

# Role of GST in nurturing Indian Economy: A Critical Analysis

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**Abstract**—India, is a fast-growing economy in the world. Presently India is emerging as the third largest economy in the world next only to USA and China. Due to the rapid growth of the urbanization, and globalization India is coming out as the full-fledged economy in the world. Regardless of its promising growth flight, India wrestles with challenges like unemployment, lack of technology and limited purchasing power of the people it calls for improved economic governance and inclusive growth. Taxation, a critical aspect, has evolved from ancient tolls to the modern British colonial era, ending in the current constitutional taxation system outlined in the Seventh Schedule of the Indian Constitution. The advent of GST in 2017 was a landmark event in the history of Indian Economy, designed to lessen the flowing effect of taxes and promote cooperative federalism. Its bifurcated structure, encompassing CGST, SGST and IGST for intra and interstate transactions, respectively, seeks to simplify tax laws and enhance the ease of doing business. However, persistent challenges such as technical malfunctions, and revenue shortfall necessitate ongoing refinement. This paper explains the diverse impact of GST across various sectors like retail, agriculture, IT, banking, and tourism. It also highlights the crucial role of GSPs in simplifying taxpayer agreement through digital platforms. Moreover, it sheds light on the promising intersection of AI and GST, clarifying AI's potential in data analysis, fraud detection, policy formulation, and taxpayer assistance. Despite its potential, the integration of AI in GST requires a balanced approach, taking into account data quality, security, ethics, accountability, resource readiness, and stakeholder education. In summary, this paper give explanation crosses the historical, operational, and technological dimensions of GST's impact on India's economic landscape, advocating for a harmonious interaction between technological advancements and regulatory necessities in the kingdom of taxation.

**Index Terms**—Globalization, Urbanization, Technology, Taxation, Economic Growth, Accountability

## I. INTRODUCTION

The introduction of the Goods and Services Tax (GST) marked a significant reform in India's taxation system. Implemented on July 1, 2017, GST aimed to simplify the indirect tax structure by replacing multiple taxes levied by the central and state governments with a single unified tax. India has the fastest major growing economy around the globe. According 2003 Economics Times, New Delhi reported that India has a Gross Domestic Product of 3.73 trillion USD as of. In terms of nominal GDP, India is the fifth largest economy, whereas the third largest in Purchasing Power Parity terms. A diverse pool of population with having largest population in the world, high degree of regional diversities is one of the main features of the Indian economy. Indian economy has been driven by demographic dividend, globalization, urbanization and other reforms. Nevertheless, India is experiencing problems of its own in its journey towards economic development. India needs to improve its economic governance. It must also enhance human capital and promote inclusive and supportable growth. A tax is a compulsory payment made to the government for using public goods and services. In the process of economic development within a country, tax payers play a key role. Taxation policies affect various factors like allocation of resources, income distribution, price stability, and balance of payments. Taxes also influence the behavior of consumers, producers, and investors. Tax can be classified broadly into two categories: Direct Tax, Indirect Tax

Imposing a tax on the income of a person or an object is known as a direct tax while indirect taxes are imposed at different points in the chain of production and distribution. Examples of direct taxes include

corporate tax, income tax and capital gains tax. Indirect taxes are related to consumption or production of services and goods like sales tax, Value Added Tax, excise as well as customs duties among others. The choice of tax structure is primarily based on degree of development of the economy overall.

Table 1– Difference between Direct Tax and Indirect Tax

DIRECT TAX	INDIRECT TAX
Generous - based on capacity to pay	Distortionary – Reduces the incentive to work
Equitable - Reduces income disparity	Evasive - Accountable for tax evasion and avoidance
Crystal clear - Easy to monitor and evaluate	Expensive - Requires a high administrative and compliance cost
Elastic - Can be adjusted as per the dynamics of the country	Firm – Can create fiscal rigidity and instability

#### Meaning of GST

GST is known as Goods and Services Tax. It falls under the categorization of indirect taxation. It incorporates various central and state indirect taxes.

#### Basic Structure of the GST

Goods and Service Tax is implemented through a dual structure. Intra-state transactions consist of Central GST and State GST. For interstate transactions, an IGST is applicable. GST is levied at four rates in India: 5%, 12%, 18% and 28%. It also has some exemptions and higher rates for some luxury & sin goods.

#### Understanding GST in India

GST in India is a destination-based tax system where the tax is levied on the value addition at each stage of production or distribution. It is designed to eliminate the cascading effect of taxes, which was prevalent in the pre-GST era. GST comprises Central GST (CGST), State GST (SGST), and Integrated GST (IGST), depending on whether a transaction occurs within a state or between states.

#### Historical Background of Taxation in India

Indian Taxation system dates back to a long history. It was during the period of Mouryan Empire Kings used to collect from the wealthy businessmen. Agriculture

and Agricultural products were exempted from the direct tax. Later on during the period of Moghul dynasty muslim rulers used to collect taxes on certain products including tax levy on the fertile agricultural land. Moghul ruler like Allaudin Khilji and Aurangazezeb levied hefty tax on Hindu subjects. It was very harsh part on the majority Hindu. The British colonial era led to the evolution of the modern taxation system in India. First tax system was introduced to compensate for the losses suffered by Britishers during the revolt of 1857. James Wilson enacted the first ever Income Tax legislation in 1860. During British colonial reign, he was India's premier Finance Minister. He also cited Manu's authority for imposition of income tax in India. Income Tax Act, 1886 replaced the old act of 1860. It was subject to some changes in the categories and rates of taxation. The new categories included net salaries and profits from businesses. Further revisions were made in the coming years, which expanded the scope of income tax. Britishers imposed various other taxes that were quite oppressive and arbitrary on the part of the poor Indians. The oppressive act of the Britishers led to various violent and non-violent movements and hartals, picketing against the British. For example, the Salt March of 1930.

#### GST around the world/GST Comparison

Country	GST Rate
Saudi Arabia	5%
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
Sweden	25%
New Zealand	15%

Source: Economic Times 2025 – Table 2

## II. LITERATURE REVIEW ON IMPACT OF GST

Castro (2006) analyzed the fiscal shock on GDP, prices and interest rates in Spain using Vector Autoregressive Model. The result showed the government expenditure shows negative response toward output, private consumption and investment in the medium run.

Madsen and Damania (1996) tried to measure the impact of fiscal structural change on wage and output levels using PRS analyzing performed on the basis of Engle-Yoo (1989) procedures.

Munir and Riaz (2019) tried to explore the relevance of planned fiscal policy for building a stable microeconomic environment. The result of the study found that prices do not respond to increase in government expenditure, which increase in taxes cause immediate response in prices.

### III. OBJECTIVES OF THE STUDY

1. To understand the taxation system in the independent India.
2. To know the cascading effects of tax system in India.
3. To comprehend the previous tax structure which included Central Excise Duty, Service Tax.
4. To recognize the primary challenges in GST implementation in India.
5. To appreciate programs to educate businesses, especially in rural areas, about GST procedures.

#### Methodology of the Study

The blue print and home work for this research paper was done in the month of October 2025. The present study is based on both Primary and Secondary data. The researcher conducted a small research on the taxation system in the small and medium shops of Mysore, Karnataka 50 shop keepers were selected on the Random Sampling method. Interview Schedule method is used to collect information from the shop keepers about the uses and challenges of GST taxation system.

#### Taxation System in independent India

The system of taxation allocated with some changes after independence. Indian Constitution came into force in 1950. The constitution clearly stated the responsibilities of the governments, both at the state and the central level. The Indian Constitution directed the government is exclusively capable of levying taxes on income other than i) agricultural income, ii) customs, iii) excise, iv) corporation tax, and v) estate duty. While the governments of different states enjoy the exclusivity to levy taxes on: a) agricultural income, b) land revenue, c) stamp duty, d) sales tax, and e) entertainment tax. Both union and state governments

have the concurrent power to levy taxes on income from: lotteries, ii. betting, iii. Gambling.

#### Need for Goods and Service Tax in India

GST was needed to streamline tax laws in India. GST was aimed at eliminating the flowing effects of tax, improving tax compliance, and accelerating exports.

1. Removal of the Flowing Effects: The previous tax structure which included Central Excise Duty, Service Tax, and State-level Value Added Tax, among others often resulted in "tax on tax" because businesses could not claim input tax credits across the different tax types. GST allows a seamless flow of input tax credits throughout the supply chain, ensuring that tax is charged only on the value added at each stage, which ultimately reduces the final price for the consumer.
2. Creation of a Unified National Market: By subsuming a multitude of central and state taxes into a single, comprehensive tax, GST eliminated inter-state tax barriers like entry tax that is octroi tax. This streamlined the movement of goods and services across the country, improving the efficiency of logistics and fostering a "One Nation, One Tax" environment.
3. Simplification of the Tax Structure: The pre-GST system was complex, with varying tax rates and rules across different states, leading to significant submission challenges for businesses. GST simplified this by introducing uniform tax code with a few main tax slabs, making the system easier for taxpayers and administrators to understand and manage.
4. Increased Tax Compliance and Transparency: The entire GST process, from registration to return filing and tax payments, is a fully online system managed by the Goods and Services Tax Network (GSTN). This digital infrastructure reduces human interface, minimizes the scope for tax evasion and human errors. Thus making GST making a reliable one.
5. Boost to Economic Growth: By making the tax system more efficient and transparent, GST was expected to enhance India's competitiveness in domestic and international markets, attract more foreign players, and contribute significantly to GDP growth.

Discussion and Analysis on the GST implementation (Challenges in GST Implementation)

### Challenges in Implementation GST system

#### 1. Rigidity of Tax Structure

One of the primary challenges in GST implementation in India is the rigidity of its structure. Out of 50 shop keepers 38 of them consisting of 76 per cent opined that GST has multiple tax rates ranging from 0% to 28%. This makes them very difficult to understand the real tax that they have to deposit to the government. At the same time, the respondents also feel they have to pay special rates for certain goods and services which is not only burdening them but also causing hardship. The respondent shop keepers said due to their complex socio-economic diversity of the business, the whole system is more complicated and comply with the tax system.

#### 2. Regular Changes in Rules and Rates of GST

Out of 50 respondents 42 of them replied that since the introduction of GST in India, they have witnessed number of changes in the tax rates and per cent. They also said until the date they have seen lots of procedures, this regular changes have made the GST a stable in rules and is causing confusion among them and other professionals.

#### 3. Problem of Acceptance

Out of 50 respondents 44 of them replied that accepting the procedures of GST is a problematic to them. The respondents lamented that GST is tiresome procedure, they require to file multiple returns every month, quarterly and annually. At the same time, small and medium form of businessmen do not have man power to handle the files and they do not have expertise to manage the required resources. Furthermore the shop keepers and owners have to file the tax forms in the form e-invoices which is tiresome in nature.

#### 4. Challenge of Technical Glitches

Since the introduction of GST taxation, digital network is the key for its implementation. Out of 50 respondent shopkeepers 36 of them consisting 72% per cent of them complained that they face slow network, system breakdown, technical problem, copying, printing and such problems of technical glitches which makes them very frustrated and restless. The respondents concluded that these technical problems in fact delaying return filing and easy functioning of their business enterprises.

#### 5. Lack of Awareness and Training

Out of 50 respondents 42 of them consisting of 84% percent of them replied that most of them belong to rural areas, they do not have accurate knowledge about the GST rules and regulations. Due to their small business enterprises they lack human resources to handle the tax procedures. The shopkeepers responded that couple of times, the tax department people called them to their office and delivered special lecturers on GST rules and regulations. The limited training provided by the tax officials is not enough to handle the e-filing and procedures. Hence, they do errors in compliances in return filing.

### Steps to Overcome Challenges

To address the challenges in GST implementation in India, the government has taken several steps:

1. Streamlining GST rules and reducing the compliance burden, especially for small businesses.
2. As per as the commercial tax and GST officials Enhancing the GST Network handle technical issues and ensure a smoother filing process.
3. Conducting programs to educate businesses, especially in rural areas, about GST procedures.
4. Gradually integrating excluded sectors like petroleum and real estate into the GST framework for uniformity.
5. Coordination: Improving collaboration between central and state governments for consistent decision-making and policy implementation.
6. Introducing initiatives like the QRMP scheme and simplifying the input tax credit process.

### Positive Impact of GST on Indian Economy

1. Surging effect of taxes- GST helps eliminate double taxation. This, in turn, lowers the cost of production. This helps increase the competitiveness of both the producers and consumers.
2. Enhances tax agreement -GST has a positive demand-side effect on the economy. It increases disposable income thus it increases the revenue of the country.
3. Implementation of Unified market- Free flow of services & goods increases the economies of scale.
4. Lesson burden on Agricultural Sector- GST has narrowed the tax-burden on the agricultural sector.

The implementation of GST exempts most of the agricultural products from GST. It eliminated the interstate tax barriers, which enabled free movement across the country.

5. Reduced corruption of Textile Sector- GST has brought the textile sector under the tax net. It has also enabled input tax credits for the textile sector and curbed tax evasion and corruption. .

#### IV. CONCLUSION

The beginning of GST traces back to historical tax reforms, developing through a series of committees and commissions aimed at rationalizing India's taxation structure. GST stands as a pivotal reform. It brought about significant changes in the tax structure and administration. GST has also considerably impacted the Indian economy, affecting various macroeconomic indicators. Since the implementation of GST, an evolution from a complex tax structure to a unified and streamlined system was made possible. It systematized the taxation reforms. GST in India is a noteworthy reform aimed at simplifying the tax system and nurturing growth of Indian Economy. Even though initial challenges, continuous refinement and partnership among the government, businesses, and professionals are essential. Lessons from the early years provide valuable insights, and with sustained efforts, GST can achieve its goal of a unified and efficient tax structure, benefiting all stakeholders. Post-implementation, GST ushered in a dual structure, development cooperative federalism while striving to mitigate the cascading effect of taxes, enhance tax compliance, and streamline the movement of goods and services across state boundaries thus pushing Indian Economy in to a greater height.

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