



Original Article

The Impact on Goods and Service Tax on Indian Economy

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The introduction of the Goods and Services Tax (GST) in India on 1st July 2017 marked a significant milestone in the country's economic reform. Enacted through the 101st Constitutional Amendment Act, GST unified a fragmented indirect tax system into a comprehensive, destination-based tax structure. This reform aimed to simplify compliance, eliminate cascading effects, and create a common national market. The study highlights the historical background of GST, its dual structure of CGST, SGST, and IGST, and sector-specific exemptions. The research also examines the advantages of GST, such as enhanced tax compliance, increased government revenue, reduced logistical costs, and greater efficiency in trade and industry. Despite initial challenges like inflationary pressures and transitional hurdles, GST has largely been a progressive reform contributing to economic integration, competitiveness, and growth. The findings suggest that while GST implementation has been complex, its long-term impact is expected to foster transparency, efficiency, and sustainable development of the Indian economy.

Keywords:

Goods and Services Tax (GST); Indian Economy; Indirect Tax Reform; Tax Structure; Economic Integration; GST Council; Revenue Mobilization; Compliance; One Nation One Tax; 101st Constitutional Amendment.

Introduction

The general tax refers to a levy by a government on individuals' income, goods, services, or property. Taxes are the primary source of revenue for governments, which they use to fund public services and infrastructure. Taxes can take various forms, including income tax, sales tax, property tax, and corporate tax, among others. The specific types and rates of taxes vary widely depending on the jurisdiction and the laws governing taxation in that particular area. Direct taxes are taxes that are directly imposed on individuals or entities and cannot be passed on to another party. These taxes are typically levied on income, wealth, or assets, and they are paid directly to the government by the taxpayer. Examples of direct taxes include income tax, property tax, corporate tax, and capital gains tax. Indirect taxes are taxes levied on goods and services rather than on individuals or entities directly. Unlike direct taxes, which are paid directly by the person or entity on whom the tax is imposed, indirect taxes are usually collected by an intermediary, such as a seller or service provider, who then passes the tax burden on to the end consumer. Indirect taxes can take various forms, such as sales tax, value-added tax (VAT), excise tax, customs duties, and tariffs. For example, when you purchase a product at a store, the price you pay includes the indirect tax imposed by the government, such as a sales tax or VAT.



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The store collects this tax from you as the consumer and then remits it to the government.

History of Goods and Services Tax (GST)

The idea of GST in India was first proposed by Kelkar on Indirect taxes in 2000. The objective was to replace the prevailing complex and fragmented tax structure with a unified system that would simplify compliance, reduce tax cascading, and promote economic integration. The Empowered Committee of State Finance Ministers prepared a design and roadmap, releasing the First Discussion Paper in 2009. The Constitution Amendment Bill was introduced in 2011 but faced challenges regarding compensation to States and other issues. After years of deliberation and negotiations between the Central and State Governments, the Constitution (122nd Amendment) Bill, 2014, was introduced in the Parliament. The Bill aimed to amend the Constitution to enable the implementation of GST. The Constitution Amendment Bill was passed by the Lok Sabha in May 2015. The Bill with certain amendments, was finally passed in the Rajya Sabha and thereafter by the Lok Sabha in August 2016. Further, the Bill has been ratified by the required number of States and has since received the assent of the President on 8th September, 2016 and has been enacted as the 101st Constitution Amendment Act, 2016. The GST Council was notified i.e. 15th September 2016. To assist the GST Council, the office of the GST Council Secretariat was also established. The GST Council, consisting of the Union Finance Minister and representatives from all States and Union Territories, was established to make decisions on various aspects of GST, including tax rates, exemptions, and administrative procedures. It played a crucial role in shaping the GST framework in India. On 1st July, 2017, GST laws were implemented, replacing a complex web of Central and State taxes. Under the Indian GST, goods and services are categorized into different tax slabs, including 5%, 12%, 18%, and 28%. Some essential commodities are exempted from GST, Gold and job work for diamonds attract low rate of taxation. Compensation is being levied on demerit goods and certain luxury items. It can be said that the history of GST in India showcases an enormous shift in the country's tax structure, aiming to create a more unified, efficient, and transparent indirect tax regime for the benefit of businesses and the economy as a whole. Goods and Services Tax (GST) is a inclusive indirect tax levied on the supply of goods and services in India. Here are some of the salient

features of GST:

1. One Nation, One Tax: GST replaced multiple indirect taxes levied by the Central and State Governments, such as excise duty, service tax, value-added tax (VAT), and others. It brought uniformity in the tax structure across India, eliminating the cascading effect of taxes.
2. Dual Structure: GST operates under a dual structure, comprising the Central GST (CGST) levied by the Central Government and the State GST (SGST) levied by the State Governments. In the case of Inter-state transactions, Integrated GST (IGST) is applicable, which is collected by the Central Government and apportioned to the respective State. Import of goods or services would be treated as inter-state supplies and would be subject to IGST in addition to the applicable customs duties.
3. Destination-based Tax: GST is a destination-based tax, levied at each stage of the supply chain, from the manufacturer to the consumer. It is applied to the value addition at each stage, allowing for the seamless flow of credits and reducing the tax burden on the end consumer
4. Input Tax Credit (ITC): GST allows for the consumption of input tax credit, wherein businesses can claim credit for the tax paid on inputs used in the production or provision of goods and services. This helps avoid double taxation and reduces the overall tax liability
5. GST would apply on all goods and services except Alcohol for human consumption. GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural Gas) would be applicable from a date to be recommended by the GSTC. Tobacco and tobacco products would be subject to GST. In addition, the Centre would have the power to levy Central Excise duty on these products. Exports are zero-rated supplies. Thus, goods or services that are exported would not suffer input taxes or taxes on finished products
6. Online Compliance: GST introduced an online portal, the Goods and Services Tax Network (GSTN), for registration, filing of returns, payment of taxes, and other compliance-related activities. It streamlined the process and made it easier for taxpayers to fulfill their obligations.
7. Sector-specific Exemptions: Certain sectors, such as healthcare, education, and basic necessities like food grains, are given either exempted from GST or have reduced tax rates to ensure affordability and accessibility.



The tax came into effect from 1 July 2017 through the implementation of the One Hundred and First Amendment of the Constitution of India by the Indian government. Goods exempted from GST are - Petroleum products, Alcohol, products, etc. It's important to note that the GST framework is subject to changes and amendments are passed based on the evolving needs of the economy and the Government's policy decisions.

The structure of GST

Source: <https://taxguru.in/goods-and-service-tax/dual-gst-model-gst-structure-india.html>

Review of Literature

1. Nitin Kumar (2014) studied, "Goods and Service Tax- A Way Forward," that implementing GST in India would help in removing current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.
2. Sarma, M and Bhaskar.V, (2012) in her study stated that by implementing GST would give many benefits to our country which is not given by current tax structure and will benefit the economy. Hence GST would benefit the industry, trade, consumers and the Government.
3. Nishita Gupta (2014), Studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that GST is a broad based, single, comprehensive tax levied on goods and services in which, the seller may claim the input credit of tax which he has paid while purchasing the goods, the final consumer will bear only the GST charged by the last dealer in the supply chain.
4. Sakharam Vani (2017), In her study, in India implementation of GST would also greatly help in removing economic distortion caused by the present complex tax structure and will help in the development of a common national market.

Statement of the Research

GST has significantly impacted the Indian economy since its inception in 2017. It simplified the tax structure, boost GDP by formalizing the economy, and created a unified national market. While it initially led to inflationary pressure, it's expected to have a neutral or disinflationary impact in the long run.

The Objectives of the Study

1. To examine the impact of GST on the Indian economy.
2. To explore the advantages and challenges of GST in the Indian situation

Impact of GST on the Indian Economy

Below are some areas where we have seen a positive impact of GST on the Indian economy

- GST streamlined the tax system by replacing multiple indirect taxes with a single tax, reducing complexity and making compliance more manageable for companies.
- GST's technology-driven procedures like online registration, e-filing of returns, and e-way bills have raised tax compliance. The tax base has grown, increasing the government's tax intake.
- GST's simplified tax code, elimination of interstate restrictions, and removal of checkpoints and entrance tax barriers at state borders increased efficiency and decreased logistical expenses. This helped the economy thrive, especially in industries like manufacturing and logistics.

Conclusion

In conclusion, the impact of GST on the Indian economy has been multifaceted, with implications for businesses, consumers, and government finances. While the transition to the new tax regime has posed challenges, the long-term benefits of GST in terms of economic integration, efficiency gains, and revenue mobilization are expected to outweigh the initial teething problems. As India continues its journey towards economic reform and development, GST remains a cornerstone reform measure, driving growth, competitiveness, and prosperity in the country's economic condition.

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