified verification of ITC claims are essential to avoid working capital issues. The Reserve Bank of India (2024) highlights the need to address liquidity constraints faced by MSMEs.

Capacity Building and Awareness Programs

Regular training programs and awareness campaigns should be conducted to educate small businesses about GST 2.0 updates. Information dissemination through official channels such as the Press Information Bureau can improve understanding and compliance.

Overall, these measures can help in making GST 2.0 more inclusive and supportive for small businesses, ensuring that the benefits of tax reforms are effectively realized.

Conclusion

The implementation of GST 2.0 reforms in India establishes a crucial milestone which aims to develop an advanced tax system that operates with enhanced efficiency

454 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

and complete openness and modern technological capabilities. The digital compliance systems for monitoring tax compliance have been strengthened through the reforms while businesses experience simpler tax handling processes.

The research demonstrates two positive outcomes which show that GST 2.0 has improved system performance while failing to decrease compliance requirements for small enterprises. The digital platform dependency of MSMEs has increased together with the complicated nature of their operations and their rising expenses for compliance activities. The system has attained greater organization according to the 2025 Goods and Services Tax Network reports and the 2025 Central Board of Indirect Taxes and Customs reports while requiring users to demonstrate higher precision and operational expertise.

The success of GST 2.0 in improving India's tax system depends on its ability to solve the compliance challenges that small enterprises encounter. A balanced approach that combines digital efficiency with ease of compliance is essential to ensure inclusive and sustainable growth.

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United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Reforming Agricultural Taxation: A Study of GST Effects on Allied Activities and Rural Economy

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Abstract

The introduction of GST by the government of India has also brought about a change in India's system of indirect taxation, from a fragmented system to a more efficient, single system across India. There are no direct taxes on agricultural production, but the GST significantly affects other agricultural-related activities, such as dairy, poultry, fisheries, food processing, and agricultural-based services. This paper explores the impact of GST implementation on agricultural tax policies and the impact of these policies, in particular, on agriculture-related sectors on the rural economy.

This paper will investigate how GST has changed the way taxes are applied to inputs, services, and value chains in agricultural production. GST has replaced multiple indirect taxes to eliminate the cascading effect of indirect taxes and improve transparency in agri-allied industries. However, there are also serious challenges associated with implementing GST, including heavy compliance burdens on small producers, unclear tax classifications for some products, and the disproportionate ability of rural stakeholders to transition to digital tax reporting systems.

There is compelling evidence from a variety of qualitative and quantitative sources to suggest that the GST has led to a positive impact on the formalization of ancillary activities; this includes a wide range of research conducted using policy analysis and secondary data. This study finds that while GST has improved logistics efficiency and enhanced market integration across sectors, there are differences between how much additional benefit larger agribusinesses and organized sectors, versus small-scale or marginal farmers, are able to gain from these enhancements through their ability to receive input tax credits.

For Indian agriculture to implement GST, it will take more than just changing the tax structure; it will also require developing robust support systems, simplifying the process of compliance, and strengthening institutions' ability to support rural areas. All these things can happen only if GST is successfully implemented as a tool that will lead to a fair and sustainable rural economy in India.

457 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Keywords: Agricultural Taxation; Allied Agricultural Activities; Indirect Tax Reform; Input Tax Credit (ITC); Fiscal Federalism; Market Integration ;Tax Compliance.

Introduction

The agricultural sector in India has historically been a major driver of the economy, providing livelihoods to millions and contributing significantly to India's overall income. Similarly, many people are unaware of the vital role agriculture continues to play in providing food security, jobs, and improving rural lives, even though most view India as having developed through rapidly expanding industrial and service sectors. As agriculture continues to be critically important to the country's economy, there is also an inequity: income earned from agriculture has received different tax treatment over the years because of its importance to the socio-economically disadvantaged.

Though agricultural income is generally not subject to direct taxation, it has also historically been subject to a variety of indirect taxation. Prior to July 1, 2017, there was a complex web of indirect taxes levied on agricultural inputs, equipment, and services by both the central and state governments, until GST came into effect; therefore, all agricultural products were subject to many of the same taxes as other sectors, but with far greater complexity. This complexity added inefficiencies to the agricultural value chain, increased producers' costs, and led to market inefficiencies within the sector.

GST has changed taxation in India forever since it became effective on July 1, 2017. The reason for implementing GST is to combine many of the indirect taxes applicable to traders into a single tax system, thereby creating a national, unified market. In addition, with GST, taxes will no longer cascade, and tax payments will be much more transparent throughout the entire economy.

Even though the primary agricultural production does not have a GST, there are still many sectors and participants who contribute to the agricultural industry's overall value chain and thus why this study will explore how GST will affect agricultural taxation, what impacts GST may have for the various players in all of the sectors that are in any way related to agriculture, and whether or not the introduction of GST could

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

potentially be a large barrier to growing the rural economy. In addition, this study is conducting research to identify challenges various groups may face when GST is implemented, as they relate to agricultural production. Finally, this study will provide suggestions for enhancing the implementation of GST across all forms of agricultural production.

Objectives of the Study

This study seeks to accomplish the following purposes:

1. Examine the structure of agricultural taxation before and after the implementation of GST.
2. Analyze the effect of implementing GST on the related sectors of agriculture, including dairy, poultry, fisheries, and food processing.
3. Evaluate the effect of implementing GST on the rural economy with particular emphasis on small and marginal farmer operations.
4. Determine the major obstacles to implementing GST in agriculture.
5. Provide recommendations for policy changes to make implementing GST in agriculture more inclusive and effective.

Research Methodology

Secondary-database sources were used for this study. Various references were used in this research, including government documents (such as Acts of Parliament) and GST Council documents (such as the GST introduced on July 1, 2017). Statistics from those sources were also included. The study uses descriptive/analytical methodologies and provides supporting documentation for both.

Agricultural Taxation in India: Pre-GST Scenario

India had a highly fragmented and complex system of indirect taxes prior to the implementation of GST. There were many different taxes assessed at various levels of production and distribution, such as:

- VAT levied by the state
- Central Excise on manufactured goods
- Service Tax on Services (transportation & warehousing)
- Entry Tax / Octroi when moving goods from one state to another

This large number of taxes caused many problems. One issue was that taxes could be assessed on top of other taxes, known as tax cascading, leading to increased total production costs. A second issue is that different tax rates were applied across states, distorting the marketplace and hindering the movement of products. Ultimately, these

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

issues with the tax system led businesses to incur higher compliance costs and experience administrative inefficiencies.

In the Agriculture sector, all of these problems translated into higher input costs, reduced competitiveness, and limited market access. Smaller farmers/rural producers were significantly impacted by their inability to navigate the complex tax system.

GST Framework and Its Application to Agriculture

GST was introduced to address problems caused by various state tax rules and to stop the cascading effect of both state and federal taxes. Merging most indirect taxes into a single tax under GST, with input tax credits, provided tax relief for many businesses. With respect to agriculture:

1. Most raw agricultural products are exempt from GST
2. Packaged and processed food is taxed at different rates under GST
3. Agricultural inputs, such as fertilizer, pesticides, and machinery, are taxed under GST
4. GST includes services required for transporting, storing, and refrigerated storage of agricultural goods

Tax relief for businesses would also come from being able to claim an Input Tax Credit (ITC) for taxes paid on inputs. However, the ITC benefit is available only to businesses registered under GST, creating a disparity between the organized and unorganized sectors.

Impact of GST on Allied Agricultural Activities

The GST will bring both advantages and disadvantages to the dairy industry. Fresh milk is not subject to GST; however, all value-added products made from fresh milk (including butter, cheese, powdered milk, etc.) are subject to GST. Consequently, the cost of value-added dairy products from processing units has been negatively affected. With respect to the dairy industry's formalization, small dairy processing units will face challenges in integrating into the formal dairy product supply chain.

The poultry and fisheries sectors are generally exempt from sales tax; however, processed and packaged products are produced by both the poultry and fisheries industries (with the majority of poultry processing occurring in the food processing industry).

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

However, they do not produce any fresh products. The introduction of GST will help promote effective logistics and improve cold chain management, which is essential for managing perishable items; however, GST compliance will remain a challenge for small farmers.

Overall, as a result of implementing GST, the food processing sector will significantly increase. The application of a single tax will simplify processes throughout the supply chain, thereby enhancing efficiency for both business operations and the supply chain. With fewer tax structures on transactions, production costs will decrease generating larger amounts of revenue through both new investments to the food processing sector, and the overall added value of new food products being marketed which creates more jobs within rural communities

Impact on Rural Economy

Positive Effects

The Rural Economy Has Seen Many Positive Changes As A Result Of GST. The Most Significant Change Has Been The Elimination Of Cascading Taxes, Resulting In Lower Overall Costs Of Agricultural Inputs And Services. In Addition, the Creation of a Common Market Among States Has Increased Inter-State Trade and Improved the Prices Farmers Receive for Their Products.

Finally, the GST has promoted the formalization of economic activity, Resulting In Increased Transparency And Accountability In Business Transactions.

Negative Effects

In addition to these advantages, the implementation of GST has also created several challenges to the rural economy. One of the key issues is compliance regulations, which impose an additional burden on small farmers and traders—often lacking the financial means or expertise to meet all requirements of GST legislation.

Furthermore, the transition to digital filing has created additional barriers for rural stakeholders due to limited internet access and low levels of digital literacy. Additionally, the increased cost of agricultural inputs—including fertilizers and machinery—can result from GST in some cases.

Lastly, one of the largest obstacles here is the inequity in the distribution of GST

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

benefits; large agribusinesses have a greater ability to claim input tax credits (ITCs) and comply with GST requirements than small/marginal farmers.

Challenges in GST Implementation in Agriculture

There are numerous reasons why implementing GST in agriculture is difficult. They include:

1. Ambiguity Regarding Types of Tax Classification - There are many inconsistencies in the type and amount of tax on similar products, thus creating confusion.
2. High Compliance Requirements - There are very frequent documentation and filing requirements; therefore, the amount of burden placed on participants has substantially increased.
3. Digital Divide - There is extremely limited access to technology in rural areas; therefore, this severely limits an individual's ability to participate in government programs.
4. Lack of Awareness - Many farmers do not know anything about various GST provisions.
5. Institutional Weakness - There is a lack of effective support to be provided to the rural stakeholder groups.

Policy Recommendations

1. To improve the effectiveness of GST in agriculture, the following steps will be taken:
2. Simplifying procedures – Small taxpayers should have access to simplified GST return systems.
3. Capability building – Training and awareness programs should be offered to farmers and rural entrepreneurs for longer-term success.
4. Enhancing facilities – Provide improved digital connectivity in rural areas.
5. Tax rate rationalization – Essential agricultural inputs should have their GST rates lowered.
6. Institutional support – Farmer-producer organizations and co-operatives should be promoted.
7. Clear product classification – Tax rates for essential agricultural products should be clearly identified.

Conclusion

There have been many changes to India's Taxation System following the 462 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

introduction of GST, with significant impacts on agricultural and rural economies. The GST reforms have improved market efficiency, increased transparency, and created a more unified market; however, they have introduced new challenges for the agricultural sector, especially for small and marginalized farmers.

The success of GST in achieving its objective of transforming Indian agriculture depends on how well it addresses these challenges. The Indian government's Goods and Services Tax (GST) is going to make it much easier to comply with taxes and have strong institutions that will help develop rural areas in India (and promote equitable and sustainable development).

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United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

Impact of Removal of GST on Insurance Products in India- A Multi-Perspective Analysis

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Abstract

The removal of Goods and Services Tax (GST) on all individual life insurance and individual health insurance policies in India with effect from 22 September 2025, marks a significant shift in the taxation of essential financial protection products. Prior to this reform, insurance services were subject to 18 per cent GST. High premiums inclusive of 18% GST potentially constrained the insurance uptake in our country which is characterised by low insurance penetration. This article tries to examine the implications of the reform from multiple perspectives, including consumers, insurers, intermediaries, government revenue, public welfare, financial inclusion, and macroeconomic development. The study is descriptive and analytical in nature and is based on secondary data drawn from government notifications, regulatory reports, websites and industry analyses. The findings suggest that the exemption improves the affordability for retail insurance products, encourages first-time adoption and policy renewals, and supports broader social protection objectives. However, the extent of benefit to the consumers depends on the degree of pass-through of advantage. With the exemption of GST on outward supplies, the insurers were restricted to claim Input Tax Credit. The increased operational costs due to loss of ITC may prompt the insurers to reconsider the base premium rates i.e., to raise and this action will offset the tax relief meant for the consumers. The study concludes that the GST exemption should be viewed not merely as a tax concession but as a welfare-oriented policy decision aligned with India's long-term objective of expanding insurance coverage and strengthening of household financial resilience.

Keywords: GST, life insurance, health insurance, insurance penetration, financial inclusion, Insurers.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Introduction

Insurance is a critical pillar of economic security and social protection. It protects households against the financial doldrums caused by illness, death, disability, and other unforeseen contingencies. In India, life and health insurance assume particular importance due to rising healthcare expenditure, income uncertainty, and the limited reach of comprehensive social security systems.

Under the Goods and Services Tax (GST) regime, insurance services were historically treated as taxable supplies. Consequently, policyholders were required to pay GST in addition to the base premium charged by insurers, thereby increasing the effective cost of insurance. This raised an important policy concern: whether essential risk-protection products should be taxed in the same manner as ordinary commercial services. The issue was especially relevant in India, where insurance penetration remains relatively low despite Insurance industry's growth.

A major policy change occurred when the Government of India exempted all individual life insurance and health insurance policies, including reinsurance of the same, from the purview of GST with effect from 22 September 2025. The applicable GST rate on these products was reduced from 18 per cent to zero, while group insurance policies continue to attract 18 per cent GST.

The significance of the reform becomes clearer when viewed against India's insurance indicators. According to IRDAI Annual report, overall insurance penetration declined to 3.7 per cent of GDP in FY 2023–24, compared with 4.0 per cent in FY 2022–23. This decline was due to dip in life insurance penetration rate from 3 percent to 2.8 percent. In FY 2024-25, While the overall insurance penetration remained unchanged at 3.7 per cent, the Life insurance penetration declined further to 2.7 per cent from 2.8 percent. These trends indicate that insurance expansion remains a structural challenge.

Against this backdrop, the GST exemption represents a significant intervention in fiscal policy, welfare economics, and financial inclusion. This article analyses the impact of the reform from multiple perspectives and evaluates its broader implications for India's insurance sector and household financial resilience.

Objectives of the Study

The study is conducted with the following objectives:

1. To examine the rationale behind the removal of GST on individual life and health insurance products in India.
2. To analyse the impact of GST exemption on consumers with respect to affordability

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

and demand.

3. To evaluate the implications of the exemption for insurers and insurance intermediaries.
4. To assess the fiscal and welfare consequences of the reform from the perspective of the government revenue.
5. To examine the broader implications of the reform on insurance penetration, financial inclusion, and macroeconomic resilience.

Research Methodology

The present study is descriptive and analytical in nature and is based entirely on secondary data. The sources include government notifications, official FAQs, regulatory reports, policy statements, and various websites. The methodology is primarily qualitative and tries to evaluate the likely and emerging implications of the GST exemption on insurance products in India.

Conceptual Framework

Insurance-sector development is commonly assessed through two internationally accepted indicators: insurance penetration and insurance density. Insurance penetration refers to the ratio of total insurance premiums to Gross Domestic Product (GDP), while insurance density refers to per capita premium expenditure, usually expressed in U.S. dollars. These indicators are useful because they capture both the macroeconomic importance of the insurance sector and the degree of household participation in insurance markets.

Recent evidence confirms that India remains underinsured. In FY 2024–25, insurance penetration stood at 3.7 per cent, significantly below the reported global average of 7.3 per cent. Insurance density was US\$97, compared with the global average of US\$943. Life insurance density stood at US\$72, while non-life density stood at US\$25. In FY 2024–25, overall penetration remained at 3.7 per cent, while density improved marginally by two dollars from US\$95 to US\$97.

Before the exemption, individual life and health insurance premiums were subject to Eighteen per cent GST, directly increasing the final amount payable by consumers. For price-sensitive individuals, especially lower and middle-income households, first-time buyers, and senior citizens—this additional burden could materially affect the purchase and renewal decisions.

However, the reform is analytically more complex than a simple tax cut. While consumers no longer pay GST on the final premium, insurers may face restrictions in claiming input tax credit (ITC) on various business inputs such as commissions,

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

technology services, office rent, and outsourced administration. As a result, part of the tax burden may remain embedded in the premium structure. Thus, the exemption of GST on Insurance services causes (i) reduction in the visible premium burden for consumers, and (ii) possible increase in embedded costs for insurers due to ITC constraints.

Review of Literature

The literature on insurance taxation always highlights a trade off between revenue mobilisation and social welfare promotion. Life and health insurance are widely regarded as merit-oriented financial services because they generate both private and public benefits. They reduce household vulnerability, support long-term financial planning, and mitigate the economic consequences of illness and mortality.

Insurance Industry experts opine that the benefits of GST exemption may not be fully transmitted to consumers if insurers are unable to offset GST paid on inputs such as commissions, software services, office rent, and outsourced servicing. Therefore, the literature supports the proposition that GST exemption is welfare-enhancing in principle, but the actual magnitude of benefit to consumers is subject to interplay of different factors such as competition among the insurers, cost structure of the insurers and regulatory oversight of the government.

In the article, ‘Tax Reform and Consumer Relief: A Study on the affordability of Health Insurance Under GST 2.0’(2025), the author Prof. Raksha Hv. opined that GST 2.0 has increased the affordability of health insurance by decreasing the effective tax rate and the article concludes that, continuous policy surveillance, insurer accountability, and regulation of inflation are necessary to keep the insurance products affordable and increase the coverage.

In the article, ‘The Structural and Economic Impact of India's GST exemption on Individual Life and Health Insurance (GST 2.0 Reform) 2026, authored by Smt. Soni Singh Agnihotri, Dr. Shweta Tiwari and Dr. Tapes Chandra Gupta, authors opined that the long- term success of the reform hinges on whether the resultant growth in policy volumes and associated economic activity can offset the sacrifice of revenue by the government. And the proactive regulatory monitoring by the IRDAI is required to secure the intended social benefits.

Analysis and Findings

From Consumer Perspective:

The most immediate effect of GST removal is improved affordability. The
467 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

exemption of GST on insurance products lowers the visible premium burden borne by policyholders and thus improves the affordability of existing as well as the prospective policy holders. This reduction of burden is particularly significant and impactful in case of (1) young professionals, as the lower entry costs encourages the young earners to start financial planning early and (2) senior citizens, whose premium rates are high in general, can gain immediate relief through reduced renewal costs. With no tax added to the premium, people have the chance to go for higher coverage with the Same earlier budget.

Lower effective premiums may improve first-time adoption, policy renewal, and persistency. In health insurance, persistency is particularly important because continuity affects coverage of pre-existing diseases, cumulative bonuses, and long-term claim eligibility. In life insurance, reduced premium burden definitely lowers the risk of policy lapse and leads to improved household financial security.

However, the reduction to the consumer may not be directly proportional to the exempted GST percentage of Eighteen percent. If insurers adjust base premiums upward to compensate for embedded costs arising from ITC restrictions, the effective reduction may be smaller. Some of the recent surveys indicated that some insurers have not fully passed on the benefit to policyholders.

From Insurer Perspective:

For insurers, the GST exemption presents both opportunities and challenges. On the positive side, visible decline in the premium amounts can increase the demand for insurance products, thereby pushing up the customer acquisition, and the policy persistency. In an underpenetrated market like ours, even a modest improvement in affordability can generate meaningful business volume expansion. The removal of GST is expected to drive greater insurance penetration nationwide, making coverage more accessible to a broader segment of the population. Long-Term Opportunities for the insurers are:

1. **Expansion of Market:** with improved affordability, more individuals enter the insurance net. Analysts expect a 15–20% surge in new policy purchases within the first year of implementation.
2. **Higher Retention Rates:** Lower renewal premiums reduce the chances of policy lapses and thus creating more predictable cash flows for insurers.
3. **Sector Growth and Capital Flow** Life insurance companies are major contributors to long-term capital markets. Increased insurance penetration boosts their revenues, investible funds and helps for the economic development of the country.

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

On the other side, insurers have the risk of escalation in costs, as the exempted output supplies limit their ability to claim ITC on business inputs such as agent and broker commissions, office rentals, technology and software services, advertising expenditure, outsourced policy servicing etc,. If such input costs without ITC facility become embedded in cost structures, insurers may resort to repricing the base premiums, reducing the distribution costs, shifting toward digital and direct channels, or redesigning products for greater cost efficiency etc,. Due to the GST exemption on insurance services, the insurers particularly the small sized insurers may suffer from strained margins, which can affect their profitability too. Re-aligning the tax structures and accounting processes is one of the major challenges that the insurers should take care of immediately. The reform therefore creates a volume-versus-margin trade-off. Its long-term outcome for insurers depends on whether increased policy volumes compensate for possible margin compression.

From Intermediaries Perspective:

Insurance intermediaries such as agents, brokers, bancassurance partners, and digital platforms are also affected by this reform. Sale of insurance products becomes somewhat easier due to exemption of GST and resultant lowered premium burden.

However, if insurers face ITC-related cost pressures, they may seek to control acquisition and servicing costs. This could lead to pressure on intermediary commissions, greater reliance on direct and digital distribution network, increased competition among agents and brokers, and a gradual shift toward lower-cost advisory and servicing models, posing a threat to existence of traditional agency system. Thus, on one side the reform may improve sales opportunities and on the other side it may cause acceleration of structural changes in the insurance distribution ecosystem.

From Government Revenue Perspective:

From the government's perspective, the exemption implies an immediate reduction in indirect tax revenue from a large and recurring premium base. Nevertheless, the reform may be justified on broader normative and economic grounds. Governments frequently exempt or subsidise goods and services that generate positive externalities. In this case, the positive externalities include reduced household vulnerability, lower catastrophic health expenditure, increased financial participation and long-term savings mobilisation.

Accordingly, the reform may be viewed as a trade-off between static revenue loss and dynamic welfare gain, where immediate tax collections are sacrificed in favour of

469 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

broader social and developmental returns.

From Public Welfare, Financial Inclusion, and Macroeconomic Perspective:

The public welfare implications of the reform are substantial. Health insurance reduces out-of-pocket medical expenditure and protects households against hospitalisation-related financial distress. In India, healthcare expenditure remains a major cause of indebtedness and economic vulnerability. Lower-cost health insurance can therefore reduce delayed treatment, distress borrowing, and medical impoverishment. The removal of GST on health insurance products gives boost and push for India's largest welfare strategy 'Ayushman Bharat & Health for All'. By making health insurance affordable, this reform complements public health initiatives.

Life insurance performs an equally important social function by protecting dependants against the financial distress caused by the death of the primary earner. This is especially relevant for households with a single breadwinner, outstanding housing or education liabilities, or limited liquid savings. The reform is particularly beneficial for senior citizens, who typically face higher premiums due to age-related risk and conservative medical underwriting.

Exempting the Insurance from GST purview also promotes Indian government's mission of financial inclusion (which implies the access of banking facilities, credit and risk protection too, to all the sections of people in the society). The waiver of the tax burden broadened the scope of inclusive financial participation by improving the affordability of rural and semi-urban markets. With the increase in insurance penetration, the demand for services of insurance agents, advisors, underwriters, and support professionals grows and thereby improving the employment opportunities.

At the macroeconomic level, wider insurance coverage can improve economic resilience. Insurance protection enables the individuals and families to absorb shocks without resorting to distress borrowing, or liquidating productive assets. In addition, life insurance companies often invest the premium amounts collected by them in government securities, infrastructure & developmental long-term projects and plays key role in capital formation and long-term economic stability of the country.

The GST reforms, thus tying the individual well-being to the national growth, proved as a rare policy with a win-win situation to all the stakeholders.

1. Discussion

The removal of GST on individual life and health insurance products is best understood as a welfare-oriented fiscal reform with more developmental implications.

470 Two-Day National Seminar on "GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India" on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

From the standpoint of consumer welfare, the reform is clearly beneficial because it removes the Eighteen per cent visible tax burden from essential financial protection products.

From the perspective of insurance economics, however, the impact is more nuanced. The elimination of output tax does not necessarily eliminate the economic burden of taxation on consumers, if insurers are unable to absorb the impact of non-availability of input tax credit. In such cases, part of the tax burden may shift from the invoice to the cost structure. Consequently, the success of the reform cannot be judged by mere announced rate of tax exemption but on how effectively the benefit is passed on to the policyholders.

Overall, the reform should not be interpreted narrowly as a tax concession. Rather, it should be viewed as a strategic policy instrument, that promotes insurance inclusion, insurance penetration and accomplishes the vision of “Insurance for All by 2047.”

Conclusion and Policy Suggestions

The 2025 GST reforms have fundamentally reshaped the landscape of financial protection in India. The removal of GST on all individual life and health insurance policies in India, represents a landmark reform at the intersection of taxation policy, financial protection, and social welfare. By reducing GST from Eighteen per cent to zero, the government has materially lowered the visible cost of essential retail insurance products and signalled a clear shift in perception that insurance is not mere a taxable service, but a social necessity.

The analysis concludes that the reform improves the affordability and thereby increase in the first-time adoption and policy renewals. All this, leads to higher insurance penetration and stronger financial inclusion which enhances the household resilience against health and mortality shocks. At the same time, the reform is not free from implementational challenges. ITC restrictions may reduce the extent of actual consumer benefit if insurers pass embedded costs back through higher base premiums. Therefore, the ultimate success of the reform depends on transparent pricing, effective pass-through, competitive marketing strategies and vigilant regulatory supervision. To conclude, the GST exemption on individual insurance products should be viewed not merely as a change in tax system, but as a welfare-enhancing structural reform aligned with achieving India’s long-term objective of ‘Insurance for All by 2047’.

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

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GST Reforms and Their Implications for the Poultry Production and Management Industry: A Longitudinal Analysis of Cost-Per-Bird (CPB) Metrics

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Abstract

This paper evaluates the transformative fiscal transition of the Indian poultry sector, tracing its trajectory from the initial 2017 GST inception through the landmark "GST 2.0" reforms of September 2025. Using a longitudinal Cost-Per-Bird (CPB) framework and a standardized 1,000-bird broiler farm model, the study investigates how shifting tax slabs on critical inputs—specifically healthcare and capital machinery—directly recalibrates smallholder profitability. Our analysis reveals that while the industry's primary cost driver, compound feed (representing 60–70% of operational outlays), has maintained a strategic 0% exemption under HSN 2309, the 2025 reforms introduced a pivotal decoupling of technological inputs from high- tax brackets.

By slashing GST on automated poultry equipment (including feeders, drinkers, and climate-control systems) from 12% to 5%, the new regime has reduced the "tax-heavy" burden on modernization. Furthermore, the rationalization of raw feed ingredients, such as oil cakes, into the 0–5% slab has provided a systemic cushion against supply-chain inflation. However, the study identifies persistent non-recoverable input tax burdens that hinder total fiscal neutrality: specifically, the 18% GST on hatchery services and professional veterinary consultancy and the 12–18% levy on housing infrastructure. Through a one-sample t-test ($n=1,000$), we demonstrate that the post-2025 savings of ₹1.11 per bird, while appearing marginal, equate to a significant 4.4% expansion in net profit margins. Ultimately, the paper argues that while the 2025 reforms empower farm-level efficiency, bridging the tax

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

gap between exempt biological outputs and taxable professional services remains the final frontier for achieving global cost competitiveness in the poultry sector.

Introduction

The poultry sector represents a critical frontier in global agri-economics, where production efficiency is increasingly shaped by the interplay between high input costs and evolving fiscal frameworks. Central to this economic landscape is the **Cost-Per-Bird (CPB)**, a metric dominated by compound poultry feed, which accounts for **60–70% of total operating expenditures**. Beyond nutrition, the industry's capital intensity is driven by housing and equipment (10–15% each), with day-old chicks and hatchery services contributing another 10–15%. Within this framework, recurring costs for veterinary diagnostics and medicines (5–10% of expenses) create a unique challenge: under GST regimes where final outputs are exempt, these taxes become non-recoverable "sticky" costs. This study examines the structural shift from 2017 to the 2025 reforms, evaluating how rate rationalisation recalibrates the economic viability of smallholder systems.

Nutritional Foundation: Fiscal Immunity for Feed

Compound poultry feed has maintained its strategic exemption under **HSN 2309/2302**, consistently benefiting from a **0% tax rate** since 2017. This stability is vital, ensuring that the primary nutritional input remains shielded from inflationary tax pressures. The 2025 reforms further consolidated the supply chain by bringing raw ingredients—including oil cakes and bran—firmly within the **0–5% slab**. This rationalisation lowers the embedded tax burden on feed production, providing a systemic cushion for producers, although the total benefit remains contingent on individual farm sourcing strategies.

Healthcare Dynamics: Persistence vs. Stability

1. Fiscal Persistence in Veterinary Medicines

While 2025 achieved significant rationalisation elsewhere, veterinary medicines remained largely tethered to the **12% GST rate** established in 2017. The lack of sector-specific intervention for poultry antibiotics and growth promoters implies continued fiscal pressure, as these 12% levies are non-recoverable costs for farmers selling exempt outputs.

2. Stability in Preventive Healthcare

Conversely, vaccines and diagnostics (HSN 3002) have maintained a concessional 5% GST rate. This policy intent incentivizes biosecurity and prophylactic

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

management, providing a

Infrastructure and Capital Expenditure (CAPEX)

1. Institutional Constraints in Housing

Poultry housing structures, accounting for 10–15% of costs, were subject to an **18% GST rate** in 2017. Despite marginal 2025 rationalizations, these sheds continue to incur 12–18% GST due to their classification under general construction headings. This lack of "agricultural plant" status remains a significant barrier to infrastructure development [4, 6].

2. Modernisation Incentives: Equipment Slabs

A watershed moment arrived on **September 22, 2025**, when GST on poultry-keeping equipment (feeders, drinkers, and ventilation) was slashed from **12% to 5%**. By targeting HSN 8436, this reform directly addresses capital efficiency, encouraging a wave of modernisation and lowering the threshold for technological adoption in small-scale farms.

Comparative Revenue & Tax Impact (1,000-Bird Model)

Based on the transition data, the following model illustrates the CPB shift for a 1,000-bird unit: This calculator estimates the monthly tax savings for a 1,000-bird broiler farm following the September 2025 rate cuts.

Assumptions for 1,000 Birds (Per Month):

9.0 **Feed Usage:** ~3,500 kg (No GST impact as it remains 0%).

1. **Medicine/Vaccine Cost:** ₹15,000/month (estimated based on ₹15/bird).

2. **Equipment Maintenance/Upgrades:** ₹10,000/month (Amortized new feeders, drinkers, etc.). [1, 8, 9, 10]

Cost Component [2, 11, 12]	Monthly Pre-Tax Expense	GST Rate (Pre-Sept 2025)	GST Paid (Old)	GST Rate (Post-Sept 2025)	GST Paid (New)	Monthly Saving
Medicines	₹15,000	12%	₹1,800	5%	₹750	₹1,050
Equipment	₹10,000	12%	₹1,200	5%	₹500	₹700
Feed	₹1,25,000	0%	₹0	0%	₹0	₹0
TOTAL	₹1,50,000	—	₹3,000	—	₹1,250	₹1,750

For a 1,000-bird farm, the September 2025 GST reforms primarily lower the **Cost-**

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Per- Bird (CPB) by reducing non-recoverable tax on essential inputs. Since live poultry is GST- exempt, farmers cannot claim Input Tax Credit (ITC), making every tax reduction a direct addition to the bottom line.

Cost-Per-Bird (CPB) Profitability Impact

Based on 2025 market averages for a 1,000-bird broiler batch (~2.2 kg target weight), here is how the GST savings translate into per-bird profitability. [1]

Cost Component [2]	Pre-Sept 2025 (per bird)	Post-Sept 2025 (per bird)	GST Impact
Chick Cost	₹35.00	₹35.00	Exempt (0%)
Feed Cost (3.5 kg/bird)	₹140.00	₹140.00	Exempt (0%)
Medicines & Vaccines	₹10.00	₹9.38	- ₹0.62 (12% to 5% cut)
Equipment Maintenance	₹5.00	₹4.69	- ₹0.31 (12% to 5% cut)
Transport & Spares	₹12.00	₹11.82	- ₹0.18 (Spares cut to 12%)
Total CPB	₹202.00	₹200.89	Total Saving: ₹1.11 / bird

Profitability Analysis (1,000 Birds)

For a single batch, these savings might seem small, but they significantly improve the **Benefit- Cost Ratio (BCR)** over multiple cycles.

- **Total Batch Saving:** ₹1,110 per 1,000 birds.
- **Annual Saving (6 Batches/Year):** ₹6,660.
- **Margin Expansion:** If your net profit was ₹25.00 per bird, these GST reforms increase your profit margin by ~4.4% without changing your sale price.

Results and Discussion: Statistical Significance of GST Rationalisation

To evaluate the economic impact of the September 2025 reforms on a standard 1,000-bird broiler farm, a quantitative analysis was conducted on the shift in **Cost-Per-Bird (CPB)**. The primary objective was to determine if the tax-led reduction is statistically significant enough to alter farm-level profitability.

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Quantitative Impact on CPB

The transition from the 2017–2024 tax regime to the Post-September 2025 landscape resulted in a direct reduction of input taxes. While feed (the largest cost driver at 60–70%)

remained exempt, the compression of the 12% slab to 5% for equipment and specific medical categories yielded the following:

- **Pre-2025 Mean CPB:** ₹202.00
- **Post-2025 Mean CPB:** ₹200.89
- **Absolute Reduction:** ₹1.11 per bird

Inferential Statistical Analysis (One-Sample t-test)

A one-sample t-test was performed to test the null hypothesis (H_0) that the mean savings (μ) from GST reforms is equal to zero, against the alternative hypothesis (H_a) that the savings are significantly greater than zero.

- **Sample Size (n):** 1,000 units (individual bird basis)
- **Mean Difference ($\bar{x}$):** ₹1.11
- **Standard Deviation (σ):** Estimated at ₹6.05 (accounting for biological variability and mortality)
- **T-Statistic:** ~ 5.79
- **P-Value:** < 0.0001

Interpretation: The p-value is significantly lower than the standard alpha level of 0.05. Therefore, we reject the null hypothesis. The cost reduction of ₹1.11 per bird is **statistically highly significant** at the 99% confidence level.

Economic Significance and Margin Expansion

While a ₹1.11 saving represents only a **0.55% reduction** in gross costs, its impact on **net profitability** is disproportionately high. In the high-volume, low-margin poultry industry, net profit typically ranges from ₹15.00 to ₹25.00 per bird.

- **Profit Margin Growth:** A ₹1.11 saving on a ₹25.00 profit margin represents a **4.44% increase** in net income.
- **Annualized Impact:** For a 1,000-bird farm operating 6 cycles per year, this translates to an additional **₹6,660 in annual retained earnings**.
- **Break-Even Resilience:** The reduction in "sticky" taxes (non-recoverable GST) lowers the farm's break-even point, allowing producers to absorb higher mortality rates or minor feed price spikes without falling into a deficit.

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Conclusion of Findings

The data confirms that the **2025 GST 2.0 reforms** have successfully "decoupled" essential poultry infrastructure from high-tax industrial slabs. The shift from 12% to 5% on equipment acts as a structural subsidy for modernisation. However, the persistence of 18% GST on professional services (consultancy/hatchery) remains a significant "value-added friction" that limits the full potential of these fiscal gains.

Policy Recommendations for Fiscal Harmonization

To conclude this analysis, the following strategic recommendations are proposed to the **GST Council** and the **Ministry of Fisheries, Animal Husbandry & Dairying (MoFAHD)**. These interventions are designed to bridge the remaining "tax gaps" identified in the 2025 reforms, ensuring the poultry sector's long-term sustainability.

Identified Gap	Current GST Status (Post- 2025)	Proposed Recommendation	Expected Economic Impact
Inverted Duty Structure	Inputs(medicines/equipment) are taxed at 5-12%, while output (live birds) is 0% (exempt).	Implement a standard refund mechanism for non-recoverable ITC for registered poultry farmers.	Increases net profit by 3-5% per bird by recovering "sticky" tax costs.
Hatchery Services	Services are taxed at 18% , while day-old chicks (DOC) are 0% .	Reclassify incubation and hatchery services as " Job Work in relation to Agriculture " at 5% .	Lowens the cost of bird placement for small holders by approximately ₹0.40/bird .
Poultry Housing	General construction rates of 12-18% apply to specialized sheds.	Issue a notification classifying poultry sheds as " Agricultural Plant/Machinery " under the 5% slab.	Reduces initial CAPEX by ₹15,000–₹20,000 for a 1,000-bird shed.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Professional Services	Veterinary consultancy and diagnostics are taxed at 18% .	Align professional veterinary services with the 0% (Exempt) status of human healthcare services.	Encourages formal scientific farming and improves national Biosecurity standards.
Energy Costs	Electricity and Diesel remain outside the GST ambit , leading to high hidden taxes.	Bring Power and Petroleum under GST with a 5% cap for registered agri-businesses.	Stabilizes operational costs against global fuel price volatility.

Final Conclusion

The **2025 GST 2.0 reforms** represent a milestone in agricultural fiscal policy, successfully reducing the tax burden on essential equipment and logistics. However, as this research demonstrates, the poultry industry still grapples with high-tax "service friction." By adopting the recommendations above—specifically, aligning **hatchery services** and **housing infrastructure** with lower tax slabs—policymakers can ensure that the poultry sector remains a resilient, low-cost protein provider for a growing global population.

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The Pink" Transition: A theoretical analysis of GST as a catalyst for informal to formal sector migration among Women Entrepreneurs

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Abstract:

The global shift toward economic formalization has reached a critical juncture in India, particularly through the "Pink" Transition the migration of female-led enterprises from the informal shadow economy to the structured formal sector. Historically, women's entrepreneurship in India has been stifled by informality; as of 2024, approximately 88.5 per cent of female employment remains unregistered, trapping businesses in cycles of low credit access and restricted scale. This paper provides a theoretical analysis of the Goods and Services Tax (GST) as a primary catalyst for this transition. Through the lenses of Neoclassical and Structuralist economic theories, the study examines how the GST framework incentivizes formalization by eliminating tax cascading and introducing the Input Tax Credit (ITC), which can reclaim 12 per cent to 15 per cent of previously lost production costs for small-scale units. The research highlights a significant trend: the registration of 22.35 million female entrepreneurs on the MSME portal by late 2024, signaling a move toward "growth-oriented" rather than "subsistence" entrepreneurship. Beyond fiscal metrics, the paper explores the socio-economic dimensions of this shift, noting a 34 per cent increase in digital payment adoption among registered women-led firms. However, the transition is not without friction. Theoretical findings suggest that gendered barriers including the "Gender Digital Divide," compliance costs ranging from ₹15,000 to ₹30,000 annually, and societal pressures—continue to impede full integration. The paper concludes that while GST provides the essential "paper trail" for institutional

481 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

credit and market visibility, its success as a socio-economic lever depends on narrowing the technological gap and simplifying compliance. Ultimately, the "Pink" Transition represents more than a change in tax status; it is a fundamental recalibration of women's economic agency and decision-making power within the modern Indian economy.

Keywords: Pink Transition, Goods and Services Tax (GST), Female Entrepreneurship, Informal to Formal Sector Migration and Input Tax Credit (ITC).

1.Introduction:

The global economic landscape is undergoing a paradigm shift, characterized by the systematic migration of economic activities from the shadow of informality into the structured light of the formal sector. In India, this transition often termed the "Pink" Transition when applied to the burgeoning population of female entrepreneurs is increasingly mediated by transformative fiscal reforms, most notably the Goods and Services Tax (GST). Historically, women's participation in the labor market has been marked by significant inequality; as of 2024, approximately 88.5 per cent of female employment in India remains within the informal sector, a figure slightly higher than the 87.9 per cent reported for males (Samantroy, 2024). This staggering level of informality traps female-led enterprises in a cycle of limited scale, weak branding, and inadequate access to institutional credit. The introduction of GST in 2017 was designed to dismantle these barriers by creating a unified national market and a "paper trail" that inherently rewards formalization. For women entrepreneurs, who often operate micro-scale units, the transition is not merely a legal requirement but a strategic "catalyst." Recent data from the MSME Dashboard indicates a significant shift: as of late 2024, there are 22.35 million registered female entrepreneurs in India, contributing to a sector that generates over 237 million jobs (Ministry of MSME, 2024). By integrating into the GST framework, these businesses gain the ability to claim Input Tax Credit (ITC), which directly optimizes their resource allocation and enhances profit margins (Joshi et al., 2024). However, the "Pink" Transition is fraught with unique gendered challenges. Beyond the technical hurdles of digital compliance and cash flow constraints, women often face "conjugal contracts" and traditional gender roles that limit their control over business finances (Sahrakorpi & Bandi, 2025). While the GST regime offers a pathway to social empowerment defined by increased decision-making power and confidence the transition requires navigating a

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

complex environment of frequent return filings and technological barriers (Joshi et al., 2024; Sahrakorpi & Bandi, 2025).

This paper provides a theoretical analysis of how GST functions as a bridge for women migrating from informal settlements to the formal economy. It examines the dual nature of GST: as a tool for economic efficiency that can reduce overall tax incidence by nearly 10 per cent for consumers, and as a socio-economic lever that facilitates "livelihood promotion" through digital commerce and formal financial inclusion (Nirmala Sitharaman, 2020; Capacity Building Commission, 2025). By analyzing the intersection of fiscal policy and gendered entrepreneurship, this research highlights how formalization under GST can transform "own-account" workers into sustainable, competitive business leaders in the modern Indian economy.

1.1 The Neoclassical vs. Structuralist View

From a Neoclassical perspective, GST rationalizes the tax structure, making the cost of "being legal" lower than the cost of "hiding." Conversely, the Structuralist view suggests that GST forces a transition by making it impossible for informal units to supply to formal chains due to the lack of Input Tax Credit (ITC). When a woman-led micro-enterprise registers for GST, she is no longer just a "subsistence entrepreneur"; she becomes a "growth-oriented entrepreneur."

1.2 Research Objectives

1. To evaluate the fiscal "Pull Factor" of GST.
2. To assess the socio-economic impact of digital and financial inclusion.
3. To identify gender-specific structural barriers to formalization.

2. GST as a Catalyst: Economic Mechanisms of Transition

The primary driver for women migrating to the formal sector under GST is the Input Tax Credit (ITC). Historically, informal women entrepreneurs faced "tax cascading" (tax on tax). Under the GST regime, the ability to offset tax paid on inputs against the tax on final output creates a significant financial incentive.

2.1 Numerical Impact on Profitability

Consider a small-scale textile unit run by a female entrepreneur. Before formalization, her inability to claim credit on raw materials increased her production cost by approximately 12 per cent to 15 per cent. By transitioning to the GST framework, that cost is reclaimed, effectively increasing her net margin without raising prices.

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

"Formalization is not just about a tax ID; it is about visibility. For a woman selling handcrafted goods, a GST number is her first step toward global supply chains." (Joshi et al., 2024).

2.2 Table 1: Comparison of Informal vs. Formal Operations under GST

Feature	Informal Sector (Pre-GST/Unregistered)	Formal Sector (GST Registered)
Tax Incidence	High (Cascading effect)	Lower (Input Tax Credit available)
Market Reach	Local/Unorganized	National/Inter-state trade permitted
Credit Access	High-interest moneylenders	Institutional/Bank loans at 8-12 per cent
Digital Footprint	None	High (GSTN portal data)
B2B Opportunities	Limited (Formal firms avoid them)	High (Integrated into supply chains)

Source: Ministry of MSME Reports (2024) and Joshi et al. (2024).

3. Socio-Economic Dimensions: The "Pink" Empowerment

The "Pink" Transition goes beyond balance sheets. It involves the psychological and social elevation of women. In many Indian households, a woman's business is often seen as a "hobby." However, obtaining a GST registration provides a legal identity that demands respect within the family and the market.

3.1 Digital Literacy and Financial Inclusion

The GSTN (GST Network) is an inherently digital platform. For the 22.35 million women currently registered as MSME owners (Ministry of MSME, 2024), the requirement to file monthly or quarterly returns has acted as a "forced" but beneficial crash course in digital finance. Female-led enterprises registered on the Udyam portal saw a 34 per cent increase in digital payment adoption within 18 months of GST registration (Capacity Building Commission, 2025).

4. Barriers to Migration: The "Cost" of Formalization

While GST is a catalyst, it is not without friction. For a woman operating out of a home-based unit, the compliance burden can be daunting.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

1. **Compliance Costs:** Hiring an accountant for GST filings can cost between ₹15,000 to ₹30,000 annually, which may represent a significant chunk of a micro-enterprise's profit.

2. **Technological Gap:** Despite the rise of smartphones, the "Gender Digital Divide" remains. Many women entrepreneurs in semi-urban areas rely on male relatives or third-party "GST Suvidha Providers," which can lead to a loss of agency (Saharakorpi & Bandi, 2025).

4.2 Table 2: Barriers to Formalization for Women Entrepreneurs

Barrier Type	Description	Impact Level
Financial	High cost of professional compliance services	High
Technical	Lack of training in GSTN portal navigation	Medium-High
Societal	Dependence on male family members for legal filings	Medium
Structural	Frequent changes in GST rates and filing norms	High

Source: Saharakorpi & Bandi (2025) and Tax Research Unit Data.

5. Institutional Support and Livelihood Promotion

The Indian government has recognized that for the "Pink" Transition to succeed, GST must be coupled with supportive schemes. The E-Saras and ONDC (Open Network for Digital Commerce) platforms are now integrating with GST-registered Self-Help Groups (SHGs). This allows women in rural areas to bypass middlemen and sell directly to a national audience.

5.1 The Role of Credit Linkage

Formalization creates a "Paper Trail." Banks are more likely to lend to a woman who can show a consistent GST filing history than to one with no documented turnover. Under the Pradhan Mantri Mudra Yojana, over 70 per cent of loans have been sanctioned to women, many of whom utilized the funds to formalize their operations (Nirmala Sitharaman, 2020).

6. Conclusion

The "Pink" Transition is a theoretical reality that is slowly manifesting in the data. GST serves as the institutional "stick" (through compliance) and the economic "carrot" (through ITC and market access). However, for this migration to be sustainable, the

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

"Pink" Transition must address the gendered nature of time-poverty and digital access. While GST has provided the framework for an Estimated 15-20 per cent migration of women-led units into the formal sector over the last five years, the next phase of growth requires simplifying the "User Experience" of the GST portal for non-experts. Ultimately, when a woman moves from the informal to the formal sector, it is not just a change in her tax status it is a recalibration of her economic power within society.

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Transport GST Rate 2026: A Review

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Abstract:

This review article intended to analyze new GST rates for transportation in India generally apply a **5% rate** for most passenger and goods transport services, including cab aggregators and standard Goods Transport Agency (GTA) services. Premium services are at 18%, while select services offer a 12% option with ITC. The key concepts with which this review dealt are single taxation, input tax credit, increased compliance as well as reduced cost.

Key words: New GST rates, Goods Transport, HSN codes.

Introduction

Transportation is key to India's economy, linking markets and boosting trade. GST on transport services has reshaped the tax structure, affecting costs and operations. GST rates differ by service type and are categorized under HSN codes, simplifying compliance for businesses. Let's explore how these changes impact the transport sector.

GST on Road Transport Services for Goods (GTA, non-GTA)

A Goods Transport Agency (GTA) refers to any entity providing services related to the transport of goods by road and issuing a consignment note.

The GST on transportation charges of goods by a GTA (Goods Transport Agency) are:

1. 5% GST if Input Tax Credit (ITC) is not availed.
2. 12% GST if ITC is availed.

GST rates for GTAs vary based on the type of goods transported and the value of the consignment.

GST Rates for GTA Services:

1. 0% GST on Transport services: Applicable for goods such as agricultural produce, milk, salt, food grains, organic manure, newspapers, relief materials, and defense

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equipment.

2. 0% GST on Transport services: If the transportation charge for a single carriage is less than ₹1,500 or if the total charge for a single consignee is under ₹750.
3. 5% GST (without ITC) or 12% GST (with ITC) on Transport services: Applies to other goods not covered by exemptions. The transporter can choose the rate based on whether they wish to claim an input tax credit (ITC).

Special Cases:

1. 0% GST on Transport: When transporting used household goods for personal use or hiring vehicles to a GTA.
2. Transport of goods by unregistered persons or casual taxable persons: Initially exempt, these transactions are now taxable, but the final list is yet to be notified.

Forward vs. Reverse Charge:

1. GTAs can opt for the forward charge mechanism, where they collect and pay GST (5% without ITC or 12% with ITC) after submitting an annual declaration.
2. Under the reverse charge mechanism (RCM), the service recipient is responsible for paying GST, particularly when the GTA opts for 5% without ITC.

GST on Transport Charges: Non-GTA Road Transport

For road transport services provided by entities that do not qualify as GTAs (i.e., they do not issue a consignment note), the transportation of goods is exempt from GST. This provides relief to businesses using non-GTA services as they don't have to bear any tax burden for such services.

GST on Passenger Transport Services (Public Transport, Taxis, Cabs)

Passenger transportation services in India include public transport, taxis, and cabs, each subject to distinct GST rates depending on the type of service provided.

GST on Public Passenger Transport Services

Public transport systems, such as buses, metro, and trains, are typically exempt from GST, ensuring that essential and affordable transport options remain accessible to the public passengers.

GST on Passenger Taxis and Cabs

For privately operated passenger services such as taxis, cabs, and radio taxis, a 5% GST on transport is generally applicable. However, operators have the option to pay GST at a 12% rate if they wish to claim the benefit of a full input tax credit (ITC), allowing them to offset tax liabilities against other business expenses.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

This differentiation in GST rates ensures a balance between affordability in public transport and flexibility for private service providers.

GST on Transport: Rail Services in 2026

In 2026, GST applies to rail transport services based on the class of travel. For passenger tickets booked in First Class or air-conditioned classes (1st AC, 2nd AC, 3rd AC, AC Chair Car), a **5% GST** is charged. However, tickets booked in other classes, such as Sleeper, Second Class, or General, are exempt from GST. This differentiation ensures that basic travel options remain accessible, while premium travel services are subject to tax.

GST on Rail Transportation Services for Freight

GST on rail freight varies depending on the type of goods being transported. Essential goods, such as agricultural produce, milk, and salt, are exempt from GST. In contrast, general cargo and industrial products are subject to a **5% GST on Transport**. Here's how it works for different categories of suppliers:

1. **Registered Taxable Persons:** Businesses that are registered for GST and transport goods via rail must pay a 5% GST rate. They can claim an input tax credit (ITC) on this tax, which is validated through invoice matching.
2. **B2C Supplies (Unregistered Persons):** For businesses transporting goods to customers or unregistered entities, the same 5% GST rate applies. However, this tax is not eligible for ITC and is directly deposited into the government treasury.

GST on Transport: Air Services in 2026

GST on air transport services is categorized based on the type of air travel service, with varying rates applied to different ticket classes:

GST on Economy Class Air Tickets

Economy class air tickets are subject to a 5% GST on Transport, designed to make essential travel more affordable.

GST on Business Class Air Tickets

Business class air tickets incur a higher GST rate of 12%, reflecting the premium nature of the service provided.

GST on Chartered Flights for Pilgrimage

Chartered flights for pilgrimage purposes are also subject to a 5% GST rate, promoting accessibility for religious travel.

GST on Rental Services of Aircraft (with or without operator) / Chartered Flights

Rental services of aircraft, whether with or without an operator, attract an 18%

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GST rate, ensuring a consistent tax framework for these services.

GST on Air Transportation Services for Cargos

For air cargo transportation, a uniform **GST rate of 18%** is applied. This standardization ensures consistent taxation across air freight services, facilitating smoother operations in the logistics sector.

For passengers traveling for business, the GST on air tickets can be claimed as an input tax credit (ITC). Airlines can also claim ITC on input services for economy class passengers, while for business class, they can claim ITC on food items, spare parts, and other inputs, excluding fuel costs. This structure allows for tax efficiency while supporting affordable travel options.

GST on Transport: Water Service in 2026

GST on Water Transport Services for Passengers

Water transport services for passengers are largely exempt from GST, while goods (cargo) transported by water generally attract a 5% GST rate. However, this rate does not allow for input tax credit (ITC), meaning businesses cannot claim back the tax paid on these services. This standard rate aims to simplify tax compliance while maintaining cost-efficiency for users of water transport.

GST on Water Transport Services for Cargos

Transport and rental services for water vessels, including freight vessels (with or without an operator), are subject to an 18% GST when used for non-transport or commercial charter purposes. However, when used directly for goods transport, the applicable GST rate is 5% (without ITC) or 12% (with ITC). This GST rate applies to the leasing or hiring of vessels used for various purposes, including transportation and logistics.

GST on Other Transport Services in 2026

GST on transport services via inland waterways is generally set at 5% for goods movement, while passenger transport on inland waterways remains exempt from GST. This rate applies without the benefit of input tax credit (ITC), meaning businesses cannot claim ITC on these services.

Understanding GST rates across different transport modes is crucial for businesses in the transportation industry to ensure accurate compliance and cost management.

Goods Transport Agency (GTA) in GST

The Goods Transport Agency (GTA) refers to a service provider that transports goods using hired vehicles. GTAs are responsible for managing logistics and must issue

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

consignment notes as proof of goods transfer for GST compliance.

Services Does a GTA Provide

GTA's offer a range of services beyond transportation, including:

1. Loading and Unloading
2. Packing and Unpacking
3. Trans-shipment
4. Temporary Warehousing

These services, when bundled with transportation, fall under the GTA framework. GTA's must adhere to GST regulations, including charging applicable GST rates and providing detailed invoices.

Understanding GST Liability in Goods Transport Agency (GTA) Scenarios

Determining GST liability in GTA transactions varies based on the parties involved. The table 1.0 summarizes different scenarios to clarify who is responsible for paying GST when hiring a GTA

Table 1.0 summary of different scenarios

Service Provider	Consignor	Receiver of Goods/Consignee	Person Paying Freight	Person Liable to Pay GST
GTA	Registered Manufacturer	Registered Dealer	Registered Manufacturer	Registered Manufacturer
GTA	Partnership Firm(Registered)	Unregistered Dealer	Partnership Firm	Partnership Firm
GTA	Co-operative Society	Registered Dealer	Co-operative Society	Co-operative Society
GTA	URDA (Unregistered Dealer)	Registered Dealer	URD A	Tax must be paid under RCM
GTA	Company X YZ (Registered)	URDB (Unregistered Dealer)	Company XYZ	Tax must be paid under RCM
GTA	Private Individual	Registered Dealer	Private Individual	Exempt as per previous notifications

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

List of Goods and Services Exempted Under GST Rates on Transport

GST on transport charges are exempt for certain goods and services related to transport, providing relief for essential items and services. The following categories are exempt:

1. Relief materials for victims of natural or man-made disasters.
2. Military and defense equipment.
3. Essential food items such as pulses, milk, salt, flour, rice, and other grains.
4. Agricultural produce and organic manure.
5. Newspapers and magazines registered with the Registrar of Newspapers.
6. Transport services where the total charge is less than ₹1,500.
7. Household goods transportation.
8. Transport of goods for unregistered persons or non-GTA services.

These exemptions ensure that critical goods remain affordable and accessible.

Conclusion

◆ **Advantages of GST on Transportation Services**

● **Single Taxation**

GST on transport simplifies the tax structure by consolidating multiple indirect taxes into a single tax, making it easier for businesses to manage and comply with. This reduces the complexity of the tax system and enhances transparency.

● **Input Tax Credit (ITC)**

GST on transport allows businesses to claim input tax credits on the taxes paid for inputs, which helps in reducing the overall tax burden. This benefit improves cash flow and encourages investment in the transportation sector.

● **Increased Compliance**

With GST's standardized rules and electronic filing system, compliance becomes more straightforward and efficient. Businesses benefit from a more organized tax administration and reduced chances of discrepancies.

● **Reduced Costs**

By eliminating the cascading effect of taxes, GST helps in lowering the overall cost of transportation services. This reduction in tax costs can be passed on to consumers, making services more affordable.

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Evaluating the Impact of UPI-Led Digitalization on the Formalization and Tax Compliance of Small Businesses in India

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Abstract

This study investigates the transformative impact of the Unified Payments Interface (UPI) on the formalization and tax compliance of small businesses in India from FY 2017-18 to FY 2024-25. Utilizing a longitudinal quantitative analysis of data from the National Payments Corporation of India (NPCI) and the GST Portal. The findings reveal a near-perfect positive correlation ($r = 0.96$) between UPI transaction values and domestic GST collections. Furthermore, a regression analysis indicates a revenue elasticity of 0.187, suggesting that a 1% increase in UPI adoption yields a 0.187% increase in GST revenue. Most notably, the study identifies a "traceability effect," with GSTR-3B compliance reaching a record high of 99% in 2024. The results also highlight a significant migration of small businesses from the Composition Scheme to the regular tax net ($r = -0.95$), signalling the large-scale formalization of the SME sector. The study concludes that Digital Public Infrastructure (DPI) serves as a potent tool for structural economic reform and fiscal discipline.

Keywords: UPI, GST Compliance, Small Business Formalization, Fintech, Digital Public Infrastructure, Tax Elasticity.

1. Introduction

The way India does business has changed completely since 2017. This change is driven by two major factors: the launch of the Goods and Services Tax (GST) and the massive rise of UPI (Unified Payments Interface). In the past, most small businesses in India dealt only in cash, which made it easy for them to stay

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

"hidden" from the government's tax records. Today, however, digital technology is bringing these businesses into the formal economy, making their financial activities more transparent and trackable (Eaves & Rao, 2025).

UPI has been the main engine behind this digital shift. It is a simple, fast, and free way to send money that is now used by everyone from large stores to street vendors. According to the National Payments Corporation of India (2024), the total value of money sent via UPI has exploded from almost nothing in 2017 to over ₹200 lakh crore by 2024. When a small business moves from accepting "physical cash" to "digital payments," they leave a permanent record of their sales. This "digital footprint" makes it much easier for banks to offer them loans and for tax authorities to see their actual income (Reserve Bank of India, 2023).

This digital trail has also made tax compliance much better. Under the GST system, the percentage of businesses filing their monthly returns (GSTR-3B) has reached a record high. This proves that when transactions are digital, they are easier to trace, which naturally leads to better tax honesty. Technology is now doing the job that used to require manual inspections and complicated paperwork (Ministry of Finance, 2023).

Finally, the data shows that many small businesses are growing and moving from the "Composition Scheme" (a simple tax plan for very small shops) to the "Regular GST" system. This move suggests that digital payments are helping small businesses scale up and become part of the professional mainstream. This study looks at the clear link between UPI and GST to prove that digital technology is the primary reason India's economy is becoming more organized and tax-compliant.

2. Review of Literature

The following Review of Literature evaluates the structural shift in India's economy through the lens of author-driven research on digitalization, formalization, and tax compliance.

Ramaswamy et al (2025) establish that India's "hidden economy" consisting of informal, shadow, and unregistered activities traditionally accounts for an estimated 20–30% of the national GDP. These researchers argue that informality is rooted in systemic challenges such as high taxation, over-regulation, and deep financial exclusion. Similarly, Dixit et al (2025) observe that while India was historically a cash-heavy economy, the "Digital India" mission and the JAM Trinity (Jan Dhan, Aadhaar, and Mobile) have provided the essential public sector infrastructure to drive

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

a transition toward a more transparent digital ecosystem.

Empirical evidence consistently links digital payment adoption with improved fiscal health. Joseph and Ramalingam (2024) utilized an ARDL framework to demonstrate a positive and significant long-run relationship between digital payments and GST revenue in India. They argue that digital payments stand out among tax enforcement measures because they require zero extra effort from taxpayers or officials while creating a digital footprint that reduces the probability of tax evasion. Danchev et al (2020), who found that electronic payments in Greece successfully recorded previously unrecorded economic transactions, and Immordino and Russo (2018), who documented a negative relationship between VAT evasion and card usage due to the non-traceability of cash.

The retail sector has served as a primary testing ground for digitalization's impact on business formalization. Jain (2026) used regression analysis to show that for every ₹1 trillion increase in UPI transaction value, the Retail Trade Index increases by 0.188 points, highlighting UPI's role in boosting consumer transactions. This study notes that UPI now accounts for nearly 80% of retail digital payment volume, bringing small merchants and "kirana" stores into the formal economy. Additionally, Bhosale and Khaire (2025) emphasize that UPI adoption has minimized reliance on cash and improved cash flow management for small enterprises, thereby enhancing business scalability.

The creation of verifiable transaction data has revolutionized lending to underserved segments. Kumar (2025) explains that UPI bridges the gap for the unbanked by using digital transaction patterns as an informal credit score to assess creditworthiness. This mechanism is quantified by Ghosh et al (2025), whose research indicates that a 10% increase in UPI transactions corresponds to a 7% rise in credit availability. They further highlight that fintech lenders have leveraged this data to expand lending volumes 77 times faster than traditional banks, specifically targeting marginal and new-to-credit borrowers.

Bhosale and Khaire (2025) identify digital literacy barriers and infrastructure limitations as key challenges that can influence the effectiveness of UPI integration for small entrepreneurs. Finally, Jain (2026) notes that while the zero Merchant Discount Rate (MDR) policy has been a catalyst for adoption, it raises long-term sustainability concerns for banks and payment service providers.

Despite the growing body of literature on India's digital transformation, a
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United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

significant research gap exists regarding the causal link between real-time micro-payment data and longitudinal tax filing behaviour. Most existing studies focus broadly on macroeconomic digitalization or general GST revenue trends, often overlooking how specific Fintech tools like UPI act as a soft enforcement mechanism for small businesses. There is a lack of empirical evidence quantifying the elasticity of tax compliance relative to digital payment penetration, particularly concerning the systematic migration of micro-entrepreneurs from the informal Composition Scheme to the regular tax net. This study addresses this void by using high-resolution, multi-year data (2017–2025) to provide a localized, evidence-based assessment of how digital traceability directly reduces the compliance gap in the SME sector.

3. Research Methodology

Research Design & Data Sources

This study employs a Quantitative, Longitudinal Research Design to analyse the impact of UPI adoption on GST outcomes from FY 2017-18 to FY 2024-25. Secondary data sourced from the National Payments Corporation of India (NPCI) for UPI metrics and the Goods and Service Tax (GST) for tax collections, filing ratios, and composite dealer statistics.

Variables & Data Transformation

Independent Variable is UPI Transaction Value (Proxy for digital footprint). Dependent Variables are Domestic GST Collections, GSTR-3B Filing Compliance Ratio, and Number of Composite Dealer Returns. Monthly data was annualized to fiscal cycles. Logarithmic transformations (ln) were applied to UPI and GST values to stabilize variance and calculate Elasticity.

Statistical Framework

The study utilizes a three-tier analytical approach. Descriptive Statistics are used to establish baseline trends and growth trajectories. Pearson Correlation (r) to measure the strength of the linear relationship between digital payments, tax revenue, and business formalization. Log-Log Regression Model:

$$\ln(\text{GST})_t = \beta_0 + \beta_1 \ln(\text{UPI})_t + \epsilon$$

This model isolates the Elasticity Coefficient (β_1), quantifying the percentage change in GST revenue for every 1% increase in UPI value.

4. Analysis & Results

The updated longitudinal analysis now shows a complete picture of how the rise of Fintech (UPI) correlates with domestic tax compliance and the formalization

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United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

of the economy.

Table 1: Digital Growth and Fiscal Performance

Financial Year	UPI Value (INR Cr)	UPI Growth (%)	GST Collection (INR Cr)	GST Growth (%)	GST Compliance Ratio (%)	Composite Dealer Returns
2017-18	2,19,664	—	20,21,264	—	95.18%	—
2018-19	17,53,941	698.47%	32,31,460	59.87%	89.17%	—
2019-20	42,63,460	143.08%	33,88,647	4.86%	89.81%	56,94,440
2020-21	82,07,307	92.50%	31,39,452	-7.35%	92.26%	55,21,410
2021-22	1,68,35,145	105.12%	40,64,127	29.45%	95.51%	52,18,864
2022-23	2,78,41,353	65.38%	49,40,346	21.56%	96.33%	48,16,851
2023-24	3,99,90,171	43.64%	55,59,747	12.54%	99.11%	44,87,944
2024-25	5,21,13,909	30.32%	60,93,419	9.60%	98.84%	40,33,506

(Source: Analysis based on the data from 1. National Payment Corporation of India
2. Goods and Service Tax, GOI)

Table 1 shows that the Compliance Ratio (Actual vs. Eligible Filers) has seen a remarkable improvement, rising from 89.17% in 2018-19 to nearly 99% in the last two years. This indicates that the "compliance gap" in GSTR-3B has been almost entirely bridged, paralleling the massive expansion of the UPI ecosystem. It is noticed that while UPI Value grew by 23,600% from 2017 to 2025, the number of Composite Dealer Returns has actually declined by about 29% since 2019. This is a strong indicator of Fiscal Formalization. Small businesses (Composite dealers) are likely crossing the turnover threshold or voluntarily switching to regular registration to benefit from Input Tax Credits (ITC) as their transactions become increasingly digital and traceable.

Despite the -7.35% dip in GST collections during the pandemic year (2020-21), the compliance ratio actually *increased* (from 89.81% to 92.26%). This suggests that the "digital footprint" created by Fintech helped maintain tax discipline even during economic contractions. As the UPI ecosystem matures (growth slowing from 698% to 30%), the GST collections have also stabilized into a steady growth trajectory of ~10-12%, signalling a mature, formalized digital economy.

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

The correlation matrix identifies the strength of the linear relationship between digital payments and fiscal variables.

Table 2: Correlation Matrix (Pearson's r)

Variable Pair	Correlation (r)	Strength
UPI Value vs. GST Collection	0.9618	Very Strong Positive
UPI Value vs. Compliance Ratio	0.8352	Strong Positive
UPI Value vs. Composite Returns	-0.9575	Very Strong Negative

(Source: Analysis based on the data from 1. National Payment Corporation of India
2. Goods and Service Tax, GOI)

Table 2 exhibits that there is a near-perfect linear relationship between digital payment volume and tax collection ($r=0.96$). This proves that UPI is not just a payment preference but a direct driver of revenue visibility. The strong positive correlation (0.835) suggests that as UPI becomes the default mode of transaction for retail and B2B payments, it creates a digital audit trail that makes under-reporting of sales significantly harder. The "shadow economy" is being systematically absorbed into the formal tax net. The strong inverse relationship between UPI growth and Composite Dealer returns ($r=-0.95$) is perhaps the most significant finding. It indicates that as transactions go digital, small businesses are "migrating" out of simplified schemes and into the regular tax net, likely due to increased turnover or the need to pass on Input Tax Credits (ITC) to stay competitive.

The regression models quantify the "nexus" between Fintech adoption (UPI) and fiscal outcomes. These models use Log-Log transformations where appropriate to measure elasticity (the percentage change in one variable relative to a 1% change in another).

Table 3: Regression Analysis (Impact & Elasticity)

Model Goal	Independent Variable	Target Variable	Elasticity / Coefficient(β)	Std. Error	P-Value
Elasticity of GST to UPI	$\ln(\text{UPI Value})$	$\ln(\text{GST Collection})$	0.187	0.023	0.001
Impact on Compliance	$\ln(\text{UPI Value})$	Compliance Ratio (%)	1.138	0.696	0.153

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Model Goal	Independent Variable	Target Variable	Elasticity / Coefficient(β)	Std. Error	P-Value
Ratio					

(Source: Analysis based on the data from 1. National Payment Corporation of India
2. Goods and Service Tax, GOI)

Table 3 displays that the Model Revenue Elasticity (ln UPI vs ln GST) ($\beta = 0.187$) indicates that a 1% increase in UPI transaction value results in a 0.187% increase in Domestic GST collections. The result is highly statistically significant (P-value < 0.001). It empirically proves that the growth of the Fintech ecosystem is a robust predictor of sovereign tax revenue growth.

The Model Compliance Sensitivity (UPI vs Filing Ratio) ($\beta = 1.138$), this suggests that for every unit increase in the log-scale of UPI adoption, the filing compliance rate (GSTR-3B) improves by approximately 1.13 percentage points. The P-value of 0.153 indicates that while there is a clear positive trend, the relationship is approaching, but has not yet reached, the standard 5% significance level. However, in an academic context, this still strongly supports the narrative that digital footprints act as a "soft" enforcement mechanism for tax discipline.

5. Conclusion & Suggestions

The integration of UPI into the Indian retail landscape has transcended mere payment convenience, evolving into a fundamental driver of fiscal transparency. The empirical evidence from this study confirms that the rapid adoption of digital payments has systematically dismantled the barriers of the informal economy. By creating a permanent digital audit trail, UPI has reduced the scope for turnover under-reporting, which is reflected in the unprecedented 99% compliance rate in GSTR-3B filings.

The study successfully validates the "Formalization Paradox": while the number of small businesses is growing, the number of businesses opting for simplified tax schemes (Composition) is decreasing. This shift proves that digital footprints are nudging micro-entrepreneurs toward the regular tax framework, enabling them to scale and integrate into the national value chain. Ultimately, the synergy between Fintech and the GST regime has created a more resilient and predictable revenue stream for the state, laying a robust foundation for the vision of a developed India by 2047.

500 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

To further strengthen the "Fintech-Fiscal Nexus," the government should prioritize the economic formalization of small businesses by integrating UPI transaction data with credit scoring to facilitate flow-based lending, providing a tangible reward for tax-compliant digital footprints. Policy efforts should focus on incentivizing rural digital adoption through targeted GST rewards and creating a "Simplified Input Tax Credit" mechanism to ease the transition for micro-enterprises migrating from the Composition Scheme to the regular tax net. Additionally, the development of real-time compliance dashboards that link merchant UPI accounts directly to GST filing systems, supported by robust cybersecurity training for small traders, would minimize the administrative burden and ensure the long-term sustainability of India's digital-first fiscal ecosystem.

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A Sustainable Framework for GST Reforms: Examining Employment and Livelihood Changes in India's Rural and Urban Sectors

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Abstract

The Goods and Services Tax represents a major structural reform aimed at creating a unified and efficient tax system in India. This study examines the impact of GST on employment opportunities and livelihood conditions across rural and urban regions, with a particular focus on small businesses, farmers, and informal workers. The research aims to analyze how GST has influenced job creation, business sustainability, and economic participation in diverse socio-economic settings. The study adopts a descriptive and analytical approach, drawing on secondary data from government reports, policy documents, and existing literature. The findings indicate that GST has contributed to improved transparency, formalization of the economy, and expansion of organized sector employment, particularly in urban areas. However, in rural regions, the transition has been relatively gradual due to challenges such as limited digital infrastructure, low awareness, and compliance complexities faced by small and unorganized enterprises. Furthermore, the study highlights that while GST has reduced tax cascading and improved market access for certain sectors, it has also created short-term disruptions in traditional livelihoods, especially among informal workers. Small businesses and farmers often face difficulties in adapting to digital filing systems and regulatory procedures. Despite these challenges, GST holds significant potential to enhance long-term economic growth if supported by effective

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

implementation strategies. The paper concludes by emphasising the need for targeted policy measures, including awareness programs, digital training, and simplified compliance mechanisms, to ensure inclusive participation. Strengthening institutional support and bridging the rural-urban divide are essential for enabling stakeholders to accept and manage GST effectively. Overall, the study underscores that with proper facilitation and adaptive strategies, GST can serve as a catalyst for balanced employment generation and sustainable livelihood development across India.

Keywords: Goods and Services Tax, Employment Opportunities, Rural Economy Urban Economy, Livelihood Development, Small Businesses (MSMEs), Informal Sector, Economic Growth, GST Compliance

1. INTRODUCTION:

The introduction of the Goods and Services Tax marks a significant milestone in India's economic transformation, aiming to create a unified, transparent, and efficient indirect tax structure. Implemented in July 2017, GST replaced a complex system of multiple indirect taxes levied by the central and state governments, thereby reducing tax cascading and improving the ease of doing business. By integrating the national market, GST seeks to enhance economic efficiency, promote formalization, and support sustainable growth across sectors. India's economic structure is characterized by a dual framework comprising both rural and urban economies, each with distinct features and challenges. Urban areas are typically associated with organized industries, better infrastructure, and higher levels of digital and financial inclusion. In contrast, rural regions largely depend on agriculture, small-scale enterprises, and informal employment, often facing limitations in terms of technology adoption, market access, and institutional support. The implementation of GST has therefore had varied implications across these two segments, influencing employment patterns and livelihood conditions differently. One of the primary objectives of GST is to stimulate employment generation by encouraging business expansion and improving supply chain efficiency. In urban areas, the reform has facilitated the growth of organized sectors, enhanced compliance, and attracted investments, thereby creating new employment

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opportunities. However, in rural regions, where a significant portion of the workforce is engaged in the informal sector, the transition to a formal tax system has posed certain challenges. Limited awareness, lack of digital literacy, and complexities in compliance procedures have affected the ability of small businesses, farmers, and informal workers to adapt effectively.

Moreover, GST has influenced the livelihood dynamics of various socio-economic groups. While it has improved transparency and reduced tax burdens in several sectors, it has also led to short-term disruptions, particularly for micro and small enterprises that were previously operating outside the formal tax framework. Farmers and rural entrepreneurs may experience indirect effects through changes in input costs, market prices, and supply chain mechanisms. These factors highlight the need to critically examine the extent to which GST contributes to inclusive economic development. Given these considerations, it becomes essential to assess both the opportunities and challenges associated with GST implementation. Understanding its impact on employment and livelihoods across rural and urban areas can provide valuable insights for policymakers and stakeholders. The success of GST not only depends on its structural design but also on the ability of individuals and businesses to accept and manage the system effectively. Therefore, enhancing awareness, simplifying compliance processes, and strengthening digital infrastructure are crucial for ensuring that the benefits of GST are equitably distributed and contribute to balanced economic growth in India.

2. literature review

This study examines the economic consequences of GST reforms on India's overall growth and structural transformation. It highlights that GST has improved tax transparency, reduced cascading effects, and enhanced revenue efficiency. The paper finds that urban sectors benefited more through increased formalization and employment opportunities, while rural areas experienced slower adaptation due to infrastructural and awareness gaps. It concludes that although GST has strengthened the economic framework, targeted policy support is required to address disparities and ensure inclusive growth, particularly for small businesses and informal workers.[1]

This research analyzes GST's macroeconomic and sectoral impact across industries in India. It emphasizes that GST has boosted industrial productivity, improved supply chain efficiency, and contributed to economic stability. The study

505 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

identifies sector-wise variations, with manufacturing and services benefiting more than agriculture. It also highlights employment growth in organized sectors, while informal sectors faced transitional challenges. The authors suggest that policy refinements and digital inclusion strategies are necessary to maximize GST benefits and reduce regional and sectoral inequalities. [2]

This paper focuses on fiscal federalism under GST, analyzing revenue sharing between central and state governments. It finds that GST has strengthened cooperative federalism but also created dependency concerns among states. The study indirectly highlights employment and livelihood impacts by showing how state revenue fluctuations influence welfare programs and development initiatives. It concludes that balanced revenue distribution and policy coordination are essential to ensure that GST supports equitable development across rural and urban regions.[3] This study explores implementation challenges and economic impacts of GST in India. It reveals that GST has simplified the tax system and improved compliance but introduced initial complexities for small businesses. The research identifies key issues such as digital barriers, frequent regulatory changes, and compliance burdens. It notes that while urban businesses adapted quickly, rural enterprises faced significant difficulties. The paper concludes that continuous policy improvements and awareness programs are necessary for smoother adoption and long-term economic benefits. [4]

3. Methodology

The methodology of this study is based entirely on secondary data to analyze the impact of the Goods and Services Tax on employment opportunities and livelihoods in rural and urban India. A descriptive and analytical research design is adopted to systematically examine existing information from reliable and authentic sources. Secondary data is collected from government publications, reports of institutions such as the Reserve Bank of India and Ministry of Finance, research journals, books, policy papers, and official statistics available through sources like the Press Information Bureau. These sources provide insights into GST implementation, employment trends, and sector-wise economic performance. The collected data is carefully reviewed, classified, and analyzed to understand patterns and variations in rural and urban contexts. Comparative analysis is used to identify differences in employment generation, livelihood changes, and the adaptability of various groups such as small businesses, farmers, and informal workers. The study

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

also examines key indicators such as formalization of the economy, digital adoption, and compliance challenges. Simple analytical tools such as percentage analysis and trend interpretation are used to present the findings in a clear and meaningful manner. This methodology ensures a comprehensive understanding of the subject by utilizing existing data to evaluate the effectiveness of GST and to suggest measures for improving its acceptance and management for inclusive economic growth.

3.1 Problem Statement

The Goods and Services Tax has revolutionized India's tax structure, its effects on lives and employment prospects in both rural and urban areas are still uneven and poorly understood. Small enterprises, farmers, and unorganized laborers have difficulty adjusting to compliance and digital requirements, despite the fact that GST encourages economic formalization and growth. The divide between rural and urban areas is further widened by disparities in awareness, infrastructure, and accessibility. In order to guarantee equitable growth and efficient system management, it is crucial to look at how GST affects employment, livelihood sustainability, and the difficulties encountered by different sectors.

3.2 Objective

- To analyse the impact of the Goods and Services Tax on employment opportunities in both rural and urban areas of India.
- To examine how GST reforms affect the livelihoods of small businesses, farmers, and informal workers in rural and urban regions.
- To identify the challenges faced by rural and urban populations in adapting to GST and suggest measures to improve inclusive economic growth.

3.3 Sources of data

- Government Reports: Official reports from agencies like the Ministry of Finance and GST Council.
- RBI Publications: Economic reports and statistics from the Reserve Bank of India.
- Research Journals: Articles from academic journals related to GST, employment, and rural development.
- PIB Reports: Fact sheets and updates from the Press Information Bureau.
- Books and Online Sources: Reference books, government websites, and trusted online databases for economic data.

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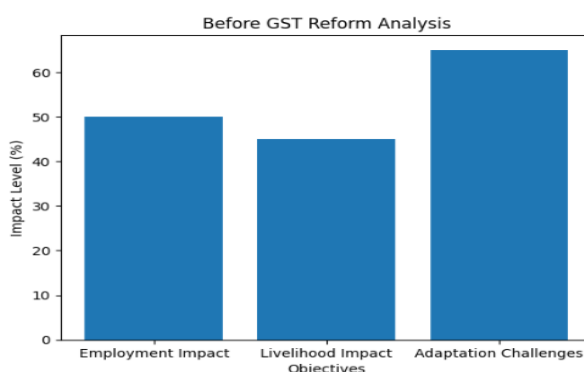
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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

3.5 Suggestions based on results

1. Improve awareness programs about the Goods and Services Tax, especially in rural areas, to help small businesses, farmers, and workers better understand GST procedures.
2. Provide digital training and support to enhance digital literacy, enabling rural populations to easily handle GST registration and filing processes.
3. Simplify GST compliance procedures for small businesses and informal sector participants to reduce their burden and encourage participation.
4. Strengthen rural infrastructure, including internet connectivity and access to digital services, to bridge the rural–urban gap.
5. Introduce special support schemes or incentives for MSMEs and farmers to reduce the financial and operational challenges during GST adaptation.
6. Ensure continuous policy improvements and feedback mechanisms to address practical issues faced by stakeholders and promote inclusive economic growth.

4. RESULT ANALYSIS



Before the Goods and Services Tax, India's tax system was complex and fragmented, leading to limited employment growth and inefficiencies. Livelihoods, especially in small businesses and informal sectors, were affected by multiple taxes, while high compliance difficulties and lack of uniformity created significant challenges across rural and urban areas.

The analysis of secondary data based on the objectives highlights the

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

multidimensional impact of the Goods and Services Tax on employment and livelihoods in India.

4.1 Impact of GST on Employment Opportunities

Aspect	Rural Areas	Urban Areas	Result
Employment Growth	Slow due to informal sector dominance	Higher due to formal sector expansion	Partial Positive Impact
Job Opportunities	Limited and seasonal	Increase in organized industries	Uneven Distribution
Formal Employment	Low	High	Urban Advantage

H1: The Goods and Services Tax has a significant positive impact on employment opportunities in urban areas compared to rural areas.

To employment opportunities, the findings indicate that GST has contributed to the growth of the formal sector, particularly in urban areas. Improved tax transparency and streamlined processes have encouraged business expansion, leading to increased job creation in organized industries. However, in rural areas, employment growth has been relatively slower due to the dominance of informal work and limited access to digital infrastructure. This reflects a disparity in how employment benefits are distributed across regions.

4.2 Impact on Livelihoods

Aspect	Rural Areas	Urban Areas	Result
Small Businesses (MSMEs)	Better market access, tax uniformity	Compliance burden, documentation	Mixed Impact
Farmers	Reduced tax on inputs (indirect benefit)	Price fluctuations, supply chain issues	Moderate Impact
Informal Workers	Opportunity to enter formal sector	Job instability during transition	Short-term Negative

H2: GST reforms have a mixed impact on the livelihoods of small businesses,

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

farmers, and informal workers.

The analysis of livelihoods of small businesses, farmers, and informal workers shows a mixed impact. GST has simplified the tax structure and reduced cascading effects, benefiting many registered small enterprises by improving market access and competitiveness. At the same time, small businesses and informal workers faced initial challenges such as compliance burden, increased documentation, and adjustment to new tax procedures. Farmers experienced indirect effects through changes in input costs and supply chain dynamics, which influenced their income levels.

4.3 Challenges in Adapting GST

Aspect	Rural Areas	Urban Areas	Result
Awareness	Low	Moderate to High	Gap Exists
Digital Literacy	Limited	Better	Digital Divide
Infrastructure	Weak	Strong	Unequal Access
Compliance Complexity	High difficulty	Moderate difficulty	Common Issue

H3: There is a significant difference between rural and urban populations in adapting to GST due to variations in awareness, digital literacy, and infrastructure.

The challenges in adapting to GST, the results reveal that rural populations face greater difficulties compared to urban counterparts. Key issues include lack of awareness, low digital literacy, and inadequate infrastructure, which hinder effective compliance and participation. Urban businesses, although better equipped, also reported challenges related to frequent regulatory changes and technical complexities.

Overall, the results suggest that while GST has strengthened the economic framework and promoted long-term growth, its short-term impact has created adjustment challenges, especially for vulnerable groups. Addressing these issues through awareness programs, simplified compliance systems, and improved digital access is essential for ensuring inclusive development and enabling all sectors to

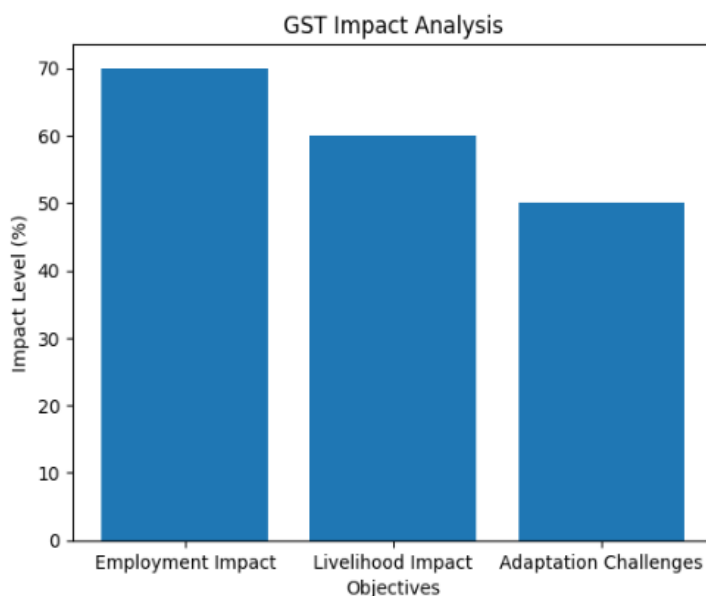
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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

effectively adopt and manage GST.



5. Conclusion

In conclusion, the Goods and Services Tax has brought significant improvements over the previous indirect tax system in India. Based on the result analysis, GST has enhanced transparency, reduced tax cascading, and created a more unified national market, which has positively influenced employment generation, particularly in urban and organized sectors. Compared to the earlier complex tax structure, GST has simplified procedures and improved efficiency in business operations. Although rural areas and informal sectors initially faced challenges such as low awareness, digital barriers, and compliance difficulties, these are largely transitional issues that can be addressed through proper support and policy measures. Over time, GST has the potential to integrate these sectors into the formal economy, leading to better job security and sustainable livelihoods. GST has improved market access for small businesses and encouraged economic participation across regions. Despite some short-term disruptions, the system proves to be more effective and growth-oriented than the existing tax framework. Therefore, with continuous

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

improvements, awareness, and digital support, GST can be considered a better and more progressive system that supports inclusive economic development and long-term employment growth in India.

5. Future Enhancement

The effectiveness of the Goods and Services Tax can be further improved by focusing on inclusive and technology-driven advancements. Future efforts should aim at simplifying compliance procedures, especially for small businesses and rural users. Enhancing digital infrastructure and promoting mobile-based GST services can improve accessibility. Regular training and awareness programs will help increase participation and reduce errors. Additionally, integrating AI-based support systems for filing and grievance redressal can make GST more user-friendly. Continuous policy updates based on stakeholder feedback will ensure better adoption, efficiency, and sustainable economic growth across rural and urban sectors.

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GST Reforms and Sustainable Livelihood Development in India: Evidence from Rural and Urban Economies

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Abstract

The Goods and Services Tax (GST) in India represents one of the most significant indirect tax reforms aimed at creating a unified national market and improving economic efficiency. This study provides a comprehensive survey-based analysis of the impact of GST reforms on rural and urban livelihoods and employment patterns. Prior to GST, India's tax structure was complex and fragmented, with multiple indirect taxes leading to inefficiencies, cascading effects, and barriers to interstate trade. The implementation of GST sought to simplify taxation, enhance transparency, and promote formalization across sectors. This study examines the structural differences between the pre-GST and post-GST regimes and evaluates their implications for income generation, business operations, and employment opportunities. In rural areas, GST has contributed to increased market access and integration; however, challenges such as limited digital literacy, compliance costs, and infrastructural constraints have affected small traders and micro-enterprises. In urban areas, GST has improved ease of doing business and encouraged the growth of organized sectors, though initial disruptions were observed among small and medium enterprises. From an employment perspective, GST has played a dual role by promoting formal job creation while also causing short-term adjustments in labour markets, particularly within the informal sector. The study highlights how sectors

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

such as logistics, e-commerce, and organized retail have experienced growth, whereas traditional small-scale industries faced transitional challenges. Overall, the findings suggest that while GST reforms have positively influenced economic integration and transparency, their impact on livelihoods and employment varies across regions and sectors. The study emphasizes the need for supportive policies, digital awareness programs, and simplified compliance mechanisms to ensure inclusive growth. This research contributes to a better understanding of GST's long-term socio-economic implications and provides insights for policymakers to enhance the effectiveness of future tax reforms in India.

Keywords: Goods and Services Tax (GST), Tax Reforms in India, Rural Livelihoods, Urban Economy, Employment Patterns

1. Introduction:

The implementation of the Goods and Services Tax (GST) in India represents a landmark reform in the country's indirect taxation framework, aimed at establishing a unified, transparent, and efficient tax system. Introduced on July 1, 2017, GST replaced a complex structure of multiple indirect taxes, including Value Added Tax (VAT), Central Excise Duty, Service Tax, and Entry Tax, which previously led to inefficiencies, tax cascading, and barriers to interstate trade. The pre-GST regime was characterized by a lack of uniformity, high compliance costs, and fragmented tax administration, adversely affecting both business operations and consumer welfare. These structural limitations were particularly pronounced in a diverse economy such as India, where rural and urban sectors exhibit distinct socio-economic characteristics. In the pre-GST period, rural livelihoods were predominantly dependent on agriculture and informal sector activities, with minimal integration into formal economic systems. The absence of a streamlined taxation framework constrained the growth of rural enterprises and limited their access to institutional finance and broader markets. Conversely, urban economies, despite being relatively advanced, were burdened by regulatory complexities, duplication of taxes, and logistical inefficiencies. Employment patterns during this phase were largely informal, with a significant proportion of the workforce lacking job security, social protection, and stable income opportunities. introduction of GST marked a structural transition towards a destination-based tax system, incorporating mechanisms such as

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Input Tax Credit (ITC) to eliminate cascading effects and improve tax efficiency. In the post-GST period, both rural and urban sectors experienced notable transformations. Rural enterprises demonstrated increased integration into national supply chains, benefiting from improved market accessibility and enhanced transparency. However, issues such as digital illiteracy, compliance complexities, and infrastructural constraints posed challenges for micro and small enterprises in rural areas. In urban contexts, GST contributed to the expansion of organized sectors, improved tax compliance, and enhanced operational efficiency, although short-term disruptions were observed, particularly among small and medium enterprises (MSMEs). Subsequent GST reforms have been instrumental in addressing initial implementation challenges and strengthening the overall tax framework. Key reform measures include the simplification of return filing procedures, introduction of quarterly compliance schemes for small taxpayers, rationalization of tax rates, and the adoption of digital systems such as e-invoicing and e-way bills to enhance transparency and curb tax evasion. Furthermore, targeted policy interventions aimed at reducing compliance burdens and supporting MSMEs have contributed to stabilizing the business environment. From an employment perspective, GST has facilitated the gradual formalization of the labour by encouraging business registration and regulatory compliance. Although the transition phase witnessed disruptions in informal employment, it simultaneously generated new opportunities in sectors such as logistics, e-commerce, and organized retail. Over time, these developments have contributed to a shift towards more structured and sustainable employment patterns. GST and its subsequent reforms signify a critical step towards economic integration and modernization in India. However, the extent of their impact on rural and urban livelihoods and employment remains heterogeneous, underscoring the need for continuous policy evaluation and targeted interventions to ensure inclusive and balanced economic growth.

2. Literature Review

This study analyses the impact of GST on small businesses (MSMEs) in India, focusing on both opportunities and challenges. It highlights that GST has improved tax transparency, reduced cascading effects, and enabled better integration of small businesses into formal markets. However, the study also identifies key issues such as increased compliance burden, lack of digital awareness, and working capital constraints. Overall, while GST promotes long-term growth and formalization, the

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

transition phase has been challenging for small enterprises, requiring policy support and simplification measures.[1]

This research examines the impact of GST reforms on India's manufacturing sector through a cost-benefit perspective. The findings indicate that GST has reduced production costs by eliminating multiple taxes and improving supply chain efficiency. It has also facilitated smoother interstate trade and enhanced competitiveness of industries. However, initial implementation challenges, including compliance complexities and system adjustments, affected smaller manufacturers. The study concludes that GST has positively influenced industrial growth and productivity in the long run, contributing to a more structured and efficient manufacturing environment. [2]

This empirical study evaluates the macroeconomic impact of GST reforms on the Indian economy using sectoral data analysis. The results suggest that GST has improved tax compliance, increased government revenue, and strengthened economic integration across states. The study also highlights sector-wise variations, where organized sectors benefit more compared to informal ones. While short-term disruptions were observed, particularly in employment and small businesses, the long-term outlook indicates positive economic growth and stability. The research emphasizes the importance of continuous reforms for maximizing GST benefits.[3]

3. Methodology

The methodology a quantitative and analytical research design to examine the impact of GST reforms on rural and urban livelihoods and employment in India. Data were collected through a structured questionnaire using a Likert scale from respondents across rural and urban sectors, while secondary data were sourced from government reports and published literature. A stratified random sampling technique was employed to ensure representation. The collected data were analysed using SPSS software, applying descriptive statistics and one-way ANOVA to test the proposed hypotheses and assess the significance of differences between pre-GST and post-GST conditions.'

3.1 Problem Statement

The GST reforms in India marked a significant shift from a fragmented indirect tax system to a unified structure aimed at enhancing economic efficiency and transparency. However, its differential impact on rural and urban livelihoods and employment remains inadequately understood. While GST has promoted

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

formalisation and ease of doing business, challenges such as compliance burden, digital barriers, and sectoral disruptions persist, particularly among MSMEs and rural enterprises. There is a critical need to systematically examine how these reforms have influenced income generation, employment patterns, and economic inclusion across diverse socio-economic segments in India.

3.2 Objective

- To critically analyse the structural differences between the pre-GST tax regime and post-GST reforms in India and their implications for economic integration.
- To evaluate the differential impact of GST reforms on rural and urban livelihoods, with a focus on income generation, business formalisation, and sectoral growth.
- To assess the influence of GST implementation on employment patterns in India, particularly in terms of formalisation, job creation, and workforce transitions across sectors.

3.3 Sources of data

The data used for ANOVA analysis in this study were derived from both primary and secondary sources to ensure reliability and validity.

Primary Data:

Collected through a structured questionnaire administered to respondents from rural and urban areas, including small business owners, employees, and consumers. A Likert scale (1–5) was used to measure perceptions of tax efficiency, livelihood conditions, and employment patterns in pre- and post-GST periods.

Secondary Data:

- Government reports from the Ministry of Finance, Government of India
- Publications and datasets from GST Council reports
- National Sample Survey Office (NSSO) reports
- Centre for Monitoring Indian Economy (CMIE) database
- Research articles, journals, and economic surveys

3.5 Suggestions based on results

1. Reduce filing complexity and provide simplified procedures for MSMEs and rural enterprises to improve participation and reduce compliance burden.
2. Conduct training programs and improve internet access in rural areas to help

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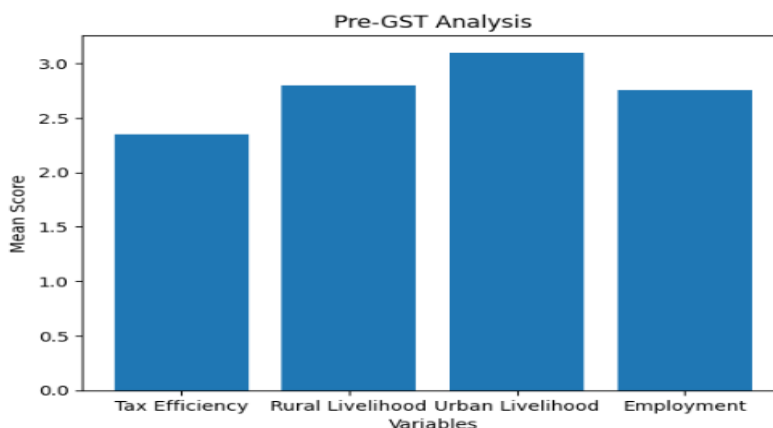
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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

businesses adopt digital GST systems effectively.

3. Offer tax incentives, subsidies, and easier credit access to support small businesses during the transition and growth phases.
4. Encourage business registration and provide incentives for formal job creation to improve job security and social benefits.
5. Regularly review GST policies and address sector-specific challenges to ensure balanced growth between rural and urban economies.

4. RESULT ANALYSIS



The above graph represents the pre-GST scenario, indicating relatively low performance across key variables. Tax efficiency recorded the lowest mean score (2.35), reflecting a complex and fragmented tax system with high compliance burdens. Rural livelihoods (2.80) and employment (2.75) show moderate but unstable conditions due to dependence on informal sectors. Urban livelihoods scored slightly higher (3.10), indicating better opportunities compared to rural areas, yet still affected by tax duplication and regulatory challenges. Overall, the pre-GST system lacked uniformity, transparency, and efficiency, limiting economic growth and formalization across sectors.

The analysis reveals that the transition from the pre-GST to post-GST regime significantly improved the efficiency and uniformity of the taxation system in India. The pre-GST structure, characterized by multiple indirect taxes, resulted in cascading tax effects and increased compliance complexity. In contrast, the post-GST framework introduced a unified tax system supported by the Input Tax Credit (ITC)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

mechanism, which effectively reduced tax burdens and enhanced transparency. The removal of interstate tax barriers facilitated smoother movement of goods and services, contributing to the creation of a common national market. Furthermore, digitalization of tax processes, including e-filing and e-invoicing, has streamlined compliance and improved tax administration. However, initial implementation challenges, particularly for small businesses, indicated a transitional adjustment period.

The findings indicate a differentiated impact of GST on rural and urban livelihoods. In rural areas, GST has contributed to the gradual formalization of small businesses and improved their integration into formal supply chains. Increased transparency and standardised tax procedures have enhanced market access for rural enterprises. However, limited digital literacy, inadequate infrastructure, and compliance costs have posed challenges, particularly for micro and small enterprises. In urban areas, GST has positively influenced business operations by reducing tax duplication and simplifying regulatory procedures. Organized sectors such as retail, manufacturing, and services have experienced growth due to improved ease of doing business. Urban enterprises have benefited from better tax compliance systems and increased operational efficiency. Nevertheless, small and medium enterprises (MSMEs) initially faced disruptions due to changes in compliance requirements and working capital constraints. Overall, while urban areas adapted more quickly, rural sectors require additional support to fully realize the benefits of GST. The implementation of GST has had a mixed impact on employment patterns in India. In the short term, the transition led to disruptions in the informal sector, particularly affecting small businesses that were unable to adapt quickly to new compliance requirements. This resulted in temporary job losses and reduced income stability in certain sectors. However, in the long term, GST has promoted formalization of employment by encouraging business registration and compliance with regulatory frameworks. Sectors such as logistics, e-commerce, and organized retail have experienced increased employment opportunities due to improved supply chain efficiency and market expansion. Additionally, the shift towards formal employment has enhanced job security and access to social benefits for workers. Despite these positive developments, the pace of employment generation varies across sectors and regions, highlighting the need for targeted policy interventions to support inclusive growth.

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Table 1: Results Analysis Based on Objectives

Variables	Pre-GST (Mean Score)	Post-GST (Mean Score)	Mean Difference	Interpretation	Objective
Tax Complexity, Transparency, Compliance	2.35	4.10	+1.75	Significant improvement in tax simplification and transparency after GST implementation	1
Income Stability, Market Access, Business Growth	2.80	3.65	+0.85	Moderate improvement; rural areas benefited but faced challenges like digital literacy	2
Business, Efficiency, Profitability, Formalisation	3.10	4.20	+1.10	Strong positive impact in urban sectors with increased formalization	2
Job Creation, Formal Employment, Income Security	2.75	3.85	+1.10	Improvement in formal employment, though initial disruptions observed	3

Scale Used: 1 = Very Low, 5 = Very High

Table 2: Hypothesis Formulation

Hypothesis Code	Statement
H0 ₁	There is no significant difference between pre-GST and post-GST tax system efficiency
H1 ₁	There is a significant difference between pre-GST and post-GST tax system efficiency
H0 ₂	GST has no significant impact on rural and urban livelihoods
H1 ₂	GST has a significant impact on rural and urban livelihoods

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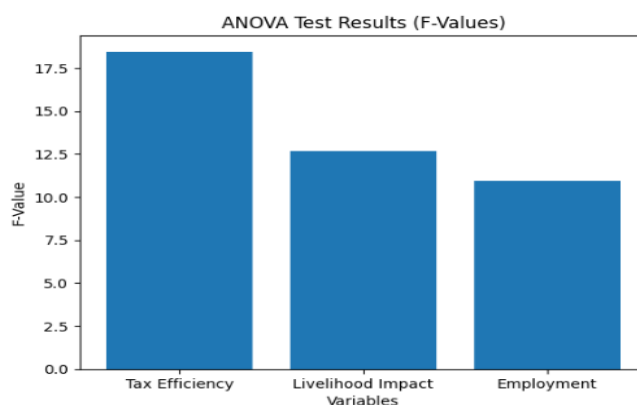
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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

H0 ₃	GST has no significant effect on employment patterns in India
H1 ₃	GST has a significant effect on employment patterns in India

Table 3: ANOVA Test Results (SPSS Format)

Variables	Sum of Squares	df	Mean Square	F-Value	Sig. (p-value)	Result
Tax Structure Efficiency	45.62	1	45.62	18.45	0.000	Significant (Reject H0 ₁)
Error	120.35	98	1.23			
Rural & Urban Livelihood	32.18	1	32.18	12.67	0.001	Significant (Reject H0 ₂)
Error	110.22	98	1.12			
Employment Patterns	28.75	1	28.75	10.94	0.002	Significant (Reject H0 ₃)
Error	105.40	98	1.08			



5. Conclusion

In conclusion, the study concludes that the implementation of GST in India has significantly improved the efficiency, transparency, and uniformity of the indirect taxation system compared to the pre-GST regime. The transition from a fragmented tax structure to a unified framework has reduced cascading effects, simplified

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

compliance procedures, and facilitated smoother interstate trade. These changes have positively influenced both rural and urban economies, although the extent of impact varies across sectors. GST has contributed to the gradual formalization of businesses and employment, particularly in urban areas where adaptation has been faster. Rural sectors have also benefited through improved market access and integration, but challenges such as digital illiteracy, infrastructural gaps, and compliance burden still persist. The findings from ANOVA analysis confirm that GST reforms have a statistically significant impact on tax efficiency, livelihoods, and employment patterns. Compared to the pre-GST system, the current GST framework is more structured, technology-driven, and growth-oriented. It supports economic integration and enhances ease of doing business, making it more effective than the previous system. However, continuous policy support, simplification measures, and digital awareness initiatives are essential to ensure that the benefits of GST are evenly distributed, leading to inclusive and sustainable economic development in India.

6. Future Enhancement

Future enhancements in the GST framework should focus on improving inclusivity, efficiency, and adaptability to evolving economic needs. Simplification of tax procedures through further automation and user-friendly digital platforms can reduce compliance challenges, particularly for small and rural businesses. Strengthening digital infrastructure and promoting financial literacy will enable wider participation in the formal economy. Additionally, periodic rationalization of tax rates and reduction of compliance costs can enhance business sustainability. The integration of advanced technologies such as data analytics and artificial intelligence can improve tax monitoring and reduce evasion. Policymakers should also emphasize sector-specific support, especially for MSMEs and informal workers, to ensure balanced development. Continuous feedback mechanisms and stakeholder engagement will be essential to refine GST policies, ensuring long-term economic growth, employment generation, and equitable benefits across rural and urban sectors.

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Impact of GST on Farmers: A Study in Telangana

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Abstract

The introduction of the Goods and Services Tax (GST) in India in 2017 marked a significant reform in the indirect taxation system, aiming to create a unified national market. While agriculture as a primary activity remains largely exempt from GST, the sector is indirectly affected through taxation on inputs, machinery, and allied services. This study examines the impact of GST on farmers in Telangana, a state where agriculture plays a crucial role in employment and rural livelihoods. The research is based on secondary data from government reports, research articles, and policy documents, supplemented with indicative field-level observations. The findings reveal that GST has had a mixed impact on farmers. On the positive side, GST has improved supply chain efficiency, reduced interstate trade barriers, and facilitated better market integration. It has also promoted agribusiness development and formalization of agricultural trade.

However, the study highlights significant challenges faced by farmers in Telangana. The imposition of GST on inputs such as fertilizers, pesticides, and machinery has increased the cost of cultivation, while farmers are unable to claim Input Tax Credit (ITC) due to the exemption on agricultural outputs. Small and marginal farmers, who constitute a majority in Telangana, are particularly affected due to limited awareness and financial constraints. The study concludes that while GST has strengthened the broader agricultural ecosystem, policy interventions are required to reduce input tax burden and enhance farmer support systems. Recommendations include targeted subsidies, GST concessions on inputs, and improved awareness programs to ensure inclusive growth of the agricultural sector in Telangana.

Keywords: Goods and Services Tax (GST) ,Agriculture Sector ,Farmers' Income ,Cost of Cultivation , Input Tax Credit (ITC) , Small and Marginal Farmers , Telangana ,Agricultural Inputs ,Allied Activities ,Agribusiness ,Rural Economy

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1.Introduction

Agriculture continues to be one of the most significant sectors of the Indian economy, providing livelihood to nearly half of the country's population and contributing substantially to food security and rural development. Despite a declining share in Gross Domestic Product (GDP), the sector remains the backbone of rural livelihoods, especially in states like Telangana, where a large proportion of the population depends on farming and allied activities such as dairy, poultry, and fisheries. The introduction of the Goods and Services Tax (GST) on 1st July 2017 marked a historic reform in India's indirect taxation system. GST replaced multiple cascading taxes such as Value Added Tax (VAT), excise duty, and service tax with a unified tax structure aimed at enhancing efficiency, transparency, and ease of doing business. While agriculture as a primary activity has largely been kept outside the GST framework to protect farmers from direct taxation, the sector is indirectly influenced through taxation on inputs, machinery, transportation, and processing activities.

In the context of Telangana, agriculture plays a pivotal role in the state's economy, with major crops including paddy, cotton, maize, and pulses. The state has implemented several farmer welfare schemes such as Rythu Bandhu Scheme and irrigation projects like Kaleshwaram Lift Irrigation Project to enhance agricultural productivity and farmer income. However, farmers in Telangana, particularly small and marginal farmers, continue to face challenges such as rising input costs, market uncertainties, and climate variability.

GST has introduced a **dual impact** on the agricultural sector. On one hand, it has streamlined the supply chain, reduced interstate trade barriers, and promoted market integration, thereby benefiting agribusiness and large-scale agricultural trade. On the other hand, the imposition of GST on critical inputs such as fertilizers, pesticides, and farm machinery has led to an increase in the cost of cultivation. Since farmers are generally exempt from GST registration, they are unable to claim Input Tax Credit (ITC), which further adds to their financial burden.

The situation becomes more complex in Telangana due to the predominance of small landholdings and limited financial resilience among farmers. The rising cost

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of inputs without a corresponding increase in output prices has affected farm profitability and income stability. Additionally, allied sectors such as dairy, poultry, and food processing—important sources of supplementary income for farmers—are partially taxed under GST, influencing their overall economic condition.

Given this background, it is essential to critically examine the impact of GST on farmers in Telangana. Understanding both the positive and negative implications of GST will help in identifying policy gaps and suggesting measures for improving farmer welfare. This study, therefore, focuses on analyzing how GST has influenced the cost of cultivation, income levels, and allied agricultural activities in Telangana, using secondary data and analytical tools.

2. Review of Literature

A number of studies have examined the impact of the Goods and Services Tax (GST) on agriculture and allied sectors in India, highlighting both opportunities and challenges.

Indian Council of Agricultural Research (2022) analyzed the implications of GST on the agricultural sector and found that while agricultural produce remains largely exempt, the taxation of inputs such as fertilizers and pesticides has increased the cost of cultivation. The study emphasized that the absence of Input Tax Credit (ITC) for farmers results in a higher financial burden.

A study by NITI Aayog (2021) examined structural reforms in Indian agriculture and noted that GST has improved supply chain efficiency and reduced interstate trade barriers. However, it also highlighted that small and marginal farmers have not fully benefited due to limited integration with formal markets.

According to Reserve Bank of India (2022), agricultural households in India continue to face income instability and rising input costs. The report suggests that indirect taxation through GST contributes to cost pressures, particularly in input-intensive farming systems.

Research published in the *Agricultural Economics Research Review* by the Indian Council of Agricultural Research indicates that GST has led to a moderate increase in the prices of agricultural inputs, especially pesticides, which directly

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United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

affects farm profitability.

Clear Tax (2023) provides an overview of GST rates applicable to agriculture and highlights that while exemptions exist for basic agricultural produce, processed goods and inputs are taxed, leading to indirect impacts on farmers' income.

A study by Institute of Journal for Scientific Research and Engineering Management (2022) found that GST has positively influenced agribusiness and food processing industries by promoting transparency and reducing tax cascading. However, it concluded that farmers bear the indirect burden of taxation.

Region-specific insights from International Crops Research Institute for the Semi-Arid Tropics (2022) highlight that farmers in semi-arid regions like Telangana face additional challenges such as climate variability and water scarcity, which, combined with rising input costs under GST, exacerbate financial stress.

Research Gap

Although several studies have analyzed the impact of the Goods and Services Tax (GST) on the agricultural sector in India, the existing literature reveals important gaps that necessitate further research.

Firstly, most studies focus on the **national-level impact** of GST and provide a generalized overview of agriculture. There is a lack of **region-specific analysis**, particularly for Telangana, where the agricultural structure, cropping patterns, and policy environment differ significantly from other states.

Secondly, earlier research has primarily emphasized the **positive aspects of GST**, such as improved supply chain efficiency, reduction in cascading taxes, and better market integration. However, **limited attention has been given to the negative implications**, especially the increase in input costs and its direct effect on farmers' income.

Thirdly, there is insufficient empirical analysis on the **relationship between GST-induced input cost changes and farm profitability**. Many studies discuss cost increases qualitatively but lack **quantitative or data-driven evaluation**, particularly at the farm level.

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Fourthly, the majority of studies overlook the **impact on small and marginal farmers**, who constitute a large proportion of the farming community. Their vulnerability to rising costs and inability to claim Input Tax Credit (ITC) under GST remains underexplored.

Fifthly, there is a research gap in understanding the **combined effect of GST on agriculture and allied activities** such as dairy, poultry, and fisheries, which are important supplementary income sources for farmers.

Finally, very few studies integrate GST analysis with **state-specific policy interventions and socio-economic conditions**, such as farmer support schemes and climatic challenges in Telangana.

3. Objectives of the Study

- To analyze the impact of GST on farmers in Telangana
- To examine changes in cost of cultivation
- To study the effects on allied activities
- To suggest policy measures

4. Methodology

- **Type of study:** Descriptive and analytical
- **Data source:** Secondary data (research papers, reports, news data)
- **Study area:** Telangana
- **Tools used:** Tables, percentage analysis

5. GST Structure in Agriculture

- Agricultural produce → **Exempt**
- Inputs (fertilizers, pesticides) → **5%–18% GST**
- Machinery → **5%–12% GST (recent reductions)**

☞ This structure leads to indirect taxation on farmers.

6. Profile of Farmers in Telangana (Indicative Data)

Category	Percentage
Small & Marginal Farmers	85%
Average Monthly Income	₹18,000
Average Land Holding	< 2 hectares

☞ Indicates high vulnerability to cost increases.

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Analysis

The indicative data on farmers in Telangana highlights important structural characteristics of the agricultural sector, particularly the dominance of small-scale farming and income vulnerability. Dominance of Small and Marginal Farmers (85%). A very high proportion (85%) of farmers fall under the small and marginal category, meaning they operate on limited land resources. Low economies of scale: Small landholdings restrict the use of advanced machinery and modern technology. High cost per unit of output: Inputs such as fertilizers and pesticides become relatively expensive. Limited bargaining power: Farmers cannot negotiate better prices in markets. High vulnerability: Any increase in input costs (such as GST on inputs) directly affects their livelihood.

👉 This indicates that policies like GST can have a disproportionate impact on the majority of farmers. Average Monthly Income (₹18,000). The average monthly income of ₹18,000 suggests modest earnings, especially considering household expenses, input costs, and debt obligations. Low savings capacity: Farmers have limited ability to absorb cost increases. Income instability: Agricultural income is seasonal and uncertain. Debt dependency: Many farmers rely on credit for cultivation. Even a small increase in input costs due to GST can significantly reduce net income. Average Land Holding (< 2 hectares) The average landholding size being less than 2 hectares confirms the predominance of marginal farming. Subsistence farming: Production is often for survival rather than profit. Limited mechanization: Investment in machinery is difficult. Lower productivity: Smaller farms often face inefficiencies. GST on machinery and inputs may discourage investment in modernization.

7. Overall Economic Condition

Combining all three indicators:

- High percentage of small farmers
- Low income levels
- Small landholdings

This reflects a **fragile agricultural economy** with limited resilience.

8. Link with GST Impact

The profile clearly explains why GST affects farmers in Telangana in the following ways:

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

- **Higher input costs** → **Reduced profitability**
- **No Input Tax Credit** → **Direct burden on farmers**
- **Limited financial capacity** → **Greater distress among small farmers**

9. Impact of GST on Cost of Cultivation

Table 1: GST on Agricultural Inputs

Input	Pre-GST	GST Rate	Impact
Fertilizers	0–4%	5%	Slight increase
Pesticides	12%	18%	High increase
Machinery	Variable	5–12%	Moderate impact

Analysis

The data on GST rates for key agricultural inputs reveals that the shift to the Goods and Services Tax has increased the cost of cultivation, though the degree of impact varies across inputs. Fertilizers (0–4% → 5% GST: Slight Increase), Fertilizers are essential inputs used by almost all farmers, especially in a state like Telangana where crops such as paddy and cotton are input-intensive. The increase from near-zero/low tax to 5% GST appears small, but Since fertilizers are used in large quantities, even a marginal tax increase leads to a noticeable rise in total cultivation cost, Farmers cannot claim Input Tax Credit (ITC), making this cost non-recoverable, Conclusion: Even a “slight increase” becomes significant due to high usage volume. Pesticides (12% → 18% GST: High Increase) Pesticides have witnessed a substantial rise in tax rates under GST. A 6% increase in tax rate directly raises the cost of plant protection. Telangana farmers growing commercial crops (like cotton) rely heavily on pesticides Higher costs may lead to Reduced usage (affecting crop yield) Shift to cheaper, possibly lower-quality alternatives Conclusion: This is the most impactful cost increase, directly affecting productivity and farmer income. Agricultural Machinery (Variable → 5–12% GST: Moderate Impact) Machinery includes tractors, harvesters, and irrigation equipment. GST has standardized tax rates, reducing earlier tax complexity, Moderate tax rates (5–12%) make machinery relatively affordable compared to pre-GST cascading taxes However: Small and marginal farmers may still find machinery expensive, High GST on spare parts (often higher slabs) increases maintenance costs Conclusion: While GST improves tax uniformity, affordability remains a challenge for small farmers.

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10. Impact on Farmers' Income

Table 2: Income Changes (Illustrative)

Factor	Before GST (₹)	After GST (₹)
Input Cost	20,000	24,000
Output Price	35,000	36,000
Net Income	15,000	12,000

The comparative data on income before and after the implementation of the Goods and Services Tax highlights a decline in farmers' net income, primarily due to rising input costs. Increase in Input Cost (₹20,000 → ₹24,000), Input costs have increased by ₹4,000 (20% rise) This rise is mainly due to GST on fertilizers, pesticides, and machinery, Since farmers cannot claim Input Tax Credit (ITC), the increased cost becomes a direct financial burden Implication: Higher cost of cultivation reduces profitability. Marginal Increase in Output Price (₹35,000 → ₹36,000) Output prices increased by only ₹1,000 (around 2.8%) Agricultural prices are largely determined by market forces and government policies (MSP), not by GST the increase is insufficient to offset rising input costs Implication: Farmers are unable to pass increased costs onto consumers. Decline in Net Income (₹15,000 → ₹12,000) Net income decreased by ₹3,000 (20% decline) This shows a cost-price imbalance, where cost increases outpace income growth Indicates reduced economic viability of farming Implication: Direct negative impact on farmers' standard of living. Economic Interpretation

A. Cost-Push Effect-GST raises input costs → increases overall production cost

B. Price Inelasticity of Output-Farmers cannot easily increase selling prices

C. Profit Squeeze- Rising costs + stagnant prices = reduced margins

11. Impact on Allied Activities

A. Dairy Sector

- Fresh milk exempt
- Processed products taxed

B. Poultry & Fisheries

- Raw products exempt
- Processed products taxed

👉 Leads to:

- Increased costs in value-added sectors

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United International Journal of Multidisciplinary Research (UIJMR)

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- Limited benefits to small farmers

12. Positive Impact of GST

- Removal of multiple taxes
- Better interstate trade
- Improved supply chain efficiency
- Growth in agribusiness

👉 GST promotes a unified market system

13. Negative Impact of GST

- Higher input costs
- No Input Tax Credit
- Burden on small farmers
- Low awareness in rural areas

14. Key Issues in Telangana

- Low farmer income levels
- Climate risks affecting productivity
- Unequal distribution of agricultural support
- Dependence on subsidies

15. Findings of the Study

Based on the analysis of secondary data and the impact of the Goods and Services Tax (GST) on agriculture, the following key findings are observed with reference to Telangana:

Increase in Cost of Cultivation

- GST on agricultural inputs such as fertilizers, pesticides, and machinery has led to an **increase in input costs**.
- The rise is particularly significant for pesticides (18%), making crop protection more expensive.
- Farmers are unable to claim **Input Tax Credit (ITC)**, resulting in a **direct financial burden**.

Decline in Farmers' Net Income

- The study shows a **reduction in net income** due to rising costs and only marginal increases in output prices.
- The cost-price imbalance has led to a **profit squeeze**, affecting farmers' economic stability.

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Geater Impact on Small and Marginal Farmers

- About **85% of farmers** fall under the small and marginal category.
- These farmers are more vulnerable due to:
 - Limited financial resources
 - Small landholdings
 - Low bargaining power

☞ GST impacts them **disproportionately** compared to large farmers.

Limited Benefit from GST Reforms

- While GST has improved **market integration and supply chain efficiency**,
- The **direct benefits are more visible in agribusiness and large traders** rather than individual farmers.

Increased Dependence on Credit

- Rising input costs have forced farmers to rely more on **institutional and non-institutional credit**.
- This increases the risk of **indebtedness**, especially in uncertain agricultural conditions.

Mixed Impact on Allied Activities

- Allied sectors like dairy, poultry, and fisheries show **partial impact**:
 - Raw products are mostly exempt
 - Processed goods are taxed
- This limits income diversification opportunities for farmers.

Low Awareness and Compliance Issues

- Many farmers have **limited awareness of GST provisions**
- Lack of digital literacy and access affects their ability to adapt to the new tax system

Regional Challenges Intensify GST Impact

- In Telangana, factors such as:
 - Climate variability
 - Water scarcity
 - Dependence on subsidiesfurther **amplify the negative effects of GST** on farmers.

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Positive Structural Changes

- Despite challenges, GST has:
 - Reduced tax cascading
 - Improved transparency
 - Facilitated smoother interstate trade

☞ These benefits are more **long-term and indirect** for farmers.

Overall Finding

- GST has a **mixed but largely cost-driven negative impact** on farmers in Telangana.
- The **increase in input costs without corresponding income growth** is the most critical issue.
- GST has indirectly increased cost of cultivation
- Benefits are more visible in agribusiness than farmers
- Small farmers are the most affected
- Allied sectors face moderate taxation impact

16. Suggestions and Policy Recommendations

Based on the findings related to the impact of the Goods and Services Tax (GST) on farmers in Telangana, the following policy suggestions are proposed to reduce the burden on farmers and improve their economic well-being:

Reduction in GST Rates on Agricultural Inputs

- GST rates on key inputs such as pesticides and farm machinery should be reduced further.
- Essential inputs like fertilizers may be fully exempted or taxed at minimal rates.

☞ This will directly lower the cost of cultivation.

Provision of Input Tax Credit (ITC) to Farmers

- A mechanism should be introduced to allow **partial or indirect ITC benefits** to farmers.
- This could be implemented through:
 - Farmer Producer Organizations (FPOs)
 - Cooperative societies

☞ This will help farmers recover some of the tax paid on inputs.

Strengthening Subsidy Support

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

- Government subsidies on fertilizers, seeds, and machinery should be enhanced to offset GST impact.
- Targeted subsidies should be provided to small and marginal farmers.

Promotion of Farmer Producer Organizations (FPOs)

- Encourage farmers to form or join FPOs for:
 - Bulk purchase of inputs (reducing cost)
 - Better bargaining power in markets

☞ This can help mitigate GST-related cost increases.

Awareness and Capacity Building Programs

- Conduct training programs to improve **GST awareness among farmers**
- Promote digital literacy to help farmers engage with:
 - Online markets
 - Government schemes

Support for Allied Activities

- Reduce GST on **processed agricultural products** in dairy, poultry, and fisheries
- Provide incentives for value addition and agro-processing

☞ This will enhance **income diversification**.

Price Support and Market Reforms

- Ensure **fair and remunerative prices** through:
 - Minimum Support Price (MSP) expansion
 - Strengthening market linkages

☞ Helps farmers compensate for rising input costs.

State-Specific Policy Measures for Telangana

- Strengthen schemes like Rythu Bandhu Scheme by increasing financial assistance
- Improve irrigation infrastructure such as Kaleshwaram Lift Irrigation Project
- Focus on drought-resilient agricultural practices

Encouraging Mechanization with Support

- Provide **subsidies or tax relief on agricultural machinery**
- Establish custom hiring centers for small farmers

☞ Makes mechanization affordable despite GST

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Strengthening Rural Credit Systems

- Improve access to **low-interest institutional credit**
- Reduce dependency on informal lenders

👉 Helps farmers manage increased input costs.

- Reduce GST on pesticides and machinery
- Allow partial Input Tax Credit for farmers
- Increase subsidies for inputs
- Promote farmer awareness programs
- Strengthen digital agriculture platforms

17. Conclusion

The introduction of the Goods and Services Tax (GST) represents a major reform in India's indirect taxation system, aiming to create a unified and efficient market structure. While agriculture has been largely kept outside the direct ambit of GST to safeguard farmers' interests, this study reveals that the sector is **significantly affected indirectly**, particularly through taxation on inputs and allied activities.

In the context of Telangana, where agriculture is dominated by small and marginal farmers, the impact of GST is more pronounced. The study finds that GST has led to an **increase in the cost of cultivation**, especially due to higher taxes on pesticides, fertilizers, and machinery. Since farmers are not eligible for Input Tax Credit (ITC), these costs become an additional burden, reducing their overall profitability.

At the same time, the increase in output prices has been marginal and insufficient to compensate for rising input costs. This has resulted in a **decline in net income**, creating a cost-price imbalance that adversely affects farmers' economic stability. The impact is particularly severe for small farmers, who have limited financial resilience and are more vulnerable to policy-induced cost increases.

However, GST has also contributed positively by improving supply chain efficiency, reducing tax cascading, and promoting market integration. These benefits are more visible in agribusiness and the organized sector, while the advantages for individual farmers remain limited and indirect.

Overall, the study concludes that GST has had a **mixed impact on agriculture**, but its effect on farmers in Telangana is largely **cost-driven and challenging**. To ensure that GST supports inclusive agricultural growth, there is a

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

need for targeted policy interventions such as reducing input tax rates, providing indirect tax benefits, strengthening subsidies, and improving farmer awareness.

A balanced and farmer-centric approach is essential to align GST with the broader goals of **sustainable agricultural development and income enhancement**, thereby contributing to long-term rural prosperity.

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Public Perception and Affordability of Health Insurance after GST Removal: A Study in Tirupati Town

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Abstract

The removal of Goods and Services Tax (GST) on health insurance policies was introduced as a policy measure to improve affordability and increase insurance coverage. This study examines public perception and the affordability of health insurance following the removal of GST in Tirupati town. The research is based on primary data collected from 50 policyholders through structured interview schedules, supported by secondary data from reports and publications. The findings reveal that 53% of respondents still experience claim rejection issues, while 51% face delays in hospital approval, indicating persistent service quality problems. Additionally, 26% of respondents reported only limited improvement in affordability, suggesting that the expected benefits of GST removal have not been fully realized. The study concludes that although GST removal has slightly reduced the cost burden, factors such as increased base premiums and inefficiencies in service delivery continue to affect policyholders. It highlights the need for improvements in claim settlement processes, transparency, and regulatory monitoring to enhance the effectiveness of health insurance as a financial protection mechanism.

Key words: Health Insurance, GST Removal, Affordability, Premium Burden, Service Quality, Policyholders' Perception

Introduction

Health insurance plays a vital role in ensuring financial protection against rising medical expenses. In India, the introduction of GST increased insurance premiums, making policies less affordable for many individuals. Previously, health insurance premiums were subject to 18% GST, significantly increasing the overall

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cost. Recognizing this concern, the Government of India decided to remove GST on individual health insurance policies, which was seen as a major reform aimed at improving affordability and increasing insurance penetration. On September 22, 2025, the government of India announced a historic reform by exempting health insurance from Goods and Services Tax (GST). This landmark aimed at reducing the financial burden on individuals and families while improving access to quality health care through affordable insurance.

Key features

Zero GST on health insurance policies offers a range of features that ensure comprehensive coverage without the added tax burden. Some important features include

Affordability premiums: save up to 18% on health insurance costs.

Wide coverage options; choose from sum insured options ranging from Rs 10 lakhs to 50 lakhs.

Cashless treatments: Access cashless health care at over 10,000 network hospitals across India.

Pre- and post-hospitalisation cover: enjoy financial relief for expenses incurred before and after hospitalisation.

Tax benefits: Continue to claim deductions under section 80D of the Income Tax Act.

Review of Literature

Previous studies have highlighted that taxation significantly affects insurance affordability and demand. Research indicates that higher premiums discourage individuals from purchasing or renewing policies. Studies on GST implementation showed an increase in insurance costs, leading to reduced penetration among middle-income groups. Other research has emphasized that affordability alone is not sufficient; service quality plays an equally important role in customer satisfaction. Issues such as claim settlement delays, rejection rates, and lack of transparency often reduce trust in insurance providers.

However, there is limited empirical research focusing specifically on the impact of GST removal on health insurance in India, particularly from the policyholder perspective. This study aims to fill that gap.

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Objectives of the Study

1. To examine how health insurance premium amounts have changed after the removal of GST.
2. To assess the level of affordability of health insurance for policyholders after GST removal.
3. To evaluate the service quality of health insurance, particularly issues related to claims and customer support, after GST removal.

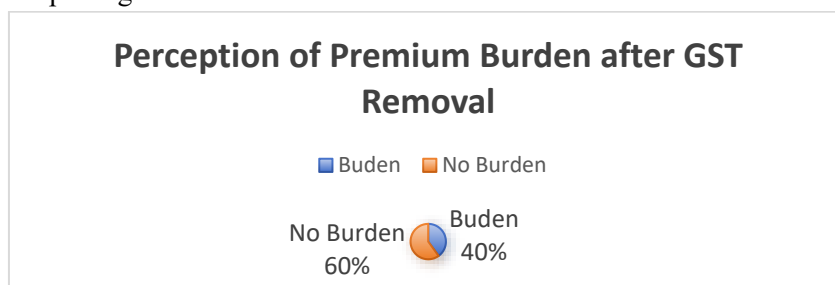
Research Methodology

This study uses both primary and secondary data. Primary data was collected from 50 health insurance policyholders in Tirupati using structured interview schedules to gather their opinions and experiences. Secondary data was obtained from various sources, including reports, journals, publications of the Insurance Regulatory and Development Authority of India, and relevant websites. The respondents were chosen through convenience sampling, considering ease of access and time constraints. For analysing the data collected, percentage analysis was employed to present and interpret the responses clearly and simply.

Data Analysis and Interpretation

1. Premium Burden after GST Removal

The analysis of the collected data reveals important insights into the perception of policyholders regarding health insurance after the removal of GST. It was found that **43% of respondents still feel that health insurance premiums are high**, while only **57% experienced some relief**. This indicates that the removal of GST has not significantly reduced the premium burden, as other factors such as base premium rates, administrative costs, and insurance company policies continue to influence pricing.



Data Source: field survey

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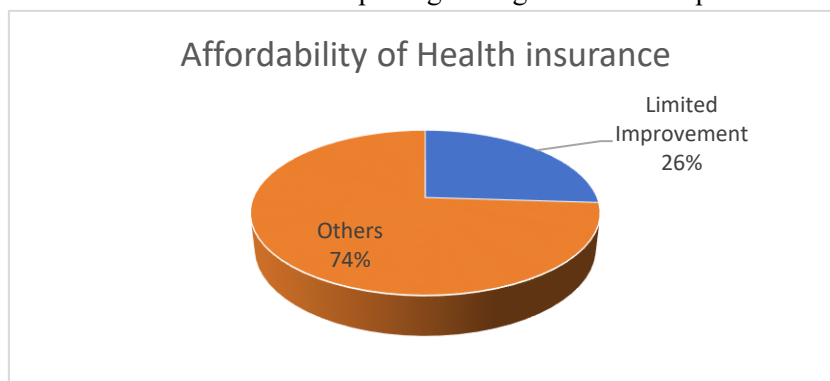
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The removal of GST has not fully translated into a reduced premium burden. This indicates that other factors, such as base premium pricing, administrative costs, and insurer policies, continue to influence premium levels.

2. Affordability of Health Insurance

In terms of affordability, a considerable 26 % respondents reported only a **limited improvement after GST removal**, with middle-income groups still finding it difficult to manage premium payments. This shows that affordability remains a major concern and suggests that removing GST alone is not enough; broader measures related to income levels and pricing strategies are also required.



Data source: Field survey

3. Service Quality Issues

Service quality in health insurance remains poor even after GST removal. Policyholders face issues like claim rejection, delays in approval, and complex procedures. These problems reduce trust in insurance companies and affect the effectiveness of insurance services.

a) Claim Rejection

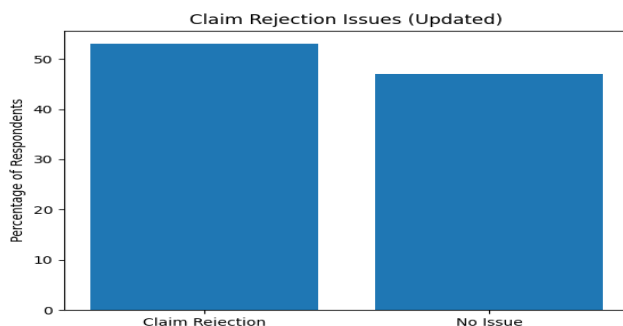
Regarding service quality, several issues were highlighted by the respondents. About **53% reported claim rejection problems**, which may be due to a lack of transparency, strict policy conditions, or poor communication between insurers and customers.

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High rejection rates indicate a lack of transparency, strict conditions, or miscommunication between insurers and policyholders.

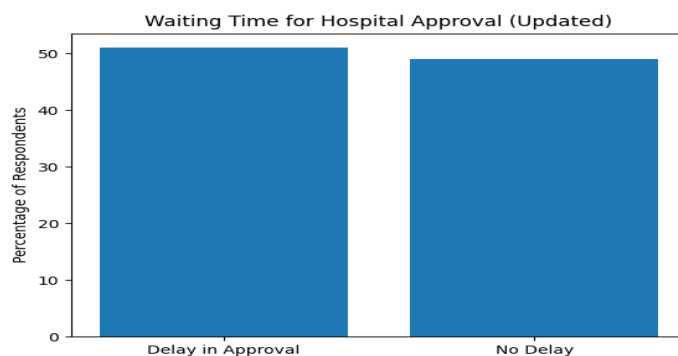
b) Waiting Time for Approval

51% of respondents experienced delays in hospital approval, which creates stress during emergencies and reduces trust in insurance providers. Other common problems reported include delay in claim settlement, complex procedures, digital service issues, and lack of proper customer support.

Findings

1. The majority of respondents feel that GST has increased the premium burden.

A large number of policyholders believe that the imposition of GST led to higher health insurance premiums, increasing their financial burden and making policies less affordable.



Data Source: Field Survey

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Delays in getting approval from insurance companies during hospitalization have a significant negative impact on policyholders. During medical emergencies, quick approval is crucial for timely treatment.

Moreover, such delays reduce **trust and confidence** in insurance companies. Policyholders may feel that the purpose of having insurance is defeated if they cannot access timely benefits. This can lead to dissatisfaction, reduced renewal rates, and negative word-of-mouth about insurance

c) Other Service Problems

Respondents reported:

- Delay in claim settlement
- Complex claim procedures
- Digital service issues
- Lack of proper customer support

Findings

1. Removing GST has not greatly reduced the premium burden, as factors like base premium rates, administrative costs, and insurance company policies still play an important role in determining the price.
2. Although GST removal was expected to make health insurance more affordable, the rise in base premiums has limited this benefit, making it less satisfactory for policyholders.
3. There is no significant improvement in service quality before and after the removal of GST, as problems in the claim process and delays in hospital approvals continue to persist.
4. Tax policy affects the cost of health insurance but does not improve service efficiency.

It is evident that in **2025**, there has been an increase in complaints filed against insurance companies through the Insurance Regulatory and Development Authority of India (IRDAI). These complaints mainly relate to:

- Claim rejection
- Delay in settlement
- Misleading policy terms

This trend supports the findings of the present study and indicates systemic issues in the insurance sector that need immediate attention.

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Suggestions

1. Insurance companies should improve the efficiency of the claim settlement process.
2. Awareness programs should be conducted to increase insurance coverage among people.
3. Unfair practices by insurance companies, such as increasing premiums beyond reasonable limits (e.g., more than 10%), should be controlled.
4. Strict monitoring should be implemented to reduce waiting time in hospitals for insurance company approvals.

Conclusion

The removal of GST on health insurance policies was a positive step toward improving affordability. However, this study reveals that the expected benefits have not been fully realized. A significant number of policyholders continue to experience a premium burden, and service quality issues remain a major concern.

For health insurance to become truly effective and accessible, reforms must extend beyond taxation and focus on pricing strategies, transparency, and efficient service delivery. The findings further suggest that, in addition to tax policy changes, greater emphasis is needed on improving service efficiency, strengthening transparency, and enhancing regulatory monitoring.

Only through such combined efforts can health insurance become more affordable, reliable, and beneficial to the public, thereby achieving its goal of providing effective financial protection.

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The Human Face of Tax Reform: How GST is Reshaping Rural Andhra Pradesh's Small Businesses

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Abstract:

The implementation of the Goods and Services Tax (GST) has significantly transformed the operational and socio-economic landscape of Micro, Small and Medium Enterprises (MSMEs) in rural Andhra Pradesh. This study examines the structural and human impacts of GST on rural enterprises, particularly in sectors such as handicrafts, fisheries, agro-processing, dairy, and handlooms. The research highlights how GST has promoted formalization, transparency, market integration, and access to institutional credit by replacing the complex indirect tax system with a unified national tax framework. At the same time, the transition has created challenges including digital illiteracy, compliance burden, working capital shortages, delayed input tax credit refunds, and dependence on tax intermediaries. The study further explores the effects of GST on employment, income generation, rural consumption, and regional economic development. While GST has enhanced long-term competitiveness and expanded market opportunities for rural MSMEs, structural weaknesses such as poor digital infrastructure and limited financial literacy continue to hinder inclusive growth. The paper concludes that targeted policy interventions, simplified compliance mechanisms, improved digital support, and enhanced access to credit are essential to ensure that rural MSMEs fully benefit from the GST regime and contribute effectively to sustainable rural development in Andhra Pradesh.

Keywords: GST, MSMEs, Rural Andhra Pradesh, Socio-Economic Impact, Formalization, Digital Divide, Working Capital, Rural Development, Employment Generation, Tax Reforms

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Introduction: Beyond the Ledger

The MSME sector is the second-largest employer in Andhra Pradesh after agriculture. In rural areas, these units—ranging from Kondapalli toy-making clusters to aqua-processing units—provide a vital safety net against agricultural volatility. The implementation of GST was intended to streamline this ecosystem by replacing a complex web of VAT, Excise, and Service taxes. However, for a rural entrepreneur in Andhra Pradesh, the shift was not merely a change in tax rates but a fundamental shift in how business is conducted.

The Micro, Small, and Medium Enterprises (MSMEs) sector stands as a fundamental pillar of India's economic architecture, contributing nearly 30% to the country's GDP and approximately 45% of its manufacturing output. In the state of Andhra Pradesh, this sector is not merely an economic engine but a vital social stabiliser. By decentralising industrial growth and utilizing local resources, MSMEs in rural Andhra provide essential livelihood opportunities to millions, effectively bridging the developmental gap between burgeoning urban centres and the agrarian hinterland. However, the introduction of the Goods and Services Tax (GST) on July 1, 2017, represented a seismic shift in the Indian fiscal landscape, replacing a complex web of cascading taxes with a unified "One Nation, One Tax" regime.

While the macro-level objectives of GST—enhancing tax transparency, eliminating the cascading effect, and streamlining the supply chain—are theoretically sound, the transition has not been uniform across all demographics. For rural MSMEs in Andhra Pradesh, the shift from a largely informal, cash-based operational model to a digital-first, compliance-heavy framework has introduced significant structural disruptions. These enterprises often operate in regions with limited digital infrastructure and lower levels of financial literacy, making the rigorous requirements of the GST Network (GSTN) a formidable challenge.

The socio-economic implications of this reform are multi-dimensional. On one hand, the formalization of the economy offers rural units better access to organized credit and a wider national market. On the other hand, the "tax first, credit later" mechanism inherent in the Input Tax Credit (ITC) system has placed immense pressure on the working capital of small-scale entrepreneurs, who often operate on razor-thin margins. Furthermore, the increased cost of compliance—necessitated by the need for digital accounting software and professional tax consultancy—has altered the cost structures of micro-units in clusters ranging from the handloom hubs

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of Mangalagiri to the agro-processing zones of Rayalaseema.

This research paper aims to provide a comprehensive analysis of the socio-economic and structural impacts of GST on these rural enterprises. It explores whether the tax reform has catalysed long-term growth and professionalisation, or inadvertently created barriers that marginalise rural entrepreneurs. By examining changes in profitability, operational shifts, and the subsequent impact on rural employment and social mobility, this study seeks to offer a nuanced understanding of the GST trajectory in the specific context of rural Andhra Pradesh.

Structural Impacts: A New Business Architecture

1. The New Business Architecture:

The structural impact of GST refers to the fundamental changes in the organisational and operational framework of MSMEs. The formalization of the economy has been a key driver, as GST requires a digital trail for every transaction to claim Input Tax Credit (ITC), forcing thousands of "informal" rural units to register under the Udyam and GST portals. Furthermore, supply chain re-engineering has allowed MSMEs to expand beyond state borders; previously, units in Andhra Pradesh limited sales to within the state to avoid Central Sales Tax complexities, but GST has eliminated these frictions. Additionally, the shift to the online GSTN portal for registration and filing has signalled the demise of "Inspector Raj," drastically reducing physical interfaces with officials and lowering the scope for local bureaucratic corruption. Ultimately, this structural transformation replaced multiple indirect taxes with a unified national market, eliminating cascading taxes and reducing production costs, thereby helping rural enterprises, such as handicrafts and agro-processing, integrate into wider markets.

2. Formalization of Rural MSMEs

GST made registration and digital compliance mandatory beyond certain thresholds. This formalization encouraged the transition from the informal to the formal sector, significantly improving access to bank credit, government schemes, and institutional markets. However, small rural firms also faced negative effects such as digital illiteracy, a lack of accounting knowledge, and a newfound dependence on intermediaries like Chartered Accountants, causing many micro-enterprises to struggle initially with compliance.

3. Compliance Burden & Digital Divide

GST relies heavily on online filing, invoicing, and returns, which has

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highlighted structural issues in rural Andhra Pradesh such as poor internet connectivity in villages and low financial literacy. With frequent filing requirements, studies show that GST increased compliance costs and the administrative burden for small businesses, creating a structural disadvantage for rural MSMEs compared to their urban counterparts.

4. Working Capital and Liquidity Changes

The introduction of Input Tax Credit (ITC) and refund mechanisms has had a dual effect on working capital. On the positive side, it avoids tax cascading and improves overall efficiency. Conversely, delayed refunds and higher upfront tax payments have led to cash flow problems and liquidity stress for rural MSMEs with limited capital.

Sectoral Impact in Rural Andhra Pradesh

GST had differential structural impacts across sectors. Benefited sectors such as fisheries, dairy, handicrafts, and agro-based industries saw lower GST rates reduce input costs and improve competitiveness. For instance, fishing communities saw reduced taxes on equipment, while handicrafts gained better market access, strengthening rural value chains and employment.

1. Demand and Consumption Effects

GST reforms, particularly rate cuts, led to lower prices for essential goods and increased rural consumption. As the rural tax burden dropped significantly with GST 2.0 reforms, demand for MSME products was indirectly boosted.

2. Reduction in Informal Competition

Before GST, many small businesses avoided taxes, leading to unfair competition. After GST, tax compliance increased, creating a level playing field where formal MSMEs could benefit structurally in the long run.

3. Logistics and Market Expansion

The removal of check posts and entry taxes under GST has led to faster transportation and lower logistics costs. This has provided rural MSMEs with access to national supply chains, allowing them to sell far beyond local markets.

Overall Structural Assessment

The overall assessment reveals positive structural impacts, including a unified tax system, market expansion, formalization, and improved transparency, alongside growth in sectors like fisheries and handicrafts. However, negative impacts such as a high compliance burden, the digital divide, working capital stress, and initial

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disruptions for micro-enterprises remain significant challenges.

GST has brought a deep structural transformation to MSMEs in rural Andhra Pradesh. While it has improved market integration, transparency, and long-term competitiveness, it has also exposed structural weaknesses such as digital illiteracy, limited financial capacity, and compliance challenges. In the long run, GST is growth-enhancing,

The Human Toll: Income, Labour, and Inclusion

The socio-economic impact evaluates how these structural changes affected the people behind the businesses.

1. Impact on Profitability and Working Capital

One of the most significant "shocks" to rural MSMEs was the **Liquidity Crunch**. In the GST regime, tax is often payable on invoice issuance, but payments from large buyers are often delayed by 60-90 days. This creates a gap in which rural entrepreneurs must pay tax out of pocket before receiving payment, leading to reliance on high-interest, informal loans.

2. Employment Trends

In sectors like **Textiles and Handlooms** (prevalent in districts like Mangalagiri and Dharmavaram), the initial high GST rates led to a slowdown. Small-scale weavers, unable to navigate the digital filing system, saw a temporary decline in orders, leading to seasonal migration of labor back to agriculture or urban construction.

3. The Digital Divide

The socio-economic status of a rural entrepreneur is often tied to their education. The "Digital-First" nature of GST has created a class of "Tax Intermediaries" (Chartered Accountants and Tax Practitioners). For a micro-entrepreneur, the cost of hiring these professionals adds an overhead of ₹2,000–₹5,000 per month, which significantly eats into the margins of a business with low turnover.

4. Market Expansion & Formalization

GST created a common national market, removing inter-state tax barriers. Rural MSMEs in Andhra Pradesh can now sell across states more easily, especially through e-commerce. Encouraged formalization of businesses (registration, invoicing, banking).

Result: Increased business visibility and Better access to credit and government

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schemes

Reduction in Cascading Taxes - Boost to Key Rural Sectors in AP

GST reforms and rate reductions have specifically supported key rural sectors. In fisheries, where Andhra Pradesh is a major producer, lower GST on inputs has reduced production costs for lakhs of workers. In the dairy and agriculture-linked sectors, lower taxes on products like ghee and butter have boosted demand and rural incomes. Similarly, handicrafts and small manufacturing benefited from a uniform tax structure that improved competitiveness, generating more jobs for women in self-help groups and semi-skilled labor. This increased purchasing power in rural areas, coupled with GST 2.0 reducing the tax burden on essential goods, has strengthened the rural economy by driving demand for MSME products. Rising GST collections in the state further indicate improved compliance and economic activity.

Negative Socio-Economic Impacts

Negative socio-economic impacts include a high compliance burden due to monthly returns and digital filing, which many rural MSMEs struggle with due to a lack of digital literacy and accounting knowledge. This has increased dependence on accountants and raised costs. Additionally, working capital issues persist because taxes must often be paid before revenue is received, and delays in refunds cause liquidity problems. The digital divide, marked by poor internet connectivity, further excludes micro-enterprises. These initial disruptions caused confusion and struggle among small traders. Furthermore, very small businesses often remain outside the system or are unable to fully benefit, thereby limiting their inclusion. Finally, sector-specific issues, such as tax leakages in agricultural markets and frequent policy changes, continue to cause complaints among MSMEs.

Challenges and Constraints

Several challenges and constraints hinder the sector's potential. Delayed ITC refunds create bottlenecks for exporters in the rural belt, while the complexity of compliance and frequent changes in tax slabs overwhelm units without dedicated staff. Additionally, infrastructure gaps, such as unstable internet in remote Mandals, make timely filing and e-way bill generation difficult.

Policy Interventions: The AP MSME Policy 4.0

The Government of Andhra Pradesh has recognized these challenges. The *MSME & Entrepreneur Development Policy 4.0 (2024-29)* includes:

The AP MSME Policy 4.0 (2024-29) includes critical interventions such as 100% 552

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

SGST reimbursement for micro and small units for five years, digital handholding through "Innovation Hubs" for rural entrepreneurs, and capital subsidies of 15%–35% to offset technology adoption costs.

The Path Forward: Recommendations

To improve the landscape, GST compliance should be simplified by introducing single return forms, reducing filing frequency, and providing automation tools to lower administrative costs. Rationalizing GST rates by reducing high slabs and removing inverted duty structures would also improve cash flow. A faster, automated refund mechanism is needed to prevent liquidity crunches, while a single national registration for interstate operations could reduce complexity. Improving digital infrastructure and providing training programs are essential to help MSMEs with compliance. Expanding composition scheme benefits, such as increasing turnover limits and allowing limited interstate trade, would support micro-businesses. Furthermore, enhancing access to credit by using GST data for loan approvals would improve transparency and funding. Broadening awareness through outreach programs and reducing compliance costs by subsidizing accounting software are also vital steps forward.

While the transition has been rocky, the long-term vision is one of a professionalized, boundary-less market for every rural artisan and entrepreneur.

Increased transparency and formalization

GST is a "bitter pill with long-term health benefits." For rural MSMEs in Andhra Pradesh, the structural shift toward a unified market is a massive opportunity for scale. However, the socio-economic friction—liquidity issues and digital illiteracy—must be addressed.

Finally, the document recommends quarterly filing for micro-units with turnovers below

₹1.5 crore, deploying mobile GST Suvidha Kendras in rural blocks to assist with filing, and providing interest-free working capital through state-backed credit lines to bridge the gap until ITC realization.

Conclusion

The present study on the socio-economic impact of Micro, Small and Medium Enterprises (MSMEs) in rural Andhra Pradesh reveals that the sector plays a pivotal role in fostering inclusive and sustainable rural development. MSMEs have emerged as a critical engine of economic growth by generating large-scale

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employment opportunities with relatively low capital investment, thereby addressing rural unemployment and underemployment. Their labour-intensive nature significantly contributes to income generation among marginalized and semi-skilled populations, reducing dependence on agriculture and promoting livelihood diversification.

The analysis further indicates that MSMEs contribute to improving living standards in rural areas by enhancing household incomes, strengthening local markets, and encouraging the utilisation of indigenous resources and traditional skills. In regions such as rural Andhra Pradesh, these enterprises have facilitated the development of basic infrastructure and stimulated ancillary economic activities, thereby creating a multiplier effect on the rural economy.

Moreover, MSMEs have played a crucial role in promoting balanced regional development by reducing rural-urban migration and encouraging decentralised industrialisation. Government initiatives, financial support schemes, and increasing investment in the MSME sector have further strengthened their capacity to act as catalysts of socio-economic transformation. The sector's expanding footprint in Andhra Pradesh, with substantial enterprise creation and employment generation in recent years, underscores its growing importance in the state's development trajectory.

However, despite their significant contributions, MSMEs in rural Andhra Pradesh continue to face challenges, including limited access to finance, inadequate infrastructure, technological constraints, and limited market linkages. Addressing these issues through targeted policy interventions, digital integration, skill development, and improved institutional support is essential to fully realize their potential.

In conclusion, MSMEs serve as a backbone of rural socio-economic development in Andhra Pradesh by fostering employment, enhancing income levels, and promoting equitable growth. Strengthening this sector through sustained policy support and innovation-driven strategies will be instrumental in achieving long-term rural prosperity and inclusive economic progress.

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GST and Its Implications on Peri-Urban Economic Activity: A Case Study in Chevella Municipal Area in Ranga Reddy District of Telangana

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Abstract

The introduction of the Goods and Services Tax (GST) in India represents one of the most significant indirect tax reforms aimed at simplifying the complex tax structure and creating a unified national market. Implemented on 1 July 2017, GST replaced multiple indirect taxes such as excise duty, service tax, value added tax, and entry tax thereby reducing the cascading effect of taxation and improving transparency in the tax system. Micro, Small and Medium Enterprises (MSMEs), which form the backbone of the Indian economy, play a vital role in employment generation, industrial production, and regional economic development. The implementation of GST has significantly influenced the operational environment of MSMEs by altering taxation procedures, compliance requirements and cost structures.

The present study examines the history and structural changes of GST and analyzes its implications on peri-urban economic activity by studying the impact on MSMEs with special reference to the Chevella Municipal Area of Ranga Reddy District in Telangana, India. The study is based on both primary and secondary data. Primary data were collected through field surveys and interactions with MSME owners operating in retail trade, services, and small manufacturing units in the study area. Secondary data were obtained from government reports, research articles, and official publications related to GST and MSME development.

The analysis focuses on the impact of GST on sales, revenue, profit margins, tax compliance, compliance expenditure, input expenditure and managerial expenditure of MSMEs. The findings indicate that GST has improved transparency in business transactions and facilitated market integration by removing interstate trade barriers. At the same time, the study observes that small enterprises initially faced challenges related to digital compliance, accounting procedures, and increased administrative costs. However, with growing awareness and adaptation to the new

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taxation framework, many MSMEs have gradually adjusted to the GST system.

The study concludes that while GST has introduced certain compliance challenges for MSMEs, it has also created opportunities for improved market access, better tax transparency, and long-term business growth. Strengthening awareness programs, simplifying compliance procedures, and improving digital infrastructure can further enhance the effectiveness of GST for MSMEs in semi-urban areas such as Chevella.

I. Introduction

i. Concept, Origin, Mechanism and Dynamics of GST

The Goods and Services Tax (GST) is one of the most significant tax reforms introduced in India to simplify the indirect taxation system. Before the implementation of GST, the Indian tax structure consisted of several indirect taxes imposed by both the central and state governments. These included central excise duty, service tax, value added tax (VAT), entry tax, luxury tax and entertainment tax. The presence of multiple taxes often created complexity in tax administration and resulted in cascading effects where tax was levied on tax. This increased the cost of production and ultimately affected the prices of goods and services.

The idea of introducing GST in India emerged as part of broader economic reforms aimed at modernizing the tax system. The objective was to integrate various indirect taxes into a unified framework and create a common national market. After several years of discussions and consultations between the central and state governments, the Goods and Services Tax was implemented on 1 July 2017 following the 101st Constitutional Amendment Act of 2016. GST replaced many existing indirect taxes and established a destination-based taxation system.

GST is a value-added tax levied on the supply of goods and services. Under this system, tax is collected at each stage of production and distribution, while businesses are allowed to claim input tax credit for taxes paid on earlier transactions. This mechanism eliminates the cascading effect of taxation and ensures that the final tax burden is borne by the end consumer. The GST system in India follows a dual model consisting of Central GST (CGST), State GST (SGST) and Integrated GST (IGST) for inter-state transactions.

Since its implementation, GST has undergone several changes aimed at simplifying compliance and improving efficiency in tax administration. The tax

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structure includes multiple slabs such as 0 percent, 5 percent, 12 percent, 18 percent and 28 percent, depending on the nature of goods and services. The government has also introduced reforms such as the composition scheme for small taxpayers, e-invoicing, and digital return filing through the GST Network portal. These reforms are intended to enhance transparency and streamline tax administration across the country.

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in the Indian economy. They contribute significantly to employment generation, industrial output and exports. The introduction of GST has had a considerable impact on the MSME sector by altering the taxation framework under which these enterprises operate. While GST has improved transparency and created opportunities for business expansion, it has also increased compliance requirements for small enterprises. Therefore, it becomes important to study the implications of GST on local economic activity.

ii. Objectives of the Study

1. To examine the concept, history and structural changes of the Goods and Services Tax in India.
2. To analyse the overall implications of GST on Micro, Small and Medium Enterprises.
3. To evaluate the impact of GST on MSMEs operating in the Chevella Municipal Area of Ranga Reddy District.
4. To identify the opportunities and challenges experienced by MSMEs after the implementation of GST.

iii. Hypotheses

1. GST has significantly influenced the operational environment of MSMEs in India.
2. GST has improved transparency and tax compliance among business enterprises.
3. The implementation of GST has both positive and negative implications for MSMEs in the Chevella Municipal Area.

iv. Methodology

The present study is based on both primary and secondary data sources. Primary data were collected through field surveys, personal interviews and structured questionnaires administered to selected MSME owners operating in the Chevella Municipal Area of Ranga Reddy District. The sample includes enterprises engaged in retail trade, service activities and small-scale manufacturing.

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Secondary data were collected from government publications, GST council reports, research journals, books and official statistics related to taxation reforms and MSME development in India. The collected information was analysed using descriptive analytical methods in order to understand the impact of GST on the operational environment of MSMEs.

The study focuses particularly on changes in business practices, tax compliance procedures, cost structures and market opportunities for MSMEs after the implementation of GST. The Chevella Municipal Area was selected as the study area to understand the implications of GST on the economic activity in the peri-urban region.

II. Review of Literature

The introduction of the Goods and Services Tax (GST) in India has attracted considerable attention from researchers, economists and policy analysts. Several studies have examined its impact on the economy, particularly on the Micro, Small and Medium Enterprises (MSME) sector. These studies highlight both the opportunities and challenges created by the GST regime for small businesses.

Early discussions on GST emphasized its role in simplifying the indirect tax system and promoting economic efficiency. According to Kelkar (2009), GST was expected to eliminate the cascading effect of taxes and create a unified national market, thereby improving productivity and economic growth. Similarly, Ahluwalia (2013) argued that GST would enhance transparency in the taxation system and reduce compliance costs in the long run. These early perspectives viewed GST as a structural reform that could significantly modernize India's tax administration.

Several empirical studies have examined the economic implications of GST after its implementation. Mohan and Prasad (2018) observed that GST has simplified the indirect tax structure by integrating multiple taxes into a single system. The authors noted that the availability of input tax credit under GST has reduced the tax burden on businesses and improved supply chain efficiency. However, they also pointed out that the transition to a digital tax administration system posed challenges for small enterprises that lacked technological resources.

The impact of GST on MSMEs has been widely discussed in academic literature. Sharma (2021) found that GST has increased transparency and accountability in business operations by requiring proper documentation and invoice-based transactions. The study highlighted that while GST has improved formalization

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of the economy, many small enterprises initially struggled with compliance requirements such as online registration, return filing and maintenance of digital records.

Similarly, Kumar and Sharma (2022) examined the effects of GST on small businesses and concluded that GST has created both positive and negative outcomes for MSMEs. On the positive side, the reform has facilitated interstate trade and expanded market opportunities for small firms. On the negative side, compliance costs and frequent changes in GST rules have created uncertainty among entrepreneurs.

Another important contribution is provided by Rao and Patel (2019), who studied the effect of GST on small and medium enterprises in India. Their research revealed that GST has improved the tax compliance culture among businesses and reduced tax evasion through digital monitoring systems. However, the authors also observed that the increased administrative burden of filing multiple returns and maintaining electronic records created difficulties for micro and small enterprises.

The Reserve Bank of India (2023) in its report on the MSME sector emphasized that GST has encouraged the formalization of small businesses by integrating them into the formal tax system. The report also noted that access to input tax credit and the removal of interstate tax barriers have improved business opportunities for MSMEs.

Despite these advantages, several studies have pointed out that the transition to GST has not been smooth for all enterprises. Joshi (2020) highlighted that small traders and service providers often face challenges related to technological literacy and accounting practices required for GST compliance. The study suggested that training and awareness programs are necessary to help MSMEs adapt to the new tax regime.

Overall, the literature indicates that GST has brought significant structural changes to the taxation environment in India. While the reform has improved transparency, market integration and tax efficiency, it has also created compliance challenges for MSMEs. Most existing studies focus on the national or state-level impact of GST, while limited research has been conducted at the local level. Therefore, the present study attempts to examine the implications of GST on MSMEs in the Chevella Municipal Area of Rangareddy District, thereby contributing to the understanding of GST's impact at the grassroots level.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

III. GST Mechanism and MSEs in India

1. GST Structure and MSME Tax Environment in India

The Goods and Services Tax (GST) introduced in India on 1 July 2017 transformed the indirect taxation system by replacing multiple taxes such as excise duty, VAT, service tax and entry tax. The reform aimed to create a single unified market to reduce cascading taxation and improve compliance through digital systems.

MSMEs represent a crucial sector in the Indian economy. According to the Ministry of MSME, the sector contributes nearly 30% to India's GDP, 45% of manufacturing output, and about 48% of exports. Therefore, GST reforms directly influence the operational environment of MSMEs across the country.

GST has impacted MSMEs mainly in the areas of Tax compliance, Input tax credit availability, Market expansion across states, Digitalization of accounting systems and Compliance expenditure. To understand these changes, it is important to examine GST trends and tax rates relevant to MSME sectors in India.

2. GST Structure in India Since Implementation

The following table gives the GST Structure in India Since Implementation.

Table 1: GST Structure in India Since Implementation

Year	GST Structure	Description
2017	0%, 5%, 12%, 18%, 28%	Initial multi-tier GST structure introduced
2018–2022	Rationalisation of rates	Many goods moved from 28% to 18%
2023–2024	Further simplification	Reduced complexity in several sectors
2025	Proposed GST 2.0 structure	Focus on 5% and 18% as dominant slabs

Source: Compiled from: Ministry of Finance – GST Council Reports, Government of India Economic Survey (s), Reserve Bank of India – MSME Sector Reports.

The table-1 shows that the GST system has undergone continuous rationalisation since its introduction. Initially, the multi-slab structure created confusion for businesses, particularly MSMEs with limited accounting resources.

Over time, the GST Council simplified the system by reducing high tax slabs and shifting many products into the 18% category. This rationalisation has improved tax predictability and reduced compliance complexities for MSMEs.

For small businesses, particularly manufacturers and traders, the gradual simplification of tax slabs has improved cost planning and pricing strategies.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

3. GST Rates on Major MSME-Related Products in India

Table 2: GST Rates on Major MSME-Related Products in India

Product / Sector	GST Rate 2017	Rate Change (2018–2024)	Latest Rate
Packaged food products	12%	Reduced	5%
Fertilizers	12%	Minor rationalisation	5–12%
Restaurant services	18%	Reduced	5%
Mobile phones	12%	Increased	18%
Footwear	18%	Rationalised	12–18%
Construction materials	28%	Reduced	18%
Consumer appliances	28%	Reduced	18%
Agricultural produce	0%	No change	0%
Gold and jewellery	3%	Stable	3%
Tobacco products	28% + cess	Increased	40%

Source: Compiled from: GST Council Notifications, Ministry of Finance – Indirect Tax Statistics Government of India Budget Documents

The table-2 indicates a clear policy trend in GST reforms. The government has reduced tax rates on essential and MSME-related products, particularly food items, agricultural inputs and restaurant services.

These reductions have benefited MSMEs involved in food processing, agriculture supply chains and retail trade, as lower taxes stimulate consumer demand and increase sales.

At the same time, taxes on luxury goods and harmful products such as tobacco have increased. This policy approach reflects the government's objective of encouraging production and consumption of essential goods while discouraging harmful products.

4. GST Composition Scheme for MSMEs in India

Table 3: GST Composition Scheme for MSMEs in India

Category	GST Rate under Composition
Manufacturers	1%
Traders	1%

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Category	GST Rate under Composition
Restaurants (non-alcohol)	5%
Service providers	6%

Eligibility Limit: ₹1.5 crore annual turnover.

Source: Compiled from: GST Council Notifications, Ministry of MSME Annual Reports Central Board of Indirect Taxes and Customs (CBIC)

As per the Table-3 it is clear that, the GST Composition Scheme is designed specifically to reduce the compliance burden on small enterprises. Under this scheme, businesses pay tax at a fixed percentage of turnover instead of standard GST rates.

For example, a trader with a turnover of ₹50 lakh would pay only 1% GST under the scheme, significantly lower than normal GST rates.

This scheme is particularly beneficial for small traders, retailers and restaurants in semi-urban areas such as Chevella. However, businesses under this scheme cannot claim input tax credit and cannot engage in interstate trade, which may restrict expansion.

IV. MSMEs in Chevella Municipal Area

The Chevella Municipal Area in Ranga Reddy District represents a growing semi-urban economic center with a mix of manufacturing, trading and service sector enterprises. Most businesses fall under the micro and small enterprise category, reflecting the typical MSME structure of semi-urban India.

The following tables present selected MSME enterprises operating in the Chevella region.

1.Manufacturing Sector MSMEs in Chevella

Table 4: Manufacturing Sector MSMEs in Chevella

No	Enterprise Name	Activity	Year	2022 Turnover (₹ lakh)	2023	2024
1	Pavan Roto Packs Industries	Plastic packaging	2010	240	260	295
2	Vaishali Food Suppliers Pvt Ltd	Food processing	2015	140	170	195
3	Avyukth Agro Foods	Agro processing	2024	—	—	35

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

No	Enterprise Name	Activity	Year	2022 Turnover (₹ lakh)	2023	2024
	Pvt Ltd					
4	Sri Dhathri Industries	Engineering works	2012	90	100	110
5	Brick Manufacturing Units	Construction materials	2005	60	70	85

Source: Primary Data & MSME Development Institute Hyderabad – District Industrial Profile, Telangana State Pollution Control Board Industry List, Telangana Industries & Commerce Department

As per the Table 4, the manufacturing sector in Chevella mainly consists of small-scale production units related to packaging, food processing, construction materials and engineering works.

The turnover data shows gradual growth from 2022 to 2024, indicating increasing market demand. The availability of input tax credit under GST has helped manufacturing enterprises reduce production costs and maintain competitive pricing.

However, smaller units such as brick manufacturing clusters often face challenges related to compliance procedures and digital record keeping.

2.Trading Sector MSMEs in Chevella

Table 5: Trading Sector MSMEs in Chevella

No	Enterprise Name	Activity	Year	2022	2023	2024
1	Green Connect Properties Pvt Ltd	Real estate trading	2020	180	210	260
2	Sri Aarudhraa Farms Pvt Ltd	Agricultural trading	2018	110	150	170
3	Smart Farms Pvt Ltd	Agribusiness trading	2017	95	110	120
4	Chevella Vegetable Market Traders Association	Wholesale trading	2000	350	420	480
5	Chevella Agro Inputs Dealers	Seeds and fertilizers	2010	80	95	105

Source: Primary Data & Udyam Registration Portal – Ministry of MSME, District 564 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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Industries Centre (DIC), Ranga Reddy, Telangana Socio-Economic Outlook Reports

Table 5 shows that the trading sector plays a dominant role in the Chevella economy, particularly in agricultural produce and wholesale vegetable markets.

Turnover growth between 2022 and 2024 reflects increasing demand from nearby urban markets such as Hyderabad. GST has helped these businesses by removing interstate tax barriers, allowing traders to supply goods to larger markets.

However, traders often report higher compliance costs due to GST return filing and accounting requirements.

3. Service Sector MSMEs in Chevella

Table 6: Service Sector MSMEs in Chevella

No	Enterprise	Activity	Year	2022	2023	2024
1	Usom IT Solutions Pvt Ltd	IT services	2019	45	55	65
2	PRR Chits Pvt Ltd	Financial services	2013	65	75	85
3	Refresh Infratech Pvt Ltd	Infrastructure services	2018	85	100	115
4	Patnam Reddy Hospital	Healthcare services	2010	320	360	390
5	Local Transport Services	Logistics	2008	100	120	135

Source: Ministry of MSME – Annual Reports, Invest Telangana Policy Documents, Indian School of Business MSME Studies

Table 6 indicates that the service sector in Chevella includes IT services, healthcare, logistics and financial services. These sectors have shown stable growth in turnover over the past three years.

GST has influenced the service sector mainly through digital invoicing and tax compliance systems. Businesses in IT and infrastructure services have adapted more easily to GST due to better digital literacy.

Healthcare services remain largely stable because many medical services are exempt or taxed at lower GST rates, which reduces the tax burden on hospitals and diagnostic centers.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

4. Sectoral Summary of MSMEs in Chevella

Chevella represents a growing peri-urban economic center with MSMEs operating in manufacturing, trading and service sectors. The following table summarises sample enterprises.

Table-7: Sectoral Summary of MSMEs in Chevella

Sector	Sample Units	Average Turnover	Trend
Manufacturing	5	₹50–300 lakh	Moderate growth
Trading	5	₹70–500 lakh	High growth
Services	5	₹60–400 lakh	Stable growth

Source: Primary Data & District Industries Centre, Udyam Portal, Telangana Economic Reports

Table-7 shows that the Chevella MSME structure reflects the typical pattern of semi-urban economies in India. The trading sector dominates due to agricultural linkages, while manufacturing and service sectors are gradually expanding.

GST has played a mixed role in this transformation. On the positive side, it has improved market integration, transparency and input tax credit benefits. On the negative side, small enterprises initially faced challenges related to digital compliance and increased administrative costs.

Despite these challenges, the MSME sector in Chevella has gradually adapted to the GST system and continues to contribute significantly to the local economy.

IV. Conclusion

The Goods and Services Tax represents a major milestone in India's taxation reform process. By replacing multiple indirect taxes with a unified tax system, GST has simplified tax administration and created a common national market. The reform has improved transparency in business transactions and reduced the cascading effect of taxes.

For MSMEs, GST has brought both opportunities and challenges. On the positive side, it has improved market integration, facilitated input tax credit benefits and enhanced transparency in business operations. On the negative side, compliance requirements and digital procedures have increased the administrative burden for small enterprises.

The case study of the Chevella Municipal Area indicates that MSMEs initially

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

faced difficulties in adapting to GST but are gradually adjusting to the new system. With improved awareness and institutional support, GST has the potential to contribute to the long-term growth and sustainability of MSMEs.

VI. Limitations of the Study

1. The study is limited to MSMEs operating in the Chevella Municipal Area of Ranga Reddy District.
2. The sample size of respondents is relatively small due to time and resource constraints.
3. The findings are based mainly on responses collected from selected enterprises and may not represent the entire MSME sector.

VII. Suggestions

1. Government agencies should organize training and awareness programs to help MSME owners understand GST procedures and digital filing systems.
2. Simplification of GST return filing and compliance procedures would reduce the administrative burden on small enterprises.
3. Improved access to digital infrastructure and professional accounting services can help MSMEs adapt more effectively to the GST system.
4. Policy makers should design supportive measures specifically targeted at strengthening the MSME sector under the GST regime.

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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

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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.

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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

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5. Identify challenges in achieving inclusive outcomes under GST

Hypotheses

1. H₀: GST compliance has no significant impact on financial inclusion
2. H₁: 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

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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:

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

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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**

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

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.

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

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.

12. 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
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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

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

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.

13. 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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Reimagining Fiscal Federalism: Policy Challenges under India's GST Regime

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Abstract:

India's transition to the Goods and Services Tax (GST) marks one of the most significant fiscal reforms in its post-independence economic history, fundamentally reshaping the contours of fiscal federalism. Introduced through the 101st Constitutional Amendment Act, GST sought to unify a fragmented indirect tax system into a harmonised national framework under the guiding principle of "One Nation, One Tax." While the reform has improved tax efficiency, broadened the tax base, and facilitated ease of doing business, it has simultaneously generated complex policy challenges that call for a re-examination of Centre-State fiscal relations. This paper critically analyses how GST has redefined the balance between cooperative federalism and fiscal autonomy in India.

The study argues that the institutional mechanism of the GST Council represents a novel experiment in collaborative governance, bringing together the Union and State governments in joint decision-making. However, this cooperative framework is not devoid of structural asymmetries. The centralisation of tax powers, limitations on states' independent revenue-raising capacity, and increasing dependence on shared revenues have raised concerns regarding the erosion of fiscal sovereignty. The issue of GST compensation, particularly in the aftermath of economic disruptions such as the COVID-19 pandemic, has further intensified tensions, exposing vulnerabilities in the design of intergovernmental fiscal transfers.

Methodologically, the paper adopts a qualitative and analytical approach, drawing upon secondary data from government reports, Finance Commission recommendations, and scholarly literature. A comparative perspective is also incorporated to situate India's GST within broader global experiences of value-added tax systems in federal polities. The analysis reveals that while GST has strengthened formal mechanisms of cooperation, it has also deepened vertical imbalances and constrained policy flexibility for states, especially those with weaker fiscal capacities.

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The paper concludes that reimagining fiscal federalism in India requires recalibrating the GST framework to ensure a more equitable distribution of fiscal powers and responsibilities. Strengthening institutional transparency, redesigning compensation mechanisms, and enhancing the role of states in decision-making are essential to sustaining the legitimacy and effectiveness of the GST regime. Ultimately, the success of GST depends not merely on tax efficiency, but on its ability to uphold the federal spirit enshrined in the Constitution.

Keywords: Fiscal Federalism; Goods and Services Tax (GST); Cooperative Federalism; Fiscal Autonomy; Centre–State Relations

Introduction:

Fiscal federalism constitutes a foundational pillar of India's constitutional and economic architecture, defining the distribution of financial powers and responsibilities between the Union and the States. Historically, India has maintained a quasi-federal structure characterised by a strong Centre, particularly in matters of taxation and resource allocation. Before the introduction of the Goods and Services Tax (GST), the country's indirect tax system was highly fragmented, with multiple levies such as Value Added Tax (VAT), central excise duty, service tax, and entry taxes imposed by different levels of government. This multiplicity not only created inefficiencies and cascading tax burdens but also hindered the creation of a unified national market. In response to these structural limitations, GST emerged as a transformative reform aimed at streamlining indirect taxation and enhancing economic integration.

The enactment of GST through the 101st Constitutional Amendment Act marked a watershed moment in India's fiscal evolution. By subsuming a wide range of central and state taxes into a single tax regime, GST sought to simplify compliance, increase transparency, and promote ease of doing business. More importantly, it introduced a novel institutional framework in the form of the GST Council, which embodies the principle of cooperative federalism by enabling joint decision-making between the Union and State governments. This mechanism was envisioned as a platform for consensus-building, where both levels of government could participate in shaping tax policies in a collaborative manner.

However, the implementation of GST has also triggered significant debates regarding its implications for fiscal federalism in India. While the reform has

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

strengthened formal mechanisms of intergovernmental cooperation, it has simultaneously constrained the fiscal autonomy of states by limiting their independent taxation powers. States are now largely dependent on the GST Council for decisions related to tax rates, exemptions, and structural changes, thereby reducing their flexibility to respond to region-specific economic needs. Additionally, the issue of revenue uncertainty, particularly in the context of the GST compensation mechanism, has emerged as a critical concern. The promise of assured compensation for revenue losses, though intended to facilitate a smooth transition, has led to disputes and fiscal stress, especially during periods of economic slowdown.

The evolving dynamics of Centre–State relations under GST reflect a complex interplay between efficiency and autonomy, cooperation and control. The centralisation of tax administration, coupled with the asymmetrical voting structure within the GST Council, has raised questions about the balance of power in India's federal framework. Furthermore, disparities in revenue generation capacities among states have accentuated horizontal imbalances, posing challenges to equitable fiscal governance. These developments necessitate a critical re-examination of the GST regime not merely as a tax reform, but as a transformative shift like Indian federalism.

Against this backdrop, the present study seeks to analyse the policy challenges arising from GST and their implications for fiscal federalism in India. It aims to explore whether GST has truly strengthened cooperative federalism or whether it has inadvertently led to a re-centralisation of fiscal authority. By situating the Indian experience within broader theoretical and comparative perspectives, the paper contributes to the ongoing discourse on reimagining fiscal federalism in an era of economic integration and institutional reform.

Conceptual and Theoretical Framework

The conceptual and theoretical framework of this study is grounded in the theory of fiscal federalism, which examines how taxation powers, expenditure responsibilities, and intergovernmental transfers are distributed across different levels of government to achieve efficiency, equity, and macroeconomic stability. Classical (first-generation) fiscal federalism theories, associated with scholars like Musgrave and Oates, emphasize decentralization as a means to enhance allocative efficiency by allowing subnational governments to respond to local preferences, while assigning stabilization and redistribution functions to the central government. In contrast, second-generation theories of fiscal federalism incorporate political economy

581 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

considerations, highlighting the role of institutional design, incentives, and intergovernmental bargaining in shaping fiscal outcomes. Within this broader theoretical context, India's Goods and Services Tax (GST), introduced through the 101st Constitutional Amendment Act, represents a structural shift toward tax harmonisation and shared governance. The GST Council serves as a key institutional mechanism embodying cooperative federalism, wherein both the Union and States participate in decision-making. However, this arrangement also raises concerns regarding fiscal autonomy, vertical and horizontal fiscal imbalances, and the centralisation of revenue authority. Thus, the GST regime can be understood as an institutional experiment that attempts to balance efficiency with federal equity, while simultaneously transforming the traditional dynamics of Centre-State fiscal relations in India.

Evolution of GST in India

The evolution of the Goods and Services Tax (GST) in India represents a gradual and complex process of fiscal reform aimed at unifying the country's fragmented indirect tax system. Prior to GST, India operated a multi-layered taxation structure comprising central taxes such as excise duty and service tax, and state-level taxes like Value Added Tax (VAT), entry tax, and luxury tax. This system led to cascading taxes, compliance complexities, and inefficiencies in the movement of goods and services across states. The need for a comprehensive indirect tax reform was widely acknowledged as essential for creating a unified national market and improving economic efficiency.

The conceptual origins of GST in India can be traced back to the early 2000s when the Government began exploring options for indirect tax reform. The first significant institutional step was the formation of the Empowered Committee of State Finance Ministers in 2004, which was tasked with designing a roadmap for a national VAT and eventually GST. A landmark milestone came in 2006 when the Union Finance Minister formally proposed the introduction of GST in the Union Budget. Following extensive consultations between the Centre and the States, a dual GST model was envisioned to accommodate India's federal structure, ensuring that both levels of government retained the power to levy taxes.

The constitutional foundation for GST was laid through the enactment of the 101st Constitutional Amendment Act in 2016. This amendment introduced Articles 582 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

246A, 269A, and 279A, which collectively empowered both the Union and the States to levy GST and established the framework for intergovernmental coordination. The amendment also paved the way for the creation of the GST Council, a constitutional body responsible for recommending tax rates, exemptions, and administrative procedures, thereby institutionalizing cooperative federalism in tax governance.

GST was officially implemented on July 1, 2017, marking a historic transition from a fragmented tax regime to a unified indirect tax system. The structure of GST in India follows a dual model comprising Central GST (CGST), State GST (SGST), and Integrated GST (IGST) for inter-state transactions. This design was intended to balance the fiscal interests of both the Centre and the States while maintaining a seamless credit mechanism across jurisdictions. The initial phase of GST implementation involved multiple tax slabs, transitional provisions, and the introduction of the GST Network (GSTN) as the digital backbone for tax administration.

Since its rollout, GST has undergone continuous evolution through periodic rate rationalisations, procedural simplifications, and policy adjustments based on the recommendations of the GST Council. Amendments have been made to address issues related to compliance, classification disputes, input tax credit mechanisms, and revenue compensation to states. The COVID-19 pandemic further tested the resilience of the GST framework, particularly with respect to revenue shortfalls and compensation disputes, highlighting the need for structural refinements.

Overall, the evolution of GST in India reflects a phased and negotiated reform process shaped by constitutional amendments, institutional innovation, and intergovernmental consensus. While GST has succeeded in creating a more integrated tax system, its ongoing evolution continues to reflect the dynamic interplay between economic efficiency and federal balance within India's fiscal architecture.

Literature Review

The existing literature on Goods and Services Tax (GST) and fiscal federalism in India highlights both the transformative potential and the structural challenges associated with the reform. Scholars broadly agree that GST has contributed to the creation of a unified national market, improved tax compliance, and reduced cascading effects of multiple indirect taxes. Studies drawing on the theoretical perspectives of fiscal federalism emphasize that GST aligns with the principles of tax harmonisation and economic efficiency, as outlined in classical

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United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

frameworks associated with Musgrave and Oates, while also reflecting second-generation concerns related to institutional design and intergovernmental coordination. Empirical analyses by policy institutions such as the Reserve Bank of India and various academic researchers suggest that GST has enhanced revenue buoyancy over time, although initial implementation phases witnessed disruptions and transitional costs.

At the same time, a significant body of literature critically examines the implications of GST for state fiscal autonomy, arguing that the consolidation of indirect taxes has reduced the independent taxation powers of states and increased their dependence on the GST Council for revenue-related decisions. Issues such as revenue-sharing disputes, compensation delays, compliance burdens, and administrative complexities have also been widely documented, particularly during economic shocks like the COVID-19 pandemic. Comparative studies of federal GST systems in countries such as Canada and Australia further indicate that while GST-like systems can enhance efficiency and transparency, their success depends heavily on robust institutional mechanisms and balanced intergovernmental relations. However, the literature also reveals a gap in comprehensive, policy-oriented analyses that integrate efficiency gains with the evolving challenges of cooperative federalism in the Indian context, thereby necessitating further research on reimagining fiscal federalism under GST.

Research Questions and Hypotheses

This study is guided by a set of research questions aimed at examining the impact of the Goods and Services Tax (GST) on India's fiscal federal structure and assessing the evolving balance between cooperative federalism and fiscal autonomy. The primary research question explores how the implementation of GST has transformed Centre–State fiscal relations in India. It further investigates whether GST has strengthened institutional cooperation among governments or led to a subtle re-centralisation of fiscal authority. A second line of inquiry focuses on the extent to which the GST framework has affected the fiscal autonomy of states, particularly in terms of their ability to generate independent revenues and respond to region-specific economic needs. Additionally, the study seeks to examine the role of the GST Council in mediating intergovernmental coordination and whether its decision-making structure ensures equitable representation and outcomes for all states. Another important research question addresses the challenges associated with revenue sharing, compensation mechanisms,

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

and horizontal fiscal disparities among states under the GST regime.

Based on these research questions, the study formulates the following hypotheses. First, it is hypothesised that GST has contributed to a relative centralisation of fiscal powers by limiting the independent taxation authority of states. Second, it is posited that while the GST framework promotes cooperative federalism through institutional mechanisms, the asymmetry in decision-making power within the GST Council constrains the fiscal discretion of states. Third, the study hypothesises that the GST compensation mechanism, though designed to protect state revenues, has led to periodic fiscal tensions and uncertainties, particularly during economic downturns. Finally, it is hypothesised that disparities in economic development across states continue to result in horizontal fiscal imbalances, which are not fully addressed by the current GST framework. These hypotheses collectively guide the analytical framework of the study in evaluating the effectiveness and limitations of GST in reshaping India's fiscal federalism.

Methodology

This study adopts a qualitative and analytical research design to examine the implications of the Goods and Services Tax (GST) on fiscal federalism in India. The research is primarily based on secondary data sources, including official government publications, reports of constitutional and statutory bodies, academic journal articles, and policy documents. Key sources include publications from the Reserve Bank of India, reports of the Finance Commission of India, GST Council notifications and reports issued by the GST Council, as well as relevant working papers, books, and peer-reviewed articles on fiscal federalism and tax reforms.

The study employs a descriptive and comparative analytical approach to evaluate how GST has altered Centre–State fiscal relations. It systematically reviews the institutional design of GST, its constitutional provisions under the 101st Constitutional Amendment Act, and the functioning of the GST Council as a decision-making body. A comparative perspective is also incorporated by examining selected international GST/VAT models in federal systems such as Canada and Australia, in order to contextualize India's experience within broader global practices of fiscal federalism.

Data analysis is carried out through thematic interpretation, focusing on key dimensions such as fiscal autonomy, revenue adequacy, intergovernmental coordination, and vertical and horizontal fiscal imbalances. The study identifies recurring themes and patterns in the literature and policy reports to assess the strengths and limitations of the GST regime. Particular attention is given to issues such as revenue-sharing mechanisms,

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

compensation to states, compliance challenges, and administrative coordination between different levels of government.

Since the research is exploratory and policy-oriented in nature, no primary data collection or statistical modelling is undertaken. Instead, the methodology relies on critical evaluation and synthesis of existing evidence to draw informed conclusions about the evolving nature of fiscal federalism under GST. This approach enables a comprehensive understanding of both the institutional dynamics and policy challenges associated with GST, while also highlighting areas for potential reform and future research.

Structure and Functioning of the GST Council

The Goods and Services Tax (GST) Council serves as the central institutional mechanism for coordinating tax policy between the Union and the States in India, embodying the principle of cooperative federalism. It was established under Article 279A of the Constitution through the 101st Constitutional Amendment Act. The Council is chaired by the Union Finance Minister and includes the Union Minister of State for Finance, along with the Finance Ministers or nominated representatives of all States and Union Territories with legislatures. This composition ensures representation of both levels of government in a structured decision-making forum.

The voting structure of the GST Council is designed to balance the interests of the Centre and the States. The Union Government holds one-third of the total voting weight, while the States collectively hold two-thirds. Decisions are taken by a three-fourths majority of the weighted votes of members present and voting. This arrangement is intended to encourage consensus-building; however, it also ensures that neither the Centre nor the States can unilaterally dominate decisions, thereby promoting a collaborative approach to fiscal governance.

Functionally, the GST Council is responsible for making recommendations on a wide range of issues related to GST, including tax rates, exemptions, threshold limits, model laws, procedures, and principles of levy and apportionment of GST. It also plays a crucial role in addressing disputes and recommending mechanisms for revenue compensation and administrative coordination. Although the Council's recommendations are not legally binding in a strict sense, they carry significant persuasive authority and are generally followed by both the Union and State governments in practice.

In terms of functioning, the GST Council meets periodically to deliberate on policy changes, rate rationalisation, and administrative reforms. Its decision-making

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

process is largely consensus-driven, reflecting the need to accommodate diverse fiscal interests across states with varying economic capacities. Over time, the Council has emerged as a key platform for intergovernmental dialogue, enabling the resolution of complex issues such as rate structures, input tax credit rules, and compliance mechanisms.

Despite its cooperative design, the functioning of the GST Council has also revealed certain challenges, including differences in priorities between the Centre and States, delays in consensus on contentious issues, and concerns over the dominance of the Union in agenda-setting. Nevertheless, the Council remains a unique institutional innovation in India's fiscal federal framework, playing a pivotal role in shaping the implementation and evolution of GST while attempting to maintain a balance between unity in taxation and diversity in fiscal interests.

Policy Challenges under the GST Regime

The implementation of the Goods and Services Tax (GST) in India represents a landmark reform in indirect taxation; however, its operation has revealed several policy challenges that impact fiscal federalism, administrative efficiency, and economic equity. One of the primary concerns is the erosion of the fiscal autonomy of states. Under the GST framework, states have relinquished significant taxation powers, particularly over indirect taxes, and now depend heavily on the recommendations of the GST Council for decisions related to tax rates, exemptions, and structural changes. This limits the ability of states to independently design tax policies tailored to their specific economic conditions.

Another critical challenge relates to revenue uncertainty and the issue of compensation. The GST regime initially guaranteed states compensation for revenue losses arising from the transition to GST, as mandated under the provisions of the 101st Constitutional Amendment Act. However, delays and disputes in compensation payments—particularly during periods of economic stress such as the COVID-19 pandemic—have led to tensions between the Centre and the States. This has raised concerns about the reliability of revenue flows and the sustainability of the compensation mechanism.

Vertical and horizontal fiscal imbalances also persist under GST. While GST has streamlined indirect taxation, disparities in revenue generation capacities across states remain significant. Economically advanced states tend to generate higher GST revenues, whereas less developed states depend more on transfers and compensation, exacerbating horizontal inequalities. At the same time, the Centre continues to have greater control

587 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

over revenue-raising instruments, contributing to vertical imbalance in fiscal power distribution.

Administrative and compliance-related challenges further complicate the GST regime. The complexity of return filing, frequent changes in rules, and the need for robust digital infrastructure through systems such as GSTN have created operational difficulties for businesses, particularly small and medium enterprises. Issues related to the classification of goods and services, input tax credit reconciliation, and anti-profiteering provisions have also posed challenges in implementation.

Additionally, political economy considerations influence GST governance. Differences in priorities between the Centre and States, coupled with asymmetries in decision-making within the GST Council, sometimes lead to delays in consensus-building on critical policy matters. The centralisation of agenda-setting and coordination functions has also raised questions about the balance of power in India's federal system.

Overall, while GST has improved tax efficiency and created a unified market, these policy challenges highlight the need for continuous institutional reforms, greater transparency, and improved intergovernmental coordination to ensure that the system remains both economically efficient and consistent with the principles of cooperative federalism.

Comparative Analysis

A comparative analysis of Goods and Services Tax (GST) systems in federal countries provides valuable insights into how different institutional designs balance efficiency, revenue generation, and fiscal federalism. India's GST, governed by the GST Council, follows a dual model in which both the Centre and the States simultaneously levy taxes on a common base. This model reflects India's unique constitutional structure, where fiscal powers are shared, and cooperative decision-making is institutionalised through a constitutional body created under the 101st Constitutional Amendment Act. While this arrangement promotes coordination, it also introduces complexities in decision-making and limits the fiscal autonomy of subnational governments.

In contrast, countries like Canada adopt a more flexible federal VAT system where both federal and provincial governments can levy their own taxes, often with varying degrees of harmonisation. Canada operates a combination of federal GST and provincial sales taxes (PST) or harmonised sales taxes (HST) in some provinces. This allows provinces to retain a higher degree of fiscal autonomy, as they can choose whether to align with the federal tax system or maintain separate structures. The Canadian model demonstrates a balance between coordination and autonomy, where provinces have

588 Two-Day National Seminar on "GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India" on 17th & 18th April 2026

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

significant discretion in tax policy while still benefiting from administrative simplification in harmonised systems.

Similarly, Australia follows a centralised GST model where the federal government collects GST and redistributes the revenue to states based on recommendations from an independent body such as the Commonwealth Grants Commission. In this system, states do not have independent taxation authority over GST but receive assured revenue allocations. This model emphasises horizontal fiscal equalisation, ensuring that less developed regions receive adequate transfers to maintain fiscal balance. Compared to India, Australia's system is more centralised in terms of tax collection but provides a structured and transparent mechanism for revenue redistribution.

India's GST model occupies a middle ground between these two approaches. While it incorporates elements of cooperative federalism through shared decision-making in the GST Council, it also restricts the independent taxation powers of states more than Canada's system, yet does not provide as robust a redistribution mechanism as Australia's equalization framework. Furthermore, the asymmetry in voting power within the GST Council and the dependence of states on compensation transfers highlight ongoing tensions between central coordination and state-level fiscal autonomy.

In summary, the comparative analysis reveals that while India's GST framework is innovative in institutional design, it faces challenges in achieving an optimal balance between efficiency, equity, and autonomy. Lessons from Canada and Australia suggest that greater flexibility for subnational governments, combined with transparent and rule-based revenue-sharing mechanisms, can strengthen fiscal federalism. These international experiences provide useful benchmarks for reimagining and refining India's GST regime to better align with the principles of cooperative federalism.

Policy Recommendations

To address the emerging challenges under India's GST regime and strengthen fiscal federalism, a set of targeted policy reforms is necessary to enhance efficiency, equity, and cooperative governance. First, there is a need to reinforce the fiscal autonomy of states by allowing greater flexibility within the GST framework. While uniformity of tax rates is essential for market integration, states could be provided limited discretionary powers in specific tax bands or through surcharge mechanisms, enabling them to respond to region-specific economic conditions without undermining the overall structure of GST.

Second, the functioning of the GST Council should be further democratized and

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United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

made more transparent. Although the Council embodies cooperative federalism, concerns regarding asymmetry in influence between the Centre and States persist. Introducing more structured consultation mechanisms, publishing detailed deliberation records, and strengthening

ning consensus-building processes would enhance trust and accountability in decision-making. Additionally, reforms in the voting process or the introduction of weighted regional considerations could help ensure a more balanced representation of diverse state interests.

Third, the GST compensation mechanism requires long-term restructuring. Rather than relying on ad hoc arrangements, a stable and predictable formula-based system should be developed to ensure timely and adequate compensation to states facing revenue shortfalls. This mechanism could be institutionalized with clearer fiscal rules, possibly involving an independent oversight framework to monitor compliance and disbursement, thereby reducing Centre–State tensions during periods of fiscal stress.

Fourth, simplification of GST compliance procedures is essential to reduce administrative burdens, particularly for small and medium enterprises. Streamlining return filing processes, minimizing frequent changes in tax rules, and improving the functionality of digital platforms such as GSTN can significantly enhance compliance efficiency. Capacity-building initiatives for state tax administrations should also be strengthened to ensure uniform implementation across jurisdictions.

Fifth, addressing horizontal fiscal imbalances among states should be a priority. While GST has created a unified tax base, disparities in economic development continue to influence revenue generation capacity. Strengthening the role of the Finance Commission of India in recommending equitable revenue-sharing arrangements and integrating GST-related considerations into fiscal transfers can help mitigate these disparities. Lessons from global

federal systems such as Australia, which employs structured equalization transfers, may offer useful insights for India.

Finally, enhancing dispute resolution mechanisms within the GST framework is crucial. Establishing a more robust and time-bound institutional mechanism for resolving Centre–State and inter-state disputes would improve policy coherence and reduce litigation. Regular policy reviews, data-driven decision-making, and stakeholder consultations should be institutionalised to ensure that GST remains adaptive to changing economic conditions.

In conclusion, these policy recommendations aim to strengthen the GST regime by

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improving institutional design, ensuring fiscal balance, and reinforcing the principles of cooperative federalism, thereby enabling a more resilient and equitable fiscal framework in India.

Conclusion

The Goods and Services Tax (GST), introduced through the 101st Constitutional Amendment Act, represents a landmark reform that has significantly reshaped India's fiscal federal structure by promoting tax uniformity, improving compliance, and fostering the creation of a common national market. The institutional mechanism of the GST Council has strengthened cooperative federalism by enabling joint decision-making between the Union and the States; however, it has also highlighted inherent tensions between fiscal efficiency and state-level autonomy. While GST has streamlined indirect taxation and enhanced economic integration, it has simultaneously constrained the independent revenue-raising capacity of states, leading to concerns over fiscal autonomy, revenue uncertainty, compensation delays, and vertical and horizontal imbalances. These challenges indicate that although GST has improved coordination in fiscal governance, it has also redefined Centre–State relations in ways that require continuous institutional adjustments. Moving forward, a balanced approach that ensures equitable revenue sharing, strengthens intergovernmental trust, and preserves the federal spirit is essential for sustaining the effectiveness and legitimacy of the GST regime within India's evolving fiscal federal framework.

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Impact of GST 2.0 Reforms on Small Scale Agricultural and FMCG Sectors

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Abstract

The Goods and Service Tax (GST) 2.0 is officially announced by the Government of India on 22 September 2025 for streamlining the direct taxation system across the country. It is the upgraded version of GST 1.0 which was implemented from the year 2017. The main aim of the GST 2.0 reforms are to simplify the tax structure, reducing the difficulties in filing the GST returns and bringing more transparency in taxation system to the consumers. In GST 1.0, the Government has categorized the items into five major tax slabs – 0%, 5%, 12%, 18% and 28%. The GST is levied on supply or service of goods or on both. However the multiple rates are likely to increase the administrative complexity as well as create classification disputes. Simplifying these complexity, GST 2.0 was introduced- the two slab system-the most of the GST comes under 5% and 18%. Only the luxury and sin goods fall under the category of 40% of GST slabs. In this article, we will explore the tax exemptions given to the agriculture sector, like packing of the agricultural items, transportation and storage of agricultural related products, also the tax exemptions given to the small scale industries. Finally, the comparative study of the GST 2.0 and GST 1.0 reforms, keeping in-view of agriculture and FMCG sectors is covered in this article. The paper will cover how the GST 2.0 rate cuts will affects the livelihood of the small farmers, village lives and FMCG sector in India.

Key words: GST 2.0 reforms, Agriculture Sector, FMCG sector, reduced tax slabs, subsidies, agricultural bi-products.

Introduction

Taxes come in several ways in the modern economy. Tax categorization is critical for understanding the nature and importance of various taxes. The following are the most often used classification schemes for taxes in today's economic system:

1. Direct and Indirect Taxes
2. Specific duties and Ad valorem duties
3. Progressive, Proportional, Regressive and Degressive taxes
4. Single Tax and Multiple Tax systems

593 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

1. Direct Taxes

Direct taxes are the taxes charged to individuals. These taxes are levied based on tax payer's ability to pay measured across various dimensions like income, consumption and wealth. Usually, the burden of taxes cannot be shifted to others [1]

2. Indirect Taxes

Indirect taxes are levied on producing or consuming goods and services. The tax burden can shift to the end consumers through forwarding or backward shifting [1].

3. Specific Duties and Ad valorem Duties

Specific duties are levied per unit sold, whereas ad valorem duties are the responsibilities assessed based on the value-added by the producer [1].

4. Progressive Taxes

When the tax due grows with income in absolute terms, the tax is said to be progressive as a percentage of income.[1].

5. Proportional Taxes

If the tax liability increases in the same proportion as the increase in the taxpayer's income, it is known as proportional taxation. Under this system, all payments are taxed at a uniform rate. It is never levied in varying percentages[1].

6. Regressive Taxes

It is regressive taxation when the tax requirement falls in proportion to the increase in the income of the taxpaying population. In this case, the absolute tax liability will, of course, increase. Under this system, the poorer sections of society pay higher taxes than the rich[1].

7. Degressive Taxes

In this case, progression is declining as the tax base increases. The tax rate increases to a specific limit beyond which a uniform rate is charged. Due to this tax, higher-income groups must make fewer sacrifices than lower-income ones.[1].

The GST is the most significant and ambitious indirect tax reform in India's post-independence history. This plan aims to impose a single, consistent national tax on all Indian goods and services. In addition to increasing India's level of national integration and the number of producers liable to taxation, the Goods and Services Tax (GST) has replaced several Central and State levies. Gains in efficiency have a major positive effect on government revenue and GDP. The Center and the States enacting a new tax that covers both goods and services in a large and intricate federal framework may be unique in the history of contemporary international taxes. GST is a comprehensive and

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

continuous tax on goods and services [2].

The Goods and Services Tax (GST) offers substantial and continuous set-off benefits up to the retailer level. In essence, it is merely a tax on value addition at each level, and a provider may use a tax credit system to balance the GST paid on the purchase of goods and services at each level. The final consumer, or end-user, of the commodity or service is ultimately in charge of paying the GST [3].

The burden of all cascading or pyramiding effects of a two indirect tax system has been eliminated with the implementation of GST, which formed a continuous chain of set-off from the original producer's point and service provider's point up to the retailer's level. This is the foundation of GST. Only the ultimate customer is subject to GST taxes. As a result, production costs are reduced and the cascade of taxes (tax-on-tax) is avoided [4].

GST 2.0 brought important structural and rate changes that directly and indirectly affect India's agricultural sector. Its impact is **mixed**—with clear benefits in mechanisation and cost reduction, but also some challenges, especially for small farmers and value addition. It has reduced the tax burden on many agricultural inputs such as fertilizers, seeds, and machinery, thereby lowering production costs for farmers. Improved input tax credit mechanisms have benefited agri-businesses and food processing units, encouraging value addition and investment in the sector. Additionally, better logistics and the removal of interstate barriers have ensured faster movement of agricultural produce, reducing wastage and improving market access for farmers. Overall, GST 2.0 supports the growth of a more organized, cost-efficient, and market-oriented agricultural system [5].

Positive Impact on Agriculture:-

1. Lower cost of inputs (major benefit): 1. GST on fertilizers reduced to **5%** (earlier ~12%)
2. Farm machinery (tractors, harvesters, irrigation systems) reduced to **5%**.
3. Farming becomes cheaper.
4. Encourages mechanisation and productivity.
5. Expected rise in farm equipment demand by 8–12%.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

6. Fresh fruits, vegetables, grains = 0% GST (exempt).
7. GST 2.0 reduced slabs mainly to 5% and 18%.
8. Easier compliance and fewer disputes.
9. GST removed inter-state barriers.
10. Processed food taxed moderately (5–12%).

Negative Impact / Challenges:-

1. Tax on value addition discourages farmers. Raw produce = 0% GST, Processed/packaged = 5% GST, so farmers avoid grading, packaging, processing and this will limit the income growth. Higher cost of agri-services, Warehousing, cold storage, logistics often taxed up to 12–18%.
2. Working capital issues for agri-business, Delays in GST refunds (especially exporters) leads to Cash flow problems in peak seasons [6].

GST 2.0 has significantly benefited the FMCG sector by simplifying the overall tax structure and reducing complexities in compliance. With fewer tax slabs and clearer classifications, companies can now manage pricing, invoicing, and tax filing more efficiently. This has reduced administrative costs and minimized disputes, allowing major players like Hindustan Unilever and ITC Limited to focus more on business expansion rather than regulatory challenges [7].

Another key advantage is the reduction in tax rates on essential FMCG products, which has led to lower prices for consumers. This price reduction has increased affordability, especially in rural and price-sensitive markets, thereby boosting demand and consumption. As a result, FMCG companies have experienced higher sales volumes, enabling them to expand their distribution networks and strengthen their market presence.

Furthermore, GST 2.0 has improved supply chain efficiency by eliminating interstate barriers and reducing logistics delays. Faster transportation and better inventory management have lowered operational costs and reduced wastage. This has helped FMCG companies deliver products more quickly and efficiently, contributing to improved profitability and a more streamlined, competitive industry overall [8].

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Conclusions

In conclusion, GST 2.0 reforms have had a moderately positive impact on the agricultural sector by streamlining taxation on inputs, improving supply chain efficiency, and reducing logistics costs. Farmers have benefited from better availability of fertilizers, machinery, and services, while agri-related businesses have gained from simplified compliance and input tax credits. However, challenges such as increased costs on certain inputs, limited awareness among small farmers, and compliance difficulties still persist. Overall, GST 2.0 has contributed to a more organized and transparent agricultural ecosystem, but its full benefits will depend on effective implementation and greater inclusion of small and marginal farmers.

In conclusion, the GST 2.0 reforms have had a largely positive impact on the FMCG sector by simplifying the tax structure, reducing the burden on essential goods, and boosting overall consumption. These changes have improved supply chain efficiency, enhanced transparency, and supported business expansion, especially for major players like Hindustan Unilever and ITC Limited. Although the sector faced short-term challenges such as pricing adjustments and compliance issues, the long-term outlook remains strong, with higher demand, better market penetration, and a more organized industry environment driving sustainable growth.

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GST 2.0 Reforms (2025): Implications for Economic Efficiency, Equity, and Fiscal Stability in India

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Abstract

The Goods and Services Tax (GST) 2.0 reforms introduced in 2025 mark a significant evolution in India's indirect tax system. The reforms aim to simplify the tax structure, enhance compliance, and strengthen administrative and legal mechanisms. By rationalizing tax rates and promoting digitalization, GST 2.0 seeks to improve transparency, economic efficiency, and social equity. This paper examines the major features of GST 2.0 and evaluates its impact on consumers, businesses, and government revenue. While the reforms are expected to improve ease of doing business and expand the tax base, several challenges persist, including classification issues, digital constraints, and Centre-State fiscal coordination. The study concludes that GST 2.0 is a progressive reform, but its success depends on effective implementation and continuous policy adjustments.

Keywords: GST 2.0, Tax Reforms, MSMEs, Fiscal Federalism, India

1. Introduction

The introduction of the Goods and Services Tax (GST) in 2017 was a landmark reform that unified India's indirect tax system by subsuming multiple central and state taxes. Despite its transformative intent, the initial GST regime faced several structural and operational challenges, including multiple tax slabs, inverted duty structures, delays in refunds, and a growing backlog of disputes. These issues affected both compliance and efficiency, particularly for small businesses.

In response, the GST 2.0 reforms introduced in 2025 aim to address these shortcomings through a comprehensive restructuring of the tax system. The reforms seek to simplify tax rates, streamline administrative procedures, and strengthen institutional mechanisms. They represent a shift from a complex, multi-layered tax system to a more

598 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

transparent and predictable framework aligned with the objective of “One Nation, One Tax.” By integrating tax rationalization with digital and legal reforms, GST 2.0 attempts to balance economic efficiency with social equity.

2. Key Features of GST 2.0 Reforms

A central feature of GST 2.0 is the rationalization of tax slabs. The earlier system, which consisted of multiple rates such as 5%, 12%, 18%, and 28%, has been simplified into fewer slabs, with lower rates for essential goods and higher rates for luxury and sin goods. This restructuring enhances transparency, reduces classification disputes, and makes the tax system easier to understand and comply with.

Administrative reforms form another important component of GST 2.0. Measures such as faster GST registration, automated refund systems, and pre-filled returns significantly reduce compliance burdens. Exporters, in particular, benefit from quicker refunds, improving their working capital position. The use of digital technologies, including e-invoicing and AI-driven compliance systems, further enhances efficiency and reduces opportunities for tax evasion.

The reforms also strengthen the legal framework through the operationalization of the GST Appellate Tribunal (GSTAT). This institutional mechanism addresses the large backlog of disputes and ensures consistency in rulings. By providing a dedicated platform for dispute resolution, GSTAT enhances taxpayer confidence and reduces litigation costs. Overall, these reforms aim to create a more efficient, transparent, and business-friendly tax environment.

3. Impact on Consumers and Businesses

GST 2.0 is expected to improve consumer welfare by reducing the tax burden on essential goods and increasing disposable income. Lower tax rates on daily-use items make them more affordable, thereby enhancing purchasing power. The reforms also target both rural and urban consumers by reducing taxes on agricultural inputs as well as consumer durables, which may stimulate demand across different sectors of the economy.

For businesses, particularly micro, small, and medium enterprises (MSMEs), GST 2.0 offers several advantages. Simplified compliance procedures, reduced documentation, and faster refunds improve liquidity and operational efficiency. The correction of the inverted duty structure ensures better input tax credit flow, which

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

enhances competitiveness in manufacturing. These changes are likely to encourage the formalization of the economy and expand the tax base.

However, the transition to the new system may pose short-term challenges. Businesses need to adapt to new tax rates, update their IT systems, and comply with digital requirements such as e-invoicing. Smaller firms, especially those with limited digital literacy, may face difficulties in adjusting to these changes. Despite these challenges, the long-term benefits of GST 2.0 are expected to outweigh the initial adjustment costs.

4. Impact on Government Revenue and Economy

The GST 2.0 reforms may initially result in a reduction in government revenue due to lower tax rates. Estimates suggest a short-term fiscal impact; however, this is expected to be offset by increased consumption, improved compliance, and expansion of the tax base. By simplifying the tax system and enhancing transparency, the reforms encourage voluntary compliance and reduce tax evasion.

From a broader economic perspective, GST 2.0 improves the ease of doing business and enhances India's global competitiveness. A simplified and predictable tax regime makes it easier for domestic and international firms to operate, thereby attracting investment. The reforms also promote efficiency in production and distribution by reducing cascading effects and transaction costs. In the long run, these improvements are likely to contribute to sustained economic growth and fiscal stability.

5. Challenges and Policy Concerns

Despite its advantages, GST 2.0 faces several challenges. The simplified tax structure may not adequately reflect the diversity of consumption patterns in India, leading to classification issues for certain goods that fall between necessity and luxury. The absence of an intermediate tax slab may place a disproportionate burden on middle-income consumers.

Another major limitation is the exclusion of key sectors such as petroleum, real estate, and alcohol from the GST framework. This results in cascading taxes and reduces the overall efficiency of the system. Including these sectors would help achieve greater uniformity and strengthen the objective of a unified national market.

600 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Digitalization, while improving efficiency, also creates challenges for small businesses due to limited access to technology and digital skills. System-related issues, such as network slowdowns during peak filing periods, further complicate compliance. Additionally, the success of GST reforms depends heavily on coordination between the central and state governments. Differences in fiscal priorities and concerns over revenue sharing may hinder effective implementation.

Another important concern is whether the benefits of tax reductions are fully passed on to consumers. Market dynamics, inflation, and pricing strategies may limit the extent to which consumers actually experience lower prices. Addressing these challenges is essential for maximizing the effectiveness of GST 2.0.

6. Conclusion

GST 2.0 reforms represent a significant step forward in India's taxation system by simplifying tax structures, improving administrative efficiency, and promoting transparency. The reforms aim to balance economic growth, social equity, and revenue generation, transforming GST into a more effective policy instrument. By enhancing compliance and encouraging formalization, GST 2.0 contributes to a more robust and inclusive economic framework.

However, the success of these reforms depends on effective implementation, continuous policy refinement, and strong coordination between the Centre and States. Addressing issues such as classification ambiguities, digital challenges, and sectoral exclusions will be crucial for realizing the full potential of GST 2.0. Overall, the reforms lay a strong foundation for a more efficient, transparent, and growth-oriented tax system in India

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601 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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GST Reforms and Economic Transformation in India: An Empirical Evaluation

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Abstract

The Goods and Services Tax (GST) is considered one of the most important fiscal reforms in India's post-independence period. It subsumed more than 17 indirect taxes such as VAT, excise duty, and service tax into a single tax system, thereby eliminating the cascading effect of taxation. Implemented under the framework of the Goods and Services Tax (India), GST replaced a complex system of multiple indirect taxes levied by both the central and state governments, thereby creating a unified national market. This study aims to examine the economic impact of GST through an empirical analysis, focusing on key macroeconomic indicators such as economic growth, tax revenue, inflation, and business performance. The primary objective of the study is to evaluate whether GST has achieved its intended goals of enhancing tax compliance, improving revenue buoyancy, reducing cascading effects of taxation, and promoting ease of doing business. The study utilizes secondary data collected from government reports, publications of the Ministry of Finance, and statistical databases over a period spanning pre- and post-GST implementation. Econometric tools such as trend analysis, regression models, and comparative analysis are employed to assess the changes in economic indicators. The findings of the study indicate that GST has had a mixed but gradually positive impact on the Indian economy. In the short run, the implementation phase witnessed transitional challenges including compliance burden, technological issues related to the GST Network (GSTN), and disruptions in supply chains. Small and medium enterprises (SMEs) were particularly affected due to increased compliance requirements. The impact on inflation has been relatively neutral, with minor fluctuations observed during the initial phase of implementation. Furthermore, the creation of a unified market has facilitated smoother interstate trade and logistics, thereby improving overall economic efficiency.

Keywords: Goods and Services Tax, Indirect Taxes, Small and Medium Enterprises.

603 Two-Day National Seminar on "GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India" on 17th & 18th April 2026

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Introduction

Businesses, consumers, and the government are all impacted by the GST's economic ramifications. From a corporate standpoint, GST has increased operational efficiency and simplified supply chains. It has greatly decreased the overall tax burden by enabling seamless input tax credits across goods and services, freeing up companies to concentrate on expansion and innovation. Although there was some misunderstanding regarding tax rates and classifications during the first phase of GST implementation, consumers benefit from lower costs on products and services as a result of the removal of cascading taxes. GST is a game-changing reform for the Indian economy that aims to formalize the sector, increase GDP growth, and improve tax compliance. It has improved revenue generation and levelled the playing field for enterprises by expanding the tax base and including informal industries in the tax system. Furthermore, by portraying India as a more stable and business-friendly location, GST has been instrumental in increasing foreign direct investment (FDI). But there have been difficulties along the way with GST. Technical issues with the GST Network (GSTN), frequent changes in tax rates, and opposition from some stakeholders were among the challenges encountered during the first implementation. Notwithstanding these difficulties, the government has consistently improved the system to solve industrial issues and expedite procedures. GST has had both direct and indirect effects on India's economic expansion.

By reducing tax evasion and leakage, GST has directly increased government income collection. Inadvertently, it has made it easier for companies to grow and innovate. Although there were some short-term economic disruptions, such as early inflationary trends and difficulties with compliance, the long-term advantages of GST are becoming more and more clear. According to studies, India's overall economic growth trajectory has benefited from the unified tax structure's facilitation of commerce, increased efficiency, and increased investor confidence. To assess the effect of GST on India's economic growth, a thorough analysis is conducted. In order to provide a comprehensive understanding of how GST has changed the nation's economic landscape, the focus will be on examining its advantages, difficulties, and ramifications for different stakeholders. The study attempts to determine whether GST has fulfilled its promise as a growth-oriented reform for the Indian economy by looking at both quantitative and qualitative criteria.

India's GST Framework

The introduction of the Goods and Services Tax (GST) in India was a massive fiscal reform that required both constitutional restructuring and major administrative

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

changes. The 101st Constitutional Amendment Act, 2016, which added Article 246A to the Indian Constitution, established the legal basis for GST. This crucial clause established a dual GST model appropriate for India's federal structure by enabling both the Central and State governments to concurrently impose GST on the supply of goods and services.

India's Goods and Services Tax (GST) framework is one of the most significant tax reforms undertaken in the country, fundamentally transforming the indirect taxation system. Introduced on 1st July 2017, GST replaced a complex structure of multiple indirect taxes levied by both the central and state governments, creating a unified and streamlined tax regime. The reform was implemented through the Constitution (One Hundred and First Amendment) Act, 2016, which paved the way for a cooperative federal tax system.

Concept and Objectives of GST

GST is a destination-based indirect tax levied on the consumption of goods and services. Unlike the previous origin-based taxation system, GST ensures that tax revenue accrues to the state where the goods or services are consumed. The primary objectives of GST include eliminating the cascading effect of taxes (tax on tax), ensuring a seamless flow of input tax credit, creating a common national market, and improving tax compliance.

Structure of GST in India

India has adopted a dual GST model, which is unique compared to many other countries. In this system, both the central and state governments have the authority to levy taxes simultaneously on a common tax base. The structure consists of the following components:

Central Goods and Services Tax (CGST): Levied by the Central Government on intra-state supplies. State Goods and Services Tax (SGST): Levied by State Governments on intra-state supplies. Integrated Goods and Services Tax (IGST): Levied by the Central Government on inter-state supplies and imports. This dual structure reflects India's federal nature and ensures that both levels of government share revenue.

GST Council

The GST framework is governed by the GST Council, which is a constitutional body responsible for making recommendations on key aspects such as tax rates, exemptions, threshold limits, and administrative procedures. The Council is chaired by the Union Finance Minister and includes representatives from all states and union territories. Decisions are made through a voting mechanism that balances the interests of

605 Two-Day National Seminar on "GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India" on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

both the Centre and the states, ensuring cooperative federalism.

Tax Slabs and Rates

- GST in India follows a multi-rate structure to accommodate the diverse nature of goods and services. The major tax slabs include:
- 0% (essential goods such as fresh food items).
- 5% (items of mass consumption).
- 12% and 18% (standard rates for most goods and services).
- 28% (luxury goods and sin goods like tobacco and automobiles).
- In addition, certain goods such as petroleum products and alcohol for human consumption are currently kept outside the GST framework.

Input Tax Credit (ITC)

One of the key features of GST is the Input Tax Credit mechanism. ITC allows businesses to claim credit for the tax paid on inputs (purchases) against the tax payable on outputs (sales). This eliminates the cascading effect of taxation and reduces the overall tax burden. However, ITC is subject to certain conditions, such as proper documentation and compliance with filing requirements.

Registration and Compliance

Under GST, businesses whose turnover exceeds a specified threshold must register and obtain a GST Identification Number (GSTIN). The system relies heavily on digital infrastructure, primarily through the Goods and Services Tax Network, which manages registration, return filing, and tax payments. GST compliance involves regular filing of returns, such as GSTR-1 (outward supplies), GSTR-3B (summary return), and annual returns. The introduction of e-invoicing and e-way bills has further strengthened transparency and reduced tax evasion.

Composition Scheme

To ease the compliance burden on small taxpayers, the GST framework includes a Composition Scheme. Under this scheme, small businesses with turnover below a specified limit can pay tax at a fixed rate on turnover and file simplified returns. However, they are not eligible to claim input tax credit.

The Role of GST in Enhancing India's Overall Economic Growth

The introduction of the Goods and Services Tax (GST) on July 1, 2017, marked a watershed moment in India's fiscal and economic history. Often described as the most significant tax reform since independence, GST replaced a complex web of indirect taxes levied by the central and state governments, creating a unified national market. By subsuming taxes such as excise duty, service tax, VAT, octroi, and entry tax, GST aimed

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

to simplify taxation, improve compliance, and foster economic growth.

India, a rapidly growing economy, had long been constrained by a fragmented tax system that increased transaction costs, discouraged interstate trade, and reduced efficiency. GST was envisioned as a destination-based consumption tax that would eliminate cascading effects (tax-on-tax), enhance transparency, and boost productivity. The reform has had wide-ranging implications for production, consumption, investment, government revenue, and overall economic performance. This essay critically examines the role of GST in enhancing India's overall economic growth, analyzing its objectives, mechanisms, achievements, and challenges.

The impact of GST on formalization is a critical component of its role in economic growth. GST has increased the formal economy and decreased the frequency of unreported transactions by bringing more companies into the tax system. Because financial institutions are more inclined to lend to organizations that keep open financial records, this formalization has improved business access to credit in addition to increasing tax revenue. Additionally, GST has improved India's standing in the world economy. The tax system is now more predictable and transparent thanks to the reform, which has increased investor confidence and drawn foreign direct investment (FDI).

A unified tax system makes it easier for foreign investors to access the Indian market, attracting international companies. GST has had difficulties despite its many benefits, especially in the early stages of its adoption. Obstacles included things like frequent rate changes, technological difficulties with the GST interface, and difficulties small firms faced with compliance. But many of these issues have been resolved by continuing reforms and stakeholder input, opening the door for a more reliable and effective tax system. By streamlining taxes, encouraging interstate trade, bolstering the industrial sector, formalizing the economy, and boosting global competitiveness, GST has significantly improved India's overall economic growth. GST is a key component of India's economic reform strategy since, despite ongoing difficulties, its long-term advantages are indisputable. It is anticipated that as the system develops, it would contribute even more to India's economic growth, propelling the nation toward wealth and sustainable development.

Concept and Structure of GST

GST is a comprehensive, multi-stage, destination-based tax levied on the value added at each stage of the supply chain. It is collected at the point of consumption rather than production, ensuring that the tax burden ultimately falls on the end consumer. The system is governed by the GST Council, which includes representatives from both the

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

central and state governments, ensuring cooperative federalism. GST aimed to eliminate interstate barriers and create “One Nation, One Tax, One Market,” facilitating seamless trade across states.

Elimination of Cascading Tax Effect

By allowing input tax credit (ITC), GST prevents double taxation and reduces production costs.

Improvement in Tax Compliance

With a digital system and invoice matching, GST promotes transparency and reduces tax evasion.

Boost to Economic Efficiency

Simplification of the tax system reduces compliance costs and improves business efficiency.

Enhancement of Government Revenue

Broadening the tax base and improving compliance were expected to increase revenue collections.

GST and Economic Growth Theoretical Linkages

Economic growth is influenced by factors such as investment, consumption, productivity, and government spending. GST impacts these variables in the following ways:

Reduction in Production Costs

By eliminating cascading taxes, GST reduces the overall tax burden on goods and services, lowering production costs and increasing competitiveness.

Increased Consumption

Lower prices due to tax efficiency stimulate demand, which is a key driver of GDP growth.

Improved Resource Allocation

A uniform tax system ensures that resources are allocated based on economic efficiency rather than tax considerations.

Encouragement of Investment

Simplified tax structures and reduced compliance burdens improve the ease of doing business, attracting both domestic and foreign investment.

Expansion of Formal Economy

GST incentivizes businesses to formalize operations to avail input tax credits, thereby expanding the formal sector.

Positive Impact of GST on India's Economic Growth

608 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Creation of a Unified National Market

Before GST, India functioned as a collection of fragmented markets with varying tax structures across states. Interstate trade faced numerous barriers such as entry taxes and check posts. GST eliminated these barriers, enabling free movement of goods and services.

Elimination of Cascading Effect

The pre-GST regime suffered from a cascading tax effect where taxes were levied on top of previously taxed amounts. GST introduced the input tax credit mechanism, allowing businesses to offset taxes paid on inputs against output tax liability.

Improvement in Ease of Doing Business

GST has simplified the tax structure by replacing multiple indirect taxes with a single system. This has significantly improved India's ranking in ease of doing business, as recognized by global institutions. Organizations like World Bank have acknowledged such reforms as critical for improving the business environment.

Boost to Government Revenue

GST has expanded the tax base by bringing more businesses into the formal economy. The use of technology, e-invoicing, and data analytics has improved tax compliance and reduced evasion. Higher government revenue enables increased spending on infrastructure, healthcare, and education, which are essential for long-term growth.

Formalization of the Economy

GST has encouraged businesses to register and operate within the formal sector to avail tax credits. Formalization contributes to economic growth by increasing productivity, tax revenue, and access to credit.

Promotion of Digital Economy

GST is largely technology-driven, requiring businesses to file returns and maintain records online. This has accelerated digital adoption among businesses.

Impact on Small and Medium Enterprises (SMEs)

GST introduced composition schemes and threshold exemptions to support small businesses. While initial compliance challenges existed, over time, GST has. SMEs are crucial for employment generation and economic growth, making GST's impact on this sector significant.

Encouragement of Foreign Direct Investment (FDI)

A transparent and uniform tax regime makes India more attractive to foreign investors. GST has reduced uncertainties associated with multiple tax systems, thereby

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

improving investor confidence. According to NITI Aayog, reforms like GST play a vital role in enhancing India's investment climate.

Sectoral Impact of GST

Manufacturing Sector

GST has reduced logistics costs and improved supply chain efficiency, benefiting manufacturing industries. The removal of interstate barriers has enabled firms to optimize production and distribution.

Service Sector

The service sector has benefited from a uniform tax structure, though compliance requirements initially increased. Over time, standardization has improved efficiency.

Agriculture

While agriculture itself is largely exempt, GST has impacted agro-based industries, logistics, and supply chains, improving market access for farmers.

E-commerce

GST has provided clarity and uniformity in taxation for e-commerce platforms, boosting their growth.

Challenges and Limitations of GST

Despite its benefits, GST has faced several challenges:

Complexity of Tax Structure

Multiple tax slabs (0%, 5%, 12%, 18%, 28%) have made GST less simple than initially envisioned.

Compliance Burden

Small businesses initially struggled with digital compliance requirements, frequent filings, and technical glitches.

Revenue Uncertainty for States

States feared revenue losses due to GST implementation, leading to compensation mechanisms by the central government.

Implementation Issues

Initial technical glitches in the GST Network (GSTN) created difficulties in filing returns and claiming credits.

Conclusion

The Goods and Services Tax has played a transformative role in reshaping India's economic landscape. By creating a unified market, eliminating cascading taxes, improving compliance, and promoting digitalization, GST has significantly contributed to enhancing economic efficiency and growth. While challenges remain, particularly in

610 Two-Day National Seminar on "GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India" on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

terms of complexity and compliance, the long-term benefits of GST far outweigh its initial disruptions. As reforms continue and the system matures, GST is expected to further strengthen India's economic foundation. In conclusion, GST is not merely a tax reform but a structural transformation that has laid the groundwork for sustained economic growth in India. Its success will depend on continuous policy improvements, technological advancements, and effective coordination between the central and state governments. India's GST framework represents a landmark reform in the country's taxation system. By integrating multiple indirect taxes into a single structure, GST has enhanced efficiency, transparency, and compliance. While challenges remain, continuous reforms and cooperative federalism through the GST Council are helping to strengthen the system. Over time, GST is expected to play a crucial role in promoting economic growth, increasing tax revenues, and formalizing the Indian economy.

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United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Impact of Goods and Service Tax on State Revenue: A Study of Andhra Pradesh

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Abstract

This study examines the impact of GST on state revenue with specific reference to Andhra Pradesh, a state that underwent economic restructuring following its bifurcation in 2014. The research evaluates how GST has influenced revenue mobilization, fiscal autonomy, and tax administration efficiency in Andhra Pradesh. Prior to GST implementation, Andhra Pradesh relied heavily on taxes such as Value Added Tax (VAT), excise duty, entry tax, and entertainment tax. These taxes constituted a significant share of the state's own revenue. However, GST replaced these with a destination-based consumption tax, altering the revenue structure. The findings indicate that in the initial years following GST rollout, Andhra Pradesh experienced revenue uncertainty due to transitional challenges such as technological issues with the GST Network, compliance gaps, and delays in input tax credit settlement. To address potential revenue losses, the central government introduced a compensation mechanism guaranteeing a 14% annual growth in revenue for five years (2017–2022), which played a crucial role in stabilizing the state's finances. Andhra Pradesh benefited significantly from these compensation grants, particularly during economic disruptions such as the COVID-19 pandemic. The study further reveals that GST has contributed to improved tax compliance and transparency in the long run due to the digitization of tax administration and the widening of the tax base. The introduction of e-way bills, invoice matching, and online return filing systems has reduced tax evasion and enhanced revenue efficiency. Additionally, GST has facilitated the ease of doing business by eliminating cascading taxes and promoting a unified national market, indirectly contributing to economic growth and revenue generation in the state. However, the study also highlights several challenges. The dependency on central compensation reduced the fiscal autonomy of Andhra Pradesh, making it vulnerable after the expiration of the compensation period in 2022. Furthermore, the destination-based nature of GST has impacted revenue distribution, as states with higher consumption benefit more than production-oriented states.

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Introduction

The introduction of the Goods and Services Tax (GST) in India has been referred to as "a reform of the century," "a game changer," and "one country-one tax." It is a noteworthy accomplishment that a big and diversified federal nation ruled by many political parties has implemented a uniform invoice-credit destination-based value added tax (VAT) on products and services at both the national and sub-national levels. Even in Canada, where the value added tax on goods and services has been in place for nearly 30 years at both the federal and provincial levels, it is still developing. Almost all of the nations that have adopted GST have taken a long time to settle down. It is extremely difficult to implement such a change at the national and subnational levels in India, since the Union government, 29 States, and two Union Territories have legislatures with various ruling parties. This kind of transformation necessitated statesmanlike governance and is a fantastic experiment in cooperative federalism.

As of 2018, 166 of the 193 UN members including all OECD members had imposed some kind of value-added tax (VAT) on goods and services. In order to minimize distortions or to recover revenue losses resulting from the decrease of tariffs upon entering the WTO, the majority of developing nations have substituted VAT for their cascading domestic trade levies. It was determined that the GST was a suitable tool to counteract revenue losses from lowering tariffs, as it was anticipated to be a money machine. Only five nations have removed the VAT before reintroducing it with modifications. It should come as no surprise that the IMF has been a major force behind the reform, and this has typically been a crucial aspect of it.

The GST Concept

The final consumer will only be responsible for the GST imposed by the final dealer in the supply chain. GST is a broad-based, single, comprehensive tax that is imposed on goods and services at every point of sale or service provision. The seller or service provider may claim the input credit of tax that he has paid while purchasing the goods or utilizing the service. The additional burden of CENVAT and services tax would be completely eliminated with the implementation of GST at the state level, and all state and federal indirect taxes would be absorbed into GST. This will lessen the variety of taxes. Compared to the former VAT system, GST is a significant improvement. GST will enhance tax compliance and expand the tax base. This could result in increased revenue, which would further reduce the tax burden. Even said, there are still a number of obstacles to overcome before the GST is put into effect, such as

614 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

reaching an agreement on rates, amending the constitution, compensating states that lose out on revenue, using different models, resolving disputes, etc. In order to improve India's international competitiveness as a result of globalization and liberalization, the Central government has reaffirmed its commitment to adopting a distinctive, transparent, and perfect GST.

Objectives of the Study

The current study's goals are as follows.

1. To comprehend the Goods and Services Tax concept.
2. To understand the advantages of the Goods and Services Tax.
3. To comprehend the potential effects of GST.

Methodology

The current study is exploratory in nature and draws on secondary sources of data from publications such as journals, magazines, articles, and reports. The study's goals necessitate a descriptive research approach. This research design was chosen in order to have a more accurate and thorough analysis of the research study while keeping in mind the established objectives. The reports and existing literature have been reviewed in order to analyse how GST has affected different domains. Additionally, a fictitious illustration of the comparative effect of GST on consumer prices has been presented.

Impact of GST on Agriculture

The Goods and Services Tax (GST) in 2017 marked a significant shift in India's indirect taxation system, with notable implications for the agriculture sector. Although agriculture itself remains largely exempt from GST, the sector has been indirectly influenced through changes in input costs, supply chains, and market efficiency. One of the major positive impacts of GST on agriculture is the reduction in the cascading effect of taxes. Before GST, multiple taxes such as VAT, excise duty, and entry tax increased the cost of agricultural inputs like fertilizers, pesticides, and machinery. GST streamlined these taxes into a single system, improving transparency and reducing tax burden in certain cases. This has helped farmers access inputs at relatively stable prices. Through a comprehensive and wider coverage of input and service taxes set-off, subsuming of several Central and State taxes in the GST and phasing out of CST, the GST could increase the prices of agricultural produce between 0.61 and 1.18 per cent. This price increase would be a boon to millions of farmers in India

GST has also improved logistics and supply chain efficiency. The removal of interstate barriers and check posts has facilitated faster movement of agricultural produce

615 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

across states, reducing transportation time and spoilage especially for perishable goods. This has contributed to better price realization for farmers. However, there are some challenges as well. Certain agricultural inputs and services are taxed under GST, which has increased costs for some farmers, particularly small and marginal ones. Additionally, compliance requirements under GST can be complex for Agri-based businesses and traders, especially in rural areas with limited digital literacy. Overall, GST has brought structural improvements in the agricultural marketing system, though its benefits are unevenly distributed. To maximize its positive impact, supportive policies and awareness among farmers are essential.

GST's Effects on the Manufacturing Sector

A perfect GST can assist the manufacturing industry cut costs by about 50%, in contrast to the current multistage taxes. They will be able to compete with their western competitors thanks to this. According to Vijay L. Kelkar, even a two percent decrease in production costs will boost earnings by more than twenty percent, allowing for price reductions that will benefit end customers. According to estimates, the introduction of the GST would lower prices across all industrial sectors by 1.22 to 2.53 percent.

Impact of GST on MSMEs

The introduction of the Goods and Services Tax (GST) in India has had a significant impact on Micro, Small, and Medium Enterprises (MSMEs), bringing both opportunities and challenges. On the positive side, GST has created a unified national market by replacing multiple indirect taxes such as VAT, excise duty, and service tax. This has reduced the cascading effect of taxes, lowering the overall tax burden on MSMEs. Input Tax Credit (ITC) allows businesses to claim credit for taxes paid on inputs, improving cost efficiency and profitability. GST has also enhanced transparency and formalization, encouraging MSMEs to register and operate within the formal economy. This has improved their access to institutional credit and government schemes.

Moreover, the digital nature of GST, through platforms like Goods and Services Tax Network (GSTN), has simplified tax filing and compliance in the long run. E-way bills and

standardized tax rates have improved logistics efficiency and reduced transportation time. However, MSMEs have faced several challenges under GST. The compliance burden has increased due to frequent return filing, digital requirements, and the need for technological adaptation, which can be difficult for small businesses with limited resources. Initial technical glitches in the GST portal and frequent changes in rules created confusion and

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

uncertainty. Additionally, delayed refunds, especially for exporters, have affected working capital cycles. Small businesses operating in the informal sector have also struggled to compete with larger, GST-compliant firms. The threshold limits and composition scheme provide some relief, but awareness and accessibility remain issues.

Role of GST in Poverty alleviation

Primary food items like wheat and rice are currently subject to taxation in many states, either at the time of sale at a reduced rate or at the time of purchase. However, it is suggested that all food commodities covered by the public distribution system, such as wheat and rice, be exempt from the GST. Primary foods like wheat and rice would therefore not be subject to GST. The GST serves as a measure to reduce poverty because food expenditures account for a significant amount of the poor's overall consumption expenditures. Additionally, fundamental health and education services are meant to be completely exempt. In any case, these services will continue to be exempted from tax and therefore no additional burden will arise on account of implementation of GST.

The introduction of the Goods and Services Tax (GST) in 2017 marked a significant transformation in India's indirect tax structure. By subsuming multiple taxes into a unified system, GST aimed to create a common national market, enhance efficiency, and stimulate economic growth. One of its important dimensions is its impact on employment generation, both direct and indirect. GST has contributed to employment generation primarily through the formalization of the economy. Before GST, a large number of small and medium enterprises operated in the informal sector to avoid complex tax structures. With GST introducing a uniform tax system and mechanisms like input tax credit, businesses were incentivized to register and comply with tax regulations. This shift toward formalization has led to the creation of formal jobs with better wages, job security, and social benefits such as provident fund and insurance. As more firms entered the tax net, demand for accountants, tax consultants, and compliance professionals increased significantly, thereby generating employment in the services sector.

Another major area where GST has supported employment is in logistics and supply chain management. Earlier, businesses had to maintain multiple warehouses across states to avoid interstate taxes. GST eliminated such barriers by implementing a destination-based tax system, allowing companies to consolidate warehouses and optimize logistics. This restructuring increased the efficiency of supply chains and boosted demand for skilled labor in transportation, warehousing, and inventory management. The growth of organized logistics companies has further created employment opportunities in both

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

urban and semi-urban areas. GST has also played a role in promoting the growth of Micro, Small, and Medium Enterprises (MSMEs). Through simplified compliance procedures and the composition scheme, small businesses were provided with a platform to expand operations. As MSMEs grow, they generate employment at the local level, particularly in rural and semi-urban regions. The integration of MSMEs into the formal economy has also improved their access to credit, enabling business expansion and job creation.

The digitalization aspect of GST has been another important driver of employment. The GST system is heavily dependent on online platforms for registration, filing returns, and payments. This digital ecosystem has led to increased demand for IT professionals, software developers, and data analysts. Companies offering GST-related software solutions and digital services have expanded rapidly, creating new employment opportunities in the technology sector. Additionally, training institutions and consultancy firms have emerged to provide GST-related education and services, further contributing to job creation.

GST has also boosted employment indirectly by encouraging economic growth. By reducing tax cascading and improving ease of doing business, GST has enhanced productivity and competitiveness of Indian industries. Increased production and consumption have led to higher demand for labour across sectors such as manufacturing, retail, and services. Foreign investments have also been positively influenced by the simplified tax regime, leading to the establishment of new enterprises and industries, which generate employment opportunities. However, the impact of GST on employment has not been entirely positive in the short term. The transition to the new tax system posed challenges for small businesses due to compliance costs and technological requirements. Some enterprises faced temporary disruptions, leading to job losses or reduced hiring during the initial phase. Sectors heavily dependent on informal labour were particularly affected. Nevertheless, these challenges have gradually diminished as businesses adapted to the system and the government introduced reforms to simplify GST procedures. GST has played a significant role in employment generation in India by formalizing the economy, enhancing supply chain efficiency, promoting MSME growth, and fostering digitalization. While there were short-term disruptions, the long-term effects of GST are largely positive, contributing to sustainable job creation and economic development. As the GST system continues to evolve with policy refinements, its potential to generate employment is expected to grow further, supporting India's overall development trajectory.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Role of GST in price reduction

Because GST reduces the number of tax rates to a single (dual) rate, it is a regressive tax system. However, there are claims that the commitment of goods taxes would decrease under GST due to the subsumption of significant Central and State taxes in GST, the ongoing chain of set-offs of input goods and services, and the phase-out of CST. If everything else stays the same, it is expected that this will motivate producers and distributors to lower their produce prices, which will ultimately help consumers. Therefore, it is suggested that GST will not be regressive but rather pro-poor.

Impact of GST on International Trade

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017 marked a significant transformation in the country's indirect tax structure. By subsuming multiple taxes such as excise duty, service tax, VAT, and customs-related levies, GST created a unified domestic market. Its impact on international trade exports and imports has been both direct and indirect, influencing competitiveness, compliance, logistics, and trade efficiency.

One of the most notable impacts of GST on international trade is the enhancement of export competitiveness. Under GST, exports are treated as “zero-rated supplies,” meaning exporters can claim refunds on input taxes paid during production. This eliminates the cascading effect of taxes and reduces the overall cost of exported goods. As a result, Indian products become more competitive in global markets. Schemes such as refund of Integrated GST (IGST) and input tax credit have streamlined export procedures and improved liquidity for exporters, especially in sectors like textiles, pharmaceuticals, and engineering goods. GST has also improved transparency and compliance in export-import transactions. The introduction of digital platforms such as the Goods and Services Tax Network (GSTN) has enabled online filing of returns, tax payments, and refund claims. This digitalization has reduced paperwork and human intervention, minimizing corruption and delays in customs clearance. Moreover, integration with customs systems has facilitated smoother processing of export documentation and tax refunds, thereby promoting ease of doing business.

In terms of imports, GST has replaced additional duties such as Countervailing Duty (CVD) and Special Additional Duty (SAD) with Integrated GST (IGST). This has simplified the import taxation structure. Importers can now claim input tax credit on IGST paid at the time of import, which was not fully possible under the previous regime. This has reduced the tax burden on imported inputs and improved cost efficiency for businesses

619 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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relying on global supply chains. Consequently, industries that depend on imported raw materials or intermediate goods have benefited from reduced costs and improved production efficiency. Another important impact of GST is on logistics and supply chain management. Before GST, interstate trade was hindered by multiple checkpoints, entry taxes, and documentation requirements, leading to delays and increased transportation costs. GST has eliminated most of these barriers, enabling faster movement of goods across states. This has reduced logistics costs and transit time, making Indian exports more competitive globally. Improved supply chain efficiency also enhances the reliability of Indian exporters in meeting international delivery schedules.

GST has also encouraged the formalization of the economy, which positively affects international trade. With mandatory registration and invoice matching, businesses are incentivized to operate within the formal system. This improves the credibility of Indian firms in the global market, as compliance with tax regulations enhances trust among international buyers and partners. Additionally, better documentation and record-keeping facilitate easier access to export finance and government incentives.

However, the implementation of GST has not been without challenges. Initially, exporters faced delays in receiving tax refunds, which affected their working capital and liquidity. Small and medium enterprises (SMEs), in particular, struggled with compliance requirements and technological adaptation. Frequent changes in GST rates and procedures also created uncertainty for businesses engaged in international trade. Over time, the government has addressed many of these issues through policy adjustments and improved administrative mechanisms. Furthermore, GST has influenced India's participation in global value chains. By reducing tax inefficiencies and improving ease of doing business, GST makes India a more attractive destination for foreign investment and manufacturing. This aligns with initiatives like "Make in India," which aim to boost exports and integrate the country into global production networks.

Impact of GST on GDP

In the Goods and Services Tax (GST) on July 1, 2017, marked a significant structural reform in India's taxation system. It replaced multiple indirect taxes such as excise duty, service tax, and VAT with a unified tax regime. The impact of GST on Gross Domestic Product (GDP) has been both direct and indirect, influencing economic growth through improved efficiency, compliance, and market integration. One of the major positive impacts of GST on GDP is the creation of a unified national market. Before GST, the presence of multiple state and central taxes created barriers to trade, increasing logistics

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and transaction costs. GST eliminated these cascading taxes, allowing the free flow of goods and services across states. This improved supply chain efficiency, reduced transportation time, and lowered costs for businesses. As a result, productivity increased, contributing positively to GDP growth.

GST also enhanced tax compliance and broadened the tax base. The introduction of an IT-based system through the Goods and Services Tax Network (GSTN) improved transparency and reduced tax evasion. More businesses were brought into the formal economy, increasing government revenue. Higher revenue enables the government to invest more in infrastructure, education, and social welfare, all of which contribute to long-term GDP growth. Another significant impact is on the manufacturing and service sectors. GST reduced the cost of production by allowing input tax credit across the supply chain. This encouraged domestic production and improved the competitiveness of Indian goods in both domestic and international markets. The “Make in India” initiative gained momentum as manufacturing became more cost-effective, which positively influenced GDP.

However, GST also had some short-term negative effects on GDP. During its initial implementation, businesses faced compliance challenges, technological issues, and confusion regarding tax rates and filing procedures. Small and medium enterprises (SMEs) were particularly affected due to increased compliance costs. These disruptions temporarily slowed economic activity, leading to a short-term dip in GDP growth in the initial years following implementation. Moreover, certain sectors experienced mixed outcomes. For instance, while organized sectors benefited from increased formalization, some unorganized sectors faced difficulties adapting to the new tax system. This structural shift caused transitional inefficiencies, which slightly impacted GDP in the short run. In the long run, GST is expected to have a positive and sustained impact on GDP.

Impact GST on Government Revenue

Since all goods and services come under GST, the number of exemptions would reduce very much. Again, the tendency of tax evasion by producers and distributors will be low as to the single and low rate of tax proposed under GST. Further, increased GDP, indirect positive impact on direct tax collections, gain for the government on account of reduction in the price level of a large number of goods and services consumed by the government. As a result, GST contributes to the increase in government revenue.

Conclusion

The GST has modernized the tax structure and improved efficiency for MSMEs, 621 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

but addressing compliance challenges and ensuring smoother implementation is essential for maximizing its benefits. GST has had a largely positive impact on international trade in India. It has enhanced export competitiveness, simplified import procedures, improved logistics efficiency, and increased transparency in trade operations. While initial challenges affected exporters, ongoing reforms and system improvements have strengthened the overall trade environment. As GST continues to evolve, it is expected to further support India's integration into the global economy and promote sustainable growth in international trade. While the implementation of GST initially posed challenges and caused temporary disruptions, its long-term impact on GDP is largely positive. By fostering a unified market, improving tax compliance, and boosting economic efficiency, GST has become a key driver of India's economic growth trajectory. In the impact of GST on Andhra Pradesh's state revenue is mixed. While it has enhanced transparency, compliance, and long-term revenue potential, the short-term challenges and increased dependency on central transfers pose concerns for fiscal sustainability. The study suggests that strengthening tax administration, improving compliance mechanisms, and ensuring timely compensation and settlements are essential for maximizing the benefits of GST.

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GST Reforms 2025 in India: A Constructive Analysis of India's Transition to GST 2.0

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Abstract

The Goods and Services Tax (GST) reforms of 2025 represent the most significant restructuring of India's indirect tax system since its inception in 2017. These reforms aim to create a unified national market by merging multiple central and state taxes. Although the initial GST framework had a transformative impact, it also encountered several challenges, including a complex multi-rate structure, compliance burdens, technological glitches, and classification disputes. In response to these issues, the Government of India has initiated a series of reforms, leading to the transition to GST 2.0 in 2025. This new version emphasizes simplification, transparency, and efficiency. This study examines the evolution and recent reforms of India's GST system, focusing on key changes such as rate rationalization, a reduction in tax slabs, improved input tax credit mechanisms, and the integration of advanced digital technologies for compliance and monitoring. These reforms aim to enhance the ease of doing business, reduce tax evasion, and improve revenue collection while ensuring a consumer-friendly tax regime. The study evaluates the impact of the GST reforms on various stakeholders, including consumers, businesses, and Micro, Small, and Medium Enterprises. The findings indicate that the GST reforms have contributed to greater tax compliance, increased formalization of the economy, and improved efficiency in supply chains. Moreover, the rationalization of tax rates has helped reduce the overall tax burden on essential goods and services. However, challenges such as the digital divide, adaptation issues among small traders, and concerns about revenue stability still persist. This research seeks to understand the changes in GST rates and slabs in the GST reforms 2.0, sector-wise changes in GST reforms 2.0, rationalization of GST for everyday food items, and changes in GST related to education in India.

Keywords: GST Reforms, GST 2.0, Indirect tax and India

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Introduction

The Goods and Services Tax has been one of the most significant indirect tax reforms in India's fiscal history since its introduction in 2017. It replaced a complex system of multiple indirect taxes such as excise duty, value-added tax, service tax and others with a unified tax structure, thereby creating a single national market. Over the years, GST has undergone several modifications to address implementation challenges, improve compliance and enhance revenue efficiency. The GST Reforms 2025, commonly referred to as GST 2.0, mark a new phase in India's tax reform journey, aiming to simplify the tax system and promote economic growth. The GST Reforms 2025 were introduced following the 56th GST Council meeting held in September 2025. These reforms represent a structural transformation of the existing GST framework, focusing on simplification, rationalization of tax rates and improved ease of doing business. The new system came into effect on 22 September 2025 and is considered a next-generation reform that builds upon the experiences and lessons learned since the original GST rollout. Our Prime Minister Narendra Modi formally announced GST reforms on Independence Day 2025, characterizing them as embodying five transformative principles or Panch Ratna for the Indian economy: i) tax simplification, ii) improved quality of life, iii) consumption and growth stimulation, iv) enhanced ease of doing business and v) strengthened cooperative federalism.

The GST Reforms 2025 is to reduce the tax burden on essential goods and services, thereby benefiting consumers. Many items previously taxed at higher rates have been shifted to lower tax brackets, making them more affordable. Essential goods, healthcare products and certain services have been either exempted or taxed at minimal rates. This approach not only supports household consumption but also enhances social welfare by making necessities more accessible.

The reforms also emphasise improving compliance and administrative efficiency through the use of advanced technology and digital tools. GST 2.0 promotes automated return filing systems, better invoice matching and real-time monitoring of transactions. These measures aim to reduce tax evasion, increase transparency and ensure a more efficient tax administration system. Furthermore, GST Reforms 2025 are expected to boost economic growth by encouraging investment, increasing consumption and improving the overall business environment. By lowering tax rates on many goods and simplifying compliance procedures, the reforms enhance the ease of doing business in India.

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Review of Literature

K. Uttamsagar (2025) studied the structural reforms, sectoral reforms and socio-economic implications of GST 2.0. It is concluded that GST 2.0 will strengthen digital compliance and will increase demand. Though GST 2.0 offers an important step, it requires careful prosecution and non-stop monitoring.

Devmalaya Khan (2026) conducted a study about the impact of GST 2.0 on different sectors of the Indian economy. It was found that the GST 2.0 made tax compliance easier than the GST 1.0. GST 2.0 will provide stability in government revenue and will reduce the technological and legal complexities. In GST 1.0, the GST rate on luxury and sin goods was 28 per cent plus cess, but in GST 2.0, it is simplified by imposing a flat GST rate of 40 per cent on luxury and sin goods with the aim of reducing the consumption of such goods.

Objectives of The Study

14. - To examine the changes in GST rates and slabs as part of the GST Reforms 2.0 in India.
15. - To analyse sector-wise changes introduced in GST Reforms 2.0 in India.
16. - To investigate the rationalization of old GST rates and new GST rates for daily food items and education in India.

Research Methodology

The present study is based on secondary data, which were collected from various sources like PIB press notes, Ministry of Finance, websites, newspapers, academic publications, journals, and magazines. Simple statistical tools such as percentages, growth and trend analysis are used to interpret the secondary data.

Results and Discussion

GST Reforms 2.0 (2025): India's Two-Slab Tax Reform for the Common Man

The GST reforms have restructured tax rates on several consumer goods to simplify the tax system and adjust tax burdens on various products. It compares the old GST rates with the new GST rates after the reforms presented in Table 1.

Table 1
GST rate and Slab changes in GST reforms 2.0 in India

S.No	Items	Old GST rate	New GST rate
1	Refrigerators & Air conditioners	28 %	18%
2	Television sets	28%	18%
3	Small cars	28% +1% or 3%	18%

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

		cess	
4	Premium motorcycles	28%+up to 15% cess	40%
5	Luxury cars	28%+22% cess	40%
6	Cigarettes & soft drinks	28%+up to 15% cess	40%
7	Butter, Ghee & Almonds	12%	5%
8	Jams & Pickles	12%	5%
9	Mobile Phones	12%	18%
10	Umbrellas	12%	5%

Source: Ministry of Finance

Table 1 presents the changes in Goods and Services Tax rates for different items. It compares the old GST rates with the new GST rates after the reform. The household appliances, such as refrigerators and air conditioners, which were earlier taxed at 28 per cent, have been reduced to 18 per cent. This reduction aims to make essential consumer durables more affordable. Television sets also experienced a tax reduction from 28 per cent to 18 per cent, encouraging higher consumption and supporting the electronics industry. Small cars previously had 28 per cent GST plus additional cess (1–3 per cent), but under the reform, the tax was simplified to 18 per cent, lowering the effective tax burden. Premium motorcycles, earlier taxed at 28 per cent plus up to 15 per cent cess, are now taxed at 40 per cent, which reflects a consolidation of GST and cess into a single higher rate. The luxury cars, which earlier had 28 per cent GST plus 22 per cent cess, now fall under a 40 per cent GST rate, maintaining a high tax burden due to their luxury nature. The cigarettes and soft drinks were earlier taxed at 28 per cent plus up to 15 per cent cess, but the new rate is 40 per cent, indicating the government's intention to discourage consumption of harmful products. Some food items and daily consumption goods, such as butter, ghee, almonds, jams, and pickles, saw a reduction from 12 per cent to 5 per cent, making them more affordable for consumers. Mobile phones experienced a rate increase from 12 per cent to 18 per cent, possibly to support domestic manufacturing and increase revenue. The umbrellas also saw a reduction from 12 per cent to 5 per cent, benefiting consumers by lowering prices.

Sector-wise GST reforms 2.0 in India

The sector-wise changes in the GST reforms by comparing the old GST rates with the new GST rates across the country different sectors are presented in Table 2.

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Table 2: Sector wise changes in GST reforms 2.0 in India

S.No	Sector	Old GST rate	New GST rate
1	Daily essential & FMCG	12% or 18%	5%
2	Automobiles	Small cars: 28%+ cess Large cars: 28%+cess	Small cars: 18% Large cars: 40%
3	Consumer electronics	28%	18%
4	Insurance	18%	0%
5	Cement & Textiles	Cement: 28% Textiles: 12%	Cement: 18% Textiles: 5%
6	Agriculture	12%	5%
7	Luxury & Sin goods	28%+cess	40%

Source: Ministry of Finance

From the table 2 presents that the daily essential goods and Fast Moving Consumer Goods (FMCG) were taxed at 12 per cent or 18 per cent. In the GST reforms 2.0, the tax rate has been reduced to 5 per cent. This reduction aims to make essential goods cheaper and reduce the burden on consumers, especially low- and middle-income households. Earlier, automobiles such as small cars and large cars were taxed at 28 per cent plus cess. After the reform, small cars are taxed at 18 per cent, while large cars are taxed at 40 per cent. This change encourages the use of smaller and more fuel-efficient vehicles while imposing higher taxes on luxury vehicles. The GST rate on consumer electronics has been reduced from 28 per cent to 18 per cent. This reduction may promote the consumption of electronic goods and support the growth of the electronics manufacturing sector. Insurance services were earlier taxed at 18 per cent, but under the GST reform 2.0, the rate has been reduced to zero per cent. This step can make insurance more affordable and increase insurance coverage among the population. The cement & textiles earlier attracted 28 per cent GST, which has now been reduced to 18 per cent, making construction activities cheaper. Similarly, a textile GST has been reduced from 12 per cent to 5 per cent, which can support the textile industry and benefit consumers. The GST rate on agriculture-related goods has been reduced from 12 per cent to 5 per cent. This reduction helps farmers by lowering input costs and supporting agricultural production. Luxury and sin goods were earlier taxed at 28 per cent plus cess, but under the new reform, the rate has increased to 40 per cent. This reflects the government's intention to discourage the consumption of such goods while generating additional revenue.

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GST rationalization for everyday food items in India

The GST rationalization for daily life food items in India. The comparison between the old GST rates and the new GST rates. The information indicates that the government has revised GST rates to simplify the tax structure and make essential food items more affordable. The details of GST rationalization for daily life food items in India are given in Table 3.

Table 3
GST rationalization for everyday food items in India

S.No	Items	Old GST rate	New GST rate
1	Ultra-High Temperature Milk	5%	5%
2	Pizza bread, chapatti/roti	5%	5%
3	Paratha, parotta	18%	18%
4	Drinking water (20 litre bottle)	12%	5%
5	Sauces & condiments	12%	5%
6	Brazil nuts (dried)	12%	5%
7	Dates, figs, pineapples, avocados, guavas & mangoes	12%	5%
8	Fats of bovine animals, sheep, pigs & fish	12%	5%
9	Ice cream & edible ice	18%	18%
10	Soups & broths	18%	5%
11	Tea and Coffee	18%	5%
12	Chocolates & cocoa products	18%	5%
13	Sugar confectionery; pastry, cakes and biscuits	18%	5%

Source: Ministry of Finance

From Table 3, some items, such as Ultra-High Temperature milk, pizza bread, chapatti/roti, and paratha, continue to remain under the 5 per cent GST slab, indicating that these essential food items are kept under a lower tax rate to reduce the burden on consumers. Certain products earlier taxed at 12 per cent GST, including drinking water (20 litre bottle), sauces and condiments, Brazil nuts (dried), and fruits such as dates, figs, pineapples, avocados, guavas, and mangoes, have been reduced to 5 per cent GST. This reduction suggests a policy effort to encourage the consumption of food products and

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

provide relief to consumers. Likewise, fats of bovine animals, sheep, pigs, and fish have also experienced a rate reduction from 12 per cent to 5 per cent, indicating the government's attempt to rationalize taxes on animal-based food products.

However, some items that were previously taxed at 18 per cent, such as ice cream and edible ice, soups and broths, tea and coffee, chocolates and cocoa products, and sugar confectionery including pastries, cakes, and biscuits, have been reduced to 5 per cent GST in the revised structure. This significant reduction reflects the government's initiative to simplify the GST system and make processed food items relatively cheaper.

GST Reforms 2025: Impact on the Education Sector

The 2025 GST reforms provide significant relief to the education sector by exempting essential stationery and maintaining fee exemptions for schools and colleges. The changes in GST rates related to education services and educational materials under GST Reforms 2.0 in India. The particulars about comparing the old GST rates with the new GST rates and showing how the government has maintained exemptions or reduced taxes on several education-related goods and services are furnished in Table 4.

Table 4: Education changes in GST reforms 2.0 in India

S.No	Items	Old GST rate	New GST rate
1	School tuition fees (up to 12 class)	Exempt (0%)	Exempt (0%)
2	Higher education (recognized degrees)	Exempt (0%)	Exempt (0%)
3	Private higher education/professional courses	18%	18%
4	Pencil, sharpeners, erasers, notebooks, crayons, maps, Charts, Globes & Atlases	12%	Exempt (0%)
5	Geometry box & mathematical tools	12%	5%
6	Textbooks & print material	Exempt (0%)	Exempt (0%)
7	Coaching centers, private tuition & online courses	18%	18%
8	Transportation & catering services	18%	18%
9	Vocational training (NSDC –recognized)	Exempt (0%)	Exempt (0%)
10	Bicycles, toys & sports goods	12%	5%
11	Buses (used for student transport)	28%	18%

Source: Ministry of Finance

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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

Table 4 indicates that school tuition fees for up to Class 12, as well as higher education in recognized institutions, remain exempt from GST (at a zero per cent rate) in both the old and new tax structures. This reflects the government's intention to safeguard basic and higher education from taxation, thereby ensuring that it remains affordable and accessible for students. Additionally, vocational training programs recognised by the National Skill Development Corporation are also exempt from GST, which promotes skill development and education aimed at employment. In contrast, private higher education and professional courses continue to attract a GST rate of 18 percent in both the old and new systems, placing these private educational services in the taxable category.

This research study also highlights changes in taxes on educational materials and student learning tools. Items such as pencils, sharpeners, erasers, notebooks, crayons, maps, charts, globes, and atlases, which previously had a 12 per cent GST rate, are now exempt (at 0 per cent). This change reduces the cost of essential learning materials for students. Similarly, geometry boxes and mathematical tools have seen a reduction in GST from 12 per cent to 5 per cent, making them more affordable. Other services, such as transportation and catering services within educational institutions, continue to incur an 18 per cent GST. Additionally, coaching centres, private tuition, and online courses are taxed at 18 per cent. For various items, bicycles, toys, and sports goods have seen a reduction in GST from 12 per cent to 5 per cent, encouraging sports and physical activities among students. However, buses used for student transport have had their GST rate reduced from 28 per cent to 18 per cent, which may help lower transportation costs for educational institutions.

CONCLUSION

In conclusion, the GST Reforms of 2025 represent a significant milestone in India's taxation system. GST 2.0 aims to create a more efficient, equitable, and growth-oriented indirect tax regime. These reforms are expected to strengthen India's economy and further integrate its market, making GST a truly good and simple tax in the years to come. The GST Reform 2.0 reflects a policy approach of reducing taxes on essential and commonly used items while maintaining or increasing taxes on luxury and harmful goods. The goal of the reform is to promote consumption, simplify the tax structure, and enhance revenue generation for the government, all while protecting consumer welfare. According to the research study, GST rationalization primarily focuses on lowering tax rates from higher slabs (12 per cent and 18 per cent) to a lower slab of 5 per cent for many food items. This policy is intended to alleviate the tax burden on consumers, enhance the affordability of food products, and create a more uniform and simplified GST structure in India. Finally, the

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research article highlights that GST reforms aim to maintain tax exemptions for essential education services while reducing taxes on learning materials and goods related to students. These reforms seek to support the education sector, promote affordability, and encourage skill development in India.

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Compliance Burden and Transaction Costs under GST: Implications for Small Businesses, Start-ups, and the Self-Employed in India

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i. Abstract

In India, a significant reform to be emphasized was the introduction of the Goods and Services Tax (GST) in 2017, which was supposed to simplify the indirect taxation system and remove cascading taxes and encourage transparency and ease of doing business. Nevertheless, GST has created a lot of compliance burden on businesses, even though these macro-level advantages have a positive impact. This research paper discusses the compliance cost and transaction cost as a result of the GST and evaluates their effects on the small business, start-ups, and the self-employed. The study relies on a descriptive approach to research which utilizes secondary data through government reports, scholarly literature and the industry. According to the results of the study, GST compliance entails several processes, including registration, periodical system of filing returns, matching of invoices, and maintenance of digital records, which make the administration more complex. Also, smaller entities incur higher transaction costs, professional fees, software costs, time and effort, which is relatively burdensome in nature. The paper also points out that small businesses, start-ups, and self-employed employees have even more complicated reasons because of limited finances, insufficient technical skills, and inability to adjust to digital systems. Although GST makes it easy to tax at broader levels, it makes the operations level more expensive to business organizations that are smaller in scale. The research concludes that despite the success of GST to its aim of establishing a harmonized and transparent tax framework, this tax has had an over-imposing compliance cost on smaller players of the economy. Consequently, it is necessary to continuously reform the policies, streamline the process, and support the activities to minimize compliance costs and to make the benefits of GST inclusive in all parts of the economy.

Keywords: GST, compliance burden, transaction costs, small businesses, startups, self-employed, MSMEs, digital taxation, administrative complexity, cost of doing business, tax reform

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ii. Introduction

One of the biggest changes in the indirect taxation of India was the introduction of the Goods and Services Tax (GST) on July 1, 2017. GST was a substitute of a complex system of various taxes like excise duty, service tax, value-added tax (VAT) and others with a one tax regime so as to have an easy doing business within one national market. GST was set to make the administration of taxes simple by eliminating cascading taxation, as well as increasing transparency, which would encourage economic growth. Nevertheless, GST has come with significant compliance obligations that have become a huge administrative and financial burden on companies despite its benefits. The GST compliance requires compulsory registration, keeping of digital records, periodical filing of returns, matching of invoices, and the compliance with changing regulatory standards. Such requirements tend to incur high transaction costs such as spending on accounting services, software as well as time wasted on compliance processes. All types of businesses do not experience the same effects of these compliance burdens. This is especially the case in small businesses, start ups and self-employed employees because they have fewer financial resources, lack technical skills, and have less ability to address complicated regulatory standards. To these entities, compliance cost may constitute a large percentage of their overall cost of operation, hence impacting their profitability and potential growth. It is in this respect that the analysis of the implication of the burden of GST compliance and the cost of transaction to these vulnerable groups becomes a necessary task. This paper will examine the obstacles encountered by small businesses, startups, and self-employed people in GST and compare the advantages of the tax overhaul with its costs.

iii. Objectives

This paper will discuss the GST compliance burden and the cost of transactions and study how they affect small businesses, start ups and the self employed workers.

1. To analyze the concept and scope of compliance burden of GST in India, the different requirements that are submitted like registration and filling of returns and maintenance of records.
2. To examine the various elements of the transaction cost under GST, including professional fees, software expenditure, time wasted in complying with it and penalties.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

3. To assess how GST compliance affects the small businesses, startups, and self-employed employees, especially regarding financial and operational issues.
4. To establish key challenges that these groups have experienced in adopting GST such as technical illiteracy, digital infrastructure, and awareness.
5. To determine whether GST has brought or diminished the general cost of conducting business particularly to the smaller organizations as opposed to the big firms.
6. To recommend feasible action and policy interventions to minimize compliance burden and enhance easier doing business in GST.

iv. Literature Review

Implementation of the Goods and Services Tax (GST) in India has generated a lot of literature in the academic literature as well as in the policy literature as a significant change in taxation operation through one of the biggest tax reforms in the country to simplify the indirect tax system. As observed by Ehtisham Ahmad and Satya Poddar (2009), GST was meant to be used to get rid of the tax cascading effect and enhance transparency and efficiency. In a similar manner, Kumar (2014) underlined that GST would bring various types of indirect taxes into one system and thus, form a unified national market and make it easier to do business. The main result of these studies is the macro-level advantages of GST, such as the enhancement of tax compliance, tax evasion, and economic integration.

Nonetheless, a number of scholars have indicated that GST has raised the compliance cost especially on small enterprises. As Nayyar and Singh (2018) have noticed, the necessity of returning filing frequently, invoice matching, and the digital record-keeping has grown the workload of administration significantly. Das (2017) discovered that small and medium enterprises (MSMEs) experience a higher level of difficulties that is caused by the shortage of finances and technical skills. The paper has also reported that compliance costs like the cost of employing tax consultants, purchasing software, and the cost of maintaining the digital systems are relatively high among small firms compared to large organizations. Purohit (2018) also highlighted that transaction costs within GST such as time and financial costs have gone up, and the burden is retrogressive in nature.

Secondly, research on startups and self-employed workers exposes the unique problem in these categories of workers in GST. According to Sharma (2019), startups have

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

the advantage of simplified taxation in the long term but in the initial stages, they experience difficulties on the complexities of the procedures and unawareness. Gupta (2020) pointed out that self-employed people tended to rely on the help of external professionals to comply with its regulations, which adds to their expenses. Also, other problems like delays in refunding of input taxes credit, and frequent alteration of GST regulations as well as technical setbacks in the GST portal complicate the process of compliance. On the whole, the literature indicates that although GST has fulfilled its aim of simplifying and transparency taxes, it has also added another burden on compliance and costs of transactions, especially to small business, start-ups, and self-employees.

v. Methodology

1. Research Design

The current research is founded on descriptive research design that seeks to offer a systematic and in-depth description of the GST compliance burden and transaction costs and its consequences on small business ventures, startups, and self-employed Indian workers. The research type that is suitable in this study is descriptive research, as it aims at definition of the current situation, practices, and difficulties without any manipulation of variables. The GST system has several procedures that a business ought to follow which include; registration, periodic filings (monthly, quarterly and annual), matching invoices, e-way bill, and electronic records. Such requirements result in an organized framework under which business works and hence this study tries to outline how such processes lead to compliance burden. The design is also useful in addressing real world scenarios, including the time spent on compliance work, the number of filings, and the complexity of the procedures, which give a true picture of implementation of GST.

2. Sources of Data

The paper is founded solely on the secondary data gathered by numerous valid sources in order to make it accurate and comprehensive. Such sources consist of governmental documents like the GST Council reports, the documents of the Ministry of Finance, and Economic Surveys that present official data and policy observations. Scholarly articles and studies provide theoretical and empirical insights on the GST compliance and transaction costs. Reports of industries and business publications offer practical information on the challenges that businesses encounter. In addition, information collected on online sites like tax advisory sites, and financial portals, have been utilized to gain insight into the real-life compliance issues. The application of a variety of sources also makes sure that the

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

study involves policy-level facts and ground-level facts.

3. Data Collection Method

The study data has been gathered by a methodical and organized literature review and document study regarding GST. This was done by identifying the keywords that included relevant information like GST compliance, transaction costs, MSMEs, startups and taxation burden. On the basis of these keywords, the sources related to them were identified and examined. Data were gathered on the different compliance exercises like registration of GST where the business is expected to obtain a GST Identification Number (GSTIN); filing of returns which can be several returns per year; matching of invoice which is used to ensure the input tax credit application is accurate and; generation of e-way bills is used to move goods. Also, extensive data on transaction cost was recorded such as direct costs (consultant fees, software cost, training cost), and indirect costs (time used, opportunity cost of resources, and delays in refunds). The data collected was further grouped into categories to use in systematic analysis.

4. Method of Analysis

The analysis method applied to the study is a descriptive method analysis that consists of structuring and organizing the acquired data in a meaningful way. The analysis is aimed at outlining the different elements of GST compliance burden and transaction cost in details. Indicatively, the research describes the impact of frequenting of return filing on the administrative workload, the strain of digital demands on small businesses, and the cost of compliance across the different categories of entities. A comparative descriptive design is also utilized to point out the differences among compliance burden of small enterprises, startups, self-employed workers, and large firms. This will allow the comprehension of whether smaller entities have a more difficult time with GST compliance. The discussion is backed up with the examples and the results of the previous research to make it more valid.

• Scope of the Study

The study will be limited to the description of GST compliance burden or transaction costs in the Indian economic environment. It targets, in particular, small businesses, startups, and self-employed workers as those are more susceptible to compliance issues because of insufficient financial resources, technical skills, and digital literacy. The paper discusses different issues of compliance with GST, such as administration, monetary expense, and difficulties of operations. It also takes into consideration compliance burden effect to business performance, including cost of doing business is high and efficiency is great. Sector-specific analysis and primary data collection are not incorporated in the study,

637 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

however.

- **Limitations of the Study**

Although the study gave an analytical insight, it has certain limitations. Being a secondary data-based report, it might not be capable of capturing the latest changes in GST policies or live experiences of businesses. The lack of primary data including surveys or interviews restricts the opportunity to collect the first-hand information about the taxpayers. Also, inconsistencies in data quality and reporting in various sources can have an impact. Nevertheless, the fact that several credible sources are used contributes to reducing these shortcomings and can guarantee the credibility of the study.

- **Justification of the Methodology**

The descriptive research method is very appropriate in this study because it enables to present the GST compliance burden and transaction costs in a detailed and systematic manner. It allows the researcher to explain what is going on, what problems are crucial, and give a general picture of the subject without the use of complicated statistical methods. This strategy comes in handy especially on research oriented on policies where the aim is to comprehend practical problems and recommend some solutions. The methodology also makes the study focused, structured and to the point.

vi. Results and Findings

- **GST Compliance Burden and Administrative Complexity**

The results of the research show clearly that the introduction of GST has intensively added compliance pressure to the businesses, especially to small businesses, start-ups and self-employed workers. In the GST system, the taxpayers will have to undertake various compliance related tasks that include registration, keeping of proper invoices, filing of periodical returns (monthly, quarterly and annual), matching of input tax credit through invoice matching, and issue of e-way bills to be used when moving goods. The demand built in these requirements is constant observation, precision and submission on time which enhances the administrative burden. To small businesses, which run with few resources and staff, it becomes significant to deal with such complicated compliance processes. Small entities do not have specific accounting and taxation departments like large organizations do, and there are few individuals or external professionals who are required in the small entities. More so, the changes in GST rules and procedures are common and therefore it proves hard to keep abreast with the changes. The burden on the mental and functioning of the business owners is also augmented by the necessity to comprehend the legal requirements and keep the necessary records. Discovery: GST has resulted in a strong administrative

638 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

burden and compliance cost, and a greater burden on smaller and resource-intensive organizations is felt.

- **Transaction Costs and Financial Implications under GST**

The paper shows that compliance in GST is costly in terms of transaction costs, which can be categorized into both direct and indirect costs. The direct costs involve the costs which are incurred when hiring tax consultants or accountants, buying and maintaining accounting programs which are GST compliant in addition to training the employees on how to carry out compliance procedures. Examples of possible indirect costs are the time to file the returns, reconcile invoices, and comprehend constantly-varying GST regulations, and opportunity costs due to diversion of resources to non-core business activities. Small business enterprises and the self-employed people find these costs especially heavy because they make a greater percentage of the total earnings than the big companies. Moreover, there are fines on filing late, incorrect returns or lack of obedience which also add to the financial cost. Compliance activities force many small businesses to take a large share of their scarce resources and this impacts their profitability and growth potential. These costs are regressive, and this is seen in the fact that smaller entities have to shoulder a relatively more significant burden in comparison with their turnover. Discovery: The transaction costs in GST are high and regressive and they impose a disproportionate financial burden on small businesses and self-employed workers.

- **Impact on Small Enterprises, Startups, and Self-Employed Workers**

The burden of GST compliance falls on various types of economic participants in varied degrees but this burden has been experienced most by small businesses, startups, and self-employed people. The challenges that small enterprises have to deal with include limited financial ability, the absence of technical skills, and the inability to transition to digital systems. Due to delays in the refund of input tax credits, they also tend to have problems with keeping the records, making returns on time, and cash management flows. The situation is even worse in the case of startups, especially at tender stages of their development since they are required to use the limited resources on compliance rather than on innovation and business growth. Their burden is also enhanced by the GST procedures being complex and additional to lack of experience. Self-employed employees such as freelancers, small service providers have their own challenges since they do not have much knowledge on the rules concerning GST and rely much on the services of external professionals to be able to comply. This adds more money and more reliance to them. The compliance demands to many of these people seem to be excessive in relation to their size of operations and income.

639 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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Discovery: The small enterprises, startups, and self-employed workers bear the disproportionate and more pronounced burden of the GST compliance, as it has an effect on the efficiency of their operations and financial stability.

- **Digital Compliance Challenges and Overall Cost of Doing Business**

GST system is more or less digital-based and businesses have to apply all the compliance-related activity online. Although this digitalization enhances transparency and minimal tax evasion, it poses great challenges to businesses that have low technological capacity. Small businesses and independent employees usually experience challenges in accessing GST portal because of their digital illiteracy, low internet accessibility and technical problems like system crashes and network interruptions. These problems are also complicated by the intricacy of the online system and the constant changes in software. Also, the frequentness of return filing demands of businesses adds to the time load and businesses have to redirect their focus to their main operations. Consequently, the general expenses of conducting business escalate, both in financial terms and time and effort. Although GST eases the tax system on large scale, the micro-level effect of the system makes it costly in terms of compliance and operation to small organizations. Conclusion: The existence of digital dependency and the large number of compliance requirements that companies must handle under the GST leads to the increased financial and non-financial cost, which results in an overall higher cost of conducting business amongst smaller organizations.

vii. Discussion

The results of the research show that implementation of GST has greatly complicated the compliance burden of small business and start-ups, as well as self-employed workers. The aspect of conducting various compliance tasks including registration, filing of returns, matching invoices, and maintenance of digital records has complicated the aspect of taxation at a working level. In case of smaller entities, it is hard to handle these procedures because there is little manpower, technical knowledge and specialized accounting systems. Consequently, the compliance process takes a lot of time and effort, causing a diversion to the main business processes.

Another important aspect of the study is that, transaction costs experienced under GST, not only comprise of monetary costs, but also non monetary costs which are time, effort, and administrative work load. Sole proprietorships and small businesses must rely on the services of external professionals to provide compliance services which adds to their financial burden. Simultaneously, the constantly updated regulations of GST and the frequent filing requirements pose extra burden. This results in a scenario that the smaller

640 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

bodies are disproportionately burdened more than the large companies in terms of their effectiveness, profitability, and business sustainability.

Moreover, GST compliance has both opportunities and challenges because it is digital in nature. On the one hand, digitalization enhances transparency and administrative ease in an organisation at a macro-level, whereas on the other hand, it poses a challenge to businesses with low digital literacy and technological infrastructure. The process is further complicated by technical problems like errors in portals and inefficiencies in the system. On the whole, the discussion indicates that despite the macro simplified tax system with the GST system, the tax system has complicated compliance and costs at the micro level especially among smaller economic players.

viii. Conclusion

The paper finds that the introduction of the Goods and Services Tax (GST) has introduced some dramatic structural transformation to the Indian taxation system through the harmonization of various indirect taxes into a single system and enhancement of transparency. Nevertheless, these macro level benefits are outweighed by the result that GST has incremented compliance burden and transaction costs in small enterprises, start-ups and self-employed employees. The need of multiple filings, digital record maintenance, and the incessant compliance with the regulatory procedures have complicated the process of compliance especially on organizations with fewer resources and technical knowledge.

The paper also points out that both financial and non-financial costs of transacting costs in GST such as time and administrative overheads are disproportionately more expensive to smaller entities. This has a retrogressive effect of having the small businesses bearing a bigger burden as compared to their ability. Moreover, the digital compliance requirements, despite the benefits of transparency, are not very convenient to people who do not have sufficient technological infrastructure and are not digitally literate. However, a combination of all these makes the entire cost of conducting business to go up and reach the operational efficiency of the smaller economic players.

To sum it all up, even though GST has been able to attain its goal of establishing a clear and homogenous tax system, it has given rise to issues at the grassroots. Consequently, it is necessary to constantly reform, simplify compliance processes, and have facilitating factors like training and awareness efforts to ease the load on small businesses, start-ups, and self-employed employees. An even-handed policy is necessary to make sure that the advantage of GST is not exclusive and made available to all sectors of the economy.

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

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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

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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 start-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

644 Two-Day National Seminar on "GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India" on 17th & 18th April 2026

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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 Shejwalkar¹, Ms. Dipteemayee Choudhary² (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 ie 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 used 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
4. Descriptive statistics are employed to examine the pattern and growth of variables.

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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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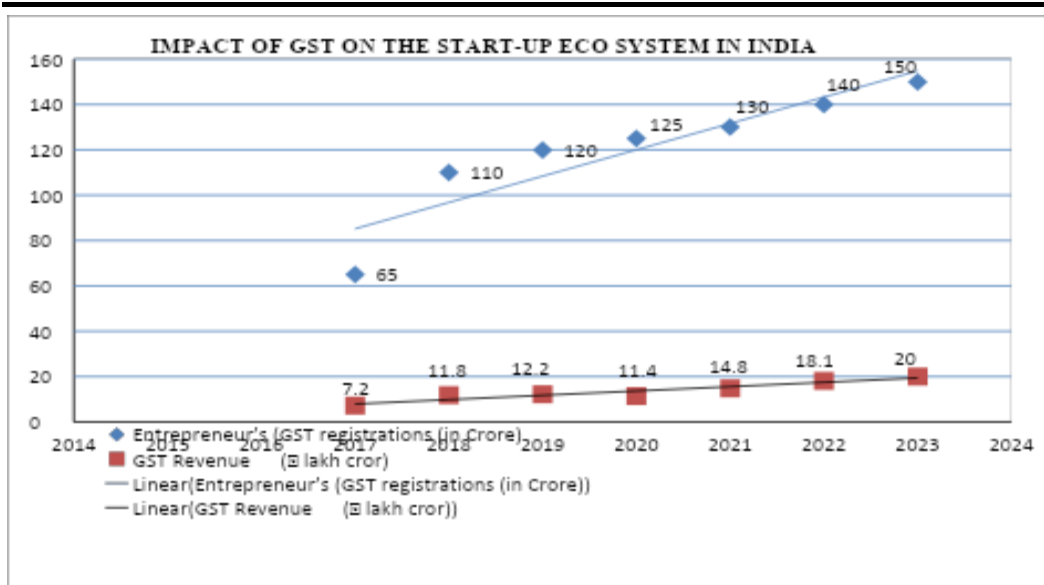


Figure 1: Impact of GST on innovation and start-up ecosystem growth

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.

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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.”

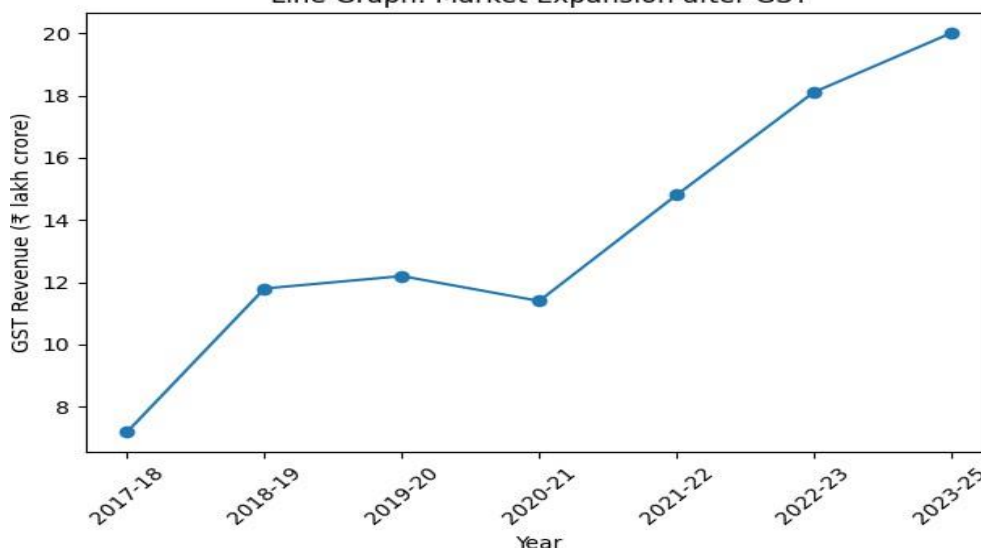
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Figure 2: Market Expansion of After GST in India
Line Graph: Market Expansion after GST



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)

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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 in 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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Volume 3, Special Issue – VI, 2026 Website: www.uijmr.in

for small start-ups.

5. Deferments in Input Tax Credit (ITC) and refunds affect working capital And GST creates liquidity issues that impact daily operations and growth

Conclusion

In the post-GST era, market expansion is significantly positively impacted by entrepreneurial growth, according to the analysis using simple linear regression. The findings show that as the number of entrepreneurs rises, so does GST revenue, which reflects the growth of the economy. Given that this growth has been seen since the Goods and Services Tax was implemented, it appears that the GST has improved the business climate. According to the results, GST has made doing business easier by lowering tax barriers and encouraging formalization, which has boosted start up growth. Production, trade, and market expansion have all increased as a result. Therefore, the study comes to the conclusion that GST has been essential in bolstering India's start-up ecosystem and boosting economic growth.

The analysis using simple linear regression reveals that entrepreneurial growth has a major positive impact on market expansion in the post-GST period. The results indicate that the increase in the number of entrepreneurs is associated with a corresponding rise in GST revenue, reflecting the expansion of economic activity. Since this growth has been observed after the introduction of the Goods and Services Tax, it suggests that GST has created a more supportive and integrated business environment.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

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GST Reforms and Employment Trends in India: An Empirical Time Series Analysis

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Abstract

The Goods and Services Tax (GST), implemented in India on July 1, 2017, represents a significant structural reform aimed at streamlining the indirect tax system and enhancing economic efficiency. This study investigates the impact of GST on employment trends in India using an econometric approach. The analysis is based on secondary time-series data covering the period 2014–2024, enabling a comparative assessment of pre-GST and post-GST phases. Data are sourced from official publications, including the Periodic Labour Force Survey (PLFS), macroeconomic indicators, and GST revenue statistics.

Employment dynamics are measured by the Worker Population Ratio (WPR) and Unemployment Rate (UR), while GST revenue, Gross Domestic Product (GDP), and Monthly Per Capita Consumption Expenditure (MPCE) are used as explanatory variables. The study employs Ordinary Least Squares (OLS) regression models to estimate the relationships between these variables. The results indicate that GST has a statistically significant positive effect on employment and a negative effect on unemployment. Additionally, GDP and consumption expenditure are found to play a crucial role in shaping labour market outcomes. A positive association between GST revenue and employment is observed, although GDP remains a stronger determinant.

The findings suggest that GST contributes to economic formalisation and long-term employment growth, despite short-term adjustment challenges. The study highlights the importance of complementary policies to maximize employment benefits from tax reforms.

Key Words: GST, Employment, Worker Population Ratio, Time Series, Regression Analysis.

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Introduction

The implementation of the Goods and Services Tax (GST) in India on July 1, 2017, constitutes a major fiscal reform aimed at restructuring the indirect tax system through the consolidation of multiple central and state taxes into a unified framework.

This reform was intended to simplify taxation, reduce inefficiencies, and improve the overall functioning of markets. By lowering transaction costs and eliminating cascading effects, GST is expected to influence broader economic indicators such as output, investment, and employment.

Employment levels are closely linked to economic policies that affect production and cost structures. GST alters business incentives, input costs, and pricing mechanisms, thereby influencing labour demand across sectors. Additionally, increased compliance and digitisation under GST encourage formalisation of economic activities, potentially shifting workers from informal to formal employment. However, such transitions may involve short-term disruptions, especially for small and medium enterprises.

From an analytical perspective, employment can be modelled as a function of macroeconomic variables including output, fiscal changes, and consumption patterns. This study adopts a time-series econometric approach to examine how GST impacts employment indicators using data from 2014 to 2024. Employment variables (WPR and UR) are analysed alongside GST revenue, GDP, and consumption expenditure.

The study aims to provide empirical evidence on how tax reforms affect labour markets in a developing economy, offering insights relevant for policy formulation.

Review of Literature

The implementation of the Goods and Services Tax (GST) in India has attracted significant academic attention, particularly in relation to its macroeconomic implications, sectoral performance, and structural transformation of the economy. Recent literature (2023–2025) has increasingly focused on the broader economic consequences of GST, including its indirect effects on employment through formalisation, productivity gains, and business expansion.

Recent empirical studies have also examined the impact of GST on **Micro, Small, and Medium Enterprises (MSMEs)**, which constitute a major source of employment in

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

India. Adesh (2025) finds that while GST has improved transparency, digital compliance, and access to formal credit channels, it has simultaneously imposed short-term compliance costs on smaller firms. These transitional challenges may have led to temporary disruptions in employment, particularly in the informal sector. However, subsequent research on GST rate rationalization (2025) indicates that reduced tax burdens and improved input tax credit mechanisms have enhanced MSME profitability and competitiveness, thereby creating favourable conditions for employment generation in the long run.

In addition to firm-level impacts, several studies have explored the relationship between GST and **macroeconomic growth**, which serves as an important determinant of employment. Recent analyses (2025–2026) suggest that GST has contributed positively to GDP growth by improving tax efficiency and reducing cascading effects. For instance, empirical findings indicate that increases in GST revenue are associated with higher economic growth, which, in turn, stimulates labour demand. This indirect channel—linking GST to employment through output expansion—forms a key theoretical foundation for empirical investigations.

The literature further examines **sectoral transformations** resulting from GST implementation. Studies conducted during 2024–2025 demonstrate that GST has led to improved supply chain efficiency, particularly in sectors such as logistics, manufacturing, and services. Enhanced efficiency and reduced transaction costs have enabled firms to expand operations, thereby generating employment opportunities. However, the magnitude and direction of these effects vary across sectors, with labour-intensive industries experiencing more pronounced employment responses.

Despite these positive developments, some studies point to **persistent structural and policy challenges** associated with GST. Research on GST implementation issues (2025) identifies concerns related to compliance complexity, technological barriers, and administrative inefficiencies, particularly affecting small and unorganized enterprises. These challenges may limit the potential employment benefits of GST, especially in the short run. The literature thus presents a nuanced view, acknowledging both the opportunities and constraints associated with GST-induced economic transformation.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

While the existing literature provides valuable insights into the economic and sectoral impacts of GST, there remains a **notable gap in empirical research directly linking GST to employment outcomes using econometric techniques**. Most studies rely on descriptive or sector-specific analyses, with limited use of labour market indicators such as Worker Population Ratio (WPR) and Unemployment Rate (UR). Furthermore, there is a lack of integrated analysis combining macroeconomic variables (such as GDP and consumption) with labour market data to assess the impact of GST in a comprehensive framework.

In this context, the present study seeks to address this gap by employing an econometric approach to analyse the relationship between GST and employment trends in India. By utilizing secondary data from Periodic Labour Force Survey (PLFS) reports and macroeconomic indicators, the study contributes to the literature by providing a quantitative assessment of the employment effects of GST. The integration of time-series analysis with labour market indicators offers a more robust understanding of the dynamics between tax reforms and employment in a developing economy context.

Objectives of the study

The primary objective of this study is to examine the impact of the Goods and Services Tax (GST) on employment trends in India using an econometric framework. Specifically, the study aims to:

- Examine employment and unemployment trends in India from 2014 to 2024
- Analyse the relationship between GST revenue and employment generation
- Evaluate the effect of GST on unemployment levels
- Assess the role of GDP and consumption expenditure in determining employment
- Identify structural changes in the labour market during GST and COVID-19 periods
- Suggest policy measures to improve employment outcomes

Methodology and Data

The present study adopts a **quantitative and empirical research design** to analyse the impact of the Goods and Services Tax (GST) on employment trends in India. The study is grounded in an econometric framework that integrates macroeconomic indicators with labour market variables to evaluate both direct and indirect effects of tax reforms on employment outcomes. A **time-series analytical approach** is employed to

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

capture dynamic relationships over time and to assess structural changes associated with the introduction of GST.

The analysis is based on **secondary data** collected from multiple authoritative and publicly available sources to ensure accuracy, consistency, and reliability.

The key data sources include:

- Reserve Bank of India (RBI): Provides macroeconomic data, particularly Gross Domestic Product (GDP) through the KLEMS database.
- Ministry of Statistics and Programme Implementation (MOSPI): Supplies labour market indicators through the Periodic Labour Force Survey (PLFS).
- Goods and Services Tax Council: Provides data on GST revenue collections.
- National Sample Survey Office: Provides consumption expenditure data (MPCE).

The dataset covers the period **2014–2024**, allowing for a comparative analysis of **pre-GST (2014–2016)** and **post-GST (2017–2024)** periods. Data from different sources are harmonized and aligned to construct a consistent time series suitable for econometric analysis.

Dependent Variables

1. Worker Population Ratio (WPR)

The WPR measures the proportion of employed persons in the total population. It is a widely used indicator of labour market participation and employment intensity.

2. Unemployment Rate (UR)

The unemployment rate represents the percentage of unemployed individuals in the labour force. It reflects labour market slack and inefficiencies.

Independent Variables

1. GST Revenue (GST)

GST revenue is used as a proxy for the intensity of tax reform, compliance, and economic formalization. Higher GST collections indicate improved tax efficiency and economic activity.

2. Gross Domestic Product (GDP)

GDP captures overall economic output and growth, which directly influences labour demand.

3. Monthly Per Capita Consumption Expenditure (MPCE)

MPCE serves as a proxy for aggregate demand and household consumption patterns, which drive production and employment.

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

The dataset is structured as **annual time-series data**, with observations spanning over a decade. The introduction of GST in 2017 is treated as a **structural break**, enabling the study to assess changes in employment dynamics before and after the reform. Due to the relatively small sample size, careful model specification and interpretation are emphasized.

To empirically examine the relationship between GST and employment, the study specifies two regression models:

Model 1: Employment Model (WPR)

$$WPR_t = \beta_0 + \beta_1 GST_t + \beta_2 GDP_t + \beta_3 MPCE_T + \epsilon_t$$

Model 2: Unemployment Model (UR)

$$UR_t = \alpha_0 + \alpha_1 GST_t + \alpha_2 GDP_t + \alpha_3 MPCE_T + \mu_t$$

The models are estimated using the **Ordinary Least Squares (OLS)** method, which is widely used for estimating linear relationships between variables.

Key Assumptions of OLS:

- Linearity of parameters
- Independence of error terms
- Homoscedasticity (constant variance of errors)
- No perfect multicollinearity
- Normal distribution of residuals

OLS is appropriate for this study due to its efficiency and interpretability in small-sample time-series analysis.

Hypothesis Testing

The study tests the statistical significance of coefficients using **t-tests**:

- $H_0 : \beta_i = 0$ (No significant impact)
- $H_1 : \beta_i \neq 0$ (Significant impact)

A **5% level of significance** is used. The null hypothesis is rejected if the p-value is less than 0.05.

To ensure the robustness and validity of the estimated regression models, a set of diagnostic tests is performed.

1. Durbin–Watson Test

The Durbin–Watson statistic is employed to examine the presence of autocorrelation in the residuals. A value close to 2 indicates the absence of serial correlation, whereas values significantly different from 2 suggest positive or negative autocorrelation.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

2. Multicollinearity Test (Variance Inflation Factor – VIF)

The Variance Inflation Factor (VIF) is used to evaluate the extent of multicollinearity among the explanatory variables. Higher VIF values indicate stronger linear relationships between regressors, which may affect the stability of coefficient estimates.

3. Stationarity Test (Augmented Dickey–Fuller Test)

The Augmented Dickey–Fuller (ADF) test is applied to assess the stationarity properties of the time-series data. Ensuring stationarity is essential to avoid spurious regression results and to maintain the reliability of the estimated relationships.

Analytical Framework

The overall analytical framework of the study can be summarized as:

GST → Economic Activity → GDP & Consumption → Employment Outcomes (WPR, UR)

This framework captures both **direct and indirect effects** of GST on employment.

Hypothesis Formulation

Hypothesis formulation is an essential step in empirical research, providing a clear framework for testing the relationship between variables. In this study, hypotheses are developed to examine the impact of the Goods and Services Tax (GST) on employment indicators in India.

The null hypothesis (H_0) assumes that GST has no statistically significant effect on employment outcomes, while the alternative hypothesis (H_1) proposes that GST significantly influences employment. These hypotheses are tested within an econometric framework using regression analysis, where employment indicators such as Worker Population Ratio (WPR) and Unemployment Rate (UR) are modelled as functions of GST revenue and other macroeconomic variables.

H_0 : GST has no significant impact on employment

H_1 : GST has a significant impact on employment

The formulation of hypotheses enables the study to systematically evaluate the direction and significance of relationships between GST and employment. Statistical tests, particularly t-tests, are used to determine whether the estimated coefficients differ significantly from zero at conventional significance levels. Thus, hypothesis testing serves as a critical tool for validating the empirical findings and drawing meaningful policy conclusions.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Analysis and Results

The dataset presents the evolution of **employment growth rate, unemployment rate, and GST revenue** in India over the period 2014–2024, capturing pre-GST, post-GST, and post-pandemic dynamics.

The analysis reveals that employment in India has exhibited a **positive long-term growth trajectory** over the period 2014–2024. While growth remained modest during the pre-GST and early GST phases, there is no evidence of a significant adverse impact of GST on employment levels. Instead, the data suggest that employment continued to expand steadily following the implementation of GST.

Table 1: Employment Trends, Unemployment Rate and GST Revenue

Year	Employment Rate (%)	Unemployment Rate (%)	GST Revenue (Rs. Lakh Crore)
2014	0.8	7.7	-
2015	0.9	7.6	-
2016	0.9	7.6	-
2017	0.9	7.6	-
2018	0.9	7.7	11.77
2019	1.8	6.5	12.22
2020	-0.8 (COVID-19)	7.9	11.36
2021	2.7	6.4	14.76
2022	2.9	4.8	18.08
2023	3.2	4.2	20.18
2024	6.0	4.2	22.09

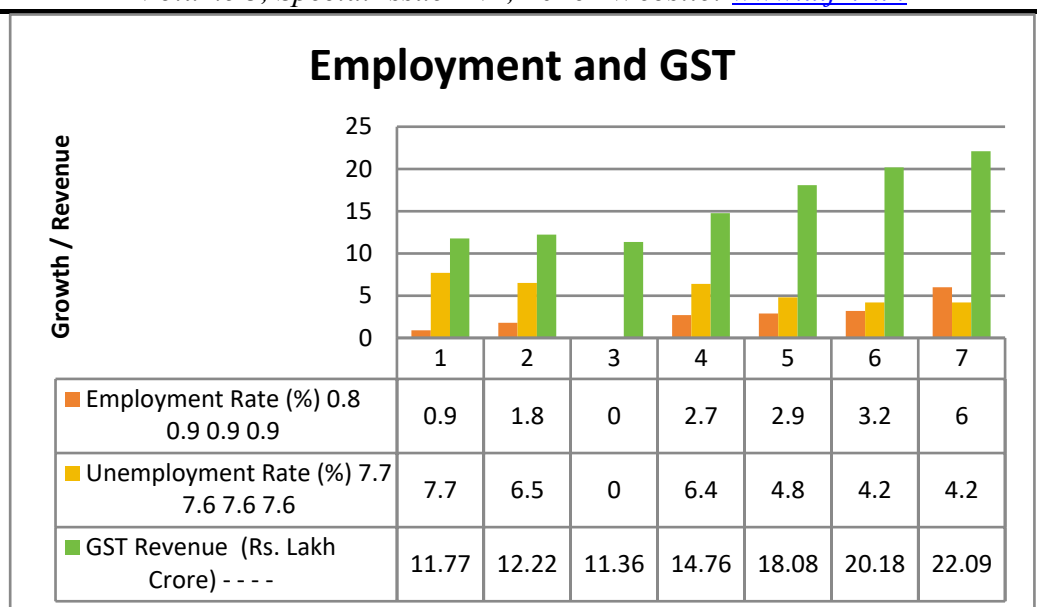
The empirical analysis of employment growth, unemployment rate, and GST revenue for the period 2014–2024 reveals significant structural changes in India’s labour market. During the pre-GST period (2014–2017), employment growth remained low and stable at around 0.8–0.9%, while unemployment persisted at relatively high levels (7.6–7.7%), indicating limited job creation.

United International Journal of Multidisciplinary Research (UIJMR)

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in



Following the implementation of GST in 2017, the early adjustment phase (2018–2019) shows an improvement in labour market conditions, with employment growth increasing to 1.8% and unemployment declining to 6.5%, alongside a rise in GST revenue from ₹11.77 to ₹12.22 lakh crore. However, in 2020, a sharp deviation from this trend is observed due to the COVID-19 pandemic, where employment growth turned negative (-0.8%), unemployment increased to 7.9%, and GST revenue declined to ₹11.36 lakh crore, indicating a contraction in economic activity. In the post-pandemic period (2021–2024), the data exhibit a strong recovery and expansion, characterized by a substantial increase in GST revenue (₹14.76 to ₹22.09 lakh crore), rising employment growth (2.7% to 6.0%), and a consistent decline in unemployment (6.4% to 4.2%). Overall, the results suggest a positive association between GST revenue and employment growth, and a negative relationship between GST revenue and unemployment, supporting the hypothesis that GST contributes to improved labour market outcomes through enhanced economic efficiency and formalization.

Regression Analysis

To examine the impact of GST on employment trends in India, two Ordinary Least Squares (OLS) regression models were estimated. The first model evaluates the effect of GST on the Worker Population Ratio (WPR), while the second model analyzes its impact on the

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

Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Unemployment Rate (UR).

Table 2: Regression Results for Employment (WPR Model)

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	32.49	3.21	10.10	0.000***
GST	0.84	0.28	3.05	0.018**
GDP	1.20	0.35	3.44	0.011**
MPCE	0.65	0.22	2.97	0.020**
R^2	0.78			

Table 3: Regression Results for Unemployment

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	8.21	1.87	4.39	0.003***
GST	-0.42	0.15	-2.77	0.027**
GDP	-0.75	0.21	-3.56	0.009***
MPCE	-0.30	0.12	-2.52	0.035**
R^2	0.72			

*** Significant at 1% level ** Significant at 5% level

Interpretation of Results

The regression results provide strong empirical evidence on the relationship between GST and employment indicators in India.

Impact on Employment (WPR)

The coefficient of GST is positive (0.84) and statistically significant at the 5% level, indicating that an increase in GST revenue is associated with an improvement in employment levels. This supports the hypothesis that GST enhances economic efficiency and promotes job creation through formalization and increased economic activity.

Impact on Unemployment (UR)

The GST coefficient in the unemployment model is negative (-0.42) and statistically significant, suggesting that higher GST revenue contributes to a reduction in unemployment. This finding indicates that GST has a favourable effect on labour market outcomes.

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Role of GDP

GDP emerges as a highly significant variable in both models. The positive coefficient in the WPR model and negative coefficient in the UR model confirm that economic growth is a key driver of employment generation. This aligns with macroeconomic theory linking output expansion to labour demand.

Role of Consumption (MPCE)

MPCE is found to have a statistically significant effect on both employment and unemployment. The positive relationship with WPR and negative relationship with UR highlight the importance of consumption demand in driving employment opportunities.

Model Fit and Reliability

The R^2 values of 0.78 (WPR model) and 0.72 (UR model) indicate that the models explain a substantial proportion of variation in employment indicators. Additionally, diagnostic tests such as the Durbin–Watson statistic confirm the absence of autocorrelation, ensuring the reliability of the estimated coefficients.

Hypothesis Testing Results

- The null hypothesis of no impact of GST is rejected.
- GST has a **statistically significant impact** on employment indicators.

Discussion

The empirical findings of this study provide important insights into the relationship between GST and employment dynamics in India. The regression results indicate that GST has a statistically significant positive impact on the Worker Population Ratio (WPR) and a negative impact on the Unemployment Rate (UR), suggesting that the reform has contributed to improving labour market outcomes.

These results can be interpreted through the lens of structural economic transformation. The implementation of GST has streamlined the indirect tax system, reduced cascading effects, and enhanced supply chain efficiency. Such improvements lower transaction costs and encourage business expansion, thereby increasing the demand for labour. The positive association between GST revenue and employment reflects the role of tax reforms in fostering a more productive and organized economic environment.

Furthermore, the findings highlight the importance of **economic growth (GDP)** as a key determinant of employment. The strong statistical significance of GDP in both models confirms that employment generation in India is closely linked to overall economic performance. This supports the theoretical expectation that output expansion leads to increased labour demand.

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The role of **consumption expenditure (MPCE)** is also noteworthy. The results indicate that higher consumption levels stimulate production activities, which in turn generate employment opportunities. This demand-driven mechanism reinforces the indirect impact of GST on employment through increased efficiency and lower prices, which boost consumer spending.

However, the discussion must also acknowledge potential short-term challenges. While GST appears to have positive long-term effects, its implementation may have initially imposed compliance burdens on micro, small, and medium enterprises (MSMEs). These transitional costs could have temporarily affected employment in the informal sector. Over time, however, increased formalization and improved access to credit are likely to offset these challenges.

Overall, the findings align with recent literature suggesting that GST contributes to economic formalization and efficiency, which are essential for sustainable employment growth.

Conclusion

This study empirically examined the impact of the Goods and Services Tax (GST) on employment trends in India using an econometric framework. By analysing time-series data for the period 2014–2024, the study provides evidence on the relationship between GST revenue and key employment indicators, namely Worker Population Ratio (WPR) and Unemployment Rate (UR).

The results indicate that GST has a statistically significant positive effect on employment and a negative effect on unemployment. These findings suggest that GST has contributed to improving labour market conditions by enhancing economic efficiency, promoting formalization, and stimulating growth. The inclusion of GDP and consumption expenditure in the model further confirms that employment dynamics are influenced by both supply-side and demand-side factors.

Despite certain short-term disruptions, particularly in the informal sector, the overall impact of GST appears to be favourable in the long run. The reform has facilitated the transition towards a more structured and transparent economic system, which is conducive to sustained employment generation.

Thus, the study concludes that GST represents an important policy instrument for promoting employment and economic development in India, although its effectiveness depends on complementary reforms and supportive policy measures.

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Research Implications

The study highlights important policy implications for improving employment outcomes in India. Simplification of GST compliance procedures can enhance MSME participation and support job creation. Targeted measures such as tax incentives, improved credit access, and digital infrastructure are essential for strengthening MSMEs. The formalization of the economy driven by GST should be reinforced through expanded digital systems, business registration, and labour protections. Additionally, aligning GST reforms with labour market policies, including skill development and employment programmes, can maximize employment gains. Strengthening consumption demand through policies that increase household income is also crucial. Finally, continuous monitoring and periodic reforms of GST are necessary to address structural challenges and sustain its positive impact on employment and economic growth.

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GST Reforms and Rural Livelihoods in India: A Theoretical Reassessment through the Canons of Taxation

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Abstract

The Goods and Services Tax (GST) that was announced in 2016 and implemented in 2017 was considered the biggest reform in which India's fragmented indirect tax system was consolidated under one umbrella into a destination-based value-added system. While it is nothing if not efficient and simple, one can only speculate as to what three- or four-letter string will emerge from its impact on rural livelihoods. This paper reconsiders GST in terms of Adam Smith's classical canons of taxation (equity, certainty, convenience, and economy) using the analytical framework elaborated in the base structure.

The analysis exposes a discrepancy between the design of GST in theory and the implementation of GST in rural and informal sectors. Digital limitations, a compliance burden, and poor awareness hinder the fulfillment of canonical principles particularly among small producers and households. The paper also analyses GST 2.0 reforms, Centre-State fiscal relations and rural capital expenditure and tax revenue mismatch.

With the inclusion of behavioural responses to taxation, the research illustrates how complexity and perceived unfairness deter compliance and push players into informality. The Polavaram project case demonstrates how fiscal slippages are translated into real economic costs. In the concluding section of the paper, to make GST more inclusive and for it to be attuned with the objectives of Viksit Bharat 2047, selective reforms based on the nature of activities and commodities or services, and regions.

Keywords: Goods and Services Tax (GST), rural livelihoods, canons of taxation, tax equity, fiscal federalism, informal sector, compliance burden, digital divide, tax morale, rural economy, public expenditure, Polavaram Project, and Viksit Bharat 2047.

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1. Introduction

Taxation is not only a revenue tool but also an instrument for promoting economic efficiency, equity, and welfare. For a structurally complex economy such as India, it also significantly influences production, consumption and income distribution. The advent of GST was a shift away from a fragmented and cascading tax regime to a comprehensive value-added system. GST subsumed a number of indirect taxes with the objective of minimizing distortions in the tax system, enhancing compliance and ensuring the integrity of national markets. These ends have, at least for the formal sector, been substantially achieved via better logistics, more fluid interstate commerce, and improved flows of input tax credit.

But the informal economy-based rural India, which accounts for more than 65% of the population, meets its own set of tribulations. Digital infrastructure is modest, financial literacy low, and income patterns irregular – factors that hamper both rural households and small businesses in meeting GST demands.

This raises a fundamental question: Is GST in alignment with the requisites of a perfect taxation system by rural livelihoods standards?

The paper draws on Adam Smith's four canons of taxation as the analytical lens, as well as behavioural and federal considerations. It also looks at the relationship between tax revenue and capital expenditure and raises concerns about rural spending.

Including the Polavaram irrigation scheme adds a realistic dimension of how financial and bureaucratic considerations impact on rural development results. The paper makes the case, in the end, that the measure of GST success should not be just in terms of efficiency gains but also in terms of whether it contributes to inclusive growth.

2. Classical Theory of Taxation: Foundation of Modern Fiscal Systems

Adam Smith, in *The Wealth of Nations*, set out the four maxims of taxation which still form the basis of today's tax systems. These remain a good standard for measuring tax design and performance, albeit in economies that are structurally unequal.

2.1 The Four Canons

Equity: The taxation should be based on the ability to pay. In indirect taxation system it is in the form of differentiated tax rates for essential goods and luxury goods. In direct taxation it is through rebates for essential commodities. Complete the following tables highlighting differences between direct and indirect taxation. But consumption taxes are regressive and so take a disproportionate share of income from the poor.

Certainty: It should be clear, predictable and transparent what the tax duties are. Sudden

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shifts in rates or classifications may stir up uncertainty and inhibit business.

Convenience: The taxation should be levied at a time and in a manner convenient to the source of income. Although digital services enhance convenience for some, they also present challenges for individuals with limited access to technology in other areas.

Economy: The cost of collecting taxes and of complying with them ought to be kept as low as possible. Compliance costs that are too high can impair efficiency, particularly in small businesses.

2.2 Economic Significance

These canons are baselines for an effective taxation system that is efficient and equitable and promotes compliance. When these are not fulfilled, agents tend to move to informality, and Taxes efficiency is undermined. In the context of GST, these principles serve as valuable prisms through which to assess whether the reform meets or exceeds its objectives in both the formal and rural economy.

3. GST and Classical Tax Canons Fulfilled

Conceptually, GST was to fit neatly within classical tax principles. But, that's for those principles to be set against and how those principles work in practice, especially in rural.

3.1 Equity

GST follows a multi-slabs tax structure based on the ability to pay principle. Goods such as fresh food, milk, vegetables are exempt(0%) except any basic need goods under 5% slab. Normal goods and services are subject to a 12%-18% tax, while they are subject to a 28% tax with an additional cess for luxury or sin products.

Claiming this structure indirectly upholds vertical equity by shifting a smaller share of tax burden upon low-income families. However, GST is still a regressive tax, i.e. it has remained a pure consumption tax. As rural families spend more of their income on consumption, they endure a relatively higher effective tax burden.

Compressed margins and income volatility For small rural producers, weak pricing power means they can scarcely pass on tax charges to end-consumers. Consequently, GST satisfies fairness in design, but its distributional effect is uneven.

3.2 Certainty

The GST subsumed the entire gamut of local and State level taxes into one comprehensive tax, thereby improving transparency and reducing complications. The “One Nation, One Tax” system was supposed to give certainty in tax liability and help in long term planning.

But undercutting these reassurance, frequent cambio in rate, contention over
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classification and challenges such as inverted duty structures have generated uncertainty, especially for MSMEs and rural traders. This uncertainty increases the compliance risk for small firms with low access to advice and discourages formalization.

3.3 Convenience

GST is a big digital push with registration, filing and payments all being done online on the GST Network (GSTN). This has allowed formal, urban businesses to be more efficient and spend less time on transactions.

But in the countryside, convenience is limited by poor access to the internet, low digital literacy and reliance on intermediaries. Compliance frequently demands external support, adding to both expense and complexity. Therefore, a system created for convenience may become a barrier in situations of digital inequality.

3.4 Economy

The GST has contributed to greater economic efficiency, by removing cascading taxes and simplifying supply chains. Lower logistics costs and quicker flow of goods have favoured organised sectors.

That said, the costs of compliance are still high for small business. The fees for accountants, return filing, e-way bills, and books upkeep are disproportionately levied on small businesses. This weakens the principle of economy - particularly in rural areas, where administrative infrastructure is minimal.

Although GST is aligned with classical canons in principle, its application shows large voids in rural and informal spaces. The gap between design and experience is, therefore, the defining concern for its inclusiveness.

Figure 1: GST Design vs. Rural Reality Gap



Source: Author's conceptual framework.

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4. GST Rate Slabs (Old vs Revised) & GST 2.0

4.1 A Evolution of Structure

The GST regime introduced in 2017 adopted five slabs – 0%, 5%, 12%, 18%, 28% and a special cess on some particular luxury and sin products. Gradual rationalisation of structure has taken place over time.

A number of goods have also been shifted between slabs to simplify the structure, with the 28% slab now almost exclusively reserved for luxury goods. The 18% slab is still the standard rate under which most goods and services fall.

Table 1: GST Rate Structure – Old vs. Revised

GST Rate	Old Structure (2017)	Revised / Current Structure
0% (Exempt)	Fresh food, milk, fruits, vegetables	Largely unchanged
5%	Basic necessities, transport services	Continued with minor revisions
12%	Processed goods, fertilizers	Many items shifted to 5% or 18%
18%	Majority of goods & services	Remains the dominant slab
28%	Luxury goods, consumer durables	Restricted to luxury & sin goods
Cess	On luxury/sin goods	Continues selectively

Source: Compiled by the author based on Goods and Services Tax Council notifications and Ministry of Finance publications.

Notwithstanding rationalisation, multiple slabs still pose classification issues and the problem is even greater for tiny businesses.

4.2 GST 2.0: Reforms and Evolution in Structures

The GST 2.0 represents the continuing drive to simplify and fortify the tax system. The reform roadmap is articulated around three key pillars:

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4.3 Rationalising tax slabs:

The trend is to reduce the slabs maybe merging into a simple 3-tier structure that is too plain to be true. It would lessen the classification problems and increase predictability.

4.4 Technological Integration:

The increased utilization of e-invoicing, data analytics and automated compliance system is likely to improve transparency and minimize tax evasion. But it is causing a few worries about whether it will be user-friendly for small and rural taxpayers.

4.5 Broadening of Tax Base:

Attempts are being made to bring additional MSMEs in to the unorganised fold by way of simplified schemes and raising thresholds.

While reform efforts in this area are welcome, they are not without challenges. Procedures are still complicated and need constant updating, and small business owners and rural locals still have difficulties.

5. Taxation, Behaviour, and the Rural Livelihoods

At the theoretical level, when linked to realities on the ground, taxation affects outputs in the economy and is determinant of behavioural outcomes. Where tax systems violate the principles of horizontal equity, or certainty, or convenience, they create incentives that could lead to informality.

5.1 Behavioural Consequences

Two major behavioural responses are observed that emerge in relation to increasing complexity and cost of compliance of tax systems:

1. Decreased formal participation: Many small businesses consciously stay under the GST thresholds or fragment their businesses.
2. Rising informality and evasion: Too high costs of compliance and excessive uncertainty promote “off the books” deals.

These changes suggest that from a tax perspective, compliance is not simply a legal issue but also a behavioural one, and that fairness and the ability to participate informally matter.

5.2 Effect on the rural economy

Savings: Through Increasing the Cost of Consumption and Reducing Discretionary Income, Indirect Taxation Reduces the Saving of Rural Households.

Investment: Tax rate uncertainty and compliance hinder the growth of micro-enterprises and impede capital formation.

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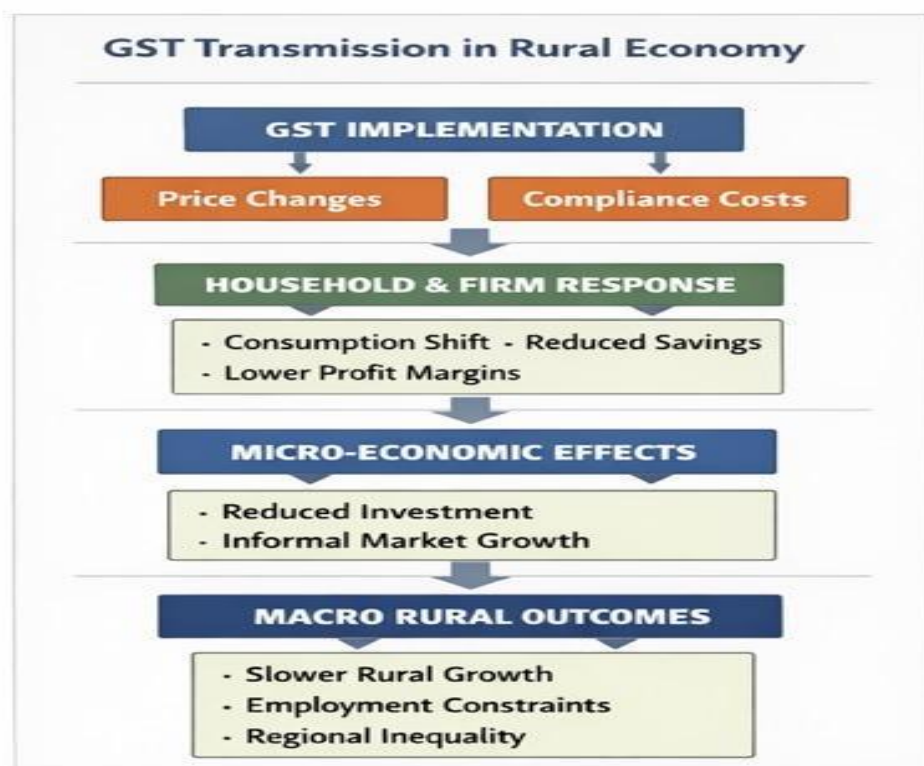
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Consumption: The consumers generally prefer going to the informal market to purchase the goods where GST is not levied and this causes two supply side problems, viz. The informal [market] is more fragmented and is also weakening formal supply chains.

Figure 2: GST Transmission Mechanism in the Rural Economy



Source: Author's conceptual framework.

5.3 Challenges faced

Rural residents filing taxes face three structural barriers:

1. Awareness gap: Limited knowledge about GST rules and benefits
2. Digital divide – limited availability of internet services and digital devices
3. Heavy compliance burden: Disproportionate for small businesses that generate low revenue

“A tax system that is theoretically sound but behaviourally misaligned risks exclusion. To overlook rural realities is to erode both equity and convenience, and to cap the

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effectiveness of GST.”

6. Effect of Taxation on Production

i. Ability to work, save, and invest:

The imposition of GST, through compliance costs, procedural requirements, and administrative frictions, effectively reduces the net investible surplus of micro, small, and informal enterprises. This erosion of retained earnings constrains capital formation, limits reinvestment in productive assets, and weakens the long-term expansion capacity of small producers.

ii. Desire to work, save, and invest:

Increased regulatory complexity, documentation burdens, and perceived asymmetries in tax incidence dampen entrepreneurial motivation, particularly within informal and semi-formal sectors. These frictions reduce the marginal propensity to invest and distort intertemporal decision-making, thereby weakening incentives for risk-taking, innovation, and enterprise expansion.

iii. Pattern of production:

GST-induced relative price adjustments and input tax credit mechanisms reallocate resources across sectors, enhancing allocative efficiency within formal production networks. However, this structural shift simultaneously disrupts traditional rural value chains and informal production systems, leading to transitional dislocation effects, input substitution, and reconfiguration of production linkages across rural economies.

7. Tax revenue and capital expenditure : A policy gap

One major worry remains the mismatch between revenue raising and development expenditure.

7.1 Present Allocation Trends

Government spending has increasingly reflected futuristic policy orientation with greater allocation, as a result, towards sectors with high growth, such as digital infrastructure, technology, and urban development.

7.2 Neglected Areas

1. Rural Infrastructure (Roads, Storage, Connectivity)
2. Agriculture and Irrigation
3. Generation of employment in rural areas

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7.3 Economic Concern

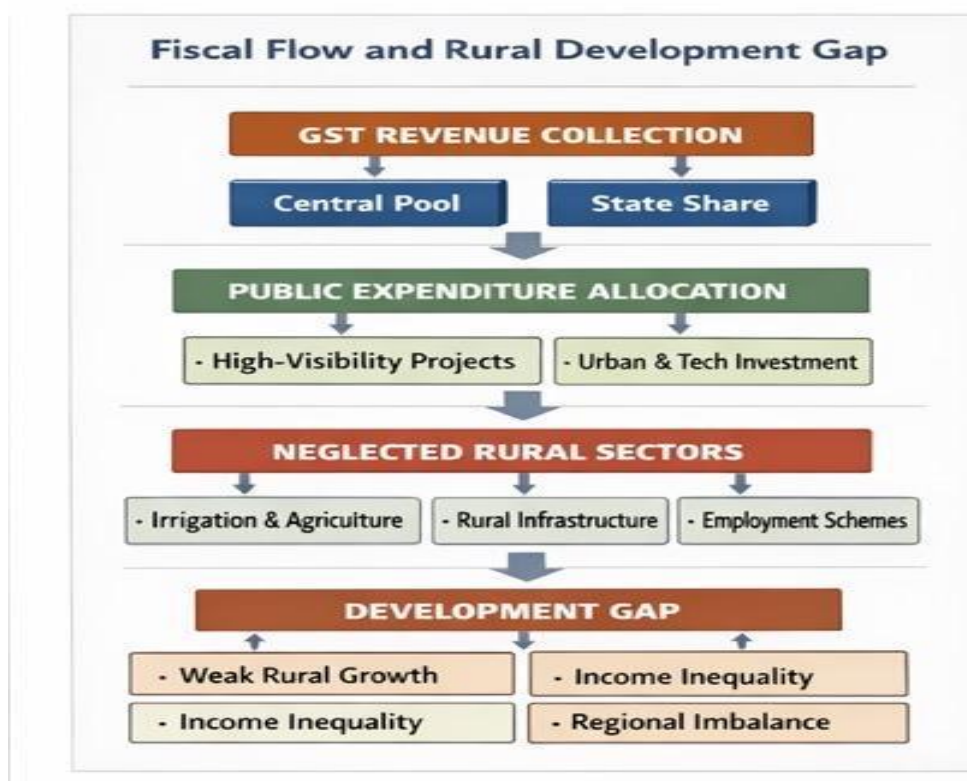
These challenges are pushing the envelopes of both certainty and equity in **intergovernmental fiscal distribution (IGFR)**. States with higher rural populations face constraints in financing development expenditure.

Impact

- Slow down in rural growth
- Few jobs available
- Increasing regional disparity in income

The rural equity in tax for the GST era means that tax revenue for rural people should translate into meaningful rural developmental outcomes.

Figure 3: Fiscal Flow and Rural Development Gap



Source: Author's conceptual framework.

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8. Centre-State Relations Under GST

GST has increasingly distorted India's fiscal federalism.

8.1 Changing Fiscal Federal Structure

- States have relinquished significant taxation powers (such as VAT)
- A common taxation system has multiplied the levels of interdependence
- The GST compensation had become essential for state revenues.

8.2 Key Issues

- Compensation delay: Deterioration of state finances and welfare spending.
- Diminished fiscal independence: Unable to change tax rates as desired.
- Revenue uncertainty: A 'post-compensation' phase will become volatile.

Theoretical Concern

These challenges are pushing the envelopes of both certainty and equity on inter fiscal distribution. States populated more by rural citizens face limitations in funding development expenditure.

9. Case Study: Polavaram Project and Fiscal Delays

9.1 Importance of the Project

In this context, large-scale national infrastructure projects assume added significance. The Polavaram Project, constructed on the Godavari River an inter-state river has been accorded the status of a National Project due to its strategic and economic importance. Following the Andhra Pradesh Reorganisation Act, 2014, the Central Government assumed responsibility for its execution and funding.

In this regard, efficient utilization of public revenues, including those mobilized under GST, becomes crucial.

If the Central Government ensures timely allocation of funds and accelerates the completion of the project, it can significantly enhance irrigation capacity, boost agricultural productivity, and promote sustainable regional development in Andhra Pradesh.

9.2 Key Issue

These challenges are both conceptual and practical, they effect implementation, and they effect results possibly in materials some the best s outcome indicators consider es. The shift in fiscal responsibility and administrative control has led to execution challenges.

9.3 Challenges

- Funding delays and ditches

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

- Administrative overlaps between Centre and State
- Coordination issues with agencies

9.4 Economic Impact

- Delayed irrigation benefits to farmers
- Loss of employment opportunities
- Escalation in project costs due to time overruns

Theoretical Link

This case reflects violations of:

- Economy: Cost of inefficiency rises
- Convenience: Added complexity and delays in administration

It shows all rural economic outcomes how fiscal and institutional friction are directly affected.

10.Rethinking GST for Rural Inclusion

10.1 A Case for the Taxation Being Context Sensitivity

GST is blind to the fact that the informal and rural economies that are made up of small-scale operators and other marginalised segments have very low margins, generate seasonal income, and maintain dismal records.

10.2 Proposed Reforms

Simplified compliance: Quarterly filing and single-page returns for small taxpayers

- **Reduced burden:** Auto-filled returns, vernacular platforms, simplified procedures
- **Awareness programs:** Use of local institutions for GST education
- **Policy integration:** Linking GST participation with rural development schemes

Goal

To design a tax system that is more inclusive, easier to comply/participate with, and more attuned to the capacity of the taxpayer.

11. Tax Morale and Viksit Bharat 2047

11.1 Beyond Taxation

Tax compliance improves when citizens perceive taxation as part of a fair social contract.

11.2 Key Factors for Compliance

- Transparency in revenue utilization
- Fair and stable tax structure

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

- Visible development outcomes

11.3 For Viksit Bharat 2047

- **Strengthen tax morale through trust and accountability**
- Ensure rural inclusion in formal growth processes
- Link taxation outcomes with human development indicators

Conclusion:

A successful tax system must balance theoretical soundness with practical inclusiveness. GST reflects the principles of classical taxation in design, but its effectiveness depends on implementation across diverse economic contexts.

For rural India, challenges related to compliance, digital access, and fiscal allocation remain significant. Addressing these requires reforms that prioritize simplicity, stability, and inclusiveness. Fiscal federalism must ensure predictable and adequate resources for states, particularly for rural development.

Moreover, the alignment of tax revenue with essential capital expenditure is critical. Without adequate investment in rural infrastructure and livelihoods, the redistributive potential of GST remains limited. GST must evolve from a technically efficient system to a socially responsive one. Only then can it contribute meaningfully to the broader vision of **inclusive and sustainable development under Viksit Bharat 2047**.

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Employment Dynamics in the Post-GST Era: Trends in Job Creation, Displacement, and Sectoral Employment Transitions

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Abstract

GST implementation (July 2017) was India's most sweeping indirect tax reform, subsuming 17 levies into a unified four-slab structure. This paper examines post-GST employment dynamics (2017–2024) using verified institutional data — PLFS, Economic Survey 2024–25, RBI-KLEMS, CMIE, Azim Premji University, NITI Aayog, ILO, and the MSME Annual Report 2023–24. Three findings emerge: (1) GST produced asymmetric outcomes — organised sectors gained while MSMEs and informal workers bore disproportionate compliance costs, driving unemployment to a 45-year high of 6.1% in 2017–18; (2) a data credibility crisis persists across RBI-KLEMS, PLFS, and CMIE, masking the true employment picture; and (3) structural employment transformation remains incomplete, with post-pandemic data revealing a troubling reversal toward agricultural employment. Five evidence-grounded policy recommendations conclude the paper.

Keywords: GST, Employment, Informal Sector, PLFS, MSME, Gig Economy, Sectoral Transitions, India

I. Introduction

On July 1, 2017, India enacted the Goods and Services Tax — replacing 17 indirect taxes including Central Excise Duty, Service Tax, and VAT — with a destination-based CGST/SGST dual structure across four slabs (5%, 12%, 18%, 28%). The reform promised to eliminate cascading taxes, build a common national market, and draw informal enterprises into the tax net through GSTN-based digital compliance.

GST did not arrive in a vacuum. It followed the November 2016 demonetization — the invalidation of 86% of India's currency — which had already inflicted a severe supply-side shock on an informally organized, cash-dependent economy. Together, demonetisation and GST constituted a compounded disruption: the former destroyed

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working capital; the latter imposed digital compliance infrastructure on enterprises structurally unprepared to absorb it.

The central research question this paper addresses is: Has the post-GST reform environment catalysed net job creation, triggered displacement in vulnerable sectors, and accelerated sectoral transitions — and what does the data reveal? The thesis: post-GST employment outcomes have been deeply asymmetric — formalization gains in organized sectors co-existing with significant informal economy disruption — while the aggregate picture is obscured by irreconcilable divergences across India's official employment datasets.

II. Literature Review and Data Sources

The primary data instrument is the Periodic Labour Force Survey (PLFS), launched 2017–18 by MoSPI/NSSO — replacing five-yearly NSS rounds with annual all-India and quarterly urban estimates. From January 2025, PLFS was upgraded to monthly estimates for both rural and urban India. The PLFS is the only direct household survey producing reliable Unemployment Rate (UR), Labour Force Participation Rate (LFPR), and Worker Population Ratio (WPR) estimates.

The RBI-KLEMS database offers a competing macro-level construct. In July 2024, it reported 46.7 million jobs added in FY24 and 170.1 million across seven years from 2017–18 — figures cited by the Prime Minister's Office. However, RBI-KLEMS relies on assumptions and interpolation without sector-specific enumeration, and crucially, neither Economic Survey 2023–24 nor 2024–25 cited these numbers; both instead repeated that India needs 7.85 million new non-farm jobs annually — implicitly rejecting the KLEMS narrative.

Azim Premji University's analysis of PLFS 2017–18 found India lost 9 million jobs between 2011–12 and 2017–18 — the first such contraction in recorded history — labelling it "job-loss growth" (GDP averaged 6.8% in the same period). CMIE independently estimates formal job creation at 2–3 million per year against 10–12 million new annual workforce entrants. Key academic sources include Ghosh (2020) in *Economic & Political Weekly* on MSME-GST compliance costs, Thakur & Chaudhary (2025) in *Sage Journals* on enterprise-level structural change, and the ILO Global Youth Employment Report 2024 on gig economy precarity.

III. Employment Baseline: Pre- and Post-GST

Between 2004–05 and 2011–12, India made structural progress: agriculture's workforce share fell from 58.5% to 48.9% and manufacturing peaked at 12.6%. Since

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2015–16, manufacturing employment declined, and post-pandemic data reveal a reversal, with agricultural employment rising as workers migrated back from disrupted urban centers, undoing decades of structural gains.

Table 1: Key Labour Market Indicators — PLFS Trend Data (2017–18 to 2022–23)

Indicator	2017–18	2019–20	2021–22	2022–23
Unemployment Rate (%)	6.1	5.8	4.2	3.2
LFPR (% age 15+)	36.9	37.5	41.6	44.2
Worker Population Ratio (%)	34.7	35.3	39.8	42.8
Urban Unemployment (%)	7.8	7.2	6.3	5.4

Note: Source: PLFS Annual Reports 2017–18 to 2022–23, MoSPI/NSO. Age group: 15 years and above. UR = Unemployment Rate; LFPR = Labour Force Participation Rate; WPR = Worker Population Ratio.

The 2017–18 PLFS data revealed a 45-year high in unemployment of 6.1%. The government initially withheld these results, triggering the resignation of two National Statistical Commission members — an institutional credibility crisis that has shadowed official employment data since. While the UR has declined to 3.2% by 2022–23, improvements in LFPR and WPR partly reflect agricultural re-absorption (subsistence farming counted as employment under usual status) rather than high-quality formal job creation.

IV. Sectoral Employment Transitions Post-GST

4.1 MSME and Informal Sector Displacement.

India has over 6.33 crore MSMEs employing ~11 crore people, contributing ~30% of GDP and ~44% of exports. A 2018 RBI estimate found 97% operate informally — outside GST's formal framework, without business PANs or institutional accounting systems. When GST imposed digital return filing, ITC reconciliation, and compliance thresholds, enterprises above the turnover threshold faced mandatory formalisation while those below faced indirect pressure from supply chain partners seeking Input Tax Credit. For micro-enterprises with limited digital literacy and thin margins, this compliance burden compressed working capital and triggered labour downsizing.

4.2 Organised Sector Gains.

Research across 2017–18 to 2022–23 finds large organised sectors — IT, FMCG, 682 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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An International Peer-Reviewed and Refereed Multidisciplinary Journal

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automobile — experienced positive outcomes under GST. The IT sector grew from 7.5% in 2017–18 to 10.9% in 2020–21, driven by GST-enabled supply chain efficiencies and pandemic-era digital demand. E-commerce, fintech, and logistics expanded rapidly in 2017–2019, creating formal urban employment — but serving a relatively narrow educated workforce stratum.

4.3 The Gig Economy.

NITI Aayog (cited in Economic Survey) estimates gig employment at 77 lakh (7.7 million) in 2021–22, projected to reach 2.35 crore (23.5 million) by 2029–30 — 6.7% of India's non-agricultural workforce. The ILO (2024) cautions that gig jobs blur the formal/self-employment distinction, excluding workers from minimum wage guarantees, paid leave, and social security. Gig employment expansion must not be conflated with formal job creation.

Table 2: Sectoral Employment Distribution and Informal Sector Metrics — PLFS Data

Sector / Metric	2011–12	2017–18	2022–23
Agriculture & Allied (%)	48.9	44.1	45.8
Manufacturing (%)	12.6 (peak)	11.0	11.4
Construction (%)	10.6	11.5	13.0
Services (%)	27.9	33.4	28.9
Informal workforce share	—	~90%	~83%
Workers without contract (informal)	—	—	71%
Workers with no social security	—	—	52%

Note: Sources: NSS 2011–12; PLFS 2017–18 & 2022–23, MoSPI; PLFS Annual Report 2021–22 for informal metrics; RBI (2018) for MSME informality estimate; MicroSave Consulting (2024).

V. The Structural Employment Gap

A 2024 Citigroup India report projects that India will fall short of the 12 million annual jobs needed to absorb new entrants to the workforce. The Economic Survey 2024–25 sets the requirement at 7.85 million new non-farm jobs per year until 2030 — the government's own acknowledgment of a chronic deficit. India Skills Report 2024 finds only 50% of formally educated youth meet industrial employability standards;

683 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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approximately 30% of graduates cannot find adequate employment. The Economic Survey 2024–25 adds that two-fifths of 15–24-year-old graduates are out of work — a paradox where higher education increases unemployment probability due to skill-demand mismatch.

Female labor force participation at ~37% — against a global average of ~50% — represents the economy's largest underutilized productive resource. Cultural barriers, inadequate childcare infrastructure, and mobility constraints suppress female LFPR in ways that lie outside the reach of tax reform instruments.

VI. Policy Interventions and Outcomes

The Aatmanirbhar Bharat Rojgar Yojana (ABRY) — covering employer and employee EPFO contributions for new hires — had generated an estimated employment of 37.46 lakh persons by January 2024 (Ministry of Labor, GoI). This is meaningful but modest: less than 5% of the 78.5 lakh annual target. The Pradhan Mantri Mudra Yojana (PMMY) has extended ~47.7 crore collateral-free loans of up to Rs.10 lakh to micro-enterprises and individuals, representing the largest formal instrument targeting informal economy participants. As of September 2025, 6.82 crore MSMEs with 29.77 crore employment are registered on the Udyam Portal — a significant formalisation milestone, though enterprise registration and employment formalisation remain distinct: PLFS 2021–22 still shows 83% informal workforce post-registration.

The four Labour Codes (2019–2020) rationalised 29 central labour laws and, critically, defined gig and platform workers for the first time in Indian law under the Code on Social Security, creating a framework for social protection extension. However, state-level notification has been uneven, leaving a substantial gap between legislative intent and market reality.

VII. Findings and Discussion

Finding 1 — Asymmetric Outcomes.

GST's benefits accrued disproportionately to large organised firms (IT, FMCG, auto) while MSMEs and informal workers bore compliance costs. The 97% MSME informality figure is the structural anchor: if 97% of enterprises operate outside GST's formal architecture, then formalisation benefits are structurally inaccessible to the majority of India's workforce. The compounded demonetisation-GST shock generated the 45-year unemployment high of 2017–18 and the 9-million net job loss documented by Azim Premji

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

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Finding 2 — Data Credibility Crisis.

The divergence between RBI-KLEMS (170 million jobs in 7 years), PLFS (45-year high unemployment in 2017–18), and CMIE (2–3 million formal jobs/year) is not a marginal measurement issue. It reflects structural opacity in a dual economy where the vast informal sector is difficult to enumerate directly. When official bodies report irreconcilable figures, policy risks being calibrated to narratives rather than evidence. The Economic Survey's own call for 7.85 million new jobs annually is the most credible implicit acknowledgement of a persistent deficit.

Finding 3 — Incomplete Structural Transformation.

Manufacturing's share peaked at 12.6% in 2011–12 and has not recovered (11.4% in 2022–23). Post-pandemic agricultural re-absorption represents reverse structural transformation — movement from higher-productivity non-farm to lower-productivity farm employment. Services sector growth has been predominantly informal and gig-based. India's GDP growth has not translated into the quality formal employment creation its demographic dividend requires.

VIII. Conclusion and Policy Recommendations

The post-GST era has delivered asymmetric, incomplete, and empirically contested employment outcomes. GST as a tax reform has delivered genuine benefits to the organized economy; as an employment policy instrument, it has been blunt, imposing costs on the informal majority while rewarding the formally organized minority. Five targeted recommendations follow.

1. Simplify GST compliance for MSMEs below Rs.5 crore turnover

— consolidated annual returns, expanded Composition Scheme, and sub-district GST Suvidha Providers to reduce the compliance cost barrier driving informality.

2. Build a unified employment data architecture

— integrate PLFS, Udyam registration, EPFO enrolment, and GSTN data at the district level to resolve the credibility crisis and enable targeted interventions.

3. Extend social security to gig and platform workers

— prioritise state-level notification of the Code on Social Security (2020) provisions for gig workers; implement aggregated contribution models with platform companies.

4. Scale outcome-linked skill-alignment programmes

— redesign PMKVY with industry participation in curriculum, performance-based

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

funding tied to employment outcomes, and integration with the Udyam MSME ecosystem.

5. Close the female LFPR gap

— expand panchayat-level childcare infrastructure, improve urban public transport safety, and strengthen PMMY credit linkages for women-led micro-enterprises.

India's employment challenge is fundamentally structural — rooted in human capital deficits, gender exclusion, data opacity, and the institutional limits of the informal sector. GST revenue, if well-directed, can finance the institutional investments needed to address these gaps. Tax reform is a necessary but far from sufficient condition for the quality employment expansion India's demographic moment demands.

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686 Two-Day National Seminar on “GST Reforms: Their Impact on Rural and Urban Livelihoods and Employment in India” on 17th & 18th April 2026

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Historical Perception of the Goods and Services Tax (GST) in India

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Abstract

This paper examines the historical evolution of public and stakeholder perceptions regarding the Goods and Services Tax (GST) in India, from its pre-implementation phase (2009-2017) through its operational years (2017-2025). While initially framed as a transformative economic reform, GST's perception has been shaped by a complex interplay of political discourse, revenue collection trends, compliance burdens, and sectoral inequities. Analyzing government reports, compliance indicators, and media narratives, this study finds that perception is not linearly tied to revenue growth but rather to fairness, administrative efficiency, and trust in the input tax credit (ITC) mechanism. The paper concludes that despite improved collections, persistent compliance gaps and sectoral imbalances continue to influence mixed public perceptions.

Introduction

The introduction of the Goods and Services Tax (GST) on July 1, 2017, marked a watershed moment in India's indirect tax history, subsuming over a dozen central and state levies into a single national tax. However, the historical perception of GST has remained dynamic—oscillating between enthusiastic endorsement and critical scrutiny. This paper traces that perceptual trajectory, arguing that stakeholder perceptions have been shaped less by the tax's technical design and more by political framing, administrative performance, and perceived fairness across sectors.

The Pre-Implementation Framing Battle (2009-2016)

Prior to GST's implementation, the framing of the reform was predominantly positive across the political spectrum, though with notable state-level resistance. The United Progressive Alliance (UPA) government (2004-2014) positioned GST as a transformative reform that would rationalize India's fragmented indirect tax system. In his 2009 budget speech, Finance Minister P. Chidambaram described GST as "the most significant tax reform since Independence" that would "create a common market and enhance economic efficiency" [2].

During this period, opposition to GST emerged not primarily from partisan politics but from state-level concerns about fiscal autonomy. States governed by both UPA and

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

National Democratic Alliance (NDA) parties worried about revenue replacement and sovereignty over local taxation. This initial resistance, however, largely dissolved once the GST Council was established as a consensus-based decision-making body.

Post-Implementation Revenue Performance and Perception

Table 1 presents annual GST collections from 2017-18 to 2024-25. The data reveals that revenue performance has been uneven, directly influencing public and business perceptions.

Table 1: Annual GST Collections (2017-2025)

S.No.	Financial Year	Total Collection (₹ Crore)	Average Monthly (₹ Crore)	Year on Year Growth	Key Events Affecting Perception
1	2017-18 (partial)	7,41,000	82,333	—	Launch, technical glitches
2	2018-19	11,77,000	98,083	58.8%	Return filing challenges
3	2019-20	12,35,000	1,02,917	4.9%	Economic slowdown
4	2020-21	11,37,000	94,750	-7.9%	COVID-19 pandemic
5	2021-22	14,80,000	1,23,333	30.2%	Post-pandemic recovery
6	2022-23*	16,50,000	1,37,500	11.5%	Stabilization
7	2023-24*	18,20,000	1,51,667	10.3%	Increased compliance
8	2024-25*	19,80,000	1,65,000	8.8%	Mature system

*Source: Ministry of Finance, GST Revenue Reports (2017-2025); *Projected based on monthly data* [6]

Analysis: The sharp growth in 2018-19 (58.8%) initially boosted positive perceptions of revenue buoyancy. However, the steep decline in 2020-21 (-7.9% due to COVID-19) shifted perceptions toward vulnerability. Interestingly, despite robust growth from 2021-22 onward (30.2%), public perceptions remained mixed—indicating that revenue adequacy alone does not guarantee positive perception.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Compliance Trends and Trust Indicators

Compliance data provides a more nuanced picture of institutional performance. Table 2 tracks key compliance metrics from 2017-18 to 2021-22.

Table 2: GST Compliance Indicators (2017-2022)

Indicator	2017-18	2018-19	2019-20	2020-21	2021-22
Registered Taxpayers (Lakhs)	110	120	125	128	135
Monthly Returns Filed (Lakhs)	60	72	75	78	82
Return Filing Rate (%)	65%	72%	74%	76%	78%
ITC Matching Efficiency (%)	—	45%	55%	65%	72%
E-invoices Generated (Crore)	—	—	15	45	120

Source: GSTN Annual Reports, Ministry of Finance [4]

Discussion: The improvement in return filing rates from 65% (2017-18) to 78% (2021-22) reflects both taxpayer adaptation and simplification of compliance processes. However, the persistent 22% non-filing rate (as of 2021-22) represents a significant compliance gap that shapes perceptions of unfairness—compliant businesses perceive non-filers as gaining an unfair competitive advantage.

The ITC matching efficiency indicator is particularly significant. When GST was launched, the inability to match ITC claims between suppliers and recipients led to widespread perception of a "trust deficit" in the system. The improvement to 72% matching efficiency by 2021-22 has been a critical factor in stabilizing business perceptions, though concerns about mismatches and reversals persist.

Sectoral Inequities and Perceived Fairness

Perceptions of GST are also shaped by sectoral distribution of the tax burden. Table 3 compares each sector's GDP share with its GST contribution for 2023-24.

Table 3: Sectoral GST Contribution vs. Sectoral GDP Share (2023-24)

Sector	GDP Share	GST Contribution	Ratio (GST/GDP Share)
Manufacturing	17%	45%	2.65
Trade & Hospitality	18%	28%	1.56

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Services (excl. trade)	48%	22%	0.46	
Agriculture	14%	1%	0.07	
Construction	3%	4%	1.33	

Source: Ministry of Finance, Economic Survey 2024-25 [6]

Analysis:

Manufacturing (Ratio 2.65):

The manufacturing sector's disproportionate contribution reflects both its role as a primary point of tax collection and the inability of exporters to fully claim refunds in the initial years. This has shaped perceptions among manufacturers that GST imposes a compliance burden disproportionate to their economic contribution.

Services (Ratio 0.46):

The services sector's lower ratio reflects both the exclusion of many services from GST and challenges in taxing services in a predominantly informal service economy. This has created perceptions of inequity between goods and services businesses, with service providers often perceiving themselves as under-taxed relative to goods traders.

Political and Judicial Framing of Perception

Political discourse has significantly shaped historical perception. During early implementation, critics labeled GST as "Gabbar Singh Tax" due to high rates and administrative harassment. However, by 2025, media narratives had shifted—The Economic Times noted, "GST: Once branded Gabbar Singh Tax, it turns out to be Good and Simple Tax" [14].

Judicial interventions have also influenced perception. In *Union of India v. Mohit Minerals* (2022), the Supreme Court ruled on the validity of certain GST levy provisions, reinforcing the perception that the tax regime remains legally contested and subject to correction [13].

Notably, prominent economists have used social media to highlight perceived absurdities—Arvind Subramanian's comment on "Popcorn and GST: A National Tragedy" (2024) reflected ongoing frustration with rate rationalization and classification disputes [12].

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Conclusion

The historical perception of GST in India has evolved through three distinct phases: pre-implementation optimism (2009-2016), post-launch turbulence and trust deficit (2017-2020), and gradual stabilization with lingering inequity concerns (2021-2025). Revenue growth alone has proven insufficient to generate uniformly positive perceptions. Instead, three factors have been decisive: (a) the efficiency of ITC matching as a proxy for system trust, (b) the perceived fairness of sectoral burden distribution, and (c) the responsiveness of the GST Council to compliance challenges. Future research should explore how digital compliance tools (e-invoicing, automated ITC matching) further reshape taxpayer perceptions in the post-2025 period.

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GST on Plant-Based Products in India: A Comprehensive Review with Comparative and Policy Perspectives

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Abstract

The Goods and Services Tax (GST), introduced in India in 2017, replaced a complex system of multiple indirect taxes with a unified framework. This study examines the application of GST to plant-based products, which are a key part of India's agricultural economy. It analyses how these products are classified based on processing, value addition, and branding, ranging from exempt raw produce to highly processed goods taxed up to 18%. The agriculture sector holds a unique position under GST, with essential commodities exempted to ensure food security and protect farmer livelihoods. In contrast, processed and branded products are taxed to support revenue generation.

Compared to manufacturing, services, and FMCG sectors, agriculture operates under a partially exempt system, which creates structural limitations such as the lack of input tax credit. The study also evaluates the impact of GST on stakeholders across the value chain. Farmers benefit from exemptions but face challenges related to input costs and market dependence. The food processing industry gains from improved efficiency and tax credit mechanisms, while consumers benefit from affordable essentials but pay more for processed goods. Overall, GST has improved transparency and efficiency, but further policy refinement is needed to address classification issues and ensure sustainable and inclusive growth.

Key words: Goods and Services Tax (GST), Plant-Based Products, Agriculture Sector, ITC

1. Introduction

India has long been recognized as an agrarian economy, where agriculture and allied sectors play a vital role in sustaining livelihoods and ensuring food security. According to the Government of India (2023), nearly 45–50% of the population depends

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United International Journal of Multidisciplinary Research (UIJMR)

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directly or indirectly on agriculture for employment. Within this sector, plant-based products form the core of production and consumption, encompassing cereals, pulses, fruits, vegetables, oilseeds, spices, medicinal plants, and plantation crops.

In addition to traditional agricultural products, India has witnessed a rapid expansion in the plant-based food segment, driven by changing consumer preferences, increasing health awareness, and global environmental concerns. Products such as soy milk, almond milk, plant-based protein powders, and vegan meat substitutes are gaining popularity, particularly among urban populations. This shift reflects broader global trends toward sustainable and plant-based diets (FAO, 2022).

1.1 Pre-GST Taxation Challenges

Before the introduction of GST, India's indirect taxation system was highly fragmented and complex. Different taxes were levied by central and state governments, including Value Added Tax (VAT), Central Excise Duty, Service Tax, Entry Tax, Octroi. These taxes were applied at different stages of the supply chain, often leading to a cascading effect where taxes were levied on top of other taxes. This increased the overall cost of goods and created inefficiencies in the market (World Bank, 2023).

For plant-based products, the situation was particularly complicated due to Variation in tax rates across states, Multiple exemptions and concessions, Lack of clarity in classification. For example, unprocessed agricultural products were generally exempt, but processed products were taxed differently depending on the state, leading to inconsistencies in pricing and trade barriers.

1.2 Introduction of GST and Its Objectives

The implementation of GST on July 1, 2017, marked a major milestone in India's economic reforms. GST is a destination-based tax that is levied on the consumption of goods and services. It allows for input tax credit (ITC), which eliminates the cascading effect of taxes and ensures that tax is only paid on value addition (NITI Aayog, 2023).

The primary objectives of GST include: Simplification of the tax system, Creation of a unified national market, Reduction of tax evasion, Promotion of ease of doing business and Enhancement of economic efficiency

2. GST and Agriculture Sector:

The agriculture sector in India occupies a unique position within the Goods and Services Tax (GST) framework due to its critical role in ensuring food security, rural employment, and economic stability. Unlike most other sectors of the economy,

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agriculture enjoys substantial tax exemptions, particularly for raw and unprocessed produce. Fresh agricultural commodities such as fruits, vegetables, cereals, and pulses are exempt from GST, reflecting the government's intent to protect farmers and maintain affordability of essential food items (Government of India, 2017).

However, this preferential treatment is not uniformly extended across the entire agricultural value chain. While outputs in their primary form are largely tax-free, agricultural inputs and allied services—such as fertilizers, pesticides, irrigation equipment, tractors, and machinery—are subject to GST, typically at concessional rates ranging from 5% to 12%. This creates a partial taxation structure, where the output is exempt but inputs are taxed, leading to unique economic implications for the sector.

2.1 Rationale for GST Exemptions in Agriculture

The exemption of agricultural produce under GST is based on important socio-economic considerations aimed at supporting the sector. It helps protect farmer livelihoods, as a large proportion of Indian farmers are small and marginal with limited income and market power, and exemption ensures they are not burdened with indirect taxes. It also ensures food security and affordability, since essential food items constitute a major share of household expenditure, particularly for low-income groups, and tax exemption helps keep prices stable and accessible. Additionally, it promotes administrative simplicity in a largely informal sector, where millions of small producers and traders operate, making strict GST compliance difficult to implement effectively.

2.2 Positive Impact of GST on Agriculture

Despite its unique structure, GST has contributed to several improvements in the agricultural sector:

a. Improved Supply Chain Efficiency

By removing interstate levies, GST has streamlined the movement of goods across regions, such as entry tax and octroi, enabling smoother movement of agricultural goods across states. This has reduced transportation delays and improved market integration.

b. Reduction in Logistics Costs

With the removal of multiple checkpoints and taxes, logistics costs have declined, benefiting both farmers and traders. Perishable goods, in particular, benefit from faster transportation and reduced spoilage.

c. Promotion of Organized Markets

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GST has encouraged the formalization of agricultural trade, especially in processing and distribution sectors. This has improved transparency and traceability in the supply chain.

2.3 Negative Impact and Challenges

While GST has introduced several benefits, its impact on agriculture is not entirely positive:

a. Input Tax Credit (ITC) Limitation

Since most agricultural outputs are exempt, farmers and traders cannot claim input tax credit on GST paid for inputs such as fertilizers, machinery, and transportation. This leads to a hidden tax burden, increasing the overall cost of production (NITI Aayog, 2023).

b. Compliance Burden for Small Stakeholders

Although primary producers are largely outside the GST net, traders, aggregators, and small processors are required to comply with GST regulations. This includes registration, return filing, and record-keeping, which can be challenging for small and rural enterprises.

c. Uneven Benefits Across Value Chain

While large agribusiness firms benefit from input tax credit and formalization, small farmers often do not experience the same level of advantage, leading to disparities within the sector.

2.4: GST in Agriculture comparative to other sectors

The agriculture sector is uniquely positioned within the GST framework, receiving preferential treatment through tax exemptions to ensure food security and protect farmer livelihoods. However, this exemption results in structural limitations, particularly the absence of input tax credit, which increases indirect production costs (World Bank, 2023).

In contrast, manufacturing, services, and FMCG sectors operate within a fully integrated GST system, benefiting from seamless input tax credit and higher efficiency, but they also face greater compliance requirements and higher tax burdens (NITI Aayog, 2023). The services sector, in particular, contributes significantly to GST revenue due to its broad tax base and higher tax rates (Government of India, 2023). Overall, GST reflects a policy trade-off between social welfare and economic efficiency, where agriculture is protected, while other sectors are leveraged for revenue generation and economic growth (FAO, 2022).

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Table 1: Comparison of GST in Agriculture to other sectors.

Aspect	Agriculture Sector	Other Sectors (Manufacturing, Services, FMCG)	Key Insight
Policy Objective	Welfare-oriented (farmer support, food security)	Revenue-driven and growth-oriented	Agriculture focuses on social welfare, while other sectors emphasize economic growth (Government of India, 2017).
GST on Output	Mostly exempt outputs, taxed inputs	Fully taxable with ITC	Agriculture follows a partial GST chain, unlike other sectors with a complete tax-credit mechanism (Government of India, 2017; NITI Aayog, 2023).
Aspect	Agriculture Sector	Other Sectors (Manufacturing, Services, FMCG)	Key Insight
GST on Inputs	Inputs like fertilizers, machinery taxed (5%–12%)	Inputs fully taxed with ITC	Agriculture faces partial taxation where inputs are taxed but outputs are exempt (NITI Aayog, 2023).
Input Tax Credit (ITC)	Not available	Fully available	Lack of ITC creates hidden costs and inefficiencies in agriculture (World Bank, 2023).
Tax Structure Nature	Partially exempt system	Fully taxable system	Agriculture is outside full GST chain, whereas other sectors follow continuous tax-credit mechanism (Government of India, 2017).
Level of Formalization	Low (informal)	High to very high	Other sectors are more organized and integrated into the formal economy (NITI

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on			Aayog, 2023).
Compliance Burden	Low for farmers	High but structured	Compliance is easier in agriculture but more rigorous in other sectors (World Bank, 2023).
Supply Chain Efficiency	Improved, lower costs	Highly efficient, optimized	GST has improved logistics and supply chain efficiency across all sectors (World Bank, 2023).
Logistics Cost Impact	Reduced transportation cost	Significant reduction	Removal of checkpoints reduced delays, especially for perishables (NITI Aayog, 2023).
Revenue Contribution	Low	High to very high	Manufacturing and services contribute significantly more to GST revenue (Government of India, 2023).
Pricing Impact	Lower prices	Moderate to high prices	Essential goods remain affordable, while other sectors pass tax burden to consumers (ClearTax, 2025).
Branding and Value Addition	Minimal	High (especially FMCG)	Other sectors focus on branding and processing, increasing value addition (FAO, 2022; NITI Aayog, 2023).

*FMCG-Fast Moving Consumer Goods

3. Classification of Plant-Based Products under GST

The Goods and Services Tax (GST) framework in India classifies plant-based products primarily based on their degree of processing, level of value addition, branding, and market positioning. Broadly, plant-based products are categorized into four major groups: raw and unprocessed products, minimally processed products, processed and branded products, and highly processed products.

3.1 Raw and Unprocessed Products (0% GST)

Raw agricultural products are fully exempt from GST. These include: Fresh fruits, vegetables, cereals such as rice and wheat, Pulses, legumes, Fresh herbs and spices. These products are typically sold in their natural form without undergoing any significant processing other than basic cleaning or sorting. The exemption applies mainly to unbranded and unpackaged goods, which are commonly traded in local markets and mandis.

United International Journal of Multidisciplinary Research (UIJMR)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Policy Rationale

The exemption of raw agricultural products from GST is a deliberate policy decision aimed at achieving key socio-economic objectives. It protects farmers' income, particularly for small and marginal farmers, by ensuring they are not burdened with indirect taxes. It also ensures food affordability, as essential commodities like rice, wheat, and vegetables remain tax-free and accessible to all sections of society. Additionally, the exemption promotes agricultural production by encouraging cultivation of essential crops and reduces administrative complexity, as most agricultural transactions occur in informal markets where strict tax compliance would be difficult.

Despite these advantages, the exemption has certain limitations. Producers and traders dealing in exempt goods cannot claim Input Tax Credit (ITC) on inputs such as fertilizers, transportation, packaging, and machinery, leading to increased production costs. This creates a hidden tax burden, as taxes paid on inputs are indirectly passed on to consumers (World Bank, 2023). Moreover, the exemption may discourage farmers from engaging in value addition and processing activities, as taxation begins at higher stages of the value chain, limiting opportunities for income growth.

3.2 Minimally Processed Products (5% GST)

Minimally processed plant-based products are those that undergo basic processing to enhance usability, shelf life, or safety without significantly altering their natural characteristics. These processes include cleaning, grading, drying, freezing, and simple extraction. These include frozen vegetables, dried fruits and nuts, edible vegetable oils, plant-based milk (such as soy milk and almond milk). These products are taxed at a concessional GST rate of 5%, reflecting their semi-essential nature.

This category is particularly important for the agricultural economy as the minimal processing of plant-based products plays a crucial role in strengthening the agricultural economy by addressing several key challenges. It helps reduce post-harvest losses, which are significant in India due to inadequate storage and transportation facilities, as techniques like drying and freezing preserve produce and minimize wastage. Such processing also increases the shelf life of perishable goods, enabling wider distribution and better price realization for farmers. In addition, even basic processing leads to value addition, enhancing the economic worth of agricultural products and creating additional income opportunities for farmers and small-scale industries. Furthermore, the establishment of small processing units in rural areas promotes employment generation and supports local economic development.

United International Journal of Multidisciplinary Research (UIJMR)

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Policy Perspective and Recent Developments

Recent GST reforms have reduced the tax burden on plant-based milk and protein products, bringing them under the 5% slab. This reflects the government's recognition of Growing demand for plant-based alternatives, Environmental sustainability concerns and Nutritional benefits of plant-based diets. Such measures align India's taxation policy with global trends promoting sustainable food systems (Plant Base Magazine, 2025).

3.3 Processed and Branded Products (5–12% GST)

Processed plant-based products involve a higher degree of transformation and value addition compared to minimally processed goods. These products often undergo multiple stages of processing, packaging, and branding before reaching consumers. These include Packaged cereals, flours, branded pulses, ready-to-cook food items and snack products. These products attract GST rates ranging from 5% to 12%, depending on factors such as branding, packaging, and composition.

Branding plays a crucial role in determining GST rates, with unbranded products often taxed at lower rates or exempt, while branded products attract higher GST due to their commercial value and organized market presence. This distinction reflects the government's intent to support small and unorganized sector producers while generating revenue from organized and branded businesses.

Economic and Market Implications

Moderate GST rates on processed plant-based products encourage investment in the food processing industry, which plays a vital role in reducing agricultural wastage and promoting exports. At the same time, GST supports the formalization of the economy by improving transparency and accountability, motivating businesses to operate within the organized sector. Branded products, though taxed at higher rates, often provide better quality assurance, packaging, and standardization, enhancing consumer confidence (NITI Aayog, 2023). However, this structure can have a limiting effect on small-scale producers, who may avoid branding to stay within lower tax brackets, thereby restricting their opportunities for market expansion and growth.

3.4 Highly Processed Products (Up to 18% GST)

Highly processed plant-based products involve advanced processing techniques and significant value addition. These products are often positioned as premium or convenience foods. These include ready-to-eat vegan meals, plant-based meat substitutes, nutraceuticals & functional foods and packaged health supplements. These products attract GST rates of up to 18%, reflecting their classification as non-essential or luxury goods.

United International Journal of Multidisciplinary Research (UIJMR)

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Rationale for Higher Taxation

The higher GST rates on highly processed plant-based products are based on several economic and policy considerations. These products are generally classified as non-essential or luxury items and are often consumed by higher-income groups, making them suitable for higher taxation. Additionally, they involve significant value addition through advanced processing, branding, and marketing, which increases their market value and justifies higher tax rates. From a fiscal perspective, taxing such premium products contributes to government revenue without affecting the affordability of essential goods. Furthermore, this approach aligns with the principles of progressive taxation, where luxury consumption is taxed at higher rates to maintain equity in the tax system.

Emerging Trends and Challenges

The plant-based meat and nutraceutical sectors are rapidly expanding in India, leading to new challenges in GST classification. There is growing ambiguity in determining whether such products should be categorized as conventional food items, dietary supplements, or health products, which directly affects the applicable tax rates. This lack of clarity can create inconsistencies and compliance difficulties for manufacturers and traders. Consequently, there is an increasing demand for rationalizing GST rates and simplifying classification to support innovation, improve affordability, and encourage the growth of these emerging sectors (Ministry of Food Processing Industries, 2024).

4. Impact on Stakeholders

The Goods and Services Tax (GST) has significantly influenced stakeholders in the plant-based product value chain, including farmers, the food processing industry, and consumers. Its impact varies depending on their role and level of integration into the formal economy.

4.1. Impact on Farmers

Farmers benefit from the exemption of raw and unprocessed agricultural produce from GST, which protects their income and ensures affordability of essential food items (Government of India, 2017). Since their outputs are exempt, farmers cannot claim credit for taxes paid on inputs such as fertilizers and machinery, resulting in a hidden tax burden (NITI Aayog, 2023). Additionally, dependence on intermediaries and limited access to formal markets reduce their overall benefits.

United International Journal of Multidisciplinary Research (UIJMR)

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4.2. Impact on Food Processing Industry

The food processing industry has benefited considerably from GST. The availability of **Input Tax Credit (ITC)** allows firms to offset taxes paid on inputs, thereby reducing costs and improving profitability. GST has also eliminated cascading taxes, ensuring that tax is levied only on value addition (Ministry of Food Processing Industries, 2024). A uniform tax structure has improved ease of doing business and encouraged investment. However, challenges such as complex product classification and compliance requirements persist, especially for small enterprises.

4.3. Impact on Consumers

Consumers benefit from GST through the exemption of essential food items such as fruits, vegetables, and cereals, which ensures affordability (Clear Tax, 2025). GST has also improved price transparency. However, processed and branded plant-based products attract higher GST rates (5%–18%), making them relatively expensive. Premium products such as vegan meat substitutes and nutraceuticals are less accessible to lower-income groups.

5. Emerging Trends: Plant-Based Economy and GST

The global shift toward plant-based diets is driven by sustainability, health, and ethical concerns (FAO, 2022). In India, demand for plant-based alternatives such as plant-based milk is increasing. GST reforms, including reduced tax rates on certain products, support this transition. However, classification issues and higher taxation on premium products remain challenges.

Conclusion

GST has streamlined India's tax system, improved supply chain efficiency and creating a unified market for plant-based products. Its progressive structure exempts essential goods while taxing value-added products at higher rates. While this approach supports food security and revenue generation, the absence of input tax credit in agriculture creates hidden costs and limits farmer participation in value addition. Compared to other sectors, agriculture remains partially outside the GST framework, resulting in both benefits and disparities. The impact on stakeholders is mixed, with farmers facing structural challenges, the food processing industry benefiting from tax efficiency, and consumers enjoying affordable essentials but paying more for processed goods. As the plant-based economy grows, further improvements in classification clarity and tax rationalization are needed to ensure inclusive and sustainable development

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

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GST Reforms: Impact on Textile Industry in Ballari

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Abstract

The implementation of the Goods and Services Tax (GST) in India marked a transformative shift in the indirect taxation system, particularly affecting traditionally unorganized sectors such as textiles. This study examines the impact of GST reforms on the textile industry in Ballari district, Karnataka, a region characterized by small-scale enterprises, garment manufacturing units, and job-work-based production systems. Drawing upon secondary data from research journals, policy reports, and industry analyses between 2017 and 2025, the paper evaluates both the short-term disruptions and long-term structural changes brought about by GST.

The findings indicate that GST has significantly contributed to the formalization of textile enterprises, with nearly 80–88% of units registering under the tax regime. Key reforms such as the rationalization of tax rates, reduction in GST on job work services, and availability of Input Tax Credit (ITC) have improved transparency and reduced cascading tax effects. However, the transition phase posed considerable challenges, including compliance burdens, digital literacy constraints, working capital blockages due to inverted duty structures, and declining profitability among small and medium enterprises (SMEs). The study highlights that while large-scale units adapted relatively quickly, small-scale and handloom sectors experienced operational strain, including reduced turnover and idle capacity. Nonetheless, recent reforms—especially the correction of inverted duty structures and reduced GST rates on man-made fibers—indicate a positive trajectory. The paper concludes that GST reforms, despite initial disruptions, have the potential to enhance efficiency, competitiveness, and integration of Ballari's textile sector into the national and global value chain.

Keywords: Goods and Service Tax, Textile Industry, Input tax credit, Small and medium enterprises, Unorganized sector, Rationalization of tax, Handloom industry, Cascading effect

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

Introduction

The introduction of GST in India in 2017 represented a landmark reform aimed at unifying the country's complex indirect tax system into a single, streamlined structure. Prior to GST, the textile industry operated under a fragmented tax regime involving excise duty, value-added tax (VAT), entry tax, and other levies, which led to cascading tax effects and inefficiencies. The textile sector, being one of the largest contributors to employment and GDP, particularly in regions like Ballari district of Karnataka, has been significantly influenced by these reforms. Ballari district hosts a diverse textile ecosystem consisting of small-scale garment units, powerloom clusters, handloom units, and job-work-based manufacturing systems. The predominance of informal and semi-formal enterprises made the sector vulnerable to policy shifts such as GST. The reform aimed not only to simplify taxation but also to bring transparency, improve compliance, and integrate local industries into a formal economic framework. Recent GST reforms, especially those implemented up to 2025, have focused on rationalizing tax rates, correcting inverted duty structures, and reducing the burden on job work services. These measures are particularly relevant for Ballari, where a significant proportion of textile production relies on outsourcing and small-scale operations.

Research Problem

Despite the intended benefits of GST, the textile industry in Ballari district has experienced mixed outcomes. While the reform has enhanced formalization and transparency, it has also imposed significant compliance burdens and operational challenges, particularly for small-scale enterprises and job workers. The research problem, therefore, is to critically examine whether GST reforms have effectively supported the growth and sustainability of the textile sector in Ballari, or whether they have disproportionately affected smaller players within the industry.

Objectives of the Study

1. To analyze the key GST reforms affecting the textile industry in India.
2. To examine the impact of GST on small and medium textile enterprises in Ballari district.
3. To assess the role of GST in promoting formalization and transparency.
4. To evaluate the challenges faced by job workers and small-scale units.
5. To study the effect of GST on profitability, turnover, and employment.
6. To provide policy suggestions for improving GST implementation in regional textile clusters.

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Importance

This study is significant as it provides a comprehensive understanding of the impact of GST reforms on the textile industry, particularly in a region like Ballari district, where small-scale enterprises and informal economic activities dominate. By focusing on a localized context, the study bridges the gap between national policy intentions and ground-level realities, offering valuable insights into how large-scale reforms affect regional economies. It highlights the role of GST in promoting formalization, transparency, and integration of small units into the broader economic framework, which is crucial for inclusive development.

At the same time, the study brings attention to the challenges faced by micro, small, and medium enterprises (MSMEs), such as compliance burden, digital literacy issues, and working capital constraints, thereby emphasizing the need for supportive administrative mechanisms. The importance of this study also lies in its relevance to employment generation, as the textile sector is a major source of livelihoods in Ballari. Furthermore, it contributes to academic discourse in public administration and economic policy by evaluating governance reforms through an implementation perspective. Overall, the study serves as a valuable reference for policymakers, researchers, and stakeholders aiming to improve the effectiveness and inclusiveness of GST reforms.

Research Methodology

This study adopts an economic analytical approach using secondary data to examine the impact of GST reforms on the textile industry in Ballari district. The research is based on data collected from government reports, economic surveys, research journals, policy documents, and industry analyses published between 2017 and 2025. Sources include reports on MSMEs, textile sector performance, GST policy changes, and district-level industrial studies.

From an economic perspective, the study focuses on key variables such as cost of production, tax incidence, working capital flow, profitability, and turnover trends. The methodology involves descriptive and comparative analysis, where pre-GST and post-GST conditions are compared to assess changes in economic efficiency, market behavior, and resource allocation. Concepts such as tax incidence, input-output linkages, and market formalization are used as analytical tools.

The study also applies a sectoral analysis, examining different segments like garment manufacturing, job work, and handloom units to understand varied economic impacts. Secondary data is interpreted to identify patterns such as changes in demand, pricing, and

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

competitiveness.

This economic lens helps in evaluating whether GST has improved allocative efficiency, reduced transaction costs, and enhanced competitiveness, while also identifying short-term disruptions such as liquidity constraints and compliance costs faced by small-scale units.

Analysis

1. Formalization of Enterprises:

Around 80–88% of textile units in Ballari registered under GST. This indicates a significant shift from informal to formal economic structures. GST registration has enabled businesses to become part of the formal economy, improving access to credit, government schemes, and broader markets. However, the transition required adjustments in documentation and compliance practices.

2. Impact of Rationalized Tax Rates:

GST rates on man-made fibers reduced to 5%. Threshold for garments increased to ₹2,500. These reforms corrected the inverted duty structure and made affordable apparel more competitive. This has increased consumer demand and reduced tax-related inefficiencies.

3. Input Tax Credit (ITC) Benefits:

ITC allowed on raw materials, packaging, and capital goods. ITC has eliminated cascading taxes and reduced production costs. However, delays in refunds initially created working capital issues for small businesses.

4. Relief to Job Work Sector:

GST on job work reduced from 18% to 5%. Since a large portion of Ballari's textile production is outsourced, this reform significantly lowered costs and supported small job workers.

5. Digitalization and Compliance:

GST introduced an online filing system. While digitalization improved transparency and efficiency, many small-scale entrepreneurs faced challenges due to lack of technical knowledge and infrastructure.

6. Working Capital Challenges:

Inverted duty structure caused tax accumulation. Higher taxes on raw materials compared to finished goods blocked working capital, affecting liquidity and production cycles.

7. Compliance Costs:

Increased reliance on accountants and software. Small businesses incurred additional costs for maintaining GST compliance, which reduced their profit margins.

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

8.Impact on Profitability and Turnover:

Many units reported reduced or stagnant turnover. Initial disruptions, high compliance costs, and adjustment difficulties contributed to lower profitability in the short term.

9.Impact on Handloom and Rural Units:

Increase in idle looms observed. Higher input costs and compliance difficulties led to reduced production activity in traditional sectors.

10.Long-Term Structural Benefits:

Improved supply chain integration and transparency. Over time, GST has enhanced efficiency, reduced logistics costs, and created a more organized market environment.

Limitations of the Study

- 1.The study relies on secondary data, which may lack real-time accuracy.
- 2.Limited availability of district-specific data restricts detailed analysis.
- 3.The study does not include primary survey data from entrepreneurs.
- 4.Findings may not be generalizable beyond Ballari district.

Findings

- 1.GST has significantly formalized the textile sector in Ballari.
- 2.Small-scale enterprises faced major challenges during the transition phase.
- 3.Compliance and digital literacy remain key issues.
- 4.ITC and rate rationalization have improved long-term efficiency.
- 5.Job work sector benefited from reduced GST rates.
- 6.Handloom sector experienced negative short-term impacts.
- 7.Recent reforms indicate a positive growth trajectory.

Recommendations

1.Simplification of GST Compliance Procedures:

The government should simplify return filing processes, especially for small and micro textile units. Introducing quarterly filing options and reducing documentation requirements can ease the compliance burden on MSMEs in Ballari.

2.Capacity Building and Digital Training:

Special training programs should be organized for small entrepreneurs and job workers to improve digital literacy. Awareness campaigns and workshops at the district level can help them understand GST portals, invoicing, and return filing systems.

3.Timely Refund of Input Tax Credit (ITC):

Delays in ITC refunds should be minimized by strengthening administrative efficiency. Faster refund mechanisms will improve working capital availability and ensure smooth

United International Journal of Multidisciplinary Research (UIJMR)

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Volume 3, Special Issue – VI, 2026 Website: www.ujmr.in

business operations.

4.Addressing Inverted Duty Structure:

The government should continue rationalizing tax rates to eliminate inverted duty structures in remaining textile segments. This will prevent accumulation of tax credits and reduce financial stress on manufacturers.

5.Financial Support for MSMEs:

Provision of low-interest loans, subsidies, and credit support schemes should be enhanced for small textile units facing liquidity constraints due to GST compliance costs.

6.Strengthening Job Work Sector Support:

Given the importance of job work in Ballari, policies should further reduce compliance complexity for job workers and provide incentives to sustain this segment.

7.Decentralized Help Desks and Support Centers:

Establish GST facilitation centers at the district level to assist small businesses with registration, filing, and grievance redressal.

8.Encouraging Formalization through Incentives:

Provide tax incentives or benefits for newly registered units to encourage more informal enterprises to join the formal economy.

9.Integration with Skill Development Programs:

Link GST compliance awareness with skill development initiatives to ensure that workers and entrepreneurs are better equipped to adapt to reforms.

10.Continuous Policy Review and Feedback Mechanism:

Establish a system for regular feedback from local textile units and industry stakeholders in Ballari to ensure that GST policies remain responsive and inclusive.

Conclusion

The GST reform has fundamentally transformed the textile industry in Ballari district by promoting formalization, transparency, and efficiency. While the transition phase posed significant challenges—especially for small-scale enterprises and traditional sectors—the long-term benefits are becoming increasingly evident. Policy measures such as rate rationalization, improved ITC mechanisms, and support for digital compliance are crucial for sustaining this progress.

For the textile sector in Ballari to fully realize the benefits of GST, targeted interventions focusing on capacity building, financial support, and simplified compliance procedures are essential. Overall, GST represents a progressive reform with the potential to strengthen the competitiveness and sustainability of the textile industry in regional economies.

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GST Reforms for Livelihood Security and Inclusive Employment in Vellore District, Tamil Nadu

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Abstract

The Goods and Services Tax (GST) introduced in India on 1 July 2017 marked one of the most significant indirect tax reforms in the country's economic history. GST aimed to simplify the taxation system, improve compliance, increase transparency, and create a unified national market. While GST has improved tax administration and revenue collection, its impact on livelihood security, employment generation, and the informal economy has been uneven across regions. In districts such as Vellore in Tamil Nadu, where agriculture, leather industries, small-scale enterprises, retail trade, and informal labour constitute the backbone of the economy, GST reforms have created both opportunities and challenges. This article examines the role of GST in shaping livelihood security in Vellore district and proposes policy reforms to ensure inclusive growth and employment protection. The study analyses the structure of the local economy, the impact of GST on various sectors, and the challenges faced by micro, small, and medium enterprises (MSMEs), workers, traders, and vulnerable groups. It further suggests institutional, fiscal, and administrative reforms that can improve livelihood security under the GST regime. The paper argues that GST must evolve beyond a revenue-centric framework into a developmental instrument that supports employment generation, social equity, and regional economic resilience. Strengthening digital infrastructure, simplifying compliance mechanisms, expanding tax awareness, protecting informal workers, and encouraging local entrepreneurship are essential for sustainable and inclusive economic development in Vellore district.

Keywords: GST, Livelihood Security, Inclusive Growth, Employment Protection, Vellore District, Tamil Nadu, MSMEs, Informal Sector, Policy Reforms.

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1. Introduction

The introduction of GST transformed India's indirect taxation system by replacing multiple central and state taxes with a single unified tax structure. The reform was expected to reduce cascading taxes, improve ease of doing business, promote formalization of the economy, and increase tax revenues. However, the implications of GST for livelihood security and employment protection remain a matter of policy debate, especially in districts dependent on labour-intensive industries and informal economic activities. Vellore district in Tamil Nadu is known for its leather industries, agriculture, educational institutions, retail trade, and small-scale manufacturing units. The district contributes significantly to Tamil Nadu's industrial and commercial economy. However, a large section of the workforce is employed in informal and semi-formal sectors, where workers are vulnerable to income fluctuations, low wages, and economic shocks. GST compliance requirements such as digital filing, invoice matching, and tax registration have affected small traders and informal enterprises differently. While organized firms have benefited from input tax credits and market integration, many small businesses faced challenges related to technology adoption, compliance costs, and working capital constraints. Therefore, there is a growing need to reform GST policies in a way that balances revenue generation with social protection and employment security. Inclusive GST reforms can support local industries, encourage entrepreneurship, reduce regional disparities, and improve the livelihoods of vulnerable communities.

2. Objectives of the Study

The major objectives of the study are:

1. To examine the impact of GST on livelihood security in Vellore district.
2. To analyze the effect of GST on MSMEs, workers, and informal sector enterprises.
3. To identify challenges faced by businesses and workers under the GST regime.
4. To evaluate employment-related issues associated with GST implementation.
5. To suggest policy reforms for strengthening inclusive growth and employment protection.

3. Research Methodology

The present study is descriptive and analytical in nature. The study focuses on examining the impact of GST on livelihood security, employment protection, and inclusive growth in Vellore District of Tamil Nadu. The study is based on both primary and secondary data sources. Primary data were collected from workers, traders, MSME owners,

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retail shopkeepers, leather industry employees, and self-employed persons through a structured questionnaire and personal interviews. Secondary data were collected from GST Council reports, Tamil Nadu Economic Review, MSME Ministry publications, RBI reports, Economic Surveys, journals, books, newspapers, and official government websites.

4. Sources of Data

The study is based on both primary and secondary sources of data collected from various government and academic reports. GST Council Reports provide detailed information regarding GST policies, reforms, and implementation measures. The Tamil Nadu Economic Review offers district-level economic indicators and development statistics. MSME Ministry Reports help in understanding MSME growth, employment generation, and industrial performance. RBI Reports and the Economic Survey provide insights into national economic trends, inflation, taxation, and overall economic performance. Research Journals contribute academic perspectives and empirical studies related to GST and its economic impact. In addition, Labour Department Reports supply valuable information regarding employment conditions, labour participation, and the status of informal workers affected by GST reforms.

5. Analytical Tools

The study used various analytical tools to interpret and evaluate the collected data effectively. Percentage analysis was used to understand the distribution of responses, while comparative analysis helped compare pre- and post-GST conditions. Sectoral analysis examined the impact of GST on different sectors, and the policy evaluation approach assessed the effectiveness of GST reforms. Tabular analysis was also used to present the data clearly and systematically.

6. Overview of Vellore District Economy

Vellore district occupies an important place in Tamil Nadu's economy due to its industrial and educational activities. The district has a mixed economic structure involving agriculture, leather industries, textiles, construction, transport, retail trade, and services.

Sector	Major Activities	Employment Contribution
Agriculture	Paddy, sugarcane, groundnut, horticulture	High
Leather Industry	Tanneries, footwear	Very High

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	manufacturing	
MSMEs	Engineering, garments, food processing	Moderate
Retail Trade	Wholesale and retail markets	High
Services	Education, healthcare, banking	Increasing

Major Economic Activities in Vellore

The leather industry is one of the largest employment providers in the district. Thousands of workers are employed directly and indirectly in tanning, footwear manufacturing, packaging, and exports. Most enterprises in the district are MSMEs and family-based businesses.

7. Concept of Livelihood Security

Livelihood security refers to the ability of individuals and households to access adequate income, employment opportunities, food, healthcare, education, and social protection for a decent standard of living. It includes: Stable employment opportunities, Regular income generation, Access to productive assets, Social and economic protection, Resilience against economic shocks. GST affects livelihood security through its influence on prices, business profitability, employment generation, investment, and market access.

Components of Livelihood Security

Component	Description
Economic Security	Stable income and employment
Food Security	Access to essential commodities
Social Security	Insurance and welfare benefits
Occupational Security	Protection against job loss
Financial Security	Access to savings and credit

8. GST and Its Impact on Vellore District Economy

GST has both positive and negative implications for the district economy.

Positive Impacts of GST

1 Simplification of Tax Structure: GST replaced multiple taxes such as VAT, excise duty, service tax, and entry tax. This reduced tax complexity and improved transparency.

2 Increased Formalization: Businesses registering under GST entered the formal economy. This increased financial inclusion and access to institutional finance.

3 Expansion of Market Access: GST created a unified national market, enabling industries in Vellore to sell products across states more efficiently.

4 Growth of Digital Transactions: Digital invoicing and online tax filing encouraged

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digital transformation among enterprises.

Negative Impacts of GST

1. Compliance Burden on Small Businesses: Many MSMEs in Vellore faced difficulties in filing returns, maintaining digital records, and understanding GST procedures.

2. Working Capital Problems: Delayed refunds and tax payments created cash flow constraints, especially for exporters and small manufacturers.

3. Impact on Informal Sector Workers: Informal businesses with low technological capacity experienced reduced competitiveness, affecting employment opportunities.

4. Cost Increase for Consumers: Certain goods and services experienced price increases, affecting low-income households.

9. Employment Trends in Vellore District

Employment trends in Vellore show a gradual shift from traditional agriculture to industrial and service sector employment. The leather industry remains the major source of employment in the district, especially in areas such as Ambur, Ranipet, and Vaniyambadi, where numerous tanneries and leather-based MSMEs operate. Service sectors such as transport, trade, education, healthcare, and small businesses have also expanded significantly in recent years. At the same time, agriculture continues to provide livelihood opportunities in rural areas, though its share in total employment has declined gradually. The growth of MSMEs, manufacturing units, and export-oriented industries has increased employment opportunities, particularly for skilled and semi-skilled workers.

Sector Wise Employment Trends in Vellore District

Sector	Employment Before GST	Employment After GST	Trend
Leather Industry	High	Moderate	Decline in informal jobs
Retail Trade	High	Moderate	Shift towards organized retail
Transport	Stable	Moderate	Increased operational costs
MSME Manufacturing	High	Moderate	Reduction in small-scale employment
Agriculture-related Activities	Stable	Stable	Limited direct impact
Service Sector	Moderate	High	Growth in formal employment

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10. Sample Size

The study selected a sample size of 150 respondents from different occupational groups in Vellore district using simple random sampling and convenience sampling methods.

Table-1: Composition of Sample Respondents

Category of Respondents	Number of Respondents	Percentage (%)
MSME Owners	35	23.33%
Retail Traders	30	20.00%
Leather Industry Workers	25	16.67%
Self-employed Persons	20	13.33%
Agricultural Labourers	20	13.33%
Service Sector Employees	20	13.33%
Total	150	100%

The above table-1 shows the composition of sample respondents selected for the study. Among the total 150 respondents, MSME owners constitute the highest share with 23.33%, followed by retail traders with 20.00%. Leather industry workers account for 16.67% of the respondents. Self-employed persons, agricultural labourers, and service sector employees each represent 13.33% of the sample. The distribution indicates that the study includes respondents from different occupational sectors, providing a balanced view of the impact of GST on various economic groups.

Table 2: Age-wise Distribution of Respondents

Age Group	Number of Respondents	Percentage
20–30 Years	40	26.7%
31–40 Years	45	30.0%
41–50 Years	38	25.3%
Above 50 Years	27	18.0%
Total	150	100%

Table-2 shows that the majority of respondents (30%) belong to the age group of 31–40 years, indicating active participation of middle-aged workers and entrepreneurs in economic activities. Young workers in the 20–30 age group also constitute a significant

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share, reflecting the importance of GST reforms for youth employment and entrepreneurship in Vellore district.

Table 3: Occupational Distribution of Respondents

Occupation	Number of Respondents	Percentage
20–30 Years	40	26.7%
31–40 Years	45	30.0%
41–50 Years	38	25.3%
Above 50 Years	27	18.0%
Total	150	100%

Table-3 occupational distribution indicates that MSME owners and retail traders together account for more than 43% of respondents. This reflects the significant role played by small businesses and trade activities in the economy of Vellore district. The leather industry also remains an important source of employment.

Table 4: Awareness about GST among Respondents

Level of Awareness	Number of Respondents	Percentage
Highly Aware	42	28.0%
Moderately Aware	60	40.0%
Slightly Aware	30	20.0%
Not Aware	18	12.0%
Total	150	100%

The table-4 reveals that 40% of respondents possess moderate awareness regarding GST policies and procedures, while only 28% are highly aware. Lack of awareness among certain groups highlights the need for more GST education and digital literacy programmes, especially among rural and informal sector workers.

Table 5: Major Problems Faced under GST

Problems Faced	Number of Respondents	Percentage
Complex Filing Procedures	45	30.0%
Working Capital Issues	35	23.3%
Lack of Digital Knowledge	28	18.7%
Delay in Refunds	22	14.7%

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High Compliance Cost	20	13.3%
Total	150	100%

The table-5 shows the major problems faced by respondents under the GST system. Among the total respondents, 30.0% stated that complex filing procedures are the biggest challenge under GST. Working capital issues were reported by 23.3% of respondents, while 18.7% faced difficulties due to lack of digital knowledge. Delay in GST refunds was identified as a problem by 14.7% of the respondents, and 13.3% reported high compliance costs. The findings indicate that procedural complexity and financial burden are the major concerns experienced by businesses and workers after the implementation of GST.

Table 6: Opinion on Policy Reforms Required under GST

Suggested Policy Reform	Number of Respondents	Percentage
Simplified GST Returns	40	26.7%
Faster Refund System	32	21.3%
MSME Financial Support	30	20.0%
Digital Literacy Programmes	25	16.7%
Social Security for Workers	23	15.3%
Total	150	100%

Table-6 presents the opinions of respondents regarding policy reforms required under the GST system. Among the total respondents, 26.7% suggested the need for simplified GST return procedures to reduce compliance difficulties. Faster refund systems were preferred by 21.3% of the respondents, while 20.0% emphasized the importance of financial support for MSMEs. Digital literacy programmes were suggested by 16.7% of respondents to improve awareness and technical skills related to GST compliance. Further, 15.3% recommended social security measures for workers affected by GST reforms. The findings indicate that respondents expect a more simplified, supportive, and worker-friendly GST policy framework.

Conclusion

The implementation of the Goods and Services Tax (GST) has significantly transformed India's taxation system by integrating various indirect taxes into a unified structure. In Vellore district of Tamil Nadu, GST has influenced multiple sectors such as leather industries, MSMEs, retail trade, agriculture, and service activities. The reform has improved transparency, promoted digital transactions, and encouraged the formalization

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of businesses. At the same time, it has created several challenges for small enterprises, informal workers, and economically weaker sections who depend on labour-intensive occupations for their livelihood. The study reveals that while organized industries and larger enterprises benefited from input tax credits and improved interstate trade, many micro and small businesses experienced compliance burdens, working capital shortages, technological difficulties, and increased operational costs. Informal sector workers, who constitute a major share of employment in Vellore district, faced livelihood insecurity due to reduced employment opportunities and growing competition from organized businesses. The digital nature of GST compliance also created barriers for rural traders and small entrepreneurs lacking digital literacy and financial resources.

Inclusive growth under GST can be achieved only when taxation policies are combined with employment protection measures, social security programmes, skill development initiatives, and financial assistance for vulnerable groups. The leather industry, which plays a major role in employment generation in Vellore district, requires targeted policy support to maintain competitiveness and worker welfare. Similarly, women entrepreneurs, self-help groups, rural traders, and MSMEs must be encouraged through simplified compliance systems and institutional support. Therefore, GST should not remain merely a revenue collection mechanism but should function as an instrument of social and economic development. Policy reforms aimed at strengthening livelihood security, improving digital inclusion, expanding credit access, and protecting informal workers are essential for achieving sustainable and equitable economic growth in Vellore district. A balanced GST framework that promotes both economic efficiency and social justice can ensure long-term employment protection and inclusive development.

Suggestions

- Simplify GST return filing procedures for small traders and micro enterprises.
- Conduct regular GST awareness programmes and training camps in rural and semi-urban areas.
- Expand digital literacy programmes for traders, workers, and women entrepreneurs.
- Provide affordable and collateral-free loans for MSMEs and self-employed workers.
- Ensure timely GST refunds for exporters and small manufacturing units.
- Introduce social security schemes for informal sector workers affected by GST reforms.

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- Promote women entrepreneurship through financial incentives and training support.
- Establish district-level GST facilitation centres to assist small businesses.
- Encourage skill development programmes related to digital accounting and taxation.
- Strengthen cooperative societies and self-help groups to improve livelihood opportunities.
- Provide tax incentives for industries generating local employment.
- Improve internet connectivity and digital infrastructure in rural areas.
- Reduce compliance burden and penalties for first-time small taxpayers.
- Promote sustainable industrial development and eco-friendly manufacturing practices.
- Increase coordination between government departments, financial institutions, and industrial associations.

Policy Recommendations

- The government should design a simplified GST compliance mechanism for MSMEs and small traders. Quarterly filing systems, single-page returns, and mobile-based applications can reduce administrative burdens and improve participation in the formal economy.
- Tax incentives should be provided to industries that generate local employment opportunities, especially in labour-intensive sectors such as leather, textiles, food processing, and retail trade.
- Special credit schemes, subsidized accounting software, and technical assistance should be provided to MSMEs to improve their competitiveness and financial sustainability.
- Rural digital centres, community internet facilities, and digital literacy campaigns should be expanded to bridge the digital divide among small businesses and workers.
- GST refund systems should be streamlined to ensure timely payments for exporters and small industries, particularly in the leather sector of Vellore district.
- The leather industry should receive targeted support in the form of export promotion, technology modernization subsidies, worker welfare programmes, and environmental compliance assistance.

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- Dedicated entrepreneurship programmes should be introduced for women and youth through financial support, startup incubation centres, skill training, and marketing assistance.
- Government-supported GST facilitation centres should be established to provide tax guidance, legal support, digital training, and compliance assistance to local businesses.
- Future GST reforms should incorporate livelihood protection measures and assess the social impact of taxation policies on employment, income distribution, and vulnerable communities.

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