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IMPACT OF GST REFORMS IN INDIA

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ABSTRACT:

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country. GST is one of the most crucial tax reforms in India which has been long pending.

The Goods and Services Tax (GST), introduced on 1st July 2017, is India's most significant indirect tax reform since Independence. By bringing together multiple central and state taxes into a single, unified system, GST created a common national market, reduced the cascading of taxes, simplified compliance, and improved transparency. Over eight years, GST has steadily evolved through rate rationalization and digitalization, becoming the backbone of India's indirect tax framework. The 56th meeting of the GST Council, chaired by Union Finance Minister Smt. Nirmala Sitharaman has now approved Next-Gen GST reforms, with focus on improving the lives of the common man and ensuring ease of doing business for all, including small traders and businessmen. In his Independence Day address, Prime Minister Narendra Modi had announced-"The government will bring Next-Generation GST reforms, which will bring down tax burden on the common man.

In line with the PM's vision the GST Council has recommended a comprehensive reform package that includes rate rationalization with a simplified two-slab structure (5% and 18%), sweeping rate reductions across sectors, with focus on common-man, labour-intensive Industries, farmers and agriculture, health, key drivers of the economy. These recommendations are based on consensus among all members of the GST Council to make GST simpler, fairer, and more growth oriented. The revised rates and exemptions will come into effect from 22nd September 2025, ensuring timely relief for the common man, households, farmers, and businesses. This paper presents an impact of GST Reforms, explains its features along with its timeline of implementation in India. The paper is more focused on advantages of GST Reforms and challenges faced by India in execution.

KEYWORDS: GST Reforms, Goods and service tax, models of GST, Indirect tax, Indian Economy.

INTRODUCTION:

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market**.** At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%.

The word “tax” is derived from Latin word “taxare” which means to estimate. A tax is an enforced contribution, exacted pursuant to legislative authority. Indian Taxation System comprise of-Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most discussed Indirect Taxation reforms. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits**.** The current system taxes production, whereas the GST will aim to tax consumption.

The proposed GST structure is likely to succeed only if the country has a strong IT network. E-commerce does not leave signs of the transaction outside the internet and has anonymity associated with it. As a result, it becomes almost impossible to track the business transaction taking place through internet which can be business to business, business to customer or customer to customer. Again E-commerce has been insulated against taxation under custom duty moratorium on electronic transmissions by the WTO Bali Ministerial Conference held in 2014.

In line with the PM’s vision the GST Council has recommended a comprehensive reform package that includes rate rationalization with a simplified two-slab structure (5% and 18%), sweeping rate reductions across sectors, with focus on common-man, labour-intensive Industries, farmers and agriculture, health, key drivers of the economy. These recommendations are based on consensus among all members of the GST Council to make GST simpler, fairer, and more growth oriented. The revised rates and exemptions will come into effect from 22nd September 2025, ensuring timely relief for the common man, households, farmers, and businesses. Only exception will be specified goods namely, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and beedi, for which the existing rates of GST and compensation cess will continue to apply and the new rates will be implemented at a later date to be notified, based on discharging of entire loan and interest liabilities on account of compensation cess.

On the 79th Independence Day, Prime Minister Shri Narendra Modi emphasised GST as an important reform. He called for new GST reforms, some of which are listed below, to help common people, farmers, the middle class, and MSMEs. The government’s proposals, which were approved by the GST Council at the 56th GST Council meeing, aim to strengthen industries, increase economic activity, and promote growth. The Centre has proposed new GST reforms to the GoMs compensation cess. 56th GST Council meeting held on 3rd September 2025 paved way for implementing GST 2.0 reforms. Major highlight was simplification of tax rates into two main slabs (5% & 18%) by removing 12% and 28%. Sin goods will be taxed at a new 40% GST.

The Centre has officially notified revised GST rates for various goods following the historic 56th GST Council's rate-rationalization decision. The 56th GST Council, led by Union Finance Minister Nirmala Sitharaman in New Delhi on September 3, 2025, announced a major overhaul to India's Goods and Services Tax (GST) regime. These changes, effective September 22, 2025, are expected to directly impact household budgets and business operations, making certain daily-use items more affordable while maintaining standard taxation for most goods and services. The updated framework replaced the previous four-slab system (5%, 12%, 18%, and 28%) with a streamlined two-rate structure: a 5% rate for essential goods and an 18% standard rate for most goods and services. Union Finance Minister Nirmala Sitharaman has said the next generation GST reforms will infuse Rs 2 lakh crore into the economy, which will leave people with more cash in hand that otherwise would have gone as taxes."With this New Gen Tax regime, with only two slabs (5 per cent and 18 per cent), Rs 2 lakh crore is injected into the economy.

The government announced three pillars of focus for new-gen GST reforms on 15th August 2025- structural reforms, rate rationalization and ease of doing business. The new GST regime, GST 2.0, simplifies the tax structure by decreasing the slabs and changing rates. Significant changes have been implemented after the 56th GST Council meeting lowering the price of necessary goods, decreasing insurance premiums, and shift high-consumption goods into lower tax brackets. GST rate cuts on 200 items happened from 22nd September 2025. 90% of items in the current 28% slab are moved to the 18% slab. Almost 99% of the items in the 12% slab are moved to the 5% slab.

REVIEW OF LITERATURE:

Dr. R. Vasanthagopal (2011) studied,"GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Agogo Mawuli (May 2014) studied, "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Nitin Kumar (2014) studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

(Shukla, S., & Kumar, R. (2019) studied, Data showed that more than one-third of business persons from the sample were facing a problem at the very first step, namely getting the GST registration number and filing returns.

According to Bhalla et al. (2024) there is a need for digital literacy and tech adoption training for micro firms along with subsidized access to compliance software.

(Garg et al., 2024) studied, GST as a taxation reform has also transitioned the indirect tax mechanism from origin-based to destination-based thereby sparking concerns and controversies among industrial rich state governments that this taxation transformation will adversely affect their revenue performance**.**

(Kumar, S. (2024) Studied**,** The dynamic nature of GST and the frequent reforms makes the compliance process difficult especially in the short run. For example, inflation affects the GST revenue in the short run, but its role in the long run is not significant**.**

(Patwal, H et al., 2024), Therefore, in the long run the fluctuations are expected to slow down such that a clearer picture emerges of the economic impact of the G.S.T reform in India. GST is a long-term strategy, and benefits won't become apparent right away. Therefore, it will take some time for people to comprehend its significance.

OBJECTIVE OF STUDY: The study has following objectives:

- To Study the concept of GST Reforms.
- To Study the features of GST Reforms.
- To Evaluate the advantages and challenges of GST Reforms.
- To Ensuring that the cascading effect of tax on tax will be eliminated.
- To Estimate of the exact impact of GST reforms.
- To Incidence of tax falls on domestic consumption.
- The efficiency and equity of system is optimized.
- The Indian market should be integrated into single common market
- To Study GST Reforms Slab Rates 2025.

RESEARCH METHODOLOGY:

The paper is based on secondary sources of data, which have been obtained from various GST Reforms implementation discussion papers, published article in journals, web articles (internet sources), past studies and news paper etc. With the help of these secondary sources, attempt has been made to find the obstacles coming on the way of GST Reforms and looking for future opportunities of it in India.

CONCEPT OF GST:

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax . As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs, counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octorai, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

ADVANTAGES OF GST:

Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions.

- ❖ It is anticipated to help in establishing an effective and transparent tax administration.
- ❖ It is expected to remove the cascading effects of taxes and help in establishing of common national market.
- ❖ Maintenance of uninterrupted Input Tax Credit (ITC) chain on inter-State Transactions.
- ❖ No upfront payment of tax or substantial blockage of funds for the inter-state seller or buyer.
- ❖ No refund claim in exporting State, as Input Tax Credit (ITC). It is used up while paying the tax.
- ❖ Self-monitoring model Level of computerization is limited to inter-State dealers. Central and State Government will be able to computerize their process expeditiously.
- ❖ Computerize their process expeditiously. As all inter-State dealers will be e-registered and Correspondence with them will be by e-mail, thus compliance will improve substantially.

- Model can take "Business to Business" as well as "Business to Consumer" transactions into account.

CHALLENGES OF GST:

HIGH REVENUE NEUTRAL RATE (RNR) :

RNR is the rate which neutralize revenue effect of state and central government due to change in tax system, means ,the rate of GST which will give at least the same level of revenue that is currently earned by state and central governments from indirect taxes is known as RNR. As per 13 finance commission the RNR should be 12% whereas state empowered committee demanding 26.68%. Union government is reckoning the rate band should be 15%-20% which is very high as compare to other counties. Hungary implemented GST from 1/4/2014 with 7% rate. Due to high RNR Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking. Tax evasion and smuggling will increase. Regressive nature of indirect taxes will badly affect the purchasing power of poor people which will have negative impact on human development index. So, before implementing GST, RNR should be minimized. This can be achieved by inclusion of petrol, liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government.

IMPACT OF GOODS AND SERVICES:

Section 2, GST has a positive impact on the economy and on various sectors which are as follows:

FAST MOVING CONSUMER GOODS SECTOR: With the implementation of Goods and Service Tax, FMCG sector would really change. FMCG sector consist 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector is the major taxation contributor both direct and indirect in the economy. The multiplicity of the taxation influences the company"s decision on manufacturing location and distribution of Goods. FMCG companies set their manufacturing units and warehouses where they can avail tax benefits. To transfer the stock from the warehouses among the states they have to pay taxes. So, GST would surely impact on FMCG sector as taxes affect the cost to the company.

FOOD INDUSTRY: Since food constitutes a large portion of the consumer expense of lower income households, any tax on food would be regressive in nature. Therefore, extending GST to food processing sector will also cause difficulty in view of the fact that production and distribution of food is largely unorganized in India. On global front, most of the countries tax food at a lower rate keeping in view the considerations of fairness and equity. Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. Even in international jurisdictions, no distinction is drawn on the degree of processing of food. Hence, the benefit of lower or zero tax rates should also be extended to all food items in India regardless to degree of processing.

INFORMATION TECHNOLOGY ENABLED SERVICES: The proposed GST rate under the IT industry is not yet decided. While the discussed combined rate of GST for the product is 27%. According to proposed GST if the software is transferred through electronic form it would be regarded as service (intellectual property).and if it is transferred through media or any other tangible property then it should be treated as goods. Implementation of GST will help in uniform simplified and single point taxation and thereby reduced price.

INFRASTRUCTURE SECTOR: The Indian infrastructure sector largely comprises power, road, port, railways and mining. And the indirect tax levy is different and unique for each of them, and this is complex in nature. Although this sector enjoys different exemptions and concessions as it is important on national front. With the implication of GST the multiplicity of taxes will be removed and it would increase the tax base with continuation of exemptions and concessions for national interest and growth.

IMPACT ON SMALL ENTERPRISES: In the small scale enterprises there are three categories:- Those below threshold need not to register for the GST. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. Those above threshold limit will need to be within framework of GST. In respect of the central GST the situation is slightly complex.GST is expected to encourage compliance and which is also expected to widen tax base adding up to 2% to GDP. Manufacturers, traders will have to pay less tax with the implication of GST.

GST REFORMS 2025 LIST: These reforms are expected to make the GST system more efficient, fairer, and easier to navigate for both consumers and businesses. The next generation of GST reforms is a significant step towards modernizing India's tax framework and ensuring a more equitable tax system. The GST reforms of 2025 aim to simplify the tax structure and provide relief to citizens. Here is a list of key changes and updates:

- **TWO-SLAB STRUCTURE:** Most goods and services will be taxed at 5% or 18%, with luxury and sin goods taxed at 40%.
- **EXEMPTIONS:** Life insurance policies and health insurance have been exempted from GST, making them more affordable.
- **DIGITAL EASE:** Registration, filing, and refunds are now faster through online processes.
- **CONSUMER BENEFITS:** Everyday essentials like food, medicines, and education goods will see lower or zero GST.
- **BUSINESS GROWTH:** Simpler forms and better cash flow for small businesses.
- **HEALTHCARE ACCESS:** Health insurance is now tax-free, increasing access for families.

GST TAX SLAB CHANGES 2025: The GST tax slab changes for 2025 are a significant update to India's tax structure, aimed at simplifying the tax system and reducing the tax burden on consumers. These changes are expected to provide direct relief to the common man, empower MSMEs, and boost economic growth. The new GST structure is designed to be more transparent and easier to follow, with a focus on simplifying compliance and reducing disputes. Here are the key changes:

- **5%:** Applicable to essentials like hair oil, shampoo, toothpaste, toilet soap, toothbrushes, and shaving cream.
- **18%:** The new broad "standard" rate for most goods and services.
- **40%:** The special "de-merit rate" for luxury and sin goods.
- **0%:** Expanded to include individual health and life insurance premiums, 33 lifesaving medicines, and educational stationery.
- **12% and 28%:** Removed from the tax structure.

IMPACT OF GST REFORMS IN 2025:

The next-gen GST reforms do more than just cut rates. They are expected to create a significant economic impact. By fixing inverted tax structures, these reforms free up working capital, improve manufacturing competitiveness, and support Atmanirbhar Bharat goals. For MSMEs, simpler compliance and lower rates can cut costs, encourage the formalization of the unorganized sector, and expand the tax base.

On the consumer side, a cheaper goods has increased purchasing power. The reduction in prices for white goods should boost demand in the consumer durables sector. The elimination of the compensation cess by March 2026 will help to facilitate both these reforms, and make GST an instrument of not just taxation but also economic growth & policy effectiveness.

The GST system in India is set for huge change in the future. The government wants to make it all simpler, more predictable, and more compliant. The next-generation GST reforms address structural issues, lower tax rates on essential goods, and support MSMEs. Both businesses and consumers expect a tax system that is more efficient, transparent, and growth-focused.

THREE PILLARS OF GST REFORMS -2025 IN INDIA: The focus is on changes to structures, adjustments in rates and better living standards. These reforms aim to make rates simpler, reduce disputes, fix inverted duty structures, and improve the ease of doing business.

PILLAR-1:STRUCTURAL REFORMS:

- **Inverted duty structure correction:** Adjust input and output tax rates to reduce ITC accumulation and support domestic value addition.
- **Resolving classification issues:** Simplify rate structures, minimize disputes, simplify compliance, and ensure equity across sectors.
- **Stability & predictability:** Offer long-term clarity on rates and policies to build industry confidence and aid business planning.

PILLAR-2: RATE RATIONALISATION:

Lower taxes on essentials & aspirational goods: This will improve affordability, boost consumption, and expand access.

- **Reduction of GST slabs:** Move towards two main GST slabs – standard and merit, with special rates only for a few items.
- **Compensation cess:** Its removal creates fiscal space for rationalising and aligning tax rates sustainably.
- **Lower taxes on essentials & aspirational goods:** This will improve affordability, boost consumption, and expand access.

PILLAR-3: EASE OF LIVING:

- **Registration:** Smooth, tech-based, and time-bound, especially for MSMEs and startups.
- **Return:** Pre-filled GST returns to cut manual work and mismatches.
- **Refund:** Quicker, automated GST refunds for exporters and inverted duty cases.

FINGINGS: Section 4, GST has the following implications:

- GST Reforms will widen the tax base, improve tax compliance and will remove unhealthy competition among states.
- It will redistribute the burden of taxation equitably among manufacturing and services. It ensures uniformity of tax system across the states. It will integrate the tax base and allow seamless flow of Input Tax Credit (ITC) resulting in reduced cost of goods and services.
- It will improve disclosure of economic transactions.
- It will mitigate cascading and double taxation thus enables better compliance. It will also lead to transparency in tax system resulting in difficulty of tax evasion.

SUGGESTIONS:

The suggestions which are being drawn out from the study are as follows:

- Tax payer education or public awareness campaign need to be provisioned by Central Government. Public Workshops, training and various seminars on GST Reforms must be conducted in all states by their respective State Governments.
- States must analyze and deduce their revenue neutral rates, revenue implications as well as compensation packages.
- Government should construct a proper monitoring system for monitoring the dummy registrations and refunds problems.

CONCLUSION:

The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. The government announced three pillars of focus for new-gen GST reforms on 15th August 2025- structural reforms, rate rationalization and ease of doing business. The new GST regime, GST 2.0, simplifies the tax structure by decreasing the slabs and changing rates. Significant changes have been implemented after the 56th GST Council meeting lowering the price of necessary goods, decreasing insurance premiums, and shift high-consumption goods into lower tax brackets. GST rate cuts on 200 items happened from 22nd September 2025. 90% of items in the current 28% slab are moved to the 18% slab. Almost 99% of the items in the 12% slab are moved to the 5% slab.

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