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EVOLUTION OF GST IN INDIA AND ITS EFFECT ON DEVELOPING INDIAN ECONOMY

AUTHORED BY - ASHIF LATIF

Abstract-

The Goods and Services Tax (GST) is not just another tax; it is one of the boldest and most far-reaching economic reforms that India has seen in decades. Introduced on 1 July 2017, GST aimed to completely change the way taxes are collected and how businesses operate in India.¹ Before GST, the system was messy and complicated-businesses had to deal with excise duty, service tax, VAT, entry tax, luxury tax, and many other small state level taxes. Every state had its own rules, and transporting goods from one state to another often meant facing multiple checkpoints, paperwork, and delays. This was frustrating for businesses, costly for consumers, and inefficient for the economy.

GST came with the promise of sweeping all those taxes into one single umbrella tax. It was designed to be destination-based (tax collected where goods are consumed, not produced), multistage (applied at each stage of supply), and credit-friendly (allowing businesses to claim credit for taxes already paid on inputs). The idea was simple yet revolutionary: reduce tax-on-tax, cut hidden costs, and make India a unified marketplace. With GST, moving goods from Kerala to Kashmir, or from Gujarat to Assam was supposed to feel like moving goods within. One big country, not crossing mini-borders.²

This paper is an attempt to tell the full story of GST in India how the idea developed, how it was debated and fine-tuned, how it was finally implemented, and most importantly, how it has affected different parts of the Indian economy. It is not just about technical rules or complicated numbers, it is about the real-life impact on small shopkeepers, medium-sized manufacturers, service providers, and ordinary consumers. We look at the benefits such as smoother interstate trade, better tax compliance, higher government revenue, and the push towards digital record-keeping as well as the struggles like the compliance burden on small firms, refund delays for exporters, and confusion over rate slabs.

¹ The Constitution (One Hundred and First Amendment) Act, 2016, INDIA CONST.

² Goods and Services Tax Council, Government of India, GST Overview Report (2024).

The aim of this study is to explain GST in simple, human terms. Rather than drowning in jargon, it focuses on how people actually experienced GST the challenges, the adjustments, and the opportunities it created. Key milestones, government reports, and research studies are highlighted, but always explained in plain language so that anyone, not just economists, can understand. By doing this, the paper hopes to capture the essence of GST as both an economic reform and a social shift in how India does business, while also drawing lessons for the future.

Keywords: indirect taxes, consumers, formalization, language, empirical, government reports.

Introduction-

Before the arrival of GST, India's tax system looked like a tangled web. Every time a business produced something or sold a service, there was a different kind of tax waiting for them. The central government charged excise duty, service tax, and customs duty, while the states had their own list VAT, octroi, luxury tax, entry tax, entertainment tax, and more. To an ordinary shopkeeper or factory owner, this felt like an endless maze of paperwork. Each tax came with its own forms, filing dates, and rules, which often clashed with one another. A businessman selling goods in two or three states had to know multiple sets of laws and hire extra accountants just to keep up. This not only slowed down trade but also increased the cost of doing business.³

The effect of this was visible everywhere. Trucks carrying goods would get stuck for hours, sometimes days, at state borders because officials had to check papers and collect entry taxes, goods became more expensive because each stage of production carried hidden taxes that were added on top of one another a classic case of "tax on tax." Small companies, already struggling to survive, often avoided expanding into new states simply to escape this headache. In many ways, India's dream of becoming a single, unified market was held back by its own complex tax jungle.⁴ This is why GST came as a game-changer. The idea was bold yet simple: remove dozens of different indirect taxes and bring them under one umbrella tax called the Goods and Services Tax. Instead of taxing goods at every step without relief, GST introduced the concept of input tax credit. This meant if a business had already paid tax while buying raw materials, it could deduct that from the tax owed on the final product. No more double or triple taxation only the actual value added at each stage would be taxed.

³ Arvind Subramanian, Report on Revenue Neutral Rate and Structure of GST (Ministry of Finance, 2015)

⁴ Central Board of Indirect Taxes & Customs, GST Statistics Annual Review 2024-25.

Another major principle of GST was that it would be destination-based. Taxes would now be collected where goods or services are consumed, not where they are produced. This shift encouraged consumption-driven states and ensured fairness across the country. To manage this enormous reform, the government created the GST Council, a joint body of the Centre and all state governments. This council would decide tax rates, exemptions, and policies, ensuring that both levels of government had a say.⁵

Short history and evolution- key milestones -

1. Idea and legal changes (pre-2016): The idea of GST had been discussed for years. To put GST into law, the Constitution had to be amended (the 101st Amendment). Policymakers debated structure, rates, and the important role of states.
2. Creation of the GST Council (2016): A joint body the GST Council was formed, chaired by the Union Finance Minister and Including state finance ministers, to take decisions on rates. Exemptions and procedures. This was a political and administrative step to ensure states remained partners.
3. Launch-1 July 2017: GST went live across India. Multiple earlier taxes (central excise, service tax, many state taxes) were subsumed. The initial rate structure had several slabs (0%, 5%, 12%, 18%, 28%, and additional cess on some items) and various exemptions.⁶
4. Post-launch technical upgrades and enforcement: Over the next few years the tax machinery became more digital. E-way bills (for tracking movement of goods) and invoicing (for large taxpayers) were introduced to curb evasion and enable smoother input credit claims. Compliance rules were also simplified over time, for example with quarterly return options for small taxpayers.
5. Continuous adjustments: The GST Council meets regularly to change rates, add/remove items from exemption lists, and tweak processes. This dynamic approach was intended so GST could adapt to real business problems and to political realities in different states, and
6. Revenue highs and reform debates: Over time GST revenues grew, with governments pointing to this as evidence of improved formalization and compliance. At the same time, debates continued about simplification of rate slabs and the burden on small traders. Recent years have seen active discussion about rate rationalization and administrative

⁵ Union of India v. Mohit Minerals Pvt. Ltd., (2022) 4 SCC 481

⁶ Deloitte India, GST Compliance and MSME Challenges Report (2023).

simplification,

How GST is structured –

- Dual model: India follows a dual GST: the Centre levies Central GST (CGST) and states levy State GST (SGST) on intra-state supplies: for inter-state supplies, Integrated GST (IGST) applies. This preserves states' role while harmonizing rules,
- Destination based: Tax is collected where goods or services are consumed, not where they are made. This benefits service hubs and large consumption states.
- Input Tax Credit (ITC): Businesses can claim credit for the GST they paid on purchased inputs against the GST they must collect on sales (except in certain cases). This reduces tax-on-tax (cascading) and lowers final prices in principle.
- Rates and slabs: Multiple slabs were used initially to balance Revenue needs and protect basic goods. Over the years, the Council has adjusted rate choices, exemptions and cess. Items.

Administrative and technology changes that matter to businesses-

A key part of GST's evolution has been the digital systems:

- GSTN and filing portals: Filing GST returns, claiming ITC, and Making payments became largely online. This moved a lot of compliance from paper to electronic processes.⁷
- E-way bills: To move goods across states, a digital e-way bill (an electronic waybill) became mandatory for many consignments. This helped both logistics tracking and enforcement.
- E-invoicing and invoice matching: For large taxpayers, e-invoicing connects the invoice at the time of generation to the GST system, reducing fake invoices and simplifying credit claims. These tech moves tightened compliance but also required investment by businesses in software and training.

Positive effects on the Indian economy-

1. Better tax compliance and higher revenues Since GST's rollout, gross: GST collections have generally risen. The government reported record gross GST collections of ₹22.08 lakh crore in 2024-25-a sign that tax compliance and formalization of economic activity

⁷ EY India, GST Refund Mechanism and Export Competitiveness (2023).

increased over time. Higher collections help the government fund public services and infrastructure.⁸

Why this matters when more economic activity is inside the formal tax net, the government has more predictable money to spend on hospitals, roads and schools spending that supports growth and jobs.

2. **Reduced cascading taxes- cleaner prices over the long run** In the old: system, taxes sometimes stacked up (a tax paid earlier could itself be taxed later). With input tax credit under GST, this double taxation is reduced. That tends to lower the cost of making goods and services (or at least prevent invisible tax layers). For firms that can claim ITC, the cost of production felt relative to the pre-GST era.

Why this matters: lower production costs can make Indian goods more competitive, encourage new businesses and reduce final prices for consumers (though the short term can vary).

3. **Easier movement of goods:** By replacing different state taxes and paperwork, GST aimed to create a more unified countrywide market. E-way bills and harmonized tax rates for many goods made moving goods from one state to another simpler and faster. Why this matters: simpler logistics lower the cost of doing business across states and help manufacturers scale beyond local markets.⁹

4. **Push toward formalization and digital records** GST's digital filing, invoice matching and bank record ties nudged many businesses toward formal books. More firms registering for GST, filing returns and accepting digital payments increases transparency.

Why this matters: formal businesses can access credit more easily, grow faster, and are better integrated into the supply chain.

Costs, fractions and real challenges-

1. **Compliance costs for small businesses:**

For tiny shops and micro-enterprises, GST meant learning new rules, using software, keeping digital invoices and filing returns. For some, this felt like paperwork and expenses they didn't have before. While schemes like the Composition Scheme reduced paperwork for the smallest firms, many small businesses struggled in the early years

⁸ Federation Of Indian Chambers of Commerce & Industry, GST Impact Assessment Report (2024).

⁹ International Monetary Fund, India: Selected Issues Paper on GST Reform (2023).

Studies show MSMEs faced compliance burdens, especially during the transition.

Why this matters, if compliance costs are too high, small businesses may stay informal or pass costs to consumers.

2. Cash flow problems because of delayed credits and refunds:

Even though ITC reduces cascading tax, businesses sometimes faced delays in getting refunds or proper matching of credits. This created cash flow stress, especially for exporters and manufacturing firms that pay taxes on inputs upfront. Why this matters: cash flow problems can hurt day-to-day business operations and slow growth.

3. Rate complexity and frequent changes:

Although GST intended to simplify rates, multiple slabs, special exemptions and frequent changes by the GST Council kept things somewhat complex. Businesses needed to keep adjusting their pricing and accounting. Discussions about rationalizing slabs continue.

Why this matters complexity increases the effort firms spend on tax compliance instead of core business.

4. Evaders and the cat-and-mouse game:

Evasion did not vanish. As Enforcement systems tightened, new types of fraud (fake invoices, multiple QR codes, under-reporting) were discovered and acted upon. News reports and state GST raids highlight ongoing enforcement efforts. Strengthened data analytics and tighter rules aim to reduce such evasion time-but it is an ongoing battle.

Why this matters: tax evasion reduces fairness and lowers revenue that could be used for public services.

What evidence says about GST's economic effects-

Different studies, government releases and independent researchers have looked at GST's impact. Below are the main, evidence-based points presented simply.

- Revenue and formalization-empirical signals:

Government revenue data show that GST collections have increased in the years after launch, with record collections reported for 2024-25 indicating greater formalization and compliance. This is a central positive sign used by policymakers.

- Impact on small businesses mixed and context dependent:

Academics and surveys report mixed effects for MSMEs: some small firms benefited from easier interstate trade and clearer tax rules, others faced high compliance costs and confusion during early years. Over time, digital tools and simplified return options for

small taxpayers reduced burden, but challenges remain (for example, costs of software and training).

- Exports and international competitiveness – nuance matters:

For exporters, GST removed many complications by enabling refunds and ensuring that exports are zero-rated (exporters don't pay final GST) However, there have been administrative glitches and refund delays in some sectors, which affected competitiveness Specialized consultant and research reports highlight both the gains from removing embedded taxes and the real pain from refund processing delays in certain cases.

- Inflation short term bumps:

At launch, shifting tax incidence caused price changes for certain goods and services some household items became cheaper, others slightly more expensive. Over time, as the supply chain adjusted and input credits flowed, these initial effects stabilized. Policymakers and researchers emphasize that GST is not a direct driver of inflation in the long run its short-run effects depend on rate changes and supply chain adjustments.

Policy tweaks and reforms during the GST journey-

GST was never meant to be a fixed, rigid law. It was designed as a living system that could change and grow with time. At the heart of this system is the GST Council, where the central government and all the states sit together to make decisions. This joint approach makes GST unique because it listens to different voices and adjusts according to real business needs.

One of the most helpful reforms was the Composition Scheme. This was specially created for small shopkeepers, traders, and service providers who could not handle the burden of complex rules and monthly returns. Under this scheme, they could pay tax at a simple flat rate with much less paperwork. For many small businesses, this felt like a lifeline.

Then came the quarterly return filing option for small taxpayers. Instead of filing returns every single month, they only needed to do it once every three months. This saved them time, money, and stress, allowing them to focus more on running their business rather than on tax compliance. On the technology side, tools like the E-way bill and E-invoicing transformed the system. These digital tools made it easier to track goods moving across states and reduced fake invoices, which had been a big source of fraud earlier.

The Council also carried out regular rate rationalization. By adjusting tax slabs and exemptions, they tried to make the system fairer and balance revenue needs with affordability for consumers. All these steps show that GST is not static – it keeps evolving, learning, and

improving through feedback from businesses and states.

Unfinished business challenges that need attention-

1. Simplify further for micro businesses: Many micro and nano enterprises still find even simplified schemes relatively hard. More user-friendly digital tools, pre-filled returns, and low-cost help centers can ease this.
2. Faster refund processes: Exporters and capital-intensive industries need faster and more predictable refunds to avoid cash flow stress.
3. Fewer slabs, clearer classification: Rate rationalization into fewer slabs and clearer rules for product classification would reduce disputes and pricing headaches.
4. Capacity building for compliance: Training, low-cost accounting software, and state-level outreach can help small firms adopt GST smoothly.
5. Continue anti-evasion analytics: Using data analytics, invoice matching and bank linkage helps enforcement but the state must balance strictness with ease of doing business.

How GST shaped the macro picture –

- One of the biggest achievements of GST has been in the area of growth and revenue. By bringing more businesses into the formal tax net, GST helped widen the tax base. This meant that instead of a few sectors carrying most of the tax burden, collections were now spread across a much larger group of businesses. Over the years, this translated into healthier revenues for the government. A shining example of this progress is the record GST collection of ₹22.08 lakh crore in 2024-25. For the government, this is not just a number, it is proof that GST has become a stable and reliable source of income to fund infrastructure, healthcare, education, and welfare schemes.
- Another major impact of GST is the push toward formalization and digitization. Earlier, many small businesses operated in the shadows, with paper bills and cash-only transactions. But GST nudged them into keeping proper books, issuing digital invoices, and filing returns online. This shift did more than just improve compliance – it gave small businesses a track record. With clear accounts and digital proof of their sales, banks were more willing to offer them loans. Over time, this has helped many firms grow, modernize, and enter bigger supply chains.

- Of course, the journey was not smooth. There was a clear short-term pain, long-term gain pattern. In the beginning, firms struggled with compliance costs, software, training, and managing cash flow due to refund delays. But as the system matured and schemes were simplified, many of these difficulties slowly eased.
- At the same time, there were important distributional nuances. Large companies with advanced accounting systems adapted quickly, claimed input tax credits without much trouble, and even expanded their reach. On the other hand, small firms often felt left behind, needing more handholding and policy support to survive in this new system

Lessons for other developing economies (and for India's next steps)-

1. One of the biggest lessons from GST is that technology must come first, but support must follow immediately. Digital filing systems, online returns, invoicing, and e-way bills are powerful tools that make tax administration modern and transparent. But technology alone is not enough. For a small shopkeeper or a tiny manufacturer, logging into portals, uploading invoices, or understanding technical terms can feel overwhelming. Policymakers need to pair every new tech rollout with on-the-ground help training camps, hotlines, and low-cost software so that even the smallest businesses can confidently use these tools.
2. Another important lesson is to keep policy flexible but predictable. GST Was designed as a living system, which means rules and rates can change when needed. This flexibility is good because it allows quick fixes to problems. However, too many changes in tax slabs or rules create confusion. Businesses start to worry about what will change next month. What they need is a clear roadmap transparent announcement and enough time to adjust so they can plan prices, contracts, and investments without fear of sudden surprises.
3. Enforcement is another tricky area. Digital analytics and stricter checks are vital to stop fraud, fake invoices, and tax evasion. But if enforcement becomes too aggressive without providing capacity building, then even honest but informal businesses suffer. The balance must be clear: catch evaders, but don't punish those who are simply learning the ropes.
4. Finally, refunds and cash flow remain a lifeline for exporters and Industries that pay high taxes on inputs. Delays in refunds lock up working capital and hurt competitiveness. Speeding up refunds and making the process smoother gives businesses the confidence to grow. Expand, and compete globally.

Conclusion-

GST is not just a tax law it is a complete transformation in the way India does business. It is like shifting from an old, crowded road with too many toll gates to a modern express highway that connects the whole country for decades, businesses in India were used to dealing with paper bills, state level restrictions, and multiple small taxes. GST pulled all of that together into one big system. For the first time, many firms started thinking not just about their local town or state but about selling to the whole country with fewer barriers. That change of mind set -from local to pan-India is perhaps the most powerful contribution of GST.

This change is also digital. Earlier, shopkeepers or manufacturers would keep handwritten ledgers or basic records. Now, because GST requires online filing, e-invoicing and digital records, lakhs of businesses have entered the digital age. This digital push is not just about taxes. It also means banks and financial institutions can see real sales and genuine accounts. That makes it easier for small businesses to get loans, expand their shops, buy new machines, and hire more workers. In this way, GST is not only about collecting revenue; it is also about building the backbone of a modern, formal, credit-ready economy.

Of course, this journey has not been smooth. The first few years after 2017 were full of challenges. Many small shopkeepers had to learn how to use computers, new billing software, and complicated rules. Filing returns every month felt like a burden. Some exporters and manufacturers faced serious cash flow problems because refunds took longer than expected. For many honest small firms, it felt as if GST came too fast, without enough training or support. Yet, as years passed both government and business communities began to adapt. Schemes like composition tax, quarterly filing, and the simplification of forms were important steps in reducing pain. The road ahead is clear, If India wants GST to truly fulfil its promise. Policymakers must keep the human side in mind. Simpler forms, faster refunds, and very clear rules are needed so that ordinary traders do not feel lost. Training centers in towns and small cities can handhold micro-entrepreneurs. Digital tools must be made as simple as using a smartphone app. If these steps are taken, GST will not just be remembered as a tax reform it will be remembered as the moment when Indian business became modern, connected, and confident.

In short, GST shows that big reforms can truly change the economy, but only if we continue to listen, learn, and improve together.