

## **Goods and Services Tax (GST)**

### **Background: India's Pre-GST Tax System and the Need for Reform**

India introduced the Goods and Services Tax (GST) on July 1, 2017, following the One Hundred and First Amendment to the Constitution in August 2016—a transformative reform aimed at eliminating a labyrinth of central and state-level indirect taxes such as excise duty, VAT, service tax, octroi, and entry taxes. The primary objective was to replace this fragmented system with a single, destination-based value-added tax, thereby fostering a unified national market and embodying the principle of “One Nation, One Tax, One Market”. By consolidating numerous indirect taxes, GST sought to eliminate the cascading effect of tax-on-tax, streamline compliance, reduce administrative costs, and improve the business environment.

Before GST, inter-state trade faced significant barriers from varying state tax laws and multiple transit checkpoints, leading to logistical inefficiencies and inflated costs. The rollout of GST abolished these physical checkpoints and introduced a technological framework for tax compliance and logistics control, including e-way bills and an automated invoice-matching system. This digital transformation not only minimized corruption and non-compliance but also expanded the tax base, creating more transparency.

Global experience demonstrates that such tax reforms contribute positively to economic growth by enhancing efficiency and boosting formal economic activity. India's GST reform aimed to mirror these outcomes, targeting improved tax collection and a buoyant, unified economy. While the transition caused temporary disruptions—especially for small and medium enterprises—the GST Council's proactive measures in rationalizing rates and simplifying procedures enabled a smoother transition. Overall, the introduction of GST marked a key milestone in India's economic policy, aligning the tax regime with global norms, enhancing the ease of doing business, and promoting fiscal transparency and efficiency.

### **Launch of GST in India – A Landmark Reform**

The Goods and Services Tax (GST) was officially implemented in India on July 1, 2017, following extensive consultations, political negotiations, and constitutional amendments. Its historic launch was commemorated with a midnight session on June 30, 2017, held at the Central Hall of Parliament, in the presence of President Pranab Mukherjee, Prime Minister Narendra Modi, and Finance Minister Arun Jaitley.

This marked only the fourth midnight event in the Central Hall, the previous three being associated with India's independence. The introduction of GST replaced a complex structure of indirect taxes—such as excise duty, service tax, and VAT—with a unified, destination-based tax system, bringing significant structural changes to the Indian economy.

The launch of GST was widely regarded as a watershed moment in India's economic history. It laid the groundwork for a simplified, transparent, and integrated national market, promoting ease of doing business and fiscal efficiency across the country.

### **Objectives of GST**

The Goods and Services Tax (GST) was introduced with the primary aim of overhauling India's complex and fragmented indirect tax system. Its objectives reflect a commitment to transparency, efficiency, and formalisation of the economy:

#### **a. Establish a Uniform Tax Structure**

A core objective of GST is to replace the multiplicity of indirect taxes with a uniform tax applicable across the country. This unification ensures that a single product or service faces the same tax rate irrespective of where it is bought or sold in India. It facilitates consistency in tax administration, simplifies billing and invoicing procedures, and reduces legal ambiguity.

#### **b. Eliminate Multiple Indirect Taxes**

Before GST, both the Centre and States levied numerous indirect taxes at various stages of production and distribution, leading to cascading effects and complex compliance. GST consolidates taxes like VAT, excise duty, service tax, and others into a single tax, thus easing the burden on businesses and streamlining tax governance.

#### **c. Curb Tax Evasion and Fraud**

GST leverages a robust digital infrastructure that links tax credits to the uploading of invoices by suppliers. This reduces the scope for fraudulent claims of input tax credit using fake invoices. Automated checks and audits enhance transparency and allow tax authorities to detect and act on non-compliance more effectively.

#### **d. Formalise the Unorganised Sector**

Another critical objective is to expand the tax base by bringing informal sector enterprises into the formal economy. GST's mandatory registration thresholds, input tax credit mechanisms, and e-invoicing norms have incentivised many small and medium enterprises (SMEs) to register, thereby improving tax compliance and increasing government revenue.

#### **e. Simplify Tax Compliance**

GST provides a single digital interface for all tax-related functions—registration, invoicing, return filing, payments, and refunds—making compliance easier for taxpayers. The GST Network (GSTN) is designed to minimise paperwork, reduce physical interactions, and enhance user convenience.

#### **f. Improve Logistics and Supply Chains**

Prior to GST, inter-state movement of goods required cumbersome documentation and frequent stoppages at state borders, increasing transport time and costs. GST abolished these check posts and harmonised documentation, leading to faster freight movement, reduced logistics costs, and greater supply chain efficiency.

### **Types of GST in India**

The Goods and Services Tax (GST) in India operates under a dual structure to accommodate the federal nature of governance. It comprises four distinct components, each designed to ensure an equitable distribution of tax revenue between the Centre and the States or Union Territories:

#### **a. State Goods and Services Tax (SGST)**

SGST is levied by individual state governments on intra-state transactions—i.e., the supply of goods and services occurring within the same state. It is governed by the SGST Act, 2017. For example, if a seller and buyer are both located in Assam, the state government collects SGST on that transaction. This revenue supports the state's development and administrative

functions. SGST does not apply to alcoholic beverages for human consumption, which remain outside the GST framework.

#### **b. Central Goods and Services Tax (CGST)**

CGST is imposed by the central government on intra-state supplies, alongside SGST, under the CGST Act, 2017. While the tax base is the same, the revenue from CGST accrues to the central government. Thus, both CGST and SGST are charged simultaneously on intra-state transactions, but are credited to their respective governments.

#### **c. Union Territory Goods and Services Tax (UTGST)**

UTGST applies to intra-territory supplies of goods and services in Union Territories without legislatures—such as Chandigarh, Lakshadweep, Andaman and Nicobar Islands, Ladakh, and Dadra and Nagar Haveli and Daman and Diu. It functions similarly to SGST and is collected by the central government for administration in these territories. Union Territories with legislatures, like Delhi, Jammu & Kashmir, and Puducherry, are governed by SGST provisions instead of UTGST.

#### **d. Integrated Goods and Services Tax (IGST)**

IGST is levied by the central government on inter-state transactions—i.e., the supply of goods and services between different states or Union Territories, as well as on imports and exports. Governed by the IGST Act, 2017, this tax ensures seamless credit flow across states and is designed to avoid double taxation. The revenue collected is shared between the Centre and the destination state/UT.

**Summary Table**

<b>GST Type</b>	<b>Applies To</b>	<b>Levied By</b>	<b>Revenue Beneficiary</b>
CGST	Intra-state transactions	Central Government	Central Government
SGST	Intra-state transactions	State Government	Respective State Government
UTGST	Intra-UT transactions	UT	Union Territory Administration

		Administration	
IGST	Inter-state, imports, exports	Central Government	Centre & Destination State

### Why Differential Tax Rates Are Applied

The Goods and Services Tax (GST) in India follows a multi-rate structure, tailored to reflect the nature and necessity of goods and services. This approach ensures equity in taxation while minimizing inflationary pressures on essential items and aligning tax burdens with consumption patterns.

- Essential goods, including basic food items, are taxed at 0% to keep them affordable and protect lower-income households. This also helps control inflation, as such items make up a large share of the consumer price index.
- A 5% GST rate applies to commonly used items to minimize the tax burden on the general population.
- The standard GST rates of 12% and 18% cover most goods and services, including fast-moving consumer goods (FMCG). Notably, services that were previously taxed at 15% under the Service Tax regime now fall under the 18% GST bracket, though essential services like rail travel are taxed at lower slabs.
- Luxury goods and sin products, such as tobacco, aerated beverages, and expensive automobiles, fall under the 28% slab. These were already taxed at high combined rates (30–31%) under the previous regime.
- To fund state compensation for potential revenue losses in the initial five years of GST, an additional cess is levied on demerit goods like tobacco and luxury cars. This cess, along with the clean energy cess, is meant to be phased out after the five-year transition period.

This tiered rate structure was a deliberate compromise—while some states like Kerala advocated for a top slab of 40%, the final structure balanced revenue needs with the goal of keeping essential goods affordable. The guiding principle has been to align GST rates with

the pre-GST effective tax incidence of each item, ensuring a smoother transition and minimizing price shocks.

### **Goods and Services Tax Network (GSTN)**

To facilitate the smooth operation of the GST system, the government established the Goods and Services Tax Network (GSTN) — a non-profit, technology-driven organization. GSTN provides the digital backbone for all GST processes, offering a common platform for taxpayers, the Central Government, and State Governments.

- **Ownership Structure:** GSTN is structured with 24.5% ownership each by the Centre and States, and the remaining shares held by private institutions like financial service providers to ensure professional management.
- The portal enables online registration, invoice uploading, tax payment, and return filing. It also improves transparency and monitoring, helping to reduce tax evasion through invoice matching and digital record-keeping.

While initial implementation faced technical challenges, GSTN is now a critical component of India's indirect tax administration, helping modernize and digitize the country's tax framework.

### **Implementation and Transition Challenges**

Rolling out GST in a large, diverse country like India was a complex task that faced several short-term hurdles. Initially, many businesses struggled with the new GST Network portal and compliance requirements such as issuing GST-compliant invoices and filing regular returns. The government responded by simplifying forms, launching e-invoicing, and easing norms for small taxpayers.

A major challenge was compensating states for revenue losses. To ensure their cooperation, the central government guaranteed a 14% annual growth in GST revenues for five years, funded through a cess on luxury and sin goods. While revenue collections fell short in the initial years, especially during the 2019 slowdown and the COVID-19 pandemic, the Centre maintained compensation through borrowings.

Rate structure issues also emerged—many goods were initially placed in the highest 28% tax slab, prompting industry pushback. The GST Council responded by reducing rates on over 350 items between 2017 and 2018.

The introduction of the e-way bill in 2018 helped streamline goods transport across states, replacing old check-posts with a digital permit system. Over time, businesses adapted, and compliance improved.

By and large, the GST rollout, while bumpy in the first year, stabilized significantly by the second year. Industry's adaptation improved, and the initial confusion gave way to a more routine compliance culture. A Deloitte survey on "GST @ 8 years" found that 85% of industry respondents had a positive experience with GST, crediting government's responsiveness and improvements in the system. This indicates that over time, stakeholders have come to appreciate the benefits of the new system, after the early hurdles were overcome.

### **Impact of GST on the Indian Economy**

**a. Government Revenue Trends Post-GST:** GST has emerged as a key revenue source for both the Centre and states. Since its launch, collections have nearly doubled—from ₹11.37 lakh crore in FY2020–21 to ₹22.08 lakh crore in FY2024–25. Monthly GST revenues now average around ₹1.84 lakh crore, up from ₹95,000 crore in 2020–21. The Economic Survey 2023–24 highlighted GST's strong buoyancy, noting a 24.8% year-on-year rise in gross collections during April–December 2022. The GST compensation period for states, which assured 14% annual revenue growth until June 2022, helped ease the transition. With rising collections and better compliance, GST is now a stable and efficient tax regime supporting India's fiscal system.

**b. Tax Compliance and Tax Base Expansion:** A key goal of GST was to enhance tax compliance using a simplified structure and digital tools. Mechanisms like input tax credit, invoice matching, e-Way Bills, and mandatory e-invoicing for larger firms have improved transparency and reduced evasion. These steps have made tax reporting more accurate and enforcement more data-driven.

GST registrations have more than doubled—from 60 lakh in 2017 to over 1.5 crore by April 2025—showing a significant expansion in the tax base. Timely return filing has improved, and fraudulent billing has declined. According to the Economic Advisory Council to the PM,

GST has effectively widened the tax base and strengthened compliance, contributing to robust revenue growth.

**c. Formalization of the Economy:** GST has significantly accelerated the formalization of India's economy by integrating businesses into a nationwide tax system. To avail input tax credits or trade with compliant firms, many previously informal enterprises have registered under GST—pushing the number of taxpayers from 60 lakh to over 1.5 crore.

The Economic Survey 2022–23 highlighted a major increase in formal employment, with EPFO memberships doubling to 27 crore. Digital payment growth, such as 74 billion UPI transactions in 2022, also complements GST's push for transparency. This shift enables businesses to access credit, workers to receive social benefits, and the government to boost revenue without raising taxes.

**d. Impact on Businesses and SMEs:** GST significantly reshaped India's business environment, particularly for small and medium enterprises (SMEs). While early compliance demands and digital filings posed challenges, several reforms eased the transition. The GST threshold was raised from ₹20 lakh to ₹40 lakh for goods, and simplified schemes like Composition (for turnover up to ₹1.5 crore) and QRMP (for turnover up to ₹5 crore) reduced compliance burdens.

GST enabled SMEs to access a national market under one tax regime, removing the earlier need to navigate state-specific VAT laws. It also improved access to formal credit through transparent GST records, especially via platforms like TReDS. A 2025 Deloitte survey found 85% of businesses had a positive GST experience, with 82% of MSMEs reporting improved ease of doing business. Despite some technical issues, GST has overall streamlined operations, reduced logistics costs, and boosted formalization for SMEs.

**e. Reduction in Logistics and Operational Costs:** GST significantly improved logistics efficiency by eliminating interstate taxes and checkpoints like octroi and entry tax. This reduced delays at state borders, cutting truck transit times by over 30% and lowering fuel and per-trip costs. Businesses can now operate seamless supply chains nationwide.

With GST, firms consolidated warehouses, replacing tax-driven fragmented storage with larger, centralized hubs, reducing inventory and overhead costs. Studies show logistics cost



savings of 1.5–2% of sales for many manufacturers. The e-Way Bill system further streamlined goods movement. Overall, GST reduced logistics costs, boosted supply chain efficiency, and improved the competitiveness of Indian businesses.

### **Macroeconomic Effects: GDP, Inflation, and Trade**

**a. GDP Growth:** GST has contributed to higher economic efficiency by removing cascading taxes and unifying the national market. It allowed businesses to scale operations and improved resource allocation. Although initial disruptions occurred in 2017–18, India's GDP growth remained strong afterward (e.g., 6.8% in 2018–19). The **Economic Survey 2023–24** credited GST for strengthening the formal sector and improving ease of doing business, with India's global ranking rising from 130 (2016) to 63 (2020).

**b. Inflation:** Contrary to fears, GST did not lead to major inflation. Essential goods were placed in 0–5% slabs, and many consumer goods saw lower effective taxes. A Ministry of Finance study reported that households saved around 4% monthly post-GST due to reduced embedded taxes. While some services became costlier, the overall impact on inflation was mild and often consumer-friendly.

**c. Trade:** GST eliminated internal trade barriers, enabling seamless inter-state commerce and greater specialization. For exports, GST's zero-rating and streamlined refund processes lowered costs, especially for high-input sectors like textiles and chemicals. The **NCAER** projected a 10–14% rise in export volumes under GST. India also improved in the World Bank's "Trading Across Borders" index, highlighting GST's trade facilitation benefits.

**Critical Evaluation and On-going Developments:** Over five years since its rollout, GST is widely seen as a positive reform, credited with simplifying India's tax system, promoting transparency, and reducing bureaucratic interference through digital processes. Consumers gained from more uniform pricing, and governments now have a more stable revenue stream.. There are, however, several challenges and points of criticism that persist:

**a. Multiple Tax Slabs:** GST in India has four main tax rates, plus a cess and exemptions, which many critics say adds complexity. Unlike countries with simpler GST systems, India adopted multiple slabs to balance social equity (zero tax on essentials) and revenue needs (higher tax on luxury/sin goods). However, this leads to classification disputes and compliance challenges. Experts recommend merging slabs (like 12% and 18%) to simplify the structure, and the government has signaled this as a future goal once revenue stabilizes.

**b. Exclusion of Key Sectors:** Important sectors like petroleum, natural gas, alcohol, and real estate are still outside GST and taxed under older systems. This leads to tax cascading and prevents input credit claims, raising costs for industries. Including these sectors would complete the tax chain and improve efficiency. While there's consensus on bringing natural gas under GST soon, states remain cautious about losing fuel tax revenue. Broader inclusion remains a future goal, requiring careful negotiation and compensation mechanisms.

**c. Small Businesses and Compliance:** Despite relief measures like higher thresholds and simplified schemes, very small businesses still face compliance challenges such as e-way bills and digital records. The government has eased filing (e.g., quarterly returns for turnover up to ₹5 crore, SMS-based nil returns), but more support and tech-based simplification like pre-filled returns could help further.

**d. Taxpayer Support and Dispute Resolution:** Initially, GST faced issues with conflicting rulings and lack of appellate tribunals. In 2023, amendments were made to set up GST Appellate Tribunals for faster dispute resolution and legal consistency. Supporting small traders through training, helpdesks, and awareness programs remains essential to ensure smooth compliance.

**Conclusion** Eight years since its launch, the Goods and Services Tax (GST) has profoundly transformed India's economic landscape. It has replaced a complex web of indirect taxes with a unified, transparent, and technology-driven system. GST has achieved many of its foundational goals — creating a common national market, widening the tax base, improving compliance, and formalizing a large segment of the economy. Tax collections have risen steadily, logistics and business transaction costs have declined, and SMEs now operate in a more level playing field.

Despite initial challenges, procedural simplifications and digital innovations have improved ease of doing business. The reform has also helped contain inflation by reducing tax incidence on essential goods and has made both domestic and international trade smoother. While the system continues to evolve — with ongoing discussions around rate rationalization, improved tech infrastructure, and dispute resolution — the broad consensus is that GST has delivered significant economic value.