Jus Corpus Law Journal

Open Access Law Journal – Copyright © 2025 – ISSN 2582-7820

Editor-in-Chief – Prof. (Dr.) Rhishikesh Dave; Publisher – Ayush Pandey

Effects and Challenges of GST on the Indian Economy: A Study

Sneha Anchalia[a]

[a]Amity University, Noida, India

Received 19 March 2025; *Accepted* 21 April 2025; *Published* 24 April 2025

The Goods and Services Tax (GST) represents the most important indirect tax reform since 1947. This law is replacing many indirect taxes, such as value-added tax, service tax, excise duty, and sales tax. It will be levied upon the manufacture, sale, and consumption of goods and services. Now, today, the GST system is applied as a 'One Nation One Tax' system that would record an important development in thorough indirect taxation reform. Under the GST system, there would be only one rate applicable for both goods and services. GST will support a business-friendly environment, as it will control inflation rates, and prices will fall. This research paper examines the benefits and opportunities of GST. The research paper has an objective that involves finding each of the challenges faced within GST. It is to identify all of the challenges. This paper highlights the overall impact of GST on the Indian economy.

Keywords: *gst, Indian economy, economic development, one nation, one tax.*

INTRODUCTION

The word 'Tax' is derived from the Latin word 'Taxare', which means 'To Estimate'. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority and imposed by the government, whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or any other name. Taxation was initially imposed in ancient Egypt between 3000 and 2800 B.C., under the first dynasty of the Old Kingdom. According to records from that period, the Pharaoh would travel the country every two years, collecting tax monies from the people.

Taxes are the only way to finance public goods because of their inappropriate pricing in the market. It can only be levied by the government, via funds collected from taxes. The taxation system must be designed in such an appropriate manner that it doesn't lead to any sort of market distortions and failures in the economy. The taxation laws should be highly competitive so that revenue can be raised in a highly efficient and effective manner.[1]

The implementation of Goods and Services Tax (GST) in India has been variously described as one country-one tax, a game changer and a reform of the century the implementation of a standard invoice-credit destination-based value added tax (VAT) on goods and services in a large and diverse federal country at both national and sub-national levels ruled by different political parties is a remarkable achievement.

Almost all the countries that have implemented GST have taken considerable time to settle down, and even in Canada, the value-added tax on goods and services implemented at both the federal and provincial levels almost 30 years ago is still evolving.[2] The challenge of implementing such a reform at national and subnational levels in India, involving the Union government, 29 States and two Union Territories with legislatures with different ruling parties, is formidable. The reform of this nature is a great experiment in co-operative federalism and requires a Statesmanlike stewardship.[3]

THE INDIAN TAXATION SYSTEM - SCENARIO BEFORE GST

Tax policies are critical to the success of any country and have a direct impact on the economy's efficiency and justice. A good taxation policy addresses the entire income distribution while also generating tax revenues for the central and state governments, which can result in overall benefits to the nation's infrastructure, defense, public amenities, people's

---

[1] Maruthi M.V, 'A Comprehensive Analysis Of Goods And Services Tax (Gst) In India' (2020) 4(2) International Review of Business and Economic <https://doi.org/10.56902/IRBE.2020.4.2.58> accessed 09 March 2025

[2] Mohd Rizal Palil and Mohd Adha Ibrahim, 'The Impacts of Goods and Services Tax (GST) on Middle Income Earners in Malaysia' 2011 1(3) World Review of Business Research <https://www.researchgate.net/publication/266036213_The_Impacts_Of_Goods_And_Services_Tax_GST_On_Middle_Income_Earners_In_Malaysia> accessed 09 March 2025

[3] *Ibid*

security, and exports.[4] The entire structure for imposing indirect taxes is based on India's constitutional principles. Article 246, Seventh Schedule empowers the Central and State Governments to impose and collect indirect taxes based on goods and services transactions.[5]

Depending on the place of sale or volume of imports or exports, different manufacturers have different taxing schemes. Based on origin, indirect taxation-based collection systems are intended to levy taxes and collect them when any taxable activity takes place. According to Article 246 of the Indian Constitution, the indirect taxation structure in India is shown tabularly in Figure 1.

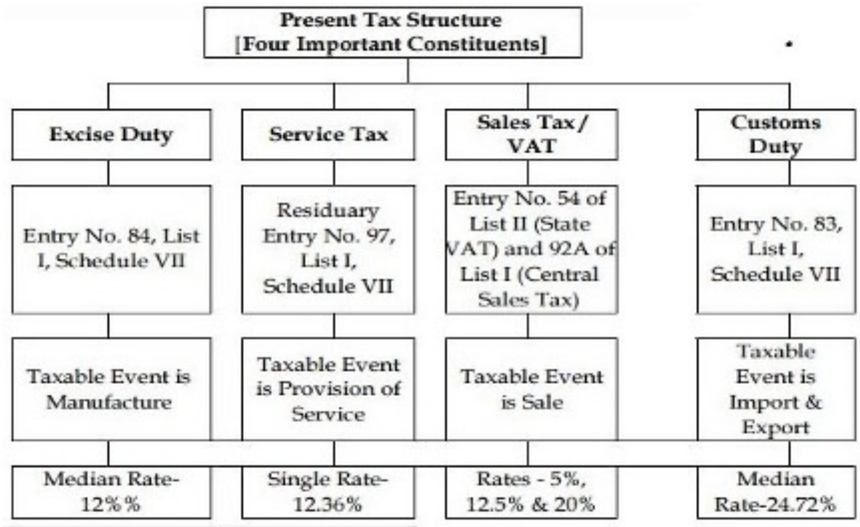

Figure 1: Indian Indirect Taxation System as per Article 246

RESEARCH METHODOLOGY

Statistical data from various Indian government websites, such as the Finance Ministry the GST Council the GST Council Archives and many more, as well as literature reviews from journal papers, annual reports, newspaper reports, and a large collection of magazine-based articles on GST, were used to gather the data cited in this paper, which is based on an exploratory research technique. The study's goals are established, and a highly descriptive research design is created based on the examination of the aforementioned data-gathering sources.

[4] Shashi Kapoor, 'An Overview of Goods and Service Tax (GST) In India' (2018) 5(4) International Research Journal of Commerce and Management <https://www.researchgate.net/publication/342304955_An_Overview_of_Goods_and_Services_Tax_GST_in_India > accessed 09 March 2025

[5] Constitution of India 1950, art 246

WHAT IS GST?

GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Services Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017. The Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. In simple words, Goods and Services Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India.

IMPACT OF GST ON THE INDIAN ECONOMY: ADVANTAGES AND CHALLENGES OF GST IMPLEMENTATION

GST will impact the overall taxation system of the Indian economy. It will improve the country's GDP ratio and also control inflation to a certain extent. However, the reform will mainly be advantageous to the manufacturing industry, but it will make some things challenging for the service sector. GST is expected to raise the GDP growth from 1% to 2%, but these figures can only be analysed after successful implementation. Some countries have faced a mixed response in growth, like New Zealand saw a higher GDP as compared to countries like China, Thailand, Australia, and Canada.[6]

The GST rate is implemented in various slabs like 5%, 12%, 18%, and 28%, which will automatically provide great tax increments to the government and the manufacturing sector will face immense growth with a reduction in tax rate. There is something good for everyone. Various unorganised sectors which enjoy the cost advantage equal to the tax rate which will be brought under GST. This will make various sectors like Hardware, Paint, Electronics, etc., fall under the tax slab. GST requires everything to be planned meticulously for an organised rate of taxation. There are still lots of sectors which are to be discussed under GST, and this requires proper planning. For the common man and different companies, the collection of Central and State taxes will be done at the point of time when sales originate, both components will be charged on manufacturing costs and the price of the product will downgrade and consumption will, thereby increasing consumption.[7]

[6] Monika Sehrawat and Upasana Dhanda, 'GST IN INDIA: A KEY TAX REFORM' (2015) 3(12) International Journal of Research <http://dx.doi.org/10.29121/granthaalayah.v3.i12.2015.2898> accessed 09 March 2025
[7] Nitin Kumar Sharma and Dr. Binod Pratap Singh, 'Impact of Demonetization and GST in Life Insurance Sector' (2021) 8(29) Shodh Sarita

IMPACT OF GST ON VARIOUS SECTORS

Goods and Services Tax will unite the Indian economy into one common market under a single umbrella of taxation rates, leading to ease of starting and doing businesses, leading to an increase in savings and cost reduction among various sectors. Some industries will be empowered by GST because of a reduction in tax rates, while some will lose because of a higher rate of GST.

In this section, we discuss various sectors and elaborate on the impact of GST on them:

IT Companies: GST will allow for the implementation of digital systems and services. GST will increase the rate of tax from 14-15% to 18%, which will increase the cost of electronic products like mobile phones, laptops, etc.

FMCG Industry: GST will have a significant impact on the FMCG sector. Some food items are exempted under GST, like grains and cereals, milk, meat, fish, fruits and vegetables, candy, etc. Before GST, FMCG companies paid 24 25% tax, including Excise Duty, etc. With GST, the rate of return would be 17-19%, leading to a strong impact on production and consumption.

Online Shopping: With the introduction of GST, various e-commerce companies will face a much greater burden of work in terms of filing taxes and costs will increase.

Telecom Sector: With the current VAT charges of 15% being replaced by18% GST rate, the price of mobile calling, SMS, and broadband services would be impacted. This will hurt big telecom giants like Airtel, Vodafone, Idea, etc.

Automobiles: GST will provide a reduction on the on-road price of vehicles to a maximum by 8% as per the latest report. Lower prices mean various automobile companies can boost volumes and sales and have tremendous opportunities for expansion in India.

Small Scale Enterprises: There are three categories: (a) below threshold, need not register for GST, (b) between threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime, (c) above threshold level, will be within the GST framework. Manufacturers and traders will pay less tax after the GST Implementation.

<https://www.researchgate.net/publication/368568413_A_SYSTEMATIC_REVIEW_ON_IMPACTS_OF_GST_INDIAN_ECONOMY_PERSPECTIVE> accessed 09 March 2025

Entertainment: With GST, taxes can come down by 2 - 4%, but the rate of tax for cinema lovers will be increased. GST will soon comply with demands and bring the best for boosting the film industry's business.

CHALLENGES OF GST IMPLEMENTATION

The following are some of the major challenges for GST implementation in India:

Nature of Taxes: In India, there are various taxes like Central Excise, VAT, CESS, and other state level taxes which will all be removed and come under one tax, that is, GST, but still lots of states and union territories have other taxes out from GST which has to be worked upon.

Types of GST: GST would be of two types, that are Central GST and State GST and further division is required based on utmost necessity and property-based based like need, location, geography, and resources, which have to be worked upon.

Rates of Tax: Still, the tax rate is not fully finalised and lots more has to be worked upon considering the standard of living of people, etc.

Tax Management and Technology Infrastructure: It is utmost necessary that proper management of tax and infrastructure is required to implement proper policies and plans.

GST AND CONTINUING DISTORTIONS

Multiple Rates: The predominant objective of GST implementation is to minimise distortions associated with the prevailing domestic consumption taxes. In particular, the reform was designed to reduce welfare losses due to deadweight losses arising from the cascading elements in both Central and state consumption taxes.

Cascading creates a wedge between consumer and producer prices more than the tax element, alters relative prices in unintended ways, promotes vertical integration in businesses, adds to opacity, and reduces the competitiveness in international trade due to difficulties in relieving the input taxes from exports in a comprehensive manner[8].

The conventional wisdom arising from the conceptual as well as best practice approach to designing GST is to keep the list of exemptions small and levy the tax at a single rate. The attempt to keep an additional lower rate on items predominantly consumed by low-income groups is an inefficient way of targeting, and, therefore, the expenditure side of the budget

[8] *Ibid*

can achieve the objective better. Jenkins recommends a higher threshold on the grounds that it increases progressivity of the tax without distorting relative prices. Despite the overwhelming expert opinion on the desirability of levying the tax at a single rate, the tax has to be designed based on societal preferences and political acceptability.

As Bird and Gendron argue, there is no one-size-fits-all (NOFSA) principle in designing GST. Even in the European Union, except for Norway, all other countries have (mostly) two rates, and the proposal to switch over to a single rate based on the recommendation of an expert committee was shot down politically.

At the same time, adopting excessive rate differentiation complicates the structure, increases administrative and compliance costs and accentuates distortions by altering relative prices in unintended ways. Because the States had only two VAT rates implementation of GST, with four rates (excluding zero and special rates on precious metals and stones) and cesses at varying rates, is excessive and it is important to move over to two rates sooner rather than later.

High Rates of Tax and Anomalies: Not only is there excessive rate differentiation, but levying taxes at 28 per cent on consumer durables (like air conditioners, refrigerators and automobiles and parts) and construction materials not only provides a good incentive to evade the tax, but also creates distortions.

One of the reasons attributed to deceleration in economic growth in the last few quarters is from slowdown in private consumption and the high GST rate on consumer durables does not help to reduce prices to increase demand for them. While with the available information it is not possible to state to what extent GST is the cause of the slowdown in consumption expenditure growth, reducing it to a lower level of 18 per cent could certainly help in arresting the deceleration while improving the structure of the tax.

For sin and demerit goods, it may be desirable to have a separate excise rather than complicate the GST structure with additional rates. In the medium term, it makes sense to merge even the 12 per cent and 18 per cent to 15-16 per cent so that the GST will have two main rates – 5 per cent and 15/16 per cent.

The problem with wide-ranging rate differentiation within a commodity/service group enormously increases both administrative and, even more importantly, compliance costs. Both the producer and the seller, dealing with different types of cars, have to keep detailed accounts of sales of different types of vehicles and the input purchases. Strangely, the tax department has been levying the tax at 28 per cent even on imported auto-components like floor-mats and ashtrays, even as the tax rate on these manufactured domestically is 18 per cent.

INTERNATIONAL EXPERIENCES OF GOODS AND SERVICES TAX (GST)

More than 140 countries have introduced GST in some form. It has been part of the tax landscape in Europe for the past 50 years and is fast becoming the preferred form of indirect tax in the Asia Pacific region. It is interesting to note that there are over 40 models of GST currently in force, each with its peculiarities.[9] For the above stated reasons, we shall now discuss international experiences of GST of three countries: New Zealand, Canada and Australia. These countries have been chosen because they are federal Countries similar to India.

New Zealand: Goods and Services Tax (GST) was introduced in New Zealand on 1st October 1986, when the tax system had been characterised by a heavy reliance on personal income tax levied at very high marginal rates of up to 66%. Additionally, the income tax system featured many rebates and deductions as well as frequent tax avoidance/evasion owing to high marginal tax rates.[10]

GST is New Zealand's main type of tax apart from income tax. It is an indirect tax which businesses (including retailers) charge as part of the cost of goods and services that they supply. The current rate is 15%. When a GST-registered business buys goods or services from its suppliers, it can claim a credit for the GST the suppliers charge on these purchases. However, an end–user consumer cannot claim a deduction for GST in this way. The effect of this is that the final consumer of any product or service pays 15% GST on its cost.

GST is charged on virtually all goods and services supplied in New Zealand, except for rental of residential property, financial services such as mortgages, loans and investment, and the sale of a business that is capable of being carried on by the purchaser as a taxable activity. The introduction of GST was part of a tax reform package aiming to reduce the economic

---

[9] Shefali Dani, 'A Research Paper on an Impact of Goods and Service Tax (GST) on Indian Economy' (2016) 7(4) Business and Economic Journal <http://dx.doi.org/10.4172/2151-6219.1000264> accessed 09 March 2025

[10] Dr. (Smt.) Rajeshwari M. Shettar, 'GOODS AND SERVICES TAX: AN OVERVIEW' (2020) 22(4) IOSR Journal of Business and Management <https://www.iosrjournals.org/iosr-jbm/papers/Vol22-issue4/Series-7/A2204070107.pdf> accessed 09 March 2025

inefficiencies embodied in the narrow-base, high-rate tax regime. In particular, GST replaced the WST. Meanwhile, GST was levied at a high rate to more than offset the shortfall resulting from the abolition of WST. The extra revenue from GST reduces personal income taxes, and helps finance the direct compensation arrangement for low–income groups.

The introduction of GST and the subsequent reduction in personal income tax rates have contributed to reduced reliance on direct taxes. In 2001-02, 25% of total government tax revenue was derived from GST, with an additional 10% from other indirect taxes. In 1985-86, indirect taxes only accounted for 25% of the total government tax revenue. GST is calculated under a credit-invoice mechanism and charged on the value added at each stage in the production and distribution of goods and services. The Inland Revenue Department is responsible for collecting GST from taxable goods and services. GST is charged at a rate of 12.5% on all goods and services which is not zero-rated or tax-exempt.[11]

Canada: In 1991, the federal government introduced the GST. The tax replaced the previous federal sales tax, which was imposed directly on manufacturers and certain licensed wholesalers at a general rate of 13.5% of sales revenues. The federal sales tax remained hidden in the price of goods as the cost of the tax was passed on to retailers and consumers in the price of products manufactured in, or imported into, Canada.[12] The GST is a value-added tax in which each stage of the production/distribution system is assessed. Thus, it is not like a retail tax or a one-time tax that is charged to a consumer when the sale is made. There is little exemption under the GST. Under the old tax system or the federal sales tax, all raw materials, parts, components and production were exempt as Canadian manufacturers accounted for the tax when they sold the goods. Finished goods such as food, clothing or services weren't taxed. Many of these items are now subject to the GST. Tax-exempt status only applied to the following services: Real property, health care, education, childcare, legal aid, public sector bodies, financial services and ferry, road and bridge tolls.

The GST is a comprehensive VAT. It covers almost all goods and services at all stages of the production-distribution process. The tax is levied at the rate of 7% on the sale price. However,

[11] Dani (n 9)

[12] Rajesh Chadha, 'Moving to Goods and Services Tax in India: Impact on India's Growth and International Trade' (2009) National Council of Applied Economic Research Working Paper No 103 <https://www.researchgate.net/publication/241763504_Moving_to_Goods_and_Services_Tax_in_India_Impact_on_India's_Growth_and_International_Trade> accessed 09 March 2025

input tax credit is allowed for all purchases in the course of business. Thus, the total amount of tax on goods and services is equal to the final selling price multiplied by the rate of GST.

Technically, the GST is a tax that is levied on the purchaser after the vendor collects the tax; it is remitted to the revenue of Canada. However, the tax that the vendor pays the government is the difference between what was collected and the tax paid in the marketing and distribution costs. Hence, the GST is a business transfer tax as it flows through the business to the consumer.

GST - GST Paid = GST Remitted

At times, a company may find itself in the desirable position to collect a refund, this happens when a company pays more GST than it collects. Most Canadian exporters fall into this category, as the GST cannot be charged to a foreign customer.

Australia: Beginning in the 1930s, Australia imposed a national wholesale sales tax on goods. Initially, the tax was imposed at a single rate of 2.5%, but by 1998, the wholesale sales tax was imposed at six different rates with a base rate of 22%. The wholesale sales tax was a robust and stable source of revenue (Commonwealth of Australia, 1998) for Australia, given the structure of the economy at the time (Commonwealth of Australia, 1998). However, as the country moved from manufacturing to service-based markets, wholesale sales tax became illogical and distorted.

In a 1998 report, the treasurer of Australia outlined the problems with the tax system. The treasurer noted that revenue from indirect taxes had been declining relative to direct taxes. Under the system, the treasurer concluded, Australian wage and salary earners carried a significant share of the tax burden. The treasurer also observed that the wholesale sales tax penalised exports and discouraged investment. Finally, the treasurer also observed that income tax complexities impose high compliance costs on businesses and distort investment decision-making by encouraging investments on the basis of tax effect rather than economic merit. In essence, the conclusion was that the system was out of date, unfair, internationally uncompetitive, ineffective and unnecessarily complex.

In an effort to modernise its entire tax system and address the problems described above, Australia introduced a new indirect tax, GST in 2000. The GST replaced the wholesale sales tax as well as nine types of state taxes. The GST is fully harmonized imposed and administered as a single national tax whose revenues are shared with the states.

The GST was lauded as a fairer, simpler tax system that would provide sound finances for the government, boost business and investment, and promote Australian exporters. The goals of Australia's tax reform were driven by three broad goals: stabilising, compliance, and improving Australia's global competitiveness.[13] GST applies to both imported and domestically produced products and services. Certain products, including specific foods and services, such as specific health, educational, and financial costs, are exempt from GST.

The GST is a flat 10% broad–based tax on the private consumption of most goods and services in Australia. The tax is charged and collected by registered entities at each stage in the production chain. The GST is remitted by the registered entity to the ATO on a basis in a form entitled the Business Activity Statement. Each registered entity is entitled to claim a credit for any GST paid. This credit is known as an input tax credit and the tax is ultimately borne by the consumer. Each registered entity is required to remit the net amount of GST collected to the Australian Taxation Office each month or quarter via the BAS.[14]

One crucial feature of any tax instrument is its neutrality toward various commodities and services, production factors, and economic sectors. Neutrality in indirect taxes would be attained by applying the same ad valorem tax rate to all commodities and services that households use. GSTs were levied differently in each of the three nations: Canada had various exemptions, such as those for food, education, health, financial products, and owner-occupied homes, while New Zealand had the fewest. Instead of imposing GST just at the retail level, all three nations opted for a multi-stage VAT with a system of refundable input tax credits. Economically, New Zealand's actions were the most innovative. According to the above table, Canada's GST policy was a little more neutral than Australia's, which had the least neutral GST package.

At the time of New Zealand's GST implementation, all three countries experienced annual consumer price inflation rates of 4% to 6%. The average of the three nations fell to between 1% and 2% in the year following the implementation of the GST in Canada; the average remains low in the year preceding the implementation of the GST in Australia. Accordingly, the observed price increase in all three nations should not be directly compared in terms of

[13] Dr. Namita Mishra, 'Impact of GST on Indian Economy' (2018) 8(11) International Journal of Basic and Applied Research <https://www.researchgate.net/publication/329210122_Impact_of_GST_on_Indian_Economy> accessed 09 March 2025

[14] *Ibid*

economic performance because practically all other factors influencing the rate of inflation were different. However, all three countries experienced an increase in price levels.

FINDINGS

1. It is found that the majority of the respondents have average sales below 20 Lakhs.
2. It is found that 50% of the respondents have a positive impact of GST on their business.
3. It can be seen that the majority of the respondents are of the opinion that the price level of their product has increased after the implementation of GST.
4. Half of the respondents have a positive view that GST has reduced tax evasion.
5. It if found that the majority of the respondents have rated GST as a GOOD tax system.
6. There is a neutral effect of GST regarding the overall benefit to the sellers.
7. It is found that most of the sellers have a neutral opinion about the variations in the GST rates on their product, while 29% are satisfied with these variations.
8. It is found that more than half of the respondents think that GST has increased the transparency in the tax system.
9. Around 40% of the respondents find the procedure of filing the GST return to be moderate.
10. It is found that almost all the respondents are aware of the concept of CGST, SGST and IGST.
11. It is found that there is no such one-sided opinion on whether GST reduced the cost burden on the customer. 32% think yes, it has reduced, while 38% think it has not. The remaining 28% have a neutral opinion about it.
12. It is found that 57% of the respondents agree that the GST act as a source of revenue for the government.
13. It is found that the majority of the respondents consider GST over the previous tax system.
14. It is found that almost all the respondents are aware of the regular amendments in the GST.
15. It is found that the majority of the respondents file their GST return with a CA.
16. It is found that the majority of the respondents think GST requires expensive software, special knowledge and has complicated procedure.
17. It is found that 35% of respondents think that after GST, black money has reduced.

18. It is found that the majority of the respondents are satisfied or have a neutral opinion about the classification of goods in four basic slabs.
19. The majority of the respondents think that GST supports the Digital India campaign.

SUGGESTIONS

The public suggested that there should be a smooth, transparent, a simple transition provisions which is easily understandable. Special focus on awareness and training of all officers, professionals and assesses should be given on GST. An expert panel should be formed to recommend modifications to the Constitution and it should be published for the mass public.

The public is also not well informed about the benefits of the GST. Therefore, to ensure efficient implementation of the GST, the government should come out with a proper guideline for society on the procedures for the implementation of GST. The 18% slab of GST should be reduced because it is too much for the middle class. Quarterly returns are better instead of monthly returns.

There should be development of some software which can make the work easier. The procedure for filling GST return should be made easier and the submission of unwanted documents could be removed. Timely information should be provided with regard to regular amendments happening in the GST. There should be the easy procedure for rectification of errors and no such penal consequences for non-deliberate mistakes.

CONCLUSION

Goods and Services Tax has brought One Nation and One Tax market, which has given relief to producers and consumers by providing open and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient implementation of GST is leading to resource and revenue gains for the Centre and State governments through improvement in tax compliance and widening of the tax base. GST have a positive impact on various sectors. Although the implementation of GST requires concentrated efforts of all stakeholders, namely, the Central and State Governments, trade and industry. Electronic processing of the taxation system, tax refunds, tax returns, and tax payments through 'GST NET' without people's involvement, reducing corruption and tax evasion. Therefore, it is necessary on the part of the government to conduct training and awareness programs on GST is the need of the hour.