Manuscript ID:
TIJCMBLIR-2026-030229

Volume: 3

Issue: 2

Month: April

Year: 2026

E-ISSN: 3065-9191

Submitted: 10 Mar 2026

Revised: 15 Mar 2026

Accepted: 10 April 2026

Published: 30 April 2026

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DOI: 10.5281/zenodo.21714576

DOI Link:
https://doi.org/10.5281/zenodo.21714576

Impact And Challenges of GST on Various Constituents of Indian Economy

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Abstract

The Indian economy has witnessed rapid growth in a very short span of time. Taxes, both direct and indirect, serve as the major sources of revenue for the government. Dr. Vijay Kelkar, Chairman of the 13th Finance Commission, recommended the establishment of a rational, scientific, and modern taxation system aligned with developed nations. This recommendation laid the foundation for the introduction of the Goods and Services Tax (GST) in India. The tax structure is designed and implemented to promote the country's development. A taxation system that facilitates ease of doing business and minimizes opportunities for tax evasion contributes significantly to economic prosperity. The Goods and Services Tax (GST) represent the most comprehensive indirect tax reform since India's independence in 1947. Its primary objective is to replace existing taxes such as value-added tax (VAT), excise duty, service tax, and sales tax. GST is levied on the manufacture, sale, and consumption of goods and services. It is expected to have a profound impact on the current tax structure, leading to greater economic integration across the country. This paper highlights the background and objectives of the proposed GST, as well as its impact on various sectors of the Indian economy. Additionally, it explores the benefits and opportunities presented by GST. Finally, the paper draws conclusions based on the analysis.

Keywords: *GST, Indirect Tax, Fiscal Federalism, Tax Reform*

Introduction:

The word "tax" comes from the Latin word "taxare," which means "to estimate a compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of certain goods, services, and transactions." A tax is an input that is levied and acquired in accordance with legislative power. Direct and indirect taxes make up the Indian tax system. One of the most important indirect taxation developments is the Goods and Services Tax (GST). Since public goods cannot be fairly priced in the market, taxes are the only way to fund them. Only governments, supported by taxes, are able to supply them.

The Canadian value-added tax known as the goods and services tax (GST) is imposed on the majority of domestic consumption. The purpose of the tax is to provide the government money. Customers pay the GST, but companies that provide goods and services are responsible for collecting it and sending it to the government.

India is one of the 123 nations in the world that use the VAT mechanism, which was implemented at both the federal and state levels. Indirect taxes on the production, sale, and consumption of goods and services are fully included in the GST at the national level. The Central and State governments of India would apply all indirect taxes under the GST on goods and services. It is intended to be broad for the majority of products and services. In 1954, France became the first nation in the world to apply GST.

Gst In New Form:

GST/VAT is being implemented globally in around 160 nations. There is no distinction between products and services when it comes to taxation under the GST model. It states that the same tax rate applies to both goods and services. India is currently considering a tax rate of 5%, 12%, and 18% that will bring in 8 lakh crores for the government. The all-powerful GST Council opted on a tax structure of 5%, 12%, 18%, and 28%, with lower rates a four-tier GST for necessities and the highest for luxury. Under the GST framework, it is intended to receive input tax credit (ITC) for either selling goods to an individual or providing services. One of the key factors has been the market's attention to GST due to its impact on business profitability. The administration has kept a number of products below the 18% tax threshold.

How to Cite this Article:
Kamble, M. B.& Khandare, U. S. (2026). Impact And Challenges of GST on Various Constituents of Indian Economy. The International Journal of Commerce Management and Business Law in International Research (TIJCMBLIR), 3(2), 181–183. https://doi.org/10.5281/zenodo.21714576

Literature Review:

- Vasantha Gopal (2011) examined the effects of GST on several economic sectors in her paper, GST Studied in India: A Big Leap in the Indirect Taxation System. The article went on to say that GST is a significant advancement and a fresh catalyst for India's economic transformation. The study concludes that favorable effects on many industries depend on the GST's impartial and standard design.
- The study "Study on Impact of Goods and Services Tax Implementation in India" by Pinki, Supriya Kamma, and Richa Verma (June 2017) concentrated on the implementation of the tax in India, which must be understood as both a system and a process. They came to the conclusion that by supporting the proposed tax reform, businesses and consumers could assist the government in accelerating the expansion of the Indian economy.
- Jaiprakash (2014) discussed the GST at both the federal and state levels, which are anticipated to provide greater relief to industry, trade, agriculture, and consumers through a wider and more comprehensive exposure of input tax set-off and service tax set-off, the absorption of several taxes in the GST, and the phase-out of CST. When conditions are favorable and the economy is experiencing stable growth with just modest inflation, we should seize the opportunity to implement GST, which is the best option for expanding our tax base.

Objectives Of Study

- To research the GST conceptual framework in an Indian setting
- To research the effects and difficulties of GST on the various components of the Indian economy.
- To recommend actions to address negative effects on different stakeholders

Research Methodology

The study focuses on a thorough analysis of secondary data gathered from numerous publications, journals, and government reports published on different websites that are related to the Goods and Services Tax.

Impact Of Gst On Various Areas Of Economy

- Effect on the consumer products industry:
  The FMCG industry would undergo significant transformation with the introduction of the Goods and Services Tax. 50% of the food and beverage industry and 30% of household and personal care make up the Food Manufacturing Consumer Goods sector. The FMCG industry, commonly known as consumer packaged goods, is the main source of direct and indirect tax revenue for the country. The company's selection about the location of manufacture and the distribution of goods is influenced by the variety of taxes. Their businesses locate their warehouses and production facilities in areas that offer tax advantages. To move the inventory across the states from the warehouses, they must pay taxes. GST would undoubtedly have an influence on the FMCG industry since taxes have an impact on business expenses.
- Effect on Brokers and Equity Investments:
  The GST rate on financial services has changed from 15% to 18% as a result of the service tax being incorporated into GST. Given that the total shift is only roughly 3 basis points, this might not be too big from the standpoint of a long-term investor. The economics of combining their funds in the equity markets will be altered by these three fundamental points for short-term traders. Whether it truly had an impact on market volumes and liquidity is yet to be determined.
- Impact on the Cement sector:
  Angel Broking predicts that the adoption of the GST will have little effect on the cement sector. Cement was previously subject to excise taxes of 12.5% and VAT rates ranging from 12.5% to 15.5%. Cement will be subject to a 28% GST tax, which is essentially the same as the current tax system.
- Impact on the Food Industry:
  Any tax on food would be regressive since food accounts for a significant amount of lower-income households' consumption expenses. Given that food production and distribution are generally unorganized in India and that most countries tax food at a lower rate in light of global fairness and equitable principles, the food processing industry would have challenges in extending GST. Food is taxed at zero rates in nations like Canada, the UK, and Australia, where it makes up a very minor fraction of the consumer basket.
- Impact on IT services:
  The suggested GST rate for the IT sector has not yet been determined. The product's joint GST rate, as discussed, is 27%. If software is distributed electronically, it would be considered a service (intellectual property), according to the proposed GST.and it should be regarded as goods if it is transferred via media or any other touchable item. The introduction of GST in uniform, simpler, single-point taxes will lower prices.

Challenges Of Gst In Indian Context

There are a few obstacles to overcome in order to successfully implement the Goods and Services Tax (GST) in India. The factors that need to be considered regarding GST are listed below.

• Many people are still figuring out where they need to register, and their knowledge of GST's regulations and how it affects their firm is still in its infancy.

• A number of GST provisions remain unclear. It is still unclear how products and services are classified in different situations. Uncertainty surrounds the anti-profiteering provisions and the now-postponed e-way bill, which tracks shipments between states.
• A number of companies have not yet mapped their IT systems and accounting software to the new tax regulations in order to generate GST invoices and abstract necessary information.
• It is difficult to find employees with the necessary skills and effective GST understanding and training. This has shown that businesses must file numerous returns—typically at least 37 for assessments—and that this number can rise significantly with business styles.

Findings

- Because of one kind of tax, the Goods and Services Tax (GST), economic distortions will be eliminated and a common national market will be developed.
- It is a significant step toward achieving the Make in India and Digital India initiatives.

Suggestions

- In order to achieve successful implementation and outcomes, it is recommended that the government choose strategies and policies in this area.
- To stop states from boosting tax rates, the GST Council ought to unify the four tire taxes.
- A suitable and effective network infrastructure must be set up and kept up to date in order to digitize the GST system.

Conclusion

Since taxes are a source of income and have a favorable effect on efficiency and equity, they are crucial to the economy. A competent tax system should attempt to generate tax revenues to support government outflows on public services and infrastructure development while simultaneously keeping pace with challenges of income distribution.

Acknowledgment

I would like to express my sincere gratitude to all those who have supported and guided me in completing my study on *"Impact and Challenges of GST on Various Constituents of the Indian Economy."*
I am deeply thankful to my guide/mentor for their invaluable guidance, continuous encouragement, and insightful suggestions throughout the course of this research. Their support has played a vital role in the successful completion of this study.
I would also like to extend my heartfelt thanks to my institution and respected faculty members for providing the necessary academic environment and resources required for this project.
I sincerely acknowledge the contributions of various authors, researchers, and online resources whose work has provided a strong foundation and valuable insights for this study.
I am especially grateful to all respondents, professionals, and individuals who shared their knowledge and perspectives, which greatly enriched the analysis of this research.

Financial support and sponsorship

Nil.

Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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