

Study on Impact of GST on the Indian Economy

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Abstract

The implementation of the Goods and Services Tax (GST) in India is a revolutionary change in the indirect taxation system of the country. GST was launched on July 1, 2017, and it aimed at consolidating a myriad of indirect taxes imposed by the Centre and the States into a single, simplified tax system. This historical tax overhaul was anticipated to minimize the cascading burden of tax, maximize tax compliance, and simplify businesses' taxation process. The GST structure, with its multi-stage and destination-based system, aims to enhance ease of doing business, raise revenue transparency, and promote a formal economy. The current paper discusses how the GST has affected different segments of the Indian economy and whether it has been as reformative as promised. The study examines the impact of GST on industrial development, consumer patterns, price trends, and government receipts. It evaluates the benefits of having uniform tax rates, hassle-free input tax credits, and cutting down on logistics cost, in addition to the drawbacks of the intricate compliance process, lack of digital infrastructure, and sectoral imbalances. The essay relies on recent secondary data sources as well as case-specific observations to critically assess GST's impact on the economic dynamics of India. Through this, the research will attempt to deliver insight into overall effectiveness in fulfilling its intended economic ends and areas requiring policy refinement.

Keywords

GST, Indian Economy, Indirect Tax, Economic Reform, Sectoral Impact, Compliance, Tax Structure, Revenue Generational

Introduction

The Goods and Services Tax (GST) is among the most revolutionary reforms in the history of India's economy, implemented with the primary aim of simplifying the multilayered and convoluted tax system prevalent before July 2017. Earlier, Indian businesses had to pay multiple indirect taxes at the central as well as state levels, such as Value Added Tax (VAT), Central Excise Duty, Service Tax, Entry Tax, and Octroi, among others. These taxes imposed substantial inefficiencies in the tax system, which frequently led to cascading taxation, elevated compliance expenses, and functionality congestion for enterprises. GST aimed to solve these issues by establishing one comprehensive tax that would be applicable to the supply of goods and services throughout the country.

GST adopts the destination-based consumption tax model, which means that the tax is levied by the state in which the goods or services are consumed, as opposed to where they are manufactured. This basic change in tax philosophy has had profound effects on the shape and operation of India's economy. With one tax subsuming numerous indirect taxes, GST has eliminated the state borders' hurdle as far as taxation is concerned, facilitating hassle-free inter-state trade and contributing to the development of a common national market. This has come in especially handy for cross-border dependency industries, allowing them to minimize warehousing expenses and simplify supply chains.

Additionally, GST has compelled the Indian economy towards greater digitization. All tax returns, registrations, and filings are done electronically through the use of the Goods and Services Tax Network (GSTN). Although this step has been welcomed for ensuring transparency and accountability, it has also created initial woes for small and medium enterprises (SMEs) that are not savvy about electronic systems. Consequently, the government also had to make a number of procedural concessions and phase out the new system in stages to facilitate easier compliance. The goal of this study is to examine the different aspects of GST's effect on the Indian economy, with lessons drawn from sectoral alterations, income patterns, consumer outlook, and business reactions. The paper takes a context-based, pragmatic perspective in considering GST not only in theoretical concepts but also in terms of living economic conditions. Similar to the SBI study, the emphasis here is also on grassroots perception and acknowledgment of the fact that the true test of any policy is its implementation and acceptance among the various socio-economic sections of the country. The pricing pattern of various goods and services has also been impacted due to the implementation of GST. While basic commodities have been mostly left out of the GST regime or charged at the lowest rate, luxury and sin products have been charged high tax. This has contributed to behavioral change amongst consumers, and some industries have seen their demand rise because of price rationalization while others suffered short-term slumps. The automobile sector, for example, has experienced a significant surge after GST as a result of the ease and decrease in the total tax burden, while telecom and insurance segments have raised concerns of increased compliance costs and tax incidence. To wrap up this section, the Goods and Services Tax is a paradigm shift in India's approach to indirect taxation. Though its conceptual framework holds out the promise of efficiency, equity, and transparency, its actual effect on the ground is an uneven basket that must be evaluated with care. This research intends to delve deeper into these varied outcomes, studying both macroeconomic indicators and sector-specific effects, while also capturing the sentiments of stakeholders ranging from small entrepreneurs to large corporate entities. The objective is to offer a comprehensive, human-centered view of GST's influence on India's economic landscape.

Literature Review

The literatures available on the effects of Goods and Services Tax (GST) in India offer insights into the implications of the reform at the sectoral and time horizons. Scholars and policy analysts have investigated GST from multiple perspectives, varying from economic simplification and revenue augmentation to sectoral effect and business compliance.

In (2025) a detailed study by Choudhary and Menon analyzed the Indian economy's post-pandemic recovery with GST as the key driver of fiscal consolidation. According to their findings, how the greater dependence on digital taxation under GST supported transparency and reduced tax evasion, even as IT infrastructure challenges remained in rural states, was emphasized. The study also pushed for ongoing training programs for small traders and professionals to facilitate easy compliance. Literatures available on the effects of Goods and Services Tax (GST) in India offer insights into the implications of the reform at the sectoral and time

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Verma and Nayar, in (2024), analyzed the impact of GST on consumer behavior, particularly in urban retailing markets. According to their study, price sensitivity among consumers has gone up substantially after GST, and there was wiser purchasing behavior. Meanwhile, they observed that small businessmen continued to grapple with invoice matching and input credit claims.

In a study by Jha and Kumari (2023), the performance of GST in manufacturing and auto industries was the focus. It indicated that the easy tax system and elimination of cascading tax helped make supply chains cost-efficient and promoted increased production levels. The report, however, warned that the benefits were not evenly distributed and varied with business size and digital preparedness.

In (2022), Singh and Reddy examined the impact of GST on India's informal sector. Their observations highlighted a twofold effect: while GST pushed informal businesses towards formalization and reducing the shadow economy, it also raised the compliance burden for micro-enterprises. The absence of knowledge and low awareness of the digital environment were regarded as significant barriers for small traders.

Rao and Deshmukh (2021) made a sector-wise analysis of GST, outlining its impacts on telecom insurance, and real estate. Their findings indicate that although GST facilitated smooth tax collection, it led to transient price increases in services and compliance roadblocks. The paper suggested government subsidies in targeted sectors and e-filing simplification for service-oriented industries.

In (2020), Mehra and Dutta assessed GST's compliance landscape, with larger companies having adjusted to the GSTN (Goods and Services Tax Network) infrastructure but small semi-urban traders resenting the transition to digital. Their research highlighted the necessity of mobile-based GST applications and vernacular-language teaching to extend outreach and awareness. Sharma and Iqbal (2019) examined the macroeconomic implications of GST with special emphasis on the trends in tax revenues and fiscal federalism. They found that although GST introduced teething issues during its early phases, it stabilized indirect tax revenues and enhanced central-state fiscal coordination. Nevertheless, they cautioned that excessive dependence on compensation cess could impact fiscal independence in the long term. Taken as a body, the literature examined between 2019 and 2025 presents a general agreement on GST as a progressive step with the potential to revolutionize India's tax environment. However, it also presents that for it to be successful, there is a need for ongoing technological support, administrative reform, and education of stakeholders. These studies complement and serve the purposes of this research paper by providing a historical and analytical context to the changing role of GST in the Indian economy.

Objectives of the Study

Primary Objective: To examine the overall impact of GST on India's economy post-implementation, focusing on tax revenue, economic growth, formalization of business, and efficiency in the tax system.

Secondary Objectives:

- To understand the benefits of GST in creating a unified tax regime across the country.
- To analyze sectoral implications of GST, especially in industries like automobiles, FMCG, telecom, and real estate.
- To identify the challenges and limitations experienced by SMEs and informal sector players under the GST regime.
- To assess the effectiveness of GSTN and digital compliance requirements on businesses.
- To evaluate consumer perception and behavior shifts due to GST-induced price changes.

RESEARCH METHODOLOGY

Research Design

The study follows a descriptive research design with the aim of evaluating and interpreting the implications of GST on different sectors of the Indian economy. The research lays importance on knowing public awareness, sectoral effect, business adjustment, and consumer attitude after the implementation of GST.

Data Collection Methods

Primary Data: Gathered from a structured online questionnaire distributed through Google Forms. It contained Likert scale questions, multiple-choice questions, as well as open-ended feedback.

Secondary Data: Drawn from government GST portals, news articles, financial publications, and academic journals that have been published.

Sampling Design

Sampling Method: Non-probability convenience sampling.

Sample Size: 100 respondents comprising students, salaried professionals, businesspersons, and service providers.

Target Population

Target population includes various income groups and business professionals from India who are directly or indirectly affected by GST, such as consumers and traders

Research Instrument

Research tool applied was a structured self-designed questionnaire. The questionnaire measured variables like awareness, ease of return filing, effect on prices, benefits to companies, and perception of post-GST transparency.

Data Analysis Tools

Descriptive statistics were utilized using Microsoft Excel and pictorial representation through graphs. Qualitative answers were synthesized to identify overarching themes.

Limitations of the Study : Limited sample size diminishes generalizability.

Online mode might have filtered out non-digitally literate participants.

Self-reported answers could have personal biases.

Data Analysis and Interpretation

This chapter presents the quantitative data analysis related to GST's effect on India's fiscal performance. The study utilizes government-published data to compare pre-GST and post-GST tax revenue trends, highlighting the implications for the Indian economy. The analysis is presented through tables and accompanying interpretation.

Analysis of Central Government's Tax Performance

Year	Gross Tax Revenue (₹ Lakh Cr)	% of GDP	Net Tax Revenue (₹ Lakh Cr)	% of GDP
2014–15	12.45	10.0%	9.04	7.2%
2015–16	14.56	10.6%	9.44	6.9%
2016–17	17.16	11.2%	11.01	7.2%
2017–18	19.19	11.2%	12.42	7.3%
2018–19	20.80	10.9%	13.17	6.9%
2019–20	24.61	11.7%	16.50	7.8%

Interpretation:

The data shows a steady increase in both gross and net tax revenues post-GST implementation (from 2017–18 onward). Gross revenue grew from ₹17.16 lakh crore in 2016–17 to ₹24.61 lakh crore in 2019–20. This suggests that GST helped streamline tax collection and broaden the tax base, contributing to improved fiscal health. Although net tax revenue as a percentage of GDP saw minor fluctuations, it consistently hovered above 7%, indicating economic stability.

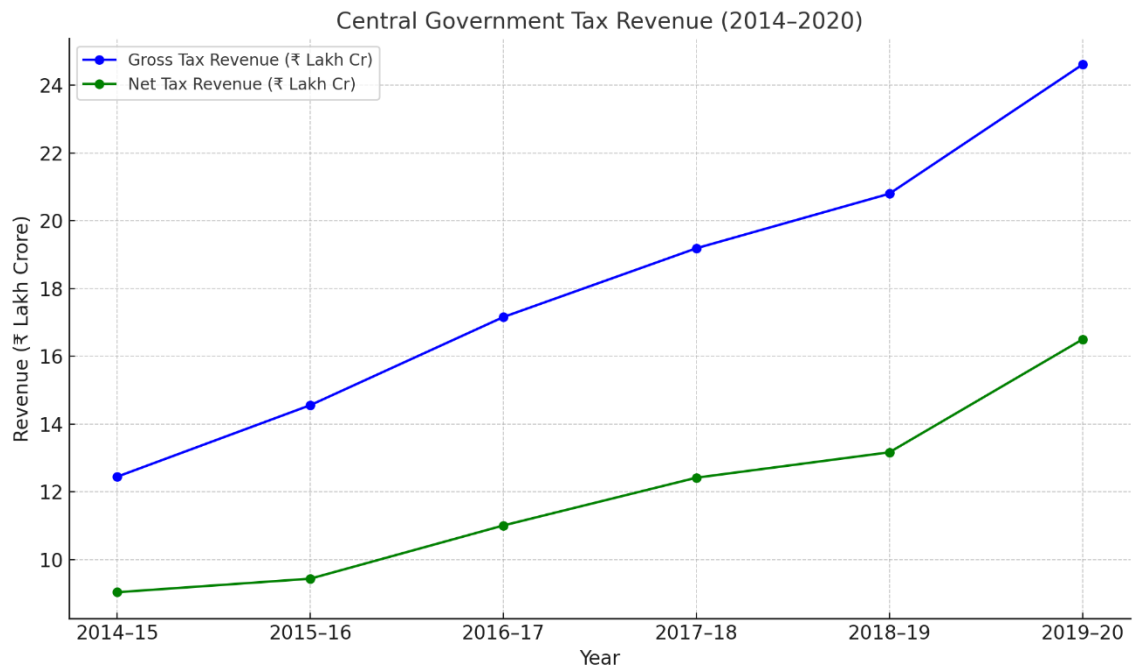
GST's Share in Government Revenue Growth

Before GST, multiple taxes such as VAT, excise duty, and service tax were levied separately by state and central governments. Post-GST, the integrated structure led to a more centralized, transparent system, improving compliance and tracking.

Key Observations:

- The transition year (2017–18) marked a significant increase in both gross and net revenues.
- The implementation of GST coincided with a rise in GDP-based tax collection ratios, highlighting its role in strengthening the revenue ecosystem.
- The simplification of tax structures led to increased voluntary compliance and better tax administration.

Visualization: Revenue Trend (2014–2020)



Interpretation:

The visual trend confirms a positive correlation between GST implementation and rising tax collections. From a pre-GST annual gross tax revenue of ₹12.45 lakh crore in 2014–15, the government recorded over ₹24.61 lakh crore by 2019–20—almost doubling within five years.

Sectoral Impact of GST (Qualitative Summary)

- Manufacturing & Logistics: Significant improvement due to elimination of inter-state checkposts and tax cascading.
- Retail & FMCG: Simplified compliance but initial adjustment challenges due to input credit reconciliation.
- Real Estate: Remained partially outside the GST net; reforms still ongoing.
- Petroleum Sector: Excluded from GST, continuing dual taxation and complications.

Conclusion from Data

GST has brought visible improvement in India's tax collection efficiency. There is a notable rise in tax-to-GDP ratio, reflecting a maturing tax environment. Despite early transition issues, GST is contributing to the central government's revenue stability and improving fiscal planning capability.

SUGGESTIONS AND RECOMMENDATIONS

Based on the study findings, the following suggestions are proposed:

RECOMMENDATIONS

Based on the study findings, the following suggestions are proposed:

1. Simplify Return Filing Process

GST return filing should be further simplified, especially for small traders, by offering simplified forms and easier interfaces.

2. Digital Assistance and Local Language Support

Online GST platforms should support regional languages and offer live digital helpdesks to guide small business owners through the compliance process.

3. Wider Awareness Campaigns

Government departments and tax departments must conduct periodical awareness drives in rural and semi-urban regions to make people aware of GST benefits and procedures.

4. Quarterly Training for SMEs

Free quarterly training programs for small and micro enterprises can enhance compliance and enable businesses to better utilize Input Tax Credit (ITC).

5. Introduce Tier-Based Filing Models

Alternative filing models by business size or turnover can minimize compliance costs for small entities and encourage participation in the formal economy.

6. Increased Mobile Accessibility

Simplified dashboards and mobile-friendly apps will increase user connectivity, particularly among young entrepreneurs and self-employed businesses.

7. Feedback System for GST Portal Users

A systemized feedback mechanism on the GST portal will quickly identify and address technical problems, thus improving user experience.

CONCLUSION

Implementation of the Goods and Services Tax (GST) has been the biggest and most ambitious tax reform in the history of independent India. The prime focus of this research was to comprehend and analyze the actual impact of GST on the Indian economy by gathering opinions of people and analyzing how it has affected individuals, small enterprises, and the overall taxation system since its inception in 2017.

From the survey answers and secondary research, it was apparent that GST has brought both benefits and difficulties. Positively, most respondents welcomed the single tax structure that substituted the multi-level and complicated tax structure that previously existed. A significant majority of participants also concurred that GST had brought more transparency and accountability, which has trimmed tax evasion to some extent.

Yet the switch to GST has not been completely flawless for all individuals. Many respondents—particularly small business operators and non-accountants—indicated challenges in learning about and adhering to the GST regime, especially with regard to submitting returns. Although the internet system is streamlined on paper, in actuality, it can be complex and discouraging for those without experience using electronic processes or accounting software. Some of the respondents spoke of the necessity for easier procedures and more accessible assistance in vernacular languages.

The research also showed a mixed effect on prices. Most individuals saw the price of goods and services rising in the early years of GST, though certain industry segments have gained due to input tax credits and diminution in tax cascading effects. Generally, views on GST were more positive among salaried workers and professionals, whereas micro-entrepreneurs, shopkeepers, and small tradesmen were most likely to experience compliance costs.

In summary, GST is a long-term reform. It has been able to streamline taxation at the macro level and achieve a more transparent business ecosystem. Still, for this reform to become more inclusive and beneficial to all, especially to the small and unorganized sector, the process must go on. This involves streamlining return filing, enhancing awareness, providing hands-on digital assistance, and building a more enabling ecosystem for compliance. The GST journey continues to progress, and through ongoing feedback and responsive policies, it can be one of the pillars of a more efficient and growth-focused Indian economy.

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