



## Comprehensive analysis of the development and impact of Goods and Services Tax (GST) in modern economies

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### Abstract

One of the main components of contemporary indirect taxation systems is the Goods and Services Tax (GST), a comprehensive value-added tax on the supply of goods and services. It began as VAT in France in 1954 and has since spread to more than 175 countries. In countries like Australia, Canada, New Zealand, and India, it is frequently referred to as GST. In order to prevent double taxation and increase efficiency, GST replaces disparate cascading taxes with a single, destination-based system that allows for seamless input tax credits. Its creation promotes a single market, lessens the burden of compliance, and expands the tax base while addressing inefficiencies in the previous sales and excise taxes. Globally, revenue neutrality and economic integration have been improved by successful implementations in nations like New Zealand (with few exemptions and low rates), while difficulties in intricate federal systems, like early inflation or IT issues in Malaysia and India, highlight implementation barriers. GST has a very positive effect on modern economies: it reduces evasion, increases revenue through broader compliance (for example, India's taxpayer base grew from 6.65 million in 2017 to 15.1 million by 2025), and increases GDP growth by 1-2% through improved logistics, formalization, and competitiveness. GST revenue and economic growth are positively correlated, according to empirical research, including ARDL models. India's recent 2025 reforms, which included exemptions, rate reductions on necessities, and a simplification to two main slabs (5% and 18%), have increased consumption, lowered household expenses by up to 13%, and strengthened resilience in the face of international trade tensions.

**Keywords:** Goods and services tax (GST), value-added tax (VAT), indirect taxation, cascading taxes input tax credits, destination-based regime, single market, tax base, compliance burdens, revenue neutrality

### Introduction

The Goods and Services Tax (GST), which combines several indirect taxes into a single, destination-based system to improve efficiency and compliance, is a crucial reform in contemporary economies. Since its implementation in nations like India in 2017, GST has increased revenue collection through digital tracking, eliminated cascading taxes, and promoted a common market. GST was based on the international models in other countries, such as Canada, Australia and New Zealand, where value-added tax (VAT) systems were the stimulus to multi-tier systems. In India, talks started in 2000 and in 2016, the 101st Constitutional Amendment was passed, which has since replaced the excise duties, VAT and service taxes. This 17year consensus making was a response to federal issues resulting in the establishment of CGST, SGST and IGST elements. GST makes compliance simple by lowering the administrative expenses, tax effect on tax, by boosting GDP by 1-2 percent though enhanced productivity and transparency. It widens the tax base, prevents evasion through invoice matching, and facilitates the smooth flow of interstate trade, but some upheaval has been experienced by small business. The advantages of a single market which reduces logistic expenses and competitiveness in international business are enjoyed by modern economies. The neutrality of the revenue is ensured through compensatory cess whereas the digital portals enhance enforcement and formalize the unorganized sector. GST drives inclusive growth, though full benefits depend upon harmonious centre-state coordination.

### 1. Indirect Tax

When the tax burden and the final payer are different, the tax is referred to as indirect tax. Typically, goods and services are subject to this tax. Indirect taxes are not paid directly to the government by the taxpayer, in contrast to direct taxes. Sellers gather it and give it to the government, The Central Board of Indirect Taxes and Customs, which reports to the Ministry of Finance, is in charge of overseeing indirect taxes in India.

### 2. Transition from the old indirect tax system to the GST

The introduction of the Goods and Services Tax in India saw the most important change in taxation in the history of the country. Prior to the introduction of GST, the system of indirect taxation was complicated and divided into various subunits in India imposed by the central and state governments. Excise duty, services tax, VAT <sup>[1]</sup>, CST, octroi, entry tax and entertainment tax were also imposed at different production and distribution stages. Until the advent of GST, the indirect taxation system in India was between the central and state governments. The centre-imposed manufacturing and service tax on service providers and VAT on sale of goods imposed by states. The rates, rules as well as forms varied among states. Inter-state trade taxation had been levied as Central Sales Tax, which introduces inefficiencies. There were other taxes such as octroi, luxury tax and purchase tax that further complicated the system. The shift involved a long process of planning, restructuring of legislations, integration of systems and education of the population. The insight into the procedure, the problems,

and the effects of such a shift provides an idea of the importance of GST in the establishment of a modern and effective taxation system in India <sup>[2]</sup>.

**3. Structure of Indirect tax before GST**

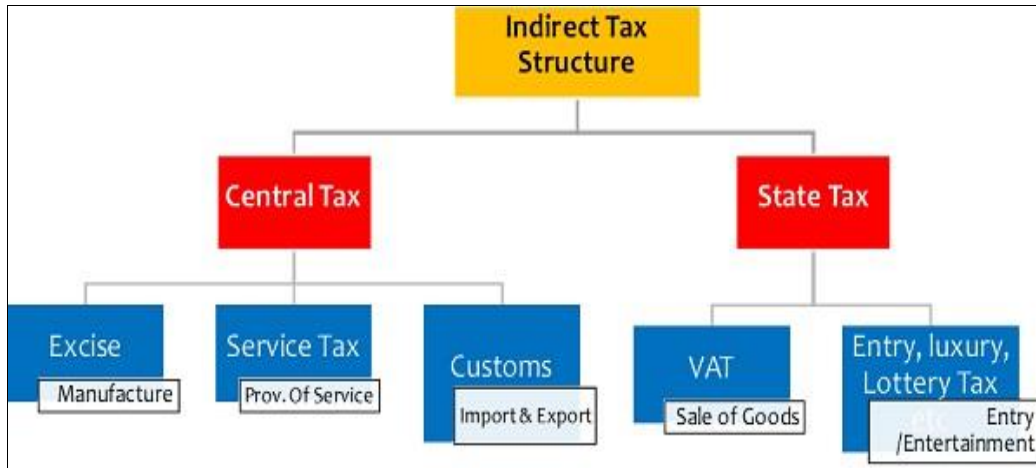
**1. Central tax**

- Excise duty

- Service tax
- Customs

**2. State tax**

- Value added tax
- Entry, luxury, Lottery tax



**4. Introduction to Goods and Services Tax (GST)**

GST is referred to as the Goods tax and Services. It is an indirect tax that has substituted much of the indirect tax in India like the excise tax, VAT, services tax, etc. The Goods and Service Tax Act was enacted on 29th March 2017 and became effective on 1st July 2017 in the Parliament. <sup>[3]</sup>

Stated differently, Goods and Service Tax (GST) is imposed on the provision of goods and services. Goods and Services <sup>[4]</sup> Tax Law is an encompassing multi-stage, Destination based tax levied

on all the value additions. GST is a single national law on domestic indirect taxes, which has overridden most of the majority indirect taxes <sup>[5]</sup>.

**5. Journey of GST in India**

The GST journey began in the year 2000 when a committee was set up to draft law. It took 17 years from then for the Law to evolve. In 2017, the GST Bill was passed in the Lok Sabha and Rajya Sabha. On 1st July 2017, the GST Law came into force.

Years	Key Milestones
2000	PM Vajpayee set up a committee to draft GST law
2006	The then finance minister proposes GST introduction from April 1 2010
2008	EC finalises dual GST to have separate levy, legislation
2014	GST bill reintroduced in parliament by Finance Minister
2016	GSTIN goes live
2017	Four supplementary GST bills were passed in both houses
1 <sup>st</sup> July 2017	GST was launched

**6. Objectives of GST**

**1. To achieve the ideology of One Nation, One tax.**

The previous tax regime has been substituted with GST as several indirect taxes were under existence. The benefit of having a single tax is that all states will adhere to the same rate of a given product or service <sup>[6]</sup>. The Central Government sets the rate and policies thus it is easier to administer the taxes. New common laws may be added, like the e-way bills on goods transport and the e-invoicing on report of transactions. The tax compliance is also enhanced since the taxpayers are not lost in the tangle of several forms of returns and due dates. All in all, it is an integrated system of indirect tax compliance <sup>[7]</sup>.

**2. To subsume a majority of the Indirect taxes in India.**

In the past, India imposed a number of indirect taxes at various stages of the supply chain, including service tax, Value Added Tax (VAT), Central Excise, and others. States and the federal government controlled different types of taxes <sup>[8]</sup>. Goods and services were not subject to a single,

centralized tax. GST was therefore implemented. The GST combined all of the main indirect taxes into one. It has made tax administration easier for the government and significantly lessened the burden of compliance on taxpayers. <sup>[9]</sup>

**3. To eliminate the cascading effect of taxes.**

Eliminating the cascading effect of taxes was one of the main goals of GST. In the past, taxpayers were unable to offset the tax credits from one tax against another because of disparate indirect tax laws. For instance, the VAT due at the time of sale could not be deducted from the excise taxes paid during production. As a result, taxes had a domino effect. Only the net value added at each stage of the supply chain is subject to the GST tax. As a result, the cascading effect of taxes has been eliminated, and input tax credits for both goods and services have flowed smoothly. <sup>[10]</sup>

**4. To increase the taxpayer base.**

India's tax base has expanded thanks in part to GST. In the past, each tax law had a different registration threshold limit

based on turnover. Due to the fact that GST is a combined tax on both goods and services, the number of businesses registered for taxes has increased. Additionally, the more stringent regulations pertaining to input tax credits have contributed to the taxation of some unorganized industries. Take the Indian construction sector, for instance.

**5. Online procedures for ease of doing business.**

In the past, dealing with various tax authorities under each tax law presented numerous challenges for taxpayers. Furthermore, the majority of the evaluation and refund

processes were done offline, even though return filing was done online. These days, almost all GST [11] procedures are completed online. Everything is completed with a single click, including e-way bill generation, refunds, return filing, and registration. It has greatly streamlined taxpayer compliance and made doing business in India generally easier. Additionally, the government intends to soon launch a centralized portal for all indirect tax compliance, including filing GST returns, e-way bills, and e-invoices.

**7. Components of GST**

Transaction	New regime	Old regime	Revenue distribution
Sale within UT/State	CGST + SGST/UTGST	VAT + Central excise/Service tax	Revenue will be shared equally between the Centre and the State/UT
Sale to another state.	IGST	Central sales tax + Excise/Service tax	When it comes to interstate sales, there will only be one kind of tax (central). After that, the Centre will divide the IGST income according to the goods' final destination.

**Case law:** The Supreme Court declared the IGST on ocean freight in CIF imports to be unconstitutional double taxation in Mohit Minerals Ltd. v. Union of India (2020) [12] because freight value is incorporated into the value of goods as determined by customs. In VKC Footsteps India Pvt. Ltd. v. Union of India (2021), the refund formula under Section 54 was upheld, restricting it to unused ITC on inputs (goods only) and rejecting arguments to include services because of statutory distinctions.

**8. Legal Framework for Goods and Services Tax**

The Goods and Services Tax (GST) is a divergent multi-stage and destination-based indirect tax applied to the provision of goods and services in India. It came into effect on July 1, 2017, to replace various indirect taxes (excise duty, service tax, VAT, etc.) in order to establish a single national market and avoid the cascading effect of taxes. [13]

GST is based on 101st Constitutional Amendment Act 2016 (initially proposed as the 122nd Constitutional Amendment Bill 2014). This amendment [14]

Introduced Article 246A, which entitled concurrently powers to the Parliament and State Legislatures to impose GST on supplies of goods and services (except, alcoholic liquor to be consumed by humans). [15]

Inter-state supplies are under the exclusive power of parliament.

Introduced the GST Council according to Article 279A [16] as a constitutional institution in cooperating federalism in GST issues.

Combined some of the central and state taxes, eliminating such entries on the Union List as excise and service tax, and on the State List as sales tax.

**8.1 Key Legislations**

**8.1.1 Central Goods and Services Act, 2017**

Central Goods and Services Tax Act of 2017 (Act No. 12 of 2017) is one of the main legislations that apply GST in India. It also provides the taxation and collection of intra-State Supplies of goods and services (or both) except the alcoholic liquor used by human beings. It is applicable to the entire of India and became effective on July 1, 2017 (with various provisions being announced on a variety of dates). [17]

The Act has undergone many changes, the most recent being the Finance Act, 2025, along with the CGST Amendment Acts (2018, 2023) and the Finance Acts (e.g., 2021-2025). [18]

The major amendments, which have been made recently (as of December 2025) are the clarification of the input tax credit (Section 17(5)), time of supply, track and trace provisions on specific goods, and the changes in appeals and transactions in Schedule III.

**Case law:** The Odisha High Court "read down" Section 17(5)(d) in Safari Retreats Pvt. Ltd. v. Chief Commissioner (2019), [19] permitting ITC on building materials for real estate used in taxable output services like leasing commercial spaces.

Citing Eicher Motors Ltd. v. Union of India, the court concluded that this avoids double taxation and is consistent with the seamless credit goal of GST.

**8.1.2 Major GST Reforms and Amendments in 2025 (India)**

The Goods and Services Tax (GST) regime in India underwent major reforms in 2025 with the objective of making it simpler and consumer friendly in addition to enhancing compliance. The most visible reforms are the result of the 56th GST council meeting (on September 3, 2025), which is also known as GST 2.0 or next-generation reforms. Prime Minister Narendra Modi announced these and came into effect effective September 22, 2025. [20]

**8.1.3 GST Slab simplification.**

The old multi-slab product (0%, 5, 12, 18, 28) was simplified to two major rates 5 (merit rate) and 18 (standard rate).

There was also the introduction of a new special rate of 40% on sin goods and luxury goods (e.g. tobacco products, pan



masala, aerated drinks, expensive cars, yachts, personal aircraft)<sup>[21]</sup>.

This had made life simple, made necessary and daily-needs goods (foodstuffs, soaps, medicines, white goods such as fridges/AC machines, bicycles) cheap, and increased consumption, without reducing taxation on demerit goods.

Most of the daily products were relocated to the lower or zero slabs, which relieved those in the middle classes and the occurrence of households.

The reforms were founded on the GST Council consensus and were aimed to make things more affordable, business competitive and transparent.

#### 8.1.4 Structure of the Act

Chapter I (Sections 1-2) covers preliminary definitions like "supply," "taxable person," and "input tax credit." Chapter II (Sections 3-6) addresses composition levy for small taxpayers. Chapters III-V (Sections 7-21) define supply scope, charge of tax, exemptions, rates, and value determination.

Chapter III (Sections 22-30) deal with registration thresholds (₹20 lakh, generally), Aadhaar authentication and modifications.

Chapter IV (Sections 31-35) is to do invoicing, accounts, returns (similar to GSTR-1/3B) while Chapter V (Sections 36-45) talks of eligibility and apportionment of input tax credit.

Chapters VI-X (Section 46-74) describe types of assessment (self, provisional and scrutiny), refund (maximum time for process is 90 days) as well as Power to audit. They are required to pay and receive interest in Chapter IX (sect. (9, 49-53).

Chapters XI-XIX (See 54-162) deal with inspection, search and seizure, demands, penalties, appeals to Appellate Authority/ Tribunal and prosecutions. Activities covered under Schedules I-V: Supply -When supply is treated as goods and services, reverse charge, exempt supplies, composition rates etc come into picture.<sup>[22]</sup>

**Case law:** Union of India v. Bharti Airtel Ltd. (2021)<sup>[23]</sup>. Is it possible to amend GSTR-3B returns after the deadlines set by law? The Supreme Court ruled that revision is not allowed, stressing the importance of adhering strictly to deadlines.

#### 8.1.5 Key Features

**Dual GST:** On intra-State supplies, both CGST and SGST/UTGST; on inter-State, IGST.

**ITC:** Uninterrupted but restrictive (say, blocked credits under 17(5)).

**Compliances:** E-invoicing, e-way bills and returns through GST Portal.

**Appellate Authority:** Comprises Goods and Service Tax Appellate Tribunal (GSTAT).

### 9. Development and impact of Goods and Services Tax (GST) in modern economies.

#### 9.1 Historical Development of GST

**History Developed:** VAT Origins & Early Adoption<sup>[24]</sup>: The roots of the GST were developed in France in 1954 as a multi-staged tax on goods and services as an alternative to turnover taxation. This pattern spread to Europe during the 1960s and 1970s; Vat systems in the then European

Community were harmonized so to facilitate a free trade area or European Economic Area.

**Modern GST Pioneer:** New Zealand was the first country in the world to implement a comprehensive or value-added tax (VAT)<sup>[25]</sup> known locally as a Goods and Services Tax (GST) in 1986, which would be dubbed by many an "ideal model" for its single rate (originally 10%, later increased to 15%)

with few exemptions that reduce administrative hassle and encourage people to participate. Australia did so in 2000 with a 10% GST that became part of a federal structure when linked with state taxes. Canada followed suit with a combined federal (5%) and provincial taxes model, eventually allowing for inconsistencies across regions but not abandoning national coordination.

**21st-century Global Expansion:** In order to update their tax systems, emerging economies adopted GST.

After years of discussion and a proposal from Prime Minister Atal Bihari Vajpayee in 1999, India finally implemented GST in 2017, combining 17 state and federal taxes into a multi-tiered system with rates ranging from 0% to 28%. GST was implemented in Malaysia in 2015, but it was repealed in 2018 as a result of political backlash, underscoring implementation risks.

Variants, which are frequently advised by organizations like the IMF and World Bank for revenue stability in developing nations, were adopted by nations like Brazil, China, and several in Africa and Asia.

#### 9.2 Economic impact of GST in Modern Economies

Although effects vary by country context, design, and execution, the implementation of GST has generally encouraged economic integration and efficiency. Research indicates mixed short-term disruptions but long-term increases in revenue, trade, and GDP.<sup>[26]</sup>

It stabilizes income in developed economies and formalizes informal sectors in emerging ones, but if it isn't combined with social measures, it can worsen inequality.

##### 9.2.1 Key impacts

###### Positive effects.

**GDP Growth and Efficiency:** By lowering the cascade of taxes, GST will boost competitiveness and lower manufacturing costs. Early estimates of India's GDP growth due to greater trade were between 0.9 and 1.7%; however, the reality after 2017 shows a sluggish recovery with increased formalization. Although there have been a few minor increases in inflation<sup>[27]</sup>.

**Enhancement of Revenue:** Increasing the tax base increases revenue. The HST improved income sharing between Canada's federal and provincial governments, supporting public services. In the nations that have adopted GST, revenue has increased by 1-2 percent of GDP.

**Trade and Investment:** creates unified markets by removing interstate obstacles. India's GST increased interstate commerce by 20–30%<sup>[28]</sup>. By making compliance easier for global corporations, it draws FDI.

**Case law:** VKC Footsteps India Pvt. Ltd. v. Union of India (2021) <sup>[29]</sup>

Problem - Input services available under inverted duty structure should be refunded.

Economic effect - Refunds of the economy are limited, such as in the textile/footwear industry, and this affects the profitability of the sector.

### Negative effects

**First Disruptions:** Due to compliance shocks, implementation may cause temporary declines in GDP (e.g., 1-2% in India at the beginning). For small enterprises, digital filing is more costly.

Regressivity and inflation could lead to price increases unless they are offset by credits <sup>[30]</sup>.

It was a recurring cause of inflation in Malaysia. Since it is a consumption tax, it is retrogressive in that lower-income groups are disproportionately affected because there are no exemptions for needs <sup>[31]</sup>.

**Regional Inequalities:** If income sharing is implemented in a way that favours consuming states over producing states, it can exacerbate inequality in federal systems like India.

### Case studies: Comparative Overview

Country	Implementation year	Key features	Economic impact
India	2017	GST Council for decision-making; multi-tier rates (0–28%); dual structure (CGST + SGST/IGST).	Increased formal economy (50% increase in registrations); GDP growth first slowed but then picked up; 20% more efficient logistics; decreased tax evasion. Difficulties: SMEs must comply with complicated rates.
Australia	2000	A single 10% rate with broad exemptions for education and health.	Improved export competitiveness, low long-term inflation, steady GDP growth after implementation, and revenue used for welfare offsets.
Canada	1991	Provinces like Ontario have harmonized the federal GST (5%) and provincial PST.	Beneficial effects on welfare; decreased cascading; GDP growth that was initially slower but eventually stabilized; efficient in federal revenue sharing.

### Conclusion

The Goods and Services Tax (GST), a kind of value added tax (VAT) on provision of goods and services, is one of the most remarkable indirect taxes changes in the contemporary economic history. It was invented in France in 1954, and has spread to more than 175 countries by 2025, taking nearly a quarter of total tax revenues worldwide, and being a foundational element in the fiscal policy of developed and developing economies. The fundamental structure of GST taxation of value addition at every point and a credit of input taxes eradicates the cascading taxation, encourages efficiency, and unites into a single market.

### Positive Impacts

**The Revenue Mobilization and Efficiency:** GST has shown to be a sure-footed money machine and increased the revenues of the government with the increasing bases and improved compliance. It is the main tax contributor in the average of OECD countries (more than 30%).

**Economic Growth and Formalization:** GST removes distortions in taxes resulting in increased interstate/international trade, reduced logistics and motivates participation in the formal sector. In India, collections have hit new records, 22.08 lakh crore in FY 2024-25, and monthly collections in 2025 usually reached, 1.9-2 lakh crore.

### Challenges and Compromise outcome

**Regressivity and Inflation:** Because GST is a form of consumption tax, it may have a regressive effect on citizens with lower incomes unless it is mitigated by exempting necessities. Although early developments are likely to result in short-term price increases, the long-term effects are typically neutral or deflationary (e.g., declines in Portugal and New Zealand).

**Implementation Obstacles:** Implementing a multifaceted, multi-slab structure (like the early Indian GST) results in compliance costs and disputes. Due to complaints about the cost, Malaysia repealed the 2015 GST in 2018. Due to its trade-off with export structures, which drastically lowers

revenues in economies dependent on resources, VAT/GST exacerbates the resource curse.

All things considered, a well-executed GST greatly benefits contemporary economies by promoting sustainable growth, lowering distortions, and boosting transparency. In developing nations like India, 2025 simplifications have improved formalization, consumption, and resilience to global instabilities.

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