

11

Impact of GST on Indian Economy: A Study

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Abstract

Goods and services tax (GST) was implemented in 2017 and GST 2.0 was implemented in 2025. GST replaced several taxes such as value added tax, service tax, excise duty, luxury tax etc. GST 1.0 was based on four slabs (5%, 12%, 18% and 28%) but GST 2.0 is based on three slabs (5%, 18% and 40%). As per GST 2.0, 40% rate is applicable to luxury and sin goods. GST 2.0 enhanced ease of doing business. Small entrepreneurs are facing difficulties to understand new rules of GST 2.0. Proper implementation of GST 2.0 need more awareness about new tax reforms among businessmen. Tax officials need appropriate training to implement the regulations of GST 2.0. GST 2.0 is more economic growth oriented than GST 1.0. The study is based on both primary and secondary data. Primary data has been collected from the state of West Bengal. Secondary data has been collected from journal articles. In this paper, an attempt has been made to find out the impact of GST on Indian economy.

Keywords: GST, Tax, GST 2.0, Rate, Goods.

Introduction

Goods and services tax (GST) was implemented in 2017 in India. GST 2.0 was approved by the GST council in its 56th meeting. GST 2.0 was implemented on September 22, 2025. GST 1.0 (2017-2025) was based on multiple slabs (5%, 12%, 18% and 28%). GST 2.0 is based on three rates i.e. 5%, 18% and 40%. GST replaced multiple indirect taxes such as excise duty, value added tax, service tax, luxury tax. The legal structure of GST comprises of Central Goods and Services Tax Act, State Goods and Services Tax Act, Integrated Goods and Services Tax Act, Union Territory Goods and Services Tax (Pushpa, 2025). GST 2.0 is a simplified indirect tax system to accelerate economic growth. GST 2.0 replaced four tier structure of GST 1.0 with three tier system i.e. 5%, 18% and 40%. 12% and 28% slabs of GST 1.0 were removed to simplify the indirect tax structure. 5% GST applies to daily essential goods, packaged foods, essential medicines etc. 18% GST applies to standard goods

and services including air conditioners, televisions, refrigerators, small cars etc. 40% GST applies to luxury and sin goods such as tobacco products, luxury vehicles, gambling etc. GST 2.0 has given complete exemption on many medicines, life and health insurance premium.

Literature Review

GST has significant effect on indirect tax system. All the sectors will get the advantages from GST in long term. GST has positive aspects to develop the economy of the country. GST has significant impact on agricultural sector, textile sector, entertainment industry, automobile sector, banking sector, energy sector (Deepaware and Dwivedi, 2022). GST is a comprehensive indirect tax which replace value added tax, state taxes, entertainment tax, excise duty, central surcharges, luxury tax. GST reforms provide benefit to farmers and MSMEs. It ensures ease of doing business for small businessmen (Govindaswamy and Srinidhi, 2025). GST 2.0 simplify the tax structure and accelerate economic growth. MSMEs and manufacturers are expected to get benefit from GST 2.0. Tax reform reduces rates on essential goods and lessen burdens on MSMEs (Bhardwaj, 2025). GST was implemented to replace several central and state indirect taxes such as VAT, excise duty, service tax. GST comprises of CGST Act, SGST Act, IGST Act, UTGST Act. Kelkar committee recommended the concept of GST. GST council recommends the tax rates on goods and services (Pushpa, 2025). GST is very vital fiscal reforms in post-independence history of India. GST restructured indirect tax system to create unified national market. GST replaces several central and state taxes. GST simplified tax administration which has significant impact on both consumers and businesses (Shanbhogue et al., 2025). GST is a significant reform in the taxation history of India. GST transform various indirect taxes into a integrated tax system. Many sectors face challenges to comply with the rules of GST. Small entrepreneurs face difficulties due to excessive compliance cost (Ainapur and Ainapur, 2025). Tax rates are reduced on many goods under new regime. Higher taxes on luxury and sin goods ensures to maintain fiscal balance. The reform enhance ease of doing business as it simplified tax system and reduce compliance costs. GST 2.0 accelerates economic growth by restructuring the tax system (Ganesh, 2025). GST represents significant structural changes in indirect tax system. Prior to GST, indirect tax system was based on various central and state tax such as value added tax, excise duty, service tax, luxury tax. GST is a unified tax system to enhance economic efficiency (Pandey et al., 2026). The purpose of GST 2.0 is to develop the economy by reducing the tax burden. The ease of doing business has enhanced due to reduction in compliance costs. Small entrepreneurs are benefited due to simplified tax system (Jaimol and George, 2025). GST 2.0 is based on digitization more than first GST cycle. GST 2.0 has immense effect on banking sector (Sunil and Devarajappa, 2025). GST include several taxes at the

central level such as excise duty, service tax, customs duty. GST include various taxes at state level such as sales tax, entertainment tax, purchase tax, luxury tax. GST has changed the indirect tax system in India to face the socio economic challenges in the context of modern world (Sinha and Shrivastava, 2021). GST is the greatest tax reform since 1947 in India. The indirect tax system was complex prior to GST. GST include central GST and state GST. Services such as banking, airline and telecom will become expensive due to GST (Yadav, 2023). GST 2.0 has significant impact on Agriculture and farm machinery, consumer durables, automobiles, real estate and construction, fast moving consumer goods. GST 2.0 has brought structural changes in indirect taxation system in India. GST 2.0 reduces rates on essential goods and support digital compliance (Uttamsagar, 2025). GST replaces the multiple tax structure. GST support one country one tax system. GST enhanced consumption capacity of consumers by reducing the prices of goods (Kumar, 2018).

Objectives

The objectives of the study are as follows:

- To analyse various aspects of GST.
- To analyse the impact of GST on the economy.

Methodology

The study is based on both primary and secondary data. Primary data has been collected from the state of West Bengal. Secondary data has been collected from journal articles. The sample size of the study is 200. 65% of the respondents are male and 35% of the respondents are female. 56% of the respondents are between the age of 31 years to 40 years. 31% of the respondents are between the age of 41 years to 50 years. 9% of the respondents are between the age of 51 years to 60 years. 4% of the respondents are above 60 years of age. 67% of the respondents are graduates. 9% of the respondents are post graduates. 66% of the respondents are businessmen and 34% of the respondents are service holders.

Limitations of the Study

The limitations of the study are as follows:

- The study is restricted on few sectors.
- Primary data has been collected from limited number of respondents.

Data Analysis

GST restructured the indirect tax system of India. 92% of the respondents agree that GST simplified indirect tax structure for the benefit of entrepreneurs. GST 2.0 has increased the purchasing power of the consumers by reducing the prices of goods and services. 87% of the respondents agree that GST 2.0 has enhanced the consumption capacity of consumer due to lower price of goods and services. GST

rate on life and health insurance is 0% in GST 2.0. 77% of the respondents agree that GST 2.0 support insurance for all initiative. The compliance cost has increased due to new tax reform. 68% of the respondents agree that new tax reform has enhanced compliance cost. Small traders and farmers suffer due to new tax reform. 64% respondents agree that small traders and farmers face difficulties to understand the rules of GST 2.0. New tax reform is based on digitization. 86% of the respondents agree that GST 2.0 is based on digitization more than GST 1.0. GST has reduced the tax burden on MSMEs. 79% of the respondents agree that tax burden on MSMEs has reduced due to GST. Tax officials need training for proper implementation of GST 2.0. 81% of the respondents agree that tax officials require training to implement GST 2.0 appropriately. Workshops and conferences should be arranged for businessmen and tax practitioners. 73% of the respondents agree that workshops and conferences are required for tax practitioners and businessmen for accurate implementation of GST 2.0. GST 2.0 has reduced the rate on essential goods. 86% of the respondents agree that the demand of essential goods has increased due to lower rates of essential goods under GST 2.0. GST 2.0 is more consumer centric than GST 1.0. 92% respondents agree that GST 2.0 is more consumer centric than GST 1.0. In leather sector, the old GST rate was 12% on many items but the new GST rate is 5%. 81% of the respondents agree that GST 2.0 has positive impact on leather sector. In health sector, GST 2.0 has reduced tax rates on many items. 93% of the respondents agree that GST 2.0 has positive impact on health sector. In construction sector, tax rate of GST 2.0 on many goods is less than GST 1.0. 78% of the respondents agree that GST 2.0 has positive impact on construction sector. In handicraft sector, old GST rate was 12% on many goods but new GST rate is 5%. 67% of the respondents agree that GST 2.0 has positive impact on handicraft sector. In fertilizer sector, the rates of many items has reduced in GST 2.0. 88% of the respondents agree that GST 2.0 has positive impact on fertilizer sector. In food sector, the rates of many goods in GST 2.0 are lower than GST 1.0. 93% of the respondents agree that GST 2.0 has positive effect on food sector. In agriculture sector, old GST rate on many items was 12% but in GST 2.0 the rate is 5%. 65% of the respondents agree that GST 2.0 has positive impact on agriculture sector. In wood sector, the new GST rate on many items reduced to 5%. 61% of the respondents agree that GST 2.0 has positive impact on wood sector. In education sector, new GST rates on many items are lower than old GST rates. 89% of the respondents agree that GST 2.0 has positive impact on education sector.

Conclusion

GST 2.0 has positive impact on various sectors such as leather sector, health sector, construction sector, handicraft sector, fertilizer sector, food sector, agriculture sector, wood sector and education sector. GST enhanced ease of doing business.

GST restructured indirect tax system to improve economic growth of India. GST 2.0 reduces compliances burden for small entrepreneurs. GST 2.0 is more economic growth oriented than GST 1.0. The purchasing power of consumers has enhanced due to lower rates of GST 2.0. Proper training should be arranged for tax officials and tax practitioners for accurate implementation of GST 2.0. GST 2.0 accelerates economic growth of India more than GST 1.0.

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