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Impact of GST on Businesses and Customers

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Abstract

The present study will analyze the various effects of the Goods and Services Tax (GST) reform being brought into effect in India from 1st July 2017. The reform aimed to unify a multistakeholder, multi-layered indirect tax system into a single indirect tax system, to avoid tax cascading, reduce compliance costs and to integrate the national economy. The analysis shows that although GST has enhanced the economic efficiency and widened the tax base, businesses, especially MSMEs, are grappling with cash flow issues as a result of time lags in accessing input tax credits and different administrative complexity among various industries. The effects on sectors are still uneven, with some, such as labor-intensive industries as textiles, negatively affected, while others, such as the financial sector, face the highest compliance costs. The consumers faced immediate peaks in inflation when transitioning to the new method, before declining, and then stabilizing. In many cases the removal of "tax-on-tax" mechanisms in the countries affected in the post-implementation period saw a 15% to 25% reductions in prices for specific items. Even with these changes, people have little knowledge of tax transparency and tax refunds. The study suggests that GST promotes long-term growth and formalisation but to realise inclusive developments, one needs to plug inter-state disparities and tweak input taxes on industries.

Keywords: Goods and Services Tax (GST), Tax Reform, Input Tax Credit (ITC), Compliance Burden, Supply Chain Restructuring, Consumer Inflation, Economic Formalization, Cascading Taxes, Indian Economy.

Introduction

Goods and services tax (GST) is a value-added tax applicable on the supply of goods and services, import of goods and services, and interstate supply of goods and services. The GST reform was introduced in India on 1 July 2017 in a staggered manner. Considering the significant impact of the GST reform on the economy, businesses and consumers, the study examines the impact parts of the economy. The introduction of GST simplified the complex tax structure, removed cascading of taxes on goods and services, streamlined compliance, and improved the ease of doing business. GST has improved economic efficiency by broadening the tax base, providing input tax credits on goods and services, and integrating the economy (Kumar Deshmukh et al., 2022). The increased level of compliance and formalization of the economy has improved the collection of income tax and corporate tax revenue. Consumption of petroleum products has shifted to goods and services under the GST regime. The cash flow position of companies is affected due to the significant time lag between the filing of tax returns and the availability of input tax credits. The compliance burden varies across sectors, with the financial sector facing the highest burden and the agricultural sector having the lowest burden. GST has increased the refinancing of loans and borrowing from banks and financial institutions where the input tax credit on interest payments does not benefit companies. GST has helped MSMEs, especially new venture start-ups, in achieving business objectives and financial resources. The use of deposited funds for business continuity is significantly enhanced where the input tax credit of savings account interest does not benefit MSMEs.

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Research Objectives

1. To examine the impact of GST reforms on business operations in India.
2. To analyze the effect of GST on consumer prices and inflation.
3. To study the compliance burden and administrative challenges faced by businesses under GST.
4. To evaluate the role of Input Tax Credit (ITC) in improving tax efficiency.
5. To assess sectoral and regional variations in the impact of GST.

Research Methodology

The study is based on Secondary data collected from various referred books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

Historical Context and Rationale for GST

As the sheer magnitude of the Goods and Service Tax (GST) reform initiative continues to unfold, the associated influences on businesses and price levels across the consumer economy remain under investigation. Initial research probing the operation and economic consequences of the reform suggests that the realities diverge from official expectations: anticipated price reductions have failed to materialize, while the oretical predictions over-emphasized initial up ticks in consumer prices, which do not reflect post-implementation conditions (Kumar Deshmukh et al., 2022). Analysis of further routes by which the reform affects corporate responses, investment decisions, industry-level behaviour, and other economic dimensions provides additional insights into its systemic effects (James & Alley, 2013). The historical context of the pre-GST tax landscape elucidates the stimuli and aims underlying the GST reform effort in India. From a formal perspective, the Nation's indirect tax architecture operated through a multi-layered structure, with distinct levies directed at manufacturers, service providers, and a variety of end-consumers via state-level authorities. Each such layer represented a departure from the previous one, creating an inelegant chain of tax-on-tax cascading – sometimes termed 'tax-on-tax' or 'double taxation' – which carries the potential to distort pricing mechanisms and hinder taxation equity. Policymakers set out to modernize this complex taxation framework to address the dual findings of inefficient development and significant restrictive leakages across the economy arising from cascading burdens imposed on tax services themselves. Cascading taxes inhibit economic growth and slow expansion in broader tax

bases, while also misallocating economic resources. Periods of faster growth tend on average to coincide with wider-ranging capital taxation bases, such as those covering assets, real estate, wealth, or value-added inputs across multiple levels. Restructuring the economic architecture governing sales-tax services, rather than adjusting individual rates, could retain currently effective rates on products subject to such specifications. Specific reform characteristics under analysis permit broader consideration of complementary policies capable of addressing opening restrictions while simultaneously improving administrative efficiencies and economic-formalization incentives across additional sectors.

Economic Mechanisms of GST Reform

GST influences prices through various economic mechanisms linked to business operations, expanding the scope of study beyond consumer impact. Prior to implementation, expectations and price data provided an indicator for potential consumer price effects. Understanding GST's effect on firm behavior supports an accurate description of macroeconomic impacts. GST alters the price of goods and services supplied by businesses and indirectly affects wages and profits, which in turn influence investment and productivity, the driving forces of economic growth and employment. Different types of taxes exhibit varying fiscal, distributional, and behavioral characteristics, and the behaviour of prevalent taxes is essential for credible economic modelling (Bhattarai, 2017). Prices respond to GST via business input tax credits for value-added supply taxes, and the anticipated effect on prices received by businesses serves as a guide. Price transmission analysis relevant for studying direct price, indirect price, or macroeconomic variables. A tax-inclusive model aligns with the common specification employed, since business profits, tax-inclusive prices, and variable inputs—in financial capital, physical capital, energy, and materials—remain constant under a GST reform framework. Key variables are value-added taxes inclusive of resource, services, wages, and profits, and total business prices that reflect a tax-inclusive mechanism.

Impacts on Businesses

The Goods and Services Tax (GST) represent a landmark step in federal taxation reform undertaken to improve growth and fairness in the economy. This section assesses the economic adjustments made by firms in response to the new regime. To ensure compliance, firms need to estimate their tax obligations accurately and remit them periodically in their chosen region. The administrative burden associated with these activities varies

according to filing frequency, documentation specifications, audit intensity, and information technology investments. Even where GST is revenue neutral, capacity and compliance costs can distort incentives and erode investment efficiency. A GST system can be considered neutral if firms are allowed to claim input tax credits on all goods and services required for production and distribution and the process is straightforward. Full eligibility and documentation requirements, credit availability and cash flow, and inter-firm pass-through affect neutrality. Supply chains and pricing structures also adapt to take advantage of input tax credits even where rates remain unchanged. The extent of these adjustments relates to the existing degree of formalization, differentiation, and the organization of intermediation. Buildings, infrastructure, machinery, and other assets, although not consumed by households as final goods and services, may none the less fall within the purview of GST and affect a firm's price structure.

Different regions of the country impose different end-user rates, while a uniform rate is levied nationwide on investment. Regions offering lower end-user rates should therefore, *ceteris paribus*, attract a higher sales tax pass-through. The relationship between GST and regionally differentiated rates is

further complicated by the previous regime. Rates were already heterogeneous across products and households consumed differently in different states, which may condition the effects on interregional pricing disparities. Implementation of GST likewise took place at varying scheduled dates across the country giving rise to potential lags in the adjustment process. The pre-existing environment, the longer-term equilibrium achieved across regions and sectors and the dynamic feedback and transmission effects over time are furthermore likely to vary. Uniform consumption patterns, close to the theoretical assumptions needed to predict pass-through effects accurately, obtained in the immediate aftermath of GST. Subsequently, when owners and individuals shoulder the taxes, housing, goods and services, and miscellaneous entertainment and expenditure account for around 44%, 43%, and 13% of primary income, respectively (Kumar Deshmukh et al., 2022). The distribution of informal employment determines both the equilibrium supply-demand regulation of markets and the broader self-sustaining economic feedback loop. Industries such as construction, logistics, trading, textile and garments, and tourism, which respond flexibly to economy-wide changes, are therefore likely to offer significant insights into the transmission of indirect tax reforms (Bhattarai, 2017).

GST tax rates in India (December 2024)

Table GST fact rate in India for 2024

GST rate	Examples of goods and services
0% (Nil / Exempt)	Fresh fruits and vegetables, milk, eggs, unprocessed cereals, healthcare services, educational services (specified), exports (zero-rated)
5%	Packaged food items, edible oil, sugar, tea, coffee (without added flavor), economy class air travel, life-saving medicines
12%	Processed foods, fertilizers, dairy products (specified), hotel accommodation (specified tariff range), business-class rail travel
18%	Banking services, insurance, telecom services, restaurant services (specified categories), computers, electronics, professional and consultancy services
28%	Luxury cars, air conditioners, refrigerators, large televisions, luxury hotel services, certain entertainment services
28% + Compensation Cess	Cigarettes, tobacco products, pan masala, aerated drinks, SUVs, and other notified luxury or sin goods

GST rate structure (CGST + SGST)

Total GST rate	CGST	SGST
5%	2.50%	2.50%
12%	6%	6%
18%	9%	9%
28%	14%	14%

Compliance and Administrative Burden

The introduction of the Goods and Services Tax (GST) in 2017 entailed the implementation of a single indirect tax on the supply of goods and services across India. Prior to GST, businesses had to comply with numerous local and national indirect taxes, including a value-added tax, central sales tax, service tax, stamp duty, and octroi. Under the pre-GST regime, different federal and state taxes were levied at various stages of the business process on the same good or service, making tax compliance burdensome, difficult to track, and non-transparent. The introduction of GST was expected to increase revenue, simplify indirect taxation, reduce compliance costs, and improve tax transparency (Kumar Deshmukh et al., 2022).

GST was formally proposed by the Empowered Group on GST in 2007, with recommendations presented the following year. The Union Cabinet approved a draft Constitution Amendment Bill in December 2014, and the Constitution (One Hundred and First Amendment) Act, 2016, received Presidential assent on September 8, 2016. Draft Goods and Services Tax Bills and the Compensation to States Bill were shared with states for consultation in February 2017, and the GST Council held its first meeting on March 4, 2017. The first session of Parliament after the Constitution Amendment discussed draft GST related Bills in early June 2017. The Goods and Services Tax regime commenced on July 1, 2017, with the introduction of the Central Goods and Services Tax (CGST) All States Act, 2017, the Union Territory Goods and Services Tax (UTGST) Act, 2017, and the Integrated Goods and Services Tax (IGST) Act, 2017.

Tax Neutrality and Input Tax Credit

Implementation of Goods and Services Tax (GST) in India has exempted Manufacturers having annual turnover up to 1.50 lakhs that are eligible to claim Input Tax Credit (ITC) under GST regime. The Government of India (GOI) had implemented GST reforms in July 2017. Eligible Manufacturers import goods from the market directly or from importers for converting the raw material into final products. To enhance the details Tax and Collaboration the study aims to identify the following aspects: 1. Provision to claim the input tax credit on dealer purchase and through which document and to whom the information is available. 2. The eligible input tax credit flow of various input or related raw Materials. 3. Frequency of input tax credit claiming affecting operational cash flow (Kumar Deshmukh et al., 2022). Although the goods and services Tax (GST) is being termed as the most significant tax reform in

independent India, past experience of implementing such indirect tax changes in the country indicated considerable transition and teething problems. Many furnished information on basic understanding of GST across Economic Sector, as well as Trade and Economic, Political, and Technological Drivers surrounding it; however, Information on effects of GST on Social and Cross-sector were lacking (Bhattarai, 2017).

Supply Chain Restructuring and Pricing

Under the pre-GST tax regime in India, wholesale distribution had a cascading effect, wherein tax on tax increased prices at each level of the supply chain, amplified vertical margins, and adversely affected the level of intermediation. In addition, prior to the Goods and Services Tax (GST), some businesses charged a Value Added Tax (VAT) on the input price as well as Goods and Services Tax on the entire output price. Hence, the consumption tax burden was passed on to the consumers through higher pricing. The GST reform is expected to reduce the need for centre-state transfers and enable the states to retain a share of GST revenue collected from locally generated goods (Bhattarai, 2017). The introduction of GST is likely to have structural effects on the economy through supply chain restructuring. Following the enactment of the GST, wholesale prices on several goods offered rebate schemes and Value Added Tax (VAT) refunds were also linked to the supply chain. Many businesses are expected to eliminate State Level Value Added Tax-related intermediation after the second stage of the GST rollout. Consequently, it becomes necessary to understand how Goods and Services Tax (GST) changes supply chains and subsequently affects pricing, distribution, and those taxpayers (e.g., retailers) that were the last in the supply chain under the previous regime. Retailers and domestic distribution are expected to be affected by shifts in the intermediation of goods such as food, electronics, textiles, and drugs.

Sectoral and Regional Variations

The Goods and Services Tax (GST) reforms have had different sectoral and regional impacts on the Indian economy and the tax policy has been retained in its original format. Economic linkages between the formal and informal economies vary across sectors, however, leading to a more heterogeneous impact of GST reform. For instance, impact on labour-intensive sectors such as textiles, garments and leather goods, which provide significant employment opportunities for workers and among the poorer segments of the society, so far has been negative. Similarly, there is evidence suggesting that growth and employment

have both been adversely affected in some smaller states and regions. Addressing interstate disparities and sector-specific impediments, thereby ensuring a more uniform regional and sectoral impact, is imperative for achieving inclusive growth after GST reform (Bhattarai, 2017).

Impacts on Customers

GST reforms influence business dynamics after implementation and also strongly impact customer-related aspects. Broadly categorized, the ramifications on customers encompass price movements, administrative adjustments for potential refunds, and the degree of transparency regarding tax collection from consumers. Post-liberalization of the economy and tax regime, with a view towards reforming the taxation system at the national level, Government of India decided to introduce Goods and Services Tax (GST) w.e.f. 1.07.2017, where indirect taxes were merged into single tax for seamless flow of ITC across supply chain — in line with best practices of the global community, to eliminate cascading of taxes and informal economy.

Significant alterations take place in customer prices for various items. Inflation peaks immediately after GST and subsides slowly. More specifically, inflation declined after GST for a number of goods. On a month-to-month basis, consumer prices surged before GST because dealers hoarded stock; however, prices decreased within a month post-GST implementation by 15% to 25% depending on the item. In certain instances, such as for vehicles, taxation purportedly converged to zero, even as additional levies were imposed. In this manner, GST is measured to have grave influence on prices, at times lowering them, and on inflation behaviour (Kumar Deshmukh et al., 2022).

Changes in Consumer Prices and Inflation Dynamics

Examining the effects of the Goods and Services Tax (GST) reform on consumer prices and inflation dynamics shows clear short- and long-run influences, with appreciable differences evident across goods classes. Immediately after GST took effect, a significant one-time rise in inflation occurred, attributed to increased inflationary pressures for specific items alongside subsequent price adjustments for other products. While the central inflation rate contracted thereafter, the prices of certain GST-exempt goods experienced an enduring escalation. Over the long term, evidence suggests that elasticity estimates for non-inclusive GST commodity prices leading to the introduction of GST were already considerably elevated, indicating substantial pass-through within the preceding regime (Bhattarai, 2017)

Tax Administration and Refunds for Consumers

Refunds can occur long after the initial purchase, when eligible taxpayers submit a claim on a prescribed application form. Although refunds occur post-purchase, claim processing is typically quick, and eligible individuals report receiving refunds within weeks. The absence of direct tax deducted at source on goods and services makes refunds necessary for public awareness of GST throughout the consumer tier. Thus, refunds reflect public expenditure on GST, with awareness levels indicating the degree of fiscal knowledge among citizens. GST entered public discourse after the high-profile adoption and economic prominence of the original tax structure. Despite the refund design, levels of GST awareness were reported to be low, even among well-informed professionals, suggesting the consumer tier remained largely disconnected from the tax framework (Kumar Deshmukh et al., 2022).

Informational Transparency and Compliance Behavior

The 2016 introduction of the Goods and Services Tax (GST) reform aimed to replace a complex system of multi-layered taxation with a simpler, more transparent, and technology-driven tax regime in India. The reform encompassed aspects such as inter-state trade, compliance procedures, exclusion of certain applicant categories, tax rates, and taxpayer profiles, and its intent was to simplify the tax regime and increase the country's ease-of-doing-business rating. Examining the implications of GST on transparency and compliance behaviour reveals that citizens generally consider they have sufficient information concerning GST, although awareness of the system's back-end audit system remains low. Additionally, while individuals and firms report a wide usage of receipts in centralized accounting systems, their actual retention of tangible legible bills remains uncertain. Trust-related surveys suggest that confidence in the system remains solid. Greater oversight of both the transactions themselves and answerable parties through the emergence of a vastly more formalized reporting landscape would further ensure compliance with pay-in schedules; there by enhancing the accompanying advancement and assurance of accounting systems intended to fulfil the now widely acknowledged economic role of commodity tracking, flow maintenance, invoice generation, and security in asset transactions. A core ingredient of the overall system ought to encompass a confident and advanced accounting/supervision system, a firm-wide accountancy knowledge of entry formation into the overall system, the retention of genuine records in the context of transaction issues settled not solely in cash, adherence to the system's

stipulated examination of transactions flowing through GST channels, and delivery of records revealing the extent of such reporting in order to certify that sufficient records exist to fulfil expected trades. Accounting must also link to the determination of the pay-in-up-against-period. Permanent access to system entries maintained on directly assigned audit/filing platforms supporting sizablenation wide formal pay-in expectations enhances circularity and simultaneously creates an expected feedback pathway to verify the coverage of recorded transactions sufficient to eliminate the perceived obligation of routine complete-entry examinations prior to accessing payment-summary formulation (Kumar Deshmukh et al., 2022).

Fiscal Implications and Public Revenue

The Goods and Services Tax (GST) was implemented in India on July 1, 2017, to augment indirect tax administration by consolidating a conglomeration of taxes into a single tax (Bhattarai, 2017). The pre-GST age of multiple parallel entities, both direct and indirect, led to the levies of Value Added Tax (VAT), Central Sales Tax (CST), Service Tax, Octroi, and other financial instruments, while cascading taxes led to significant inflationary pressures (Kumar Deshmukh et al., 2022). To enhance the ease of administration, the Government proposed and implemented a simple single GST tax, aimed at reducing indirect tax burdens and inflationary levels. After implementation, GST remained at about 30 percent of total tax receipts in India, while VAT was lowered from about 30 percent to almost zero, and the GDP continued to demonstrate consistent growth: between 2018 and 2019 GDP growth peaked at 8.26 percent and averaged 7.05 percent at the mid-point of the second term since the launch of GST. Under GST, tax cascading, poor revenue neutrality, and evasion reduced drastically since tax structure became central across goods and services, and Government revenues contemporary to the series continued elevated stages across the broader system.

Policy Design Considerations and Complementary Measures

A well-designed Goods and Services Tax (GST) implementation should incorporate measures that sustain structural changes and minimize inefficiencies in the economy. These proposals involve transitional arrangements and additional regulatory frameworks that reduce GST compliance costs, contain price pressures, bolster firm formality, and mitigate revenue volatility. They also draw attention to broader complementary actions that promote revenue stability and outsize economic growth. A focus on the formalization of firm buy-in to

the reform is critical; it directly shapes firms' involvement in the scheme as well as the equilibrium distribution of GST-inclusive prices, taxes, and revenues that eventually emerge beyond the time horizon of the initial reforms. Transition proposals should center on accelerating ongoing digitization efforts beyond compliance issues, since the GST enables substantial outreach even among informal and micro-enterprises engaged mostly in cash transactions, and even maintenance of the average GST rate should help forge a clearer benchmark for revenue expectations on an overall basis. Complementary measures emphasize cementing adjustments occurring elsewhere in the broader economy as an outcome of the GST reform effort, thus further enlarging broader growth dividends and reinforcing fiscal sustainability.

Comparative Perspectives and Global Lessons

Implementation of the Goods and Services Tax in Nepal to overcome the problems related to the earlier multi-layer taxation system has been widely acclaimed as a landmark decision. A study of the GST reforms undertaken in India points out two conclusions which are pertinent to Nepal as well. First, it indicates that GST reforms impact the economy through enhanced efficiency and systematic structural transformation. Second, it shows that the introduction of GST has a positive impact on the growth of per capita income (Kumar Deshmukh et al., 2022). An analysis of the impact of GST in India also reaffirms the positive influence of the tax reform on economic growth (Bhattarai, 2017). Such studies have set the stage for a comparative analysis of the reforms undertaken in the neighboring country and their relevance to Nepalese economy. Reforming a taxation system has implications in many other areas of governance and hence similar policies resulting from different forms of governance should be compared with caution. However a cross-country comparison is still relevant in terms of both GST reforms introduced at around similar times. The Goods and Services Tax implemented on July 1, 2017 in India and the Value Added Tax on July 16, 2021 in Nepal were political decisions taken to stamp out the hindrances faced by businesses and to facilitate trading activities from one region to another within the respective countries. Prior to the introduction of GST in India, the entire nation was going through the shackles of both Central and State imposed indirect taxes where the least cumbersome tax was the VAT [...] Introduction of GST required tremendous political and collective effort, hence despite a short time since its inception a assessment can be made.

Methodological Approaches to Assess Impact

The assessment of GST impacts draws from a range of evidence, modelling approaches, and econometric analyses, which use different data sources and identification strategies at the macroeconomic, sectoral, and firm scales. Macro analyses typically exploit the staggered introduction of GST across states to track changes in aggregate or sectoral outcomes over time and estimate the impact of GST on key variables such as the consumer price index, inflation, revenues, and formal firm outreach (Kumar Deshmukh et al., 2022). The study of firm-level effects uses an electronic GST compliance dataset, allowing the evaluation of how firms adapt to the reform based on their compliance and administrative burden, the pass-through of taxes and other economic variables, and the take-up of input tax credits. Sectoral perspectives dissect business responses further, incorporating structural features such as supply chains, tax cascades, price regimes, and regional differentials and leveraging a diverse set of proprietary and publicly available information on compliance, administration, productivity, inputs, GVA, capital, and technology. The combination of sectoral and firm-level assessments provides a comprehensive view of the GST repercussions across the economy. Robustness checks on sample variation, outcome measures, and modelling approaches reinforce the credibility of the results.

Recommendation

1. Strengthening the methodology by clearly specifying the secondary-data sources, period covered, selection criteria, and analytical techniques.
2. Improving data-based evidence by adding recent statistical data, tables, charts, or empirical comparisons supporting the major claims.
3. Verifying factual and statistical statements particularly claims concerning GST rates, inflation, price reductions, tax revenue, and GDP growth.
4. Updating the literature review and references with more recent peer-reviewed studies and official GST/Ministry of Finance sources.
5. Improving academic language and grammar, as several sentences require editing for clarity and readability.
6. Aligning the conclusion with the objectives, explicitly stating the findings corresponding to each research objective.
7. Clarifying the originality/research gap, particularly what this study contributes beyond existing GST literature.
8. Reviewing the bibliography and in-text citations for consistency and completeness.

Conclusion

Goods and Services Tax (GST) reforms promise significant benefits for Indian businesses and consumers. Empirical evidence based on consumer-level, firm-level, sectoral, and national data illustrates clockwise price and welfare effects that dissipate gradually, varied price effects across firm types that impact passthrough behavior to consumers, incentives for firms to formalize operations that differentially affect informal sectors among states, and distributional responses linked to changing sectoral demand under GST (Bhattarai, 2017). Reforms create a related but independent set of incentives that shape firm and sector adaptation, with significant implications for national and state economic conditions and the effectiveness of complementary policies; these include domestic versus export orientation, energy-intensive processing, and capital incentives provided by indirect taxes (Kumar Deshmukh et al., 2022). Under the previous tax regime, the tax burden on businesses was high. Large Taxpayer Units in selected metropolitan areas often faced an aggregate Goods and Service Tax (GST) burden exceeding 40%, while smaller firms at other locations reported effective rates of 20–25%. Some relief had been expected from the introduction of GST, but an unexpectedly high burden led to complaints from nearly all stakeholders shortly after it was introduced; pass-through to consumers is therefore likely to have risen following the reforms. In a hurry to implement GST, the government overlooked industry-specific input taxation, leading to cascading taxes and double taxation on many sectors.

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Conflicts of interest

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