



## Original Article

### Impact Of Goods and Service Tax on Indian Economy

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*Goods and Services Tax popularly known as GST a single tax on the supply of goods and services, right from the manufacturer to the consumer. The introduction of Goods and Services Tax will be an important step in the field of indirect tax reform in India. By consolidating numerous central and state taxes into one tax, he allows for pre-tax offsetting, it reduces the negative effects of the cascading and opens the way to a common domestic market. Goods and Services Tax was introduced in India in 2017 with the idea of imposing a uniform tax across the country. Therefore, it is considered one of the biggest tax reforms India has ever undergone. To understand the impact of Goods and Services Tax on the Indian economy as a whole, we first need to understand what Goods and Services Tax is and how it is applied. In this research article, an attempt has been made to review the impact of the implementation of Goods and Services Tax on the Indian economy.*

**Keywords.**

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*Concept and Definition of Goods and Services Tax, Implementation of Goods and Services Tax in India, Feature of Goods and Services Tax, Benefits of Goods and Services Tax and Impact of Goods and Services Tax in Indian Economy.*

**Introduction.** –

Atal Bihari Vajpayee is known as the father of Goods and Services Tax. Goods and Services Tax is an indirect tax levied in India on the supply of goods and services. This is a comprehensive, multi-level location-based tax. As it is multi-stage, Goods and Services Tax is levied at each stage of the production process, but it is intended to be reimbursed to all parties at various stages of production except the final consumer and is subject to consumption tax rather than excise tax. Goods and Services Tax replace several existing taxes imposed by federal and state governments. Goods and Services Tax is a broad-spectrum tiered tax regime that applies to the sale of goods and services. The main purpose of this tax regime is to curb the cascading effect of other indirect taxes and it will apply across India. which has replaced many indirect taxes in India such as the excise duty, VAT, services tax, etc.

**Meaning of Goods and Services Tax. -**

Goods and Services Tax is a tax system where a single tax is applied to the sale of goods and services. It replaced multiple indirect taxes like VAT, service tax, and excise duty to make the tax system simpler and more unified. After subsuming majority indirect taxes, Goods and Services Tax is a single domestic indirect tax law for the entire country. In other words, Goods and Service Tax is levied on the supply of goods and services



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Goods and Services Tax Law in India are a comprehensive, multi-stage, destination-based tax that is levied on every value addition.

### **Definition of Goods and Services Tax. –**

- 1) “Goods and Services Tax is known as the Goods and Services tax. It is an indirect tax. It means the ultimate burden of Goods and Services Tax is on the consumer”.
- 2) “According to new article 366(12A), "Goods and service tax means any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption."
- 3) “A Goods and Services Tax is a value-added tax levied on goods and services and included in the price of a product”.

### **Implementation of Goods and Services Tax in India. -**

The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017. India became the 161st country in the world to adopt GST with effect from July 1st, 2017. The aim of introducing GST was to simplify the indirect tax regime in the country with the motto of ‘One nation, one tax’. India has adopted the ‘Dual GST’ model which means the central government as well as the state government will levy GST simultaneously. Goods and Services Tax is levied on the supply of goods and services. Depending on the type of supply, there are 3 taxes that are levied on goods and services – Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST), and Integrated Goods and Services Tax (IGST). Rates of GST in India are 0%, 5%, 12%, 18% and 28%.

### **Objectives of the Study. –**

The objectives of the study are as follows.

- 1) To understand the concept of Goods and Services Tax
- 2) To study the features of Goods and Services Tax
- 3) To know the benefits of Goods and Services Tax
- 4) To study the impact of Goods and Services Tax on India

### **Research Methodology. -**

The study is based on exploratory research and based on secondary data of journals, articles, newspapers and magazines. Secondary data was extensively used for the study.

### **Features of Goods and Services Tax in India. -**

The salient features of Goods and Services Tax in India have been highlighted below:

#### **1) Supply as the Base. -**

Goods and Services Tax would be applicable on “supply” of goods or services as against the erstwhile concept of tax on the manufacture of goods or on sale of goods or on provision of services.

#### **2) Dual GST. -**

The Centre and the States would simultaneously levy tax on a common base. The GST to be levied by the Centre would be called Central GST (CGST) and the GST to be levied by the States (including Union territories with legislature) would be called State GST (SGST). Union territories without legislature would levy Union territory GST (UTGST).

#### **3) Inter-State supply. -**

An integrated Goods and Services Tax (IGST) would be levied on inter-State supply of goods or services. This would be collected by the Centre so that the credit chain is not disrupted. Imports of goods and services would be treated as inter-State supplies and would be subject to IGST.

#### **4) Electronic Filing of Returns. -**

There will be electronic filing of returns by different class of persons at different cut-off dates. Various modes of payment of tax available to the taxpayer including internet banking, debit/credit card and National Electronic Funds Transfer (NEFT)/Real Time Gross Settlement (RTGS).

#### **5) Refund. -**

Refund of tax can be sought by taxpayer or by any other person who has borne the incidence of tax within two years from the relevant date. Refund is to be granted within 60 days from the date of receipt of complete application and interest is payable if refund is not sanctioned within 60 days.



## **Benefits of Goods and Services Tax. -**

The implementation of Goods and Services Tax is expected to bring in various benefits as discussed below:

### **1) Dynamic Common Market. -**

Goods and Services Tax would make India a dynamic common market and result in generation of positive externalities. By ensuring uniformity of indirect tax rates across the country, it will substantially improve the ease of doing business.

### **2) Efficiency. -**

Subsuming of all major indirect taxes will result in the removal of inefficient taxes. With as single tax to be paid, manufacturers will become more competitive and this could lead to growth in exports.

### **3) Reduced Compliance Costs. -**

Harmonization of tax rates and laws along with seamless input tax credits and a sound IT infrastructure is expected to lead to reduced compliance costs. As all the taxpayer services like registrations, payments, returns etc. will be available online, the compliance process would become simpler.

### **4) Reduction in Tax Evasion. -**

Uniform rates of taxation would reduce the incentive for tax evasion by eliminating rate arbitrage opportunities between neighboring states and that between intra-State and inter-State sales.

### **5) Encourages Savings and Investment. -**

As Goods and Services Tax is a tax on consumption and not on income, so the tax system inherently encourages savings and investments instead of consumption. Further, input tax credit would lead to a decrease in the cost of capital goods and provide boost to investments.

### **6) Benefits to Consumers. -**

The final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and supplier of services. Average tax burden on companies is likely to come down which is expected to reduce prices and hence benefit the consumer.

## **Impact Of Goods and Service Tax on Indian Economy. -**

The impact of the implementation of Goods and Services Tax on the Indian economy can be divided into two groups. The distribution is shown as follows.

### **A) Positive Impacts of Goods and Services Tax on the Indian Economy. -**

Following are the positive impacts of Goods and Services Tax on Indian economy.

#### **1) Streamlined Tax System. -**

Goods and Services Tax streamlined the tax system by replacing multiple indirect taxes with a single tax, reducing complexity and making compliance more manageable for companies.

#### **2) Strong Foothold in International Markets. -**

Exports fall into the category of zero-rated supply under Goods and Services Tax. Therefore, the goods that are exported from India are tax-free. As a result, Indian goods became more competitive in the international markets.

#### **3) Increased Foreign Investment. -**

Goods and Services Tax has made India a single market and increased foreign investment into India. Due to cost savings, goods manufactured in India are becoming more competitive in international markets, leading to growth in exports. The introduction of Goods and Services Tax will bring India into compliance with international tax standards and make it easier for Indian companies to sell in the global market.

#### **4) Increase in Government Revenue. -**

Goods and Services Tax have a wider base which means it covers various goods and services under the tax bracket. Therefore, Goods and Services Tax has led to an increase in the tax revenue of the government.

#### **5) Reduce Cost of Doing Business. -**

Goods and Services Tax has changed VAT across India. You no longer have to pay different tax amounts for each state. We have already abolished various taxes and duties in our company as this is the tax system in all states of India.



## 6) Reduction of Tax Burden. -

By removing the cascading impact of taxes, the Goods and Services Tax aim to lessen the tax burden on consumers and businesses. Consumers have benefited from reduced prices of goods and services due to the efficient input tax credit mechanism.

## B) Negative Impacts of Goods and Services Tax on the Indian Economy. -

No doubt Goods and Services Tax has come a long way in boosting the growth of the Indian economy, but it has some ill effects as well. Following are the negative impacts of Goods and Services Tax on the Indian economy.

### 1) Impact on Small Firms. -

Implementing the Goods and Services Tax placed a significant adjustment load on small firms, which disproportionately impacted sectors that had enjoyed threshold exemptions or were exempt from specific taxes. Compliance costs, including investing in technology and professional services, increased.

### 2) Inflation. -

Despite being a single tax, Goods and Services Tax increases the price of goods and services. In particular, inflation can be noticed in non-food items which are way costlier than before. Right after the implementation of Goods and Services Tax in India, the Consumer Price Index increased by approx. 1%. Consumer Price Index is an index that measures changes in prices of goods and services that are purchased by households in general.

### 3) Regressive Taxation System. -

Goods and Services Tax is a regressive tax i.e.; everyone has to pay the same amount of tax irrespective of his income level. Therefore, it negatively impacts people belonging to low-income groups.

### 4) Real Estate Prices. -

The implementation of Goods and Services Tax may significantly affect the real estate market. Buyers will now have to pay an 18% tax on real estate services. As a result, the market for real estate is estimated to decrease after Goods and Services Tax.

### 5) Higher Prices for Luxury Products. -

Branded jewelry and clothes, and telecom services would become expensive in the Goods and Services Tax regime. This is because the Goods and Services Tax rate for a luxury product is higher than the applicable rates in the pre- Goods and Services Tax era.

## Conclusion. -

The Goods and Services Tax has been launched to achieve a goal of “one nation one tax”. The Goods and Services Tax, implemented in India in 2017, has greatly impacted the economy. It has streamlined the tax system, leading to increased compliance and formalization of the economy. This has boosted growth in industries such as manufacturing and logistics. However, there have been challenges, including increased compliance burdens for small and medium-sized businesses and temporary inflationary pressures etc. Despite these challenges, the overall impact of Goods and Services Tax has been positive, and the Indian economy is expected to continue growing.

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