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Goods and services tax (GST) in India: An overview, economic impact, challenges, and future prospects

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Abstract
The Goods and Services Tax (GST), introduced in India on 1 July 2017, represents one of the most significant indirect tax reforms in the country's economic history. GST replaced multiple central and state indirect taxes with a unified taxation system aimed at creating a common national market. The primary objectives of GST include eliminating the cascading effect of taxes, improving tax compliance, enhancing transparency, promoting ease of doing business, and increasing government revenue. This paper examines the evolution of GST, its structure, objectives, benefits, challenges, and sector-wise impact on the Indian economy. The study relies on secondary data collected from government reports, research articles, and published literature. The findings indicate that GST has strengthened tax administration, improved revenue collections, and simplified the indirect taxation framework. However, challenges such as compliance costs for small businesses, frequent rate revisions, and technological issues continue to affect its implementation. The paper concludes with policy recommendations for improving the efficiency and effectiveness of the GST regime in India.

Keywords: Goods and services tax, indirect tax, indian economy, tax reform, GST council, economic growth

Introduction
Taxation is a vital source of revenue for every government and plays an important role in economic development. Before the introduction of GST, India's indirect tax system consisted of several central and state taxes, including Excise Duty, Value Added Tax (VAT), Service Tax, Central Sales Tax, Entry Tax, Luxury Tax, and Entertainment Tax. These multiple taxes created a cascading effect, increased compliance costs, and complicated business operations.
To overcome these issues, India introduced the Goods and Services Tax (GST) on 1 July 2017 under the Constitution (101st Amendment) Act, 2016. GST is a destination-based, value-added indirect tax levied on the supply of goods and services. It aims to create a unified domestic market and improve the efficiency of India's taxation system.

Objectives of the Study
- To understand the concept and evolution of GST in India.
- To examine the structure and functioning of GST.
- To analyze the benefits and challenges of GST.
- To evaluate the impact of GST on different sectors of the Indian economy.
- To suggest policy measures for improving GST implementation.

Research Methodology
The study is descriptive and analytical in nature and is based entirely on secondary data. Information has been collected from published research papers, government reports, GST Council publications, academic journals, books, and official statistics. The collected information has been analyzed using qualitative methods.

Evolution of GST in India
The idea of GST was first proposed in 2000. After several years of discussions, constitutional amendments, and coordination between the central and state governments, GST was implemented on 1 July 2017. The reform merged several indirect taxes into a single taxation framework and established the GST Council to recommend tax rates and policy changes.

Structure of GST in India
The Goods and Services Tax (GST) in India follows a dual taxation model, under which both the Central Government and the State Governments have the authority to levy and collect taxes on the supply of goods and services. This model was introduced keeping in view India's federal system, where taxation powers are shared between the Centre and the States. The objective of this structure is to maintain a balance between the financial interests of both governments while ensuring a uniform and transparent taxation system throughout the country.
The GST structure is designed to simplify the indirect tax system by replacing multiple taxes with a single tax framework. It not only reduces the cascading effect of taxation but also facilitates smooth movement of goods and services across states. Depending on the nature of the transaction, GST is divided into four components: Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST), Integrated Goods and Services Tax (IGST), and Union Territory Goods and Services Tax (UTGST). Each component has a specific role in the collection and distribution of tax revenue.

1. Central Goods and Services Tax (CGST)
Central Goods and Services Tax (CGST) is the tax imposed by the Central Government on the supply of goods and services taking place within the same state. When both the seller and the buyer are located in the same state, the

applicable GST is divided equally between the Central Government and the respective State Government. The Central Government receives its share through CGST.
The revenue collected under CGST contributes to various national development activities such as infrastructure development, defense, public welfare programmes, healthcare, education, and other administrative expenditures. The introduction of CGST has made the taxation system more transparent and has reduced the burden of multiple central taxes that existed before GST.

2. State Goods and Services Tax (SGST)
State Goods and Services Tax (SGST) is levied by the State Government on the intra-state supply of goods and services. It is applicable whenever the transaction takes place within the boundaries of the same state. While CGST is collected by the Central Government, SGST is collected by the respective State Government.
The revenue generated through SGST plays an important role in financing state-level developmental activities, including road construction, public healthcare, education, agriculture, rural development, and various social welfare schemes. The implementation of SGST has enabled state governments to continue receiving their share of tax revenue without imposing separate indirect taxes such as VAT and entry tax.

3. Integrated Goods and Services Tax (IGST)
Integrated Goods and Services Tax (IGST) is applicable when goods or services are supplied from one state to another or are imported into India. Unlike intra-state transactions, only one tax, namely IGST, is charged on inter-state transactions.
The Central Government collects IGST and later transfers the appropriate share of revenue to the destination state where the goods or services are finally consumed. This follows the destination-based principle of GST, under which tax revenue belongs to the state where consumption takes place rather than where production occurs.
The introduction of IGST has significantly simplified interstate trade by eliminating multiple taxes and reducing procedural complexities. It has also strengthened the input tax credit mechanism, enabling businesses to claim credit without interruption and reducing the overall cost of doing business.

4. Union Territory Goods and Services Tax (UTGST)
Union Territory Goods and Services Tax (UTGST) is levied on the supply of goods and services within Union Territories that do not have their own legislative assemblies. It functions in the same manner as SGST but is specifically applicable to Union Territories administered directly by the Central Government.
Whenever a transaction occurs within such a Union Territory, GST is divided into CGST and UTGST. This ensures that Union Territories also receive an appropriate share of tax revenue for their administrative and developmental requirements.
The introduction of UTGST has created uniformity in the taxation system across all regions of India, ensuring that businesses operating in Union Territories follow the same GST procedures as those operating in states.

GST Tax structure
India has adopted a multi-rate GST system to ensure that taxation is fair and equitable for different categories of goods and services. Instead of imposing a single tax rate on all products, GST rates are determined based on the nature and necessity of the goods or services. Essential commodities used in daily life are either exempt from GST or taxed at lower rates, whereas luxury and non-essential products attract higher tax rates.
The principal GST tax slabs are 0%, 5%, 12%, 18%, and 28%.
The 0% tax rate applies to essential goods and services such as fresh fruits, vegetables, milk, educational services, and healthcare services. These items are exempt from GST to reduce the financial burden on consumers and promote social welfare.
The 5% GST slab covers goods of basic necessity, including packaged food products, edible oils, tea, medicines, and certain transportation services. This lower rate helps keep essential commodities affordable for the general public.
The 12% GST slab is applicable to products such as processed foods, dairy products, mobile phones (during certain periods), fertilizers, and selected industrial goods. These products are considered important for both consumers and industries.
The 18% GST slab is the standard tax rate under the GST system and covers a large number of goods and services, including soaps, detergents, shampoos, toothpaste, electronic goods, financial services, and many consumer products. Most FMCG products fall under this category.
The 28% GST slab is imposed on luxury goods and products considered harmful to health or the environment. These include luxury automobiles, premium motorcycles, tobacco products, aerated beverages, and certain high-end consumer goods. The higher tax rate aims to discourage excessive consumption of such products while generating additional revenue for the government.
The principal GST tax slab are

Table 1

GST Rate	Nature of Goods and Services	Examples
0% (Nil Rated)	Essential goods exempt from GST	Fresh fruits, vegetables, milk, eggs, unbranded cereals, books, healthcare and education services
5%	Basic necessity goods	Packaged food items, edible oil, tea, coffee (excluding instant coffee), medicines, economy-class air travel
12%	Standard consumption goods	Processed food, butter, fruit juice, mobile phones (certain periods), fertilizers, computers
18%	Standard GST rate applicable to most goods and services	Soap, shampoo, toothpaste, detergents, financial services, restaurants (specified categories), electronics
28%	Luxury and demerit goods	Luxury cars, premium motorcycles, tobacco products, aerated drinks, casinos, high-end consumer goods

Economic impact of gst

The introduction of the Goods and Services Tax (GST) on 1 July 2017 marked a significant reform in India's indirect taxation system. By replacing multiple central and state taxes with a single tax framework, GST has simplified the tax structure and improved the efficiency of the Indian economy. Its impact has been visible across businesses, consumers, and government finances.

One of the major economic benefits of GST has been the increase in tax revenue through improved tax compliance and a broader tax base. The introduction of digital filing systems, e-invoicing, and input tax credit has reduced tax evasion and strengthened revenue collection. This has enabled the government to allocate more resources towards infrastructure, healthcare, education, and public welfare.

GST has also eliminated the cascading effect of taxes, allowing businesses to claim input tax credit on taxes paid at previous stages of production. This has reduced production costs, improved operational efficiency, and enhanced the competitiveness of Indian goods and services.

Another important contribution of GST is the creation of a unified national market. The removal of interstate tax barriers has facilitated the smooth movement of goods across states, reduced transportation delays, and lowered logistics costs. These improvements have supported business growth and encouraged investment.

GST has also encouraged the formalisation of the economy by bringing more businesses under the tax system. Digital compliance and transparent tax procedures have strengthened accountability and improved the ease of doing business in India.

Despite these achievements, certain challenges remain. Frequent revisions in GST rates, compliance requirements for small businesses, and delays in input tax credit refunds have created operational difficulties. Moreover, the exclusion of petroleum products and electricity from the GST framework limits the achievement of a completely integrated indirect tax system.

Overall, GST has had a positive impact on the Indian economy by improving tax administration, increasing government revenue, promoting transparency, and supporting economic growth. Although implementation challenges continue, continuous policy reforms and technological improvements are expected to further strengthen the effectiveness of the GST system and contribute to India's long-term economic development.

Future prospects of gst in India

The future of the Goods and Services Tax (GST) in India appears promising as the government continues to strengthen the tax system through policy reforms, technological advancements, and improved compliance measures. Since its implementation, GST has evolved significantly, and continuous improvements are expected to enhance its efficiency and contribution to economic growth.

One of the key future prospects of GST is the simplification of the tax structure. Rationalising the existing tax slabs and reducing frequent rate revisions can make the system more transparent, predictable, and easier for businesses and consumers to understand.

The expansion of the GST framework to include products such as petroleum, electricity, and real estate is another important possibility. Bringing these sectors under GST would create a more comprehensive indirect tax system, reduce tax cascading, and improve input tax credit benefits.

Technology will continue to play a vital role in the future of GST. Greater use of e-invoicing, artificial intelligence, data analytics, and digital compliance system is expected to improve tax administration, reduce tax evasion, and simplify return filing for taxpayers.

For businesses, particularly Micro, Small and Medium Enterprises (MSMEs), future reforms are likely to focus on reducing compliance costs, simplifying return filing procedures, and ensuring faster processing of input tax credit refunds. These measures will improve liquidity and encourage business growth.

The GST system is also expected to contribute to the formalisation of the Indian economy by encouraging more businesses to register under the tax network. Increased compliance and transparency will strengthen government revenue and support public investment in infrastructure and social development.

Overall, the future prospects of GST are positive. With continued policy reforms, technological innovation, and stakeholder participation, GST is expected to become a more efficient, transparent, and business-friendly tax system. These developments will support sustainable economic growth, improve the ease of doing business, and strengthen India's position as one of the world's fastest-growing economies.

- GST has significantly transformed India's indirect tax system.
- Tax compliance and digitalization have improved considerably.
- Government revenue has become more stable over time.
- Interstate trade has become smoother due to the removal of multiple state taxes.
- Businesses have benefited from the input tax credit mechanism.
- Small businesses continue to face compliance-related challenges.
- Frequent policy revisions create uncertainty for taxpayers.

Conclusion

The Goods and Services Tax (GST) has emerged as one of the most significant tax reforms in India, transforming the country's indirect taxation system by replacing multiple central and state taxes with a unified framework. The introduction of GST has simplified tax administration, improved transparency, reduced the cascading effect of taxes, and strengthened tax compliance through digital processes.

The implementation of GST has positively influenced various sectors of the economy, including the FMCG industry, by improving supply chain efficiency, reducing logistics costs, and facilitating the seamless movement of goods across states. It has also contributed to higher government revenue, greater formalisation of the economy, and an improved business environment. However, challenges such as frequent rate revisions, compliance requirements for small businesses, and delays in input tax credit refunds continue to affect its overall effectiveness.

Overall, GST has laid a strong foundation for a modern, transparent, and efficient tax system in India. Continuous policy reforms, technological advancements, and simplification of compliance procedures will further strengthen the GST framework. As the system continues to evolve, GST is expected to play a vital role in promoting economic growth, improving ease of doing business, and supporting India's long-term development.

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