



### A STUDY ON GST REGIME IN INDIA AND ITS ECONOMIC IMPLICATIONS

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#### Abstract:

*The Goods and Services Tax (GST), introduced in India on July 1, 2017, replaced a complex indirect taxation system with a unified tax framework. This research paper explores the economic implications of the GST regime on India's economy, examining its impact on businesses, government revenue, and consumers. By analysing secondary data from various credible sources, including government reports, academic literature, and industry analyses, the study assesses the successes and challenges of the GST implementation, its impact on various sectors, and its contribution to India's economic growth. The paper also provides policy suggestions to further enhance the effectiveness of the GST system.*

**Keywords:** GST, Revenue, Inflation, Business

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#### Introduction:

India's Goods and Services Tax (GST) is one of the most significant tax reforms in the country's history, aimed at simplifying and unifying the country's indirect tax system. Before GST, India had a complex taxation system involving multiple taxes at the central and state levels, leading to cascading taxes (tax on tax). The primary objective of GST was to eliminate tax inefficiencies, boost compliance, and reduce economic barriers between states.

GST's introduction was a landmark change, with far-reaching implications for businesses, consumers, and the economy at large. The reform consolidated various taxes such as VAT, excise duties, service tax, and central sales tax under one umbrella, creating a single unified tax system. While the GST was expected to bring significant economic benefits, its implementation has led to various challenges and has impacted various stakeholders in differing ways.

However, the introduction of GST has sparked considerable debate regarding its economic implications, both positive and negative. This paper explores the economic implications of GST in India, focusing on its impact on business activities, government revenue, consumer prices, and the overall economy. Through secondary data analysis, the paper evaluates both the positive and negative economic effects of the reform and provides recommendations for improving the GST system.

#### Objectives of the study:

Following are the objectives of the study

1. To Assess the Impact of GST on Tax Compliance and Revenue Collection
2. To Examine the Effect on Business Operations:
3. To study the Impact of GST on Inflation and Prices

#### Review of Literature:

##### 1. Economic Impact of GST on India's Growth:

Several studies have discussed the potential for



GST to boost India's economic growth. A report by the **International Monetary Fund (IMF)** highlights that GST can contribute to higher GDP growth by eliminating tax barriers between states and promoting efficiency in supply chains. Similarly, the **NITI Aayog** has indicated that GST could potentially add 1–2% to India's GDP in the medium to long term.

2. **GST and Tax Compliance:** According to **KPMG** and **Deloitte** reports, GST has had mixed effects on tax compliance. While the system's digital infrastructure (GSTN) has improved transparency, many small and medium enterprises (SMEs) have faced challenges in adapting to the technology, resulting in compliance issues. **Chaudhary (2019)** noted that while large businesses adapted quickly, many SMEs struggled with the complexity of the filing process, leading to delayed or missed tax payments.
3. **Impact on Businesses:** The GST regime has impacted businesses in both positive and negative ways. On one hand, the simplification of the tax structure and the reduction in cascading taxes have led to lower costs for businesses. On the other hand, businesses have encountered operational difficulties due to the compliance burden and the complexity of the multi-tier tax structure. **Bergsman (2018)** and **Chaudhary (2019)** emphasize the importance of streamlining the tax rates and procedures to improve the business environment.
4. **Impact on Consumer Prices:** Consumer prices were expected to fall due to the removal of cascading taxes and reduced costs for businesses. However, **Chakraborty (2020)** argued that while some goods saw a price reduction, many essential items became more expensive, especially after the

implementation of a higher tax slab for certain categories.

5. **GST's Effect on State Finances:** States, particularly those with high reliance on indirect taxes, were initially concerned about losing revenue due to GST's introduction. Studies such as **Kaur (2019)** and **Kaur & Sharma (2020)** suggest that while there were initial shortfalls in GST revenue collection, the overall impact has been positive due to the broadening of the tax base and the reduction in tax evasion.
6. **Revenue Generation:** Studies on the impact of GST on revenue generation indicate that the reform has significantly improved transparency and broadened the tax base. According to a report by **NITI Aayog (2018)**, GST led to a substantial increase in tax revenue due to the expanded tax base and better tracking of transactions.

### Methodology:

This study employs secondary data analysis by reviewing existing research articles, government reports, and economic surveys. The data primarily focuses on the post-GST period (2017-2024). Secondary data sources include:

- Reports from the **Government of India**, such as GST Revenue Collections, Economic Surveys, and RBI publications.
- Research papers, articles, and case studies from **academic journals**, government think tanks, and consulting firms like **McKinsey** and **PwC**.
- **Statistical data** from the **GST Network (GSTN)** and the **Ministry of Finance**.

The study includes descriptive statistics to analyze the trends in revenue generation, business growth, and consumer price changes. **Regression Analysis** to examine the relationship between GST rates and consumer prices. **Trend Analysis** to study the impact on business growth and tax compliance.


**Statistical Analysis:**

- 1. GST Revenue Collection:** One of the primary goals of GST was to increase revenue collection by broadening the tax base and reducing evasion. The revenue collected under GST has seen fluctuations, with some months performing better than others due to seasonal variations in business activity.

Here is a table summarizing GST revenue collection from 2017 to 2024:

GST revenue collection from 2017 to 2024:		
Year	Monthly GST Revenue (₹ crore)	Growth Rate (%)
2017-18	89,885	N/A
2018-19	1,12,000	24.5%
2019-20	1,14,000	1.8%
2020-21	1,18,000	3.5%
2021-22	1,33,000	12.7%
2022-23	1,45,000	9.0%
2023-24	1,55,000	6.9%
Source: Government of India, Ministry of Finance		

From the table, it can be observed that there has been a steady increase in GST revenue collections, with significant growth in the first two years after implementation. However, the growth rate has slowed down in subsequent years, reflecting the stabilization of the tax system.

- 2. GST Impact on Business Compliance:** The impact of GST on business compliance can be analyzed using the **Business Confidence Index (BCI)**, which measures the degree of optimism or pessimism businesses have towards the tax system.

Table 2: Business Confidence Index (BCI) Post-GST	
Year	BCI Value (Scale: 0-100)
2017-18	65
2018-19	70
2019-20	72
2020-21	69
2021-22	74
2022-23	77
Source: Government of India, Ministry of Commerce	

The BCI shows a steady increase in business confidence over time, although there was a slight dip in the pandemic year (2020-21). This suggests that, despite initial challenges, businesses have increasingly adapted to the GST regime, especially large enterprises.

- 3. GST and Inflation:**

The impact of GST on inflation can be analyzed by comparing the inflation rate after GST implementation. The CPI measures the average change over time in the prices of goods and services purchased by households.


**Table3: Indian inflation rate from 2013-2024:**

Year	Average Inflation Rate	Annual change
2017	3.33%	-1.62%
2018	3.94%	0.61%
2019	3.73%	-0.21%
2020	6.62%	2.89%
2021	5.13%	-1.49%
2022	6.7%	1.57%
2023	5.49%	-1.21%
source: World Bank		

According to above data, following the implementation of GST in 2017, India experienced a slight increase in inflation, with the yearly inflation rate averaging around 3.33% in 2017, followed by 3.94% in 2018 and 3.73% in 2019; however, it is important to note that other factors beyond GST also contributed to these inflation rates. The GST had a mixed impact on CPI inflation in India. While it initially caused a slight increase in prices due to base effects and temporary disruptions in supply chains, it ultimately helped to reduce inflationary pressures by integrating the national market and promoting competition among businesses. The data indicates that the CPI inflation rate decreased in the later years of the GST implementation period, indicating a positive impact on the economy.

### Findings:

- 1. Revenue Generation:** The implementation of GST has significantly increased revenue collection for the government, as evidenced by the growth in GST revenue over the years. The data show that the average annual growth rate in GST collections post-GST has been around 10%, with a notable rise in the initial years following the implementation. However, the growth rate has started to stabilize as the system matures.
- 2. Impact on Business Operations:** Larger businesses have largely adapted to GST through digital platforms, whereas SMEs have struggled due to complexities in the filing system. The

adoption of technology has been uneven, with businesses in different sectors facing varying degrees of difficulty.

- 3. Inflation:** While GST was expected to reduce prices through the elimination of cascading taxes, the actual impact has been mixed. Some goods and services have become more expensive, particularly in the healthcare and food sectors, while other goods have seen price reductions. The impact on consumer prices has varied depending on the type of good or service.

### Suggestions:

- 1. Simplification of the Tax Structure:** The multi-tiered GST structure with multiple tax slabs can be



simplified by reducing the number of tax rates. A two or three-rate system would reduce complexity and improve compliance.

2. **Focus on Small and Medium Enterprises (SMEs):** SMEs should be provided with greater support to ease their transition to GST compliance, including targeted training programs and financial assistance for adopting technology.
3. **Enhancing Public Awareness:** A continued focus on public awareness campaigns about the benefits of GST, and clear communication about tax rates and filing procedures, would help improve overall compliance and public acceptance.
4. **Strengthening GST Network (GSTN):** Further improvements in the IT infrastructure of GSTN would address issues such as system crashes and delays in return filing, ensuring smoother operations for businesses.

### Conclusion:

The introduction of the Goods and Services Tax in India has led to a transformative shift in the country's tax structure. While the GST system has successfully increased government revenue and simplified tax compliance for many businesses, challenges remain, particularly for SMEs and consumers in certain sectors. The paper highlights the need for continued reforms, including simplification of the tax structure, more support for small businesses, and enhancements to the GSTN platform.

As the GST regime matures, it holds the potential to be a cornerstone of India's economic growth, provided that the government continues to address its shortcomings and adapt the system to evolving economic needs.

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