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Prasanna S,

Chairman of Institute of Legal Education

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 94896 71437 – info@iledu.in / Chairman@iledu.in



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THE IMPACT OF GOODS AND SERVICES TAX (GST) IN INDIA

AUTHOR – NITIN SINGH* & DR. ROHIT KUMAR SHUKLA**

* STUDENT, AMITY UNIVERSITY

** ASSISTANT PROFESSOR, AMITY UNIVERSITY

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Abstract:

The Goods and Services Tax (GST), which went into effect on July 1, 2017, greatly impacted India's indirect tax structure. It was implemented with the intention of simplifying the nation's complicated tax structure into a single system, which would eliminate cascading taxes, establish a common national market, and facilitate corporate transactions. In order to evaluate the impact of the GST on the Indian economy, this essay looks at the objectives, implementation, effects on different sectors, and challenges faced. The paper, which is about 3000 pages long, offers a thorough grasp of how the GST affects sectoral efficiency, tax compliance, economic growth, and the future of tax changes.

1. Introduction

India's pre-GST tax regime was a labyrinth of central and state levies, including excise duty, service tax, value-added tax (VAT), octroi, and entry taxes. This multiplicity resulted in tax cascading—where taxes were levied on already taxed amounts—leading to higher costs, inefficiencies, and barriers to interstate commerce. The GST, introduced under the constitutional 101st Amendment Act, sought to consolidate these taxes into a single framework under the motto "One Nation, One Tax." Implemented after years of deliberation, GST promised to simplify taxation, enhance transparency, and align India with global indirect tax systems like those in the European Union and Canada.

This paper analyzes the multifaceted impact of GST over its initial years, focusing on its economic contributions, effects on businesses and consumers, revenue implications for the government, and broader social and regional consequences. It also addresses the challenges faced during implementation and offers recommendations for its future evolution.

2. Evolution and Objectives of GST

Value Added Tax (VAT), Central Excise Duty, Service Tax, Central Sales Tax (CST), and other state-level levies were among the overlapping taxes that made up India's disjointed tax structure before to the introduction of the Goods and Services Tax (GST). Trade restrictions, complicated compliance, and tax cascades were all brought about by these taxes.

The idea of a unified tax system gained momentum in the early 2000s. The 13th Finance Commission and various committees recommended the implementation of GST. After years of deliberation and negotiations between the Centre and States, the GST Constitutional (101st Amendment) Act was passed in 2016.

Objectives of GST:

- To create a unified national market
- To eliminate the cascading effect of taxes

- To simplify tax administration and compliance
- To increase tax transparency and reduce evasion
- To boost ease of doing business and economic growth

3. Structure of GST in India India adopted a dual GST model comprising:

- Central GST (CGST)
- State GST (SGST)
- Integrated GST (IGST)

Under this model, both the Centre and the States simultaneously levy taxes on a common base. The Center collects and levies IGST for interstate transactions, which are subsequently divided between the Center and the destination State.

Key Features:

- Tax system with multiple tiers: 0%, 5%, 12%, 18%, and 28%
- Destination-based consumption tax
- Input Tax Credit (ITC) mechanism
- Compliance driven by technology through the Goods and Services Tax Network (GSTN)
- Mandatory registration for businesses exceeding a specified threshold

4. Economic Impact of GST

GST's economic impact has been profound, reshaping production, trade, and consumption patterns. By allowing businesses to claim input tax credits (ITC)—a mechanism to offset taxes paid on inputs against output tax liability—GST eliminated the cascading effect. This theoretically lowered the cost of goods and services, enhancing affordability and competitiveness. For instance, a study by the Confederation of Indian Industry (CII) estimated that GST reduced the tax burden on manufactured goods by 10-15% in some sectors.

²⁴⁷The unification of India's market was another significant outcome. Pre-GST, interstate trade was hampered by border checkposts, where trucks faced delays of 6-8 hours per state boundary. Post-GST, the removal of these barriers slashed logistics costs by 20-30% and reduced transit times, as reported by the Ministry of Road Transport and Highways. The logistics industry grew as a result of this efficiency boost, as businesses like Delhivery and Blue Dart increased their operations.

However, the economic transition was not seamless. The initial years saw disruptions, particularly in the informal sector, which accounts for over 80% of India's workforce. Small businesses, unaccustomed to digital compliance, faced higher operational costs, while the multi-slab tax structure—0%, 5%, 12%, 18%, and 28%—complicated pricing strategies. Over time, GST contributed to formalization, with the number of registered taxpayers rising from 6.5 million in 2017 to over 14 million by 2023, according to GSTN data. This shift, while beneficial for tax collection, raised concerns about job losses in the informal economy.

4.1 Impact on GDP GST was expected to boost GDP by removing inefficiencies in the indirect tax system. While the initial phase saw disruptions in supply chains and adjustment costs, over time, GST has contributed to formalization and ease of movement of goods. However, GDP growth post-GST has been influenced by multiple factors, including global trends and domestic policy shifts.

4.2 Impact on Tax Revenue By adding additional organizations to the official tax net, GST contributed to an expansion of the tax base. E-way bills, real-time invoice matching, and e-invoicing systems improved compliance and reduced tax evasion. Though revenue collection fluctuated initially, it has shown consistent growth, especially post-pandemic recovery in 2021-22 and beyond.

²⁴⁷ Confederation of Indian Industry (CII), *Impact of GST on Indian Industry*, 2018. [↵](#)

4.3 Impact on Inflation Initial GST implementation led to a temporary spike in inflation due to adjustments in tax rates. However, the input tax credit mechanism and reduction of logistics costs contributed to a stabilizing effect over time. The inclusion of several essential goods in lower tax slabs also helped moderate inflationary pressures.

5. Sectoral Impact of GST

5.1 Manufacturing Sector Manufacturers benefitted from the seamless flow of input tax credits and reduction in logistics and compliance costs. The removal of inter-state barriers improved supply chain efficiency. However, issues related to refunds and classification of goods under different tax slabs created some uncertainties.

5.2 Service Sector Services, previously taxed under a single regime, now had to deal with multiple state registrations under GST. This created administrative burdens for pan-India service providers. Nevertheless, the uniformity in tax rates and availability of ITC made services more cost-effective in the long run.

5.3 MSMEs (Micro, Small, and Medium Enterprises) GST posed initial challenges for MSMEs, especially due to the digital compliance requirements and lack of awareness. Many small businesses struggled with the transition. However, schemes like the Composition Scheme, threshold exemptions, and simplified return filing have since eased compliance burdens.

5.4 E-commerce Sector GST brought clarity in taxation for e-commerce operators through TCS (Tax Collected at Source) provisions. Uniform taxation across states reduced ambiguity. However, the compliance burden increased, especially for sellers using multiple platforms.

5.5 Real Estate Sector Real estate witnessed mixed impacts. While GST replaced multiple taxes like VAT and service tax, the absence of input tax credit for under-construction properties affected pricing. The sector also

demanded more clarity and consistency in taxation norms.

6. Administrative and Technological Transformation

6.1 GSTN and Digital Compliance The introduction of GSTN transformed tax compliance through online return filing, e-way bills, and invoice matching. This brought transparency, reduced human interaction, and minimized corruption. However, technical glitches, system downtimes, and frequent changes in return formats caused frustration among taxpayers.

6.2 Return Filing and E-Invoicing GST return filing is structured through monthly, quarterly, and annual returns. E-invoicing, introduced for larger businesses, improved real-time reporting and reduced fraudulent claims. As the system matures, return simplification for small taxpayers remains a work in progress.

7. Challenges Faced in Implementation

7.1 Frequent Changes and Complexity One of the major criticisms of GST is the frequent amendments in rules, rates, and procedures. Multiple tax slabs have added to the complexity, making compliance difficult for businesses.

7.2 Technical Issues and Refund Delays Technical glitches in the GST portal, especially during the initial years, disrupted filing and return processing. Exporters and small businesses faced refund delays, affecting their working capital.

7.3 Tax Slab Complications With five main tax slabs, classification of goods and services has often led to confusion and disputes. The demand for a simpler rate structure with fewer slabs remains strong.

7.4 Lack of Inclusion of Petroleum and Alcohol Petroleum products and alcohol remain outside the GST ambit, limiting the tax's uniformity. Their inclusion could enhance revenue and strengthen the common market.

8. Comparative Global Perspective India's GST is one of the most complex globally, given the

dual structure and multiple slabs. Countries like Canada and Australia have simpler models with fewer rates. Learning from global best practices could help streamline India's GST system further.

9. Reforms and the Way Forward To maximize the potential of GST, several reforms are needed:

- Rationalization of tax slabs to simplify compliance
- Inclusion of petroleum products and alcohol under GST
- Strengthening the dispute resolution mechanism
- Enhancing the IT infrastructure and reducing filing complexities
- Continuous taxpayer education and capacity building

10. Impact on Businesses

GST's effect on businesses varies by size, sector, and adaptability. Large corporations, with established accounting systems, benefited significantly. Companies like Tata Motors and Reliance Industries leveraged ITC to reduce costs, while the unified tax regime enhanced their competitiveness in export markets. For instance, the zero-rating of exports under GST—where no tax is levied on exported goods—made Indian textiles and pharmaceuticals more price-competitive globally²⁴⁸.

Small and medium enterprises (SMEs), however, faced a steeper learning curve. The shift to monthly or quarterly GST filings required investments in software and training, straining their limited resources. A survey by the Federation of Indian Micro and Small & Medium Enterprises (FISME) in 2018 found that 60% of SMEs reported a 10-20% increase in compliance costs post-GST. The initial complexity of the GSTN portal, coupled with frequent technical glitches, exacerbated these challenges. Over time, relaxations like the composition scheme—

allowing small businesses with turnover below INR 1.5 crore to pay a flat tax with minimal filings—eased the burden, though adoption remained uneven.

The logistics and e-commerce sectors emerged as clear winners. Pre-GST, companies maintained warehouses in every state to avoid interstate taxes, inflating costs. Post-GST, firms like Amazon India and Flipkart shifted to centralized warehousing, optimizing supply chains and reducing delivery times²⁴⁹. However, frequent rate changes—such as the revision of tax on footwear from 18% to 5% in 2021—created uncertainty, forcing businesses to adjust pricing repeatedly²⁵⁰.

Impact on Consumers

GST's promise to consumers was lower prices through the elimination of tax cascading. In practice, the outcome was mixed. Essential goods like rice, wheat, and medicines, taxed at 0% or 5%, became more affordable, benefiting low-income households. For example, the price of generic drugs dropped by 5-10% in the first year, as per the National Pharmaceutical Pricing Authority (NPPA). Conversely, luxury goods and services—such as electronics, dining, and air travel—taxed at 18% or 28%, saw price hikes, impacting middle- and upper-class consumers.

Inflation trends post-GST reflect this duality. The Consumer Price Index (CPI) showed a marginal increase in 2017-18, attributed to supply chain disruptions and higher taxes on services. By 2019, however, inflation stabilized, with some economists arguing that GST had a neutral long-term effect. Public perception, however, remains divided, with surveys indicating dissatisfaction among urban consumers over price increases in discretionary spending categories.

11. Conclusion The implementation of GST was a monumental shift in India's tax policy, aimed at creating a seamless and efficient indirect tax

²⁴⁸ Ministry of Finance, Government of India, *GST and Export Competitiveness Report*, 2020.

²⁴⁹ EY India, *E-commerce Logistics Post-GST: A Sectoral Analysis*, 2019
²⁵⁰ GST Council, *Rate Revisions and Notifications*, 2021.

system. While it has achieved significant milestones in formalization, revenue enhancement, and digital transformation, several challenges persist. With ongoing policy refinement and stakeholder engagement, GST has the potential to evolve into a simpler, more robust, and growth-oriented tax framework²⁵¹.

The journey of GST is far from over. It remains a work in progress that demands constant monitoring, reform, and cooperation between the Centre, States, businesses, and citizens to truly realize the vision of “One Nation, One Tax.”

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²⁵¹ NITI Aayog, *Transforming India's Tax Landscape: The Road Ahead for GST*, 2022