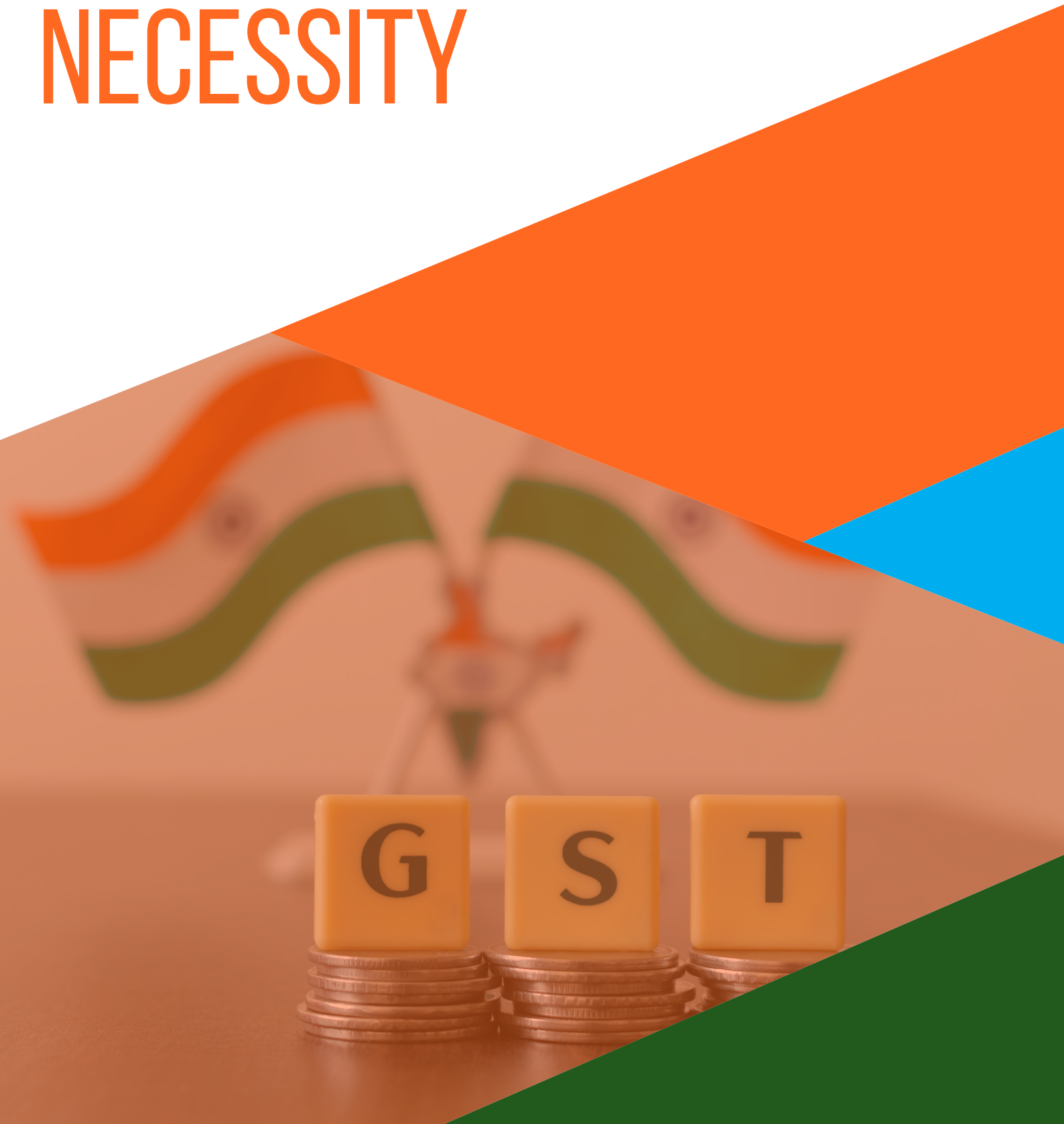


September 2025

GST BEYOND ECONOMICS: A NATION-BUILDING NECESSITY





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Abstract

The Goods and Services Tax (GST), launched on July 1, 2017, stands as India's boldest post-independence reform, evolving into GST 2.0 by September 2025. This white paper explores its journey from a fragmented pre-GST era marked by the "Lost Decade" (2004–2014) of policy paralysis to a unified fiscal framework driving economic integration. GST's digital leap earned IMF praise, while S&P's September 2025 credit upgrade highlights its role in India's \$4.2 trillion economy (IMF, 2025). This paper debunks polarized critiques, showcasing GST as a catalyst for transparency, growth, and nation-building.

Keywords: GST, GST 2.0, Tax Reform, Economic Integration, MSME Formalisation, Digital Governance, Logistics Efficiency, India Growth, 2025 Reforms



Introduction

Since independence, few reforms have reshaped India's economic landscape as profoundly as the Goods and Services Tax (GST), launched on July 1, 2017.

More than a tax overhaul, it unified a fragmented nation under a single fiscal framework, fostering nation-building through economic and national integration. Eight years later, the advent of GST 2.0 in September 2025 marks a pivotal shift toward simplicity and inclusivity, rationalising rates into a two-tier system.

The expert opinions surrounding India's Goods and Services Tax (GST) reveal a sharp divide. Critics have labelled it a public burden, citing initial complexities and state revenue strains. Yet, such critiques have only emerged as "ill-informed," overshadowed by GST's record revenues, reduced tax evasion, and enhanced compliance.

As India celebrated Diwali 2025 with unprecedented economic optimism, GST 2.0 emerged as a symbol of fiscal maturity and digital governance excellence. It serves a reform that not only unified the nation's tax landscape but also aligned a billion aspirations, firmly positioning India as a rising global economic powerhouse.

This white paper seeks to debunk pre-existing polarised narratives through an evidence-based analysis, demonstrating GST's evolution from a fiscal reform into a cornerstone of governance, transparency, and equitable growth.



SECTION I. Pre-GST Challenges: A Fractured and Inefficient System

The pre-GST era is etched in history as a testament to systemic inefficiency, where archaic tax structures stifled enterprise and perpetuated a divided economy.

In the pre-GST era, the system was a patchwork of multiple taxes, riddled with evasion, and choked by interstate barriers that slowed trade and fueled corruption. Businesses struggled under the weight of cascading taxes, and states missed out on the revenue they deserved.

A key measure of this inefficiency was tax buoyancy. Tax buoyancy means how much tax revenues grow when the economy grows. The buoyancy of indirect taxes hovered at a mere 0.72. Buoyancy indicates how sensitive tax revenues are to changes in GDP.

This meant that for every % point of nominal GDP growth, say, 11.5% GDP, state tax revenues crawled along at just 72% of that pace, growing at a sluggish 8.3%.

Interstate commerce was throttled by high logistics costs and sluggish truck productivity, transforming what should have been a vibrant marketplace into a web of distortion and lost potential.

This inefficiency was further compounded during the "Lost Decade" of 2004-2014, marked by profound policy paralysis that squandered critical reforms.

The GST Constitution (115th) Amendment Bill, introduced in March 2011, faltered amid unresolved disputes over revenue compensation and governance, lapsing with the dissolution of the 15th Lok Sabha.



This GST inertia was far from an isolated setback. It exemplified a pervasive pattern of governance failures across **“the Lost Decade”** of 2004-2014. Environmental clearances averaged a crippling 640 days. Job creation ground to a halt, generating only 15 million positions according to NSSO surveys. Inflation, meanwhile, surged to an average of 10.4% from 2009 to 2014, eroding economic stability at every turn.

Scams such as the coal allocation, which caused losses of ₹1.8 lakh crore, and the 2G spectrum case, with estimated losses of ₹1.76 lakh crore, further eroded public trust. Infrastructure projects remained mired in land acquisition hurdles and budgetary delays.

National security was undermined by zero defence procurements across the decade and a surge in terrorism that claimed 1,465 lives in 2004 alone. The cumulative effect was a sharp deceleration in economic growth, which fell from 7% in 2004-05 to below 5% by 2014, weakening India's global standing.

The cascading taxes of the old system further amplified these losses, imposing duties on duties that inflated costs across supply chains and eroded competitiveness.

C-efficiency, which measures how effectively the tax system generates revenue relative to the size of the economy, consistently hovered below global benchmarks. Subsidies too had swelled from 1.5 % to 2.7 % of GDP between 2004-05 and 2012-13.

This expansion came at the cost of capital expenditure, which declined from 3.8% to 1.8% of GDP, further limiting productive investment, while the savings-to-GDP ratio declined after 2011.

These structural flaws perpetuated evasion, stifled formalisation, and forfeited trillions in unrealised growth, entrenching fiscal imbalances that left India vulnerable both domestically and internationally.



SECTION II: Stalled Dream to Historic Reality: GST at Midnight, July 1, 2017

The decisive mandate won by PM Narendra Modi in 2014 allowed the derailment caused by **“the Lost Decade”** to recede.

The new era ignited a reformist zeal that resurrected the long-dormant GST dream. Inheriting a landscape scarred by inaction, his government swiftly reintroduced the GST as the 122nd Amendment Bill, directly addressing the core issue of state compensation that had derailed earlier attempts.

By rebuilding fractured trust and resetting the terms of engagement, the government created the momentum necessary for structural change.

This bold intent culminated in the passage of the 101st Constitutional Amendment in 2016, swiftly ratified by the states. Similarly, the creation of the GST Council as the federal forum also ensured collaborative and equitable decision-making.

The Council played a central role in guaranteeing compensation, ensuring fairness, and bridging the trust deficit that had previously paralysed reform.

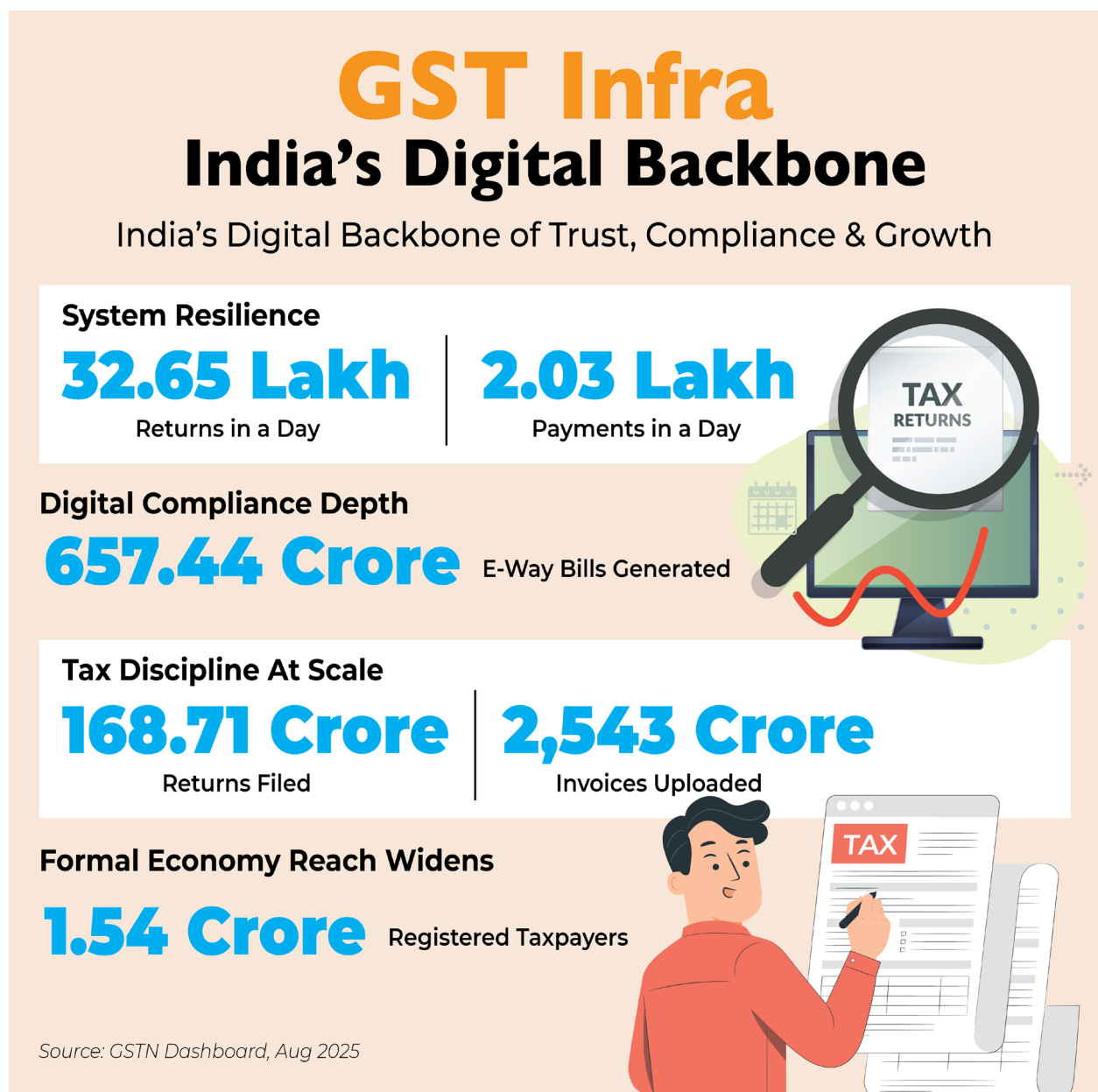
With consensus secured, the national rollout took place at midnight on July 1, 2017. The launch was hailed by leaders, industry bodies, and entrepreneurs as a historic milestone that not only unified India's markets but also marked a decisive shift from policy paralysis to purposeful action.

The PM Modi government's approach to “getting it done” rested on clarity, trust, and federal partnership. At its core, this achievement

exemplified cooperative federalism.

The realisation of GST under PM Modi's stewardship marked a landmark governance victory. It demonstrated India's ability to overcome the legacy of stalled bills, eroded confidence, and systemic inefficiency.

By transforming a fragmented tax regime into a unified system, it ushered in an era of transparency, efficiency, and integration, **as shown in the graphic.**





GST Council in Action: Enabling Growth, Compliance & Inclusion

The achievements of GST are deeply rooted in the collaborative spirit and responsiveness of the GST Council. Its consensus-driven decisions have been key to translating reform into real-world impact.

The GST Council has also reflected its agility in addressing sectoral needs, simplifying compliance, and fostering transparency. Together, they have strengthened trust in the GST regime while supporting growth, innovation, and inclusivity across India's economy. A few of their notable decisions are listed below:

Notable Decisions by the GST Council

- Introduction of e-Way Bills to monitor goods movement and reduce tax evasion. These were later integrated with e-Invoicing and return filing systems.
- Rate relief for the real estate sector, including a reduction in GST on under-construction affordable housing from 8 per cent to 1 per cent.
- Approval of e-Invoicing for B2B transactions is now mandatory for firms with an annual turnover of ₹5 crore or more.
- Promotion of green mobility through a rate cut on electric vehicles from 12 per cent to 5 per cent and GST exemption on larger electric buses.
- Launch of the QRMP scheme to ease compliance for small businesses by allowing quarterly return filing with monthly payments.
- COVID-19 relief measures, including rationalisation of GST on medical supplies and essential goods.
- Simplified GST returns, auto-populated data, and the



introduction of dynamic QR codes for easier digital payments.

- Significant rate rationalisation, reducing the number of items under the highest tax slab from 227 to just 35.
- Trade facilitation measures, including formula changes for refunds and additional modes for tax payment.
- Creation of GST Appellate Tribunals to ensure quicker resolution of disputes, with the Principal Bench in New Delhi and State Benches as required.
- Amnesty scheme for appeals, giving taxpayers a chance to file delayed appeals against demand orders.
- Pilot launch of B2C e-Invoicing and phased rollout of Aadhaar-based biometric authentication for applicants.
- Clarification on GST for vouchers, stating they are neither goods nor services, and simplifying related provisions.
- Full GST exemption on gene therapy and recommendation for a legal framework for the new Invoice Management System.

It has positioned India as a global economic powerhouse ready for unprecedented prosperity, as explained in the section below.

SECTION III: Growth Cascade - GST's Multiplier Impact, Unleashing a Virtuous Cycle

India's Goods and Services Tax (GST), launched on July 1, 2017, has ignited a transformative cascade. It has turned a once-fragmented tax system into a dynamic engine of growth.

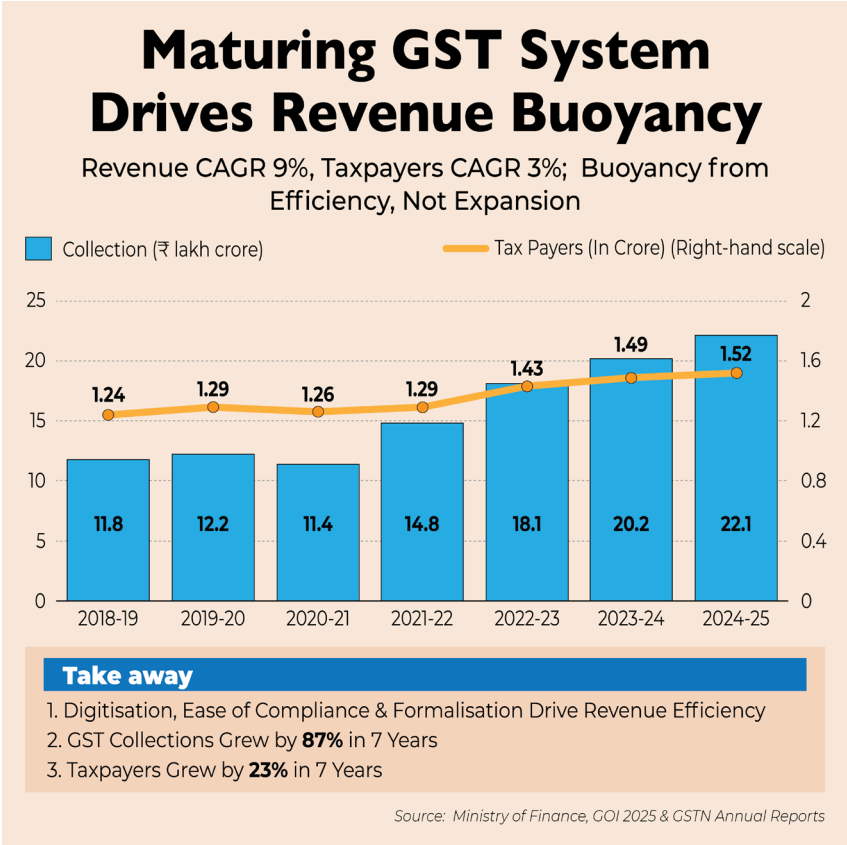
Far beyond a technical tax reform, it has created a unified market, streamlined supply chains, and unlocked opportunities across sectors

by boosting industries, generating jobs, and formalising the economy. India has reinforced its position as a digital-first economy, leveraging technology to modernise governance and widen the tax base. The impact is measurable. Empirical studies show that a 1% growth in GST revenue corresponds to a 0.56% increase in GDP, reflecting the reform’s multiplier effect on economic activity and formalisation.

Revenue Buoyancy

The journey so far has reshaped India’s fiscal landscape in unprecedented ways, **as shown in the graphic.**

The taxpayer base has expanded from 78 lakh in 2017 to 1.54 crore in 2025, reflecting robust formalisation and widening participation in the economic mainstream.

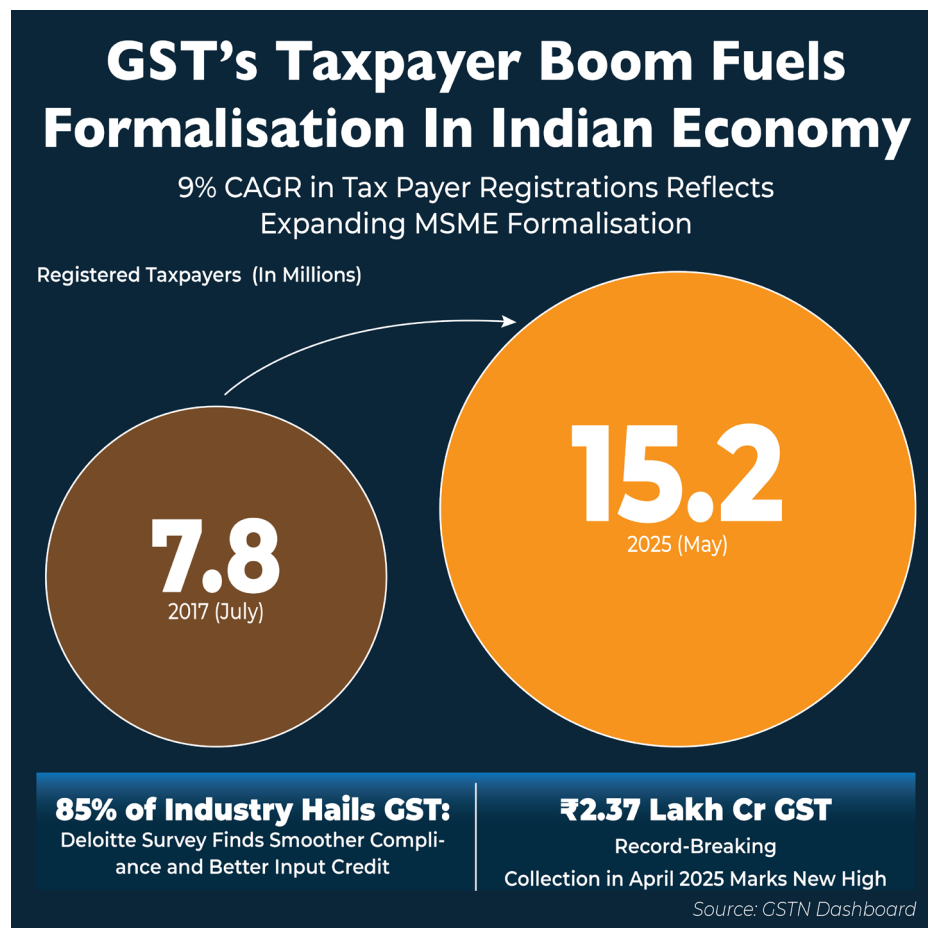


GST collections have risen from ₹11.8 lakh crore in 2018-19 to ₹22.1 lakh crore in 2024-25, a surge of 87% in just seven years. This rapid growth far outpaces the increase in registered taxpayers, which grew by only 23% when measured in unit crores.

It demonstrated that digitisation, simplified compliance, and formalisation have improved tax yields even without proportional expansion in registrants.

As more transactions enter the formal economy, transparency increases, leakages reduce, and a feedback loop is created. Greater collections enable better governance, which in turn encourages more businesses to join the GST net.

This is classic evidence of a multiplier effect, i.e, system improvements



generate results greater than the sum of their parts.

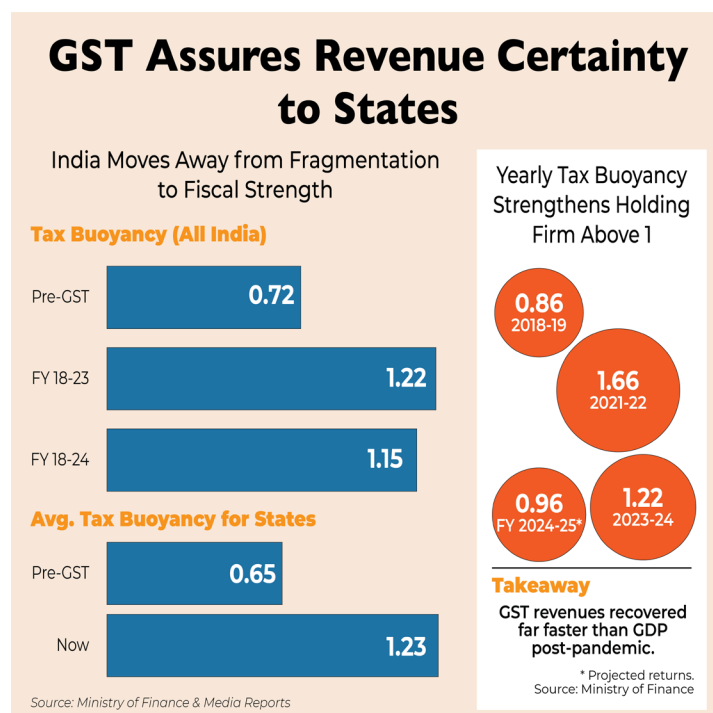
As registrations have nearly doubled, a 9% CAGR that reflects how GST has been successful in pulling India's MSMEs into the formal economy.

Gross GST collections reached ₹22.08 lakh crore in FY 2024-25, doubling in just four years with a compound annual growth rate of more than 18%.

Average monthly revenues surged to ₹2,04,500 crore compared to ₹82,000 crore in FY 2017-18, underscoring stronger compliance, upgraded digital systems, and enhanced resilience of the economy.

Revenue Certainty

This fiscal strength has been accompanied by improved tax buoyancy. It rose to 1.22 during the post-GST period (2017-18 to 2022-23) and has remained robust as of 2024-25, even after the discontinuation of the compensation cess, signalling the GST system's enduring durability. It is shown in the next **graphic**.



At the same time, the GST Council has stood out as a model of cooperative federalism, turning scepticism into trust and adversaries into partners.

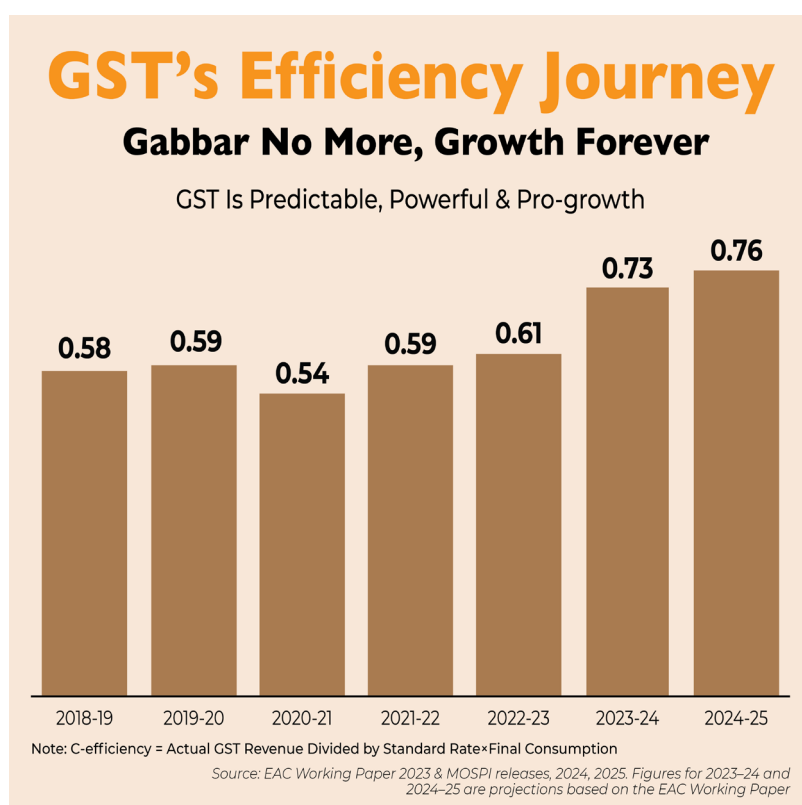
Through consensus building, it not only established a fair compensation framework for states but also ushered in iterative reforms that widened acceptance and adaptability.

Revenue Efficiency Via Predictability

This combination of political trust and structural efficiency translated into significant annual revenue growth in GST. It often delivered year-on-year revenue growth in the 12% range during certain months and periods (e.g., Nov 2023, April 2025), confirming its role as a fiscal powerhouse and expanding opportunity.

Measured by international benchmarks, GST's efficiency has also been striking, **as shown in the graphic.**

Its C-efficiency ratio, the measure of realised revenues relative to economic size and applicable tax rates, averaged 0.58 over five years and climbed to 0.60 in 2022-23, before surging further to 0.73 in 2023-24 and projected at 0.76 in 2024-25, placing India in the top third among 37 OECD countries.



Fiscal Stability

India's Goods and Services Tax (GST) has transformed state finances, delivering a seamless, predictable revenue stream that outshone the chaotic pre-GST era.

The graphic shows

State revenues under GST have followed a strong upward trajectory, with the combined SGST and the states' share in IGST rising from ₹5.8 lakh crore in 2018–19 to ₹9.74 lakh crore in 2024–25.

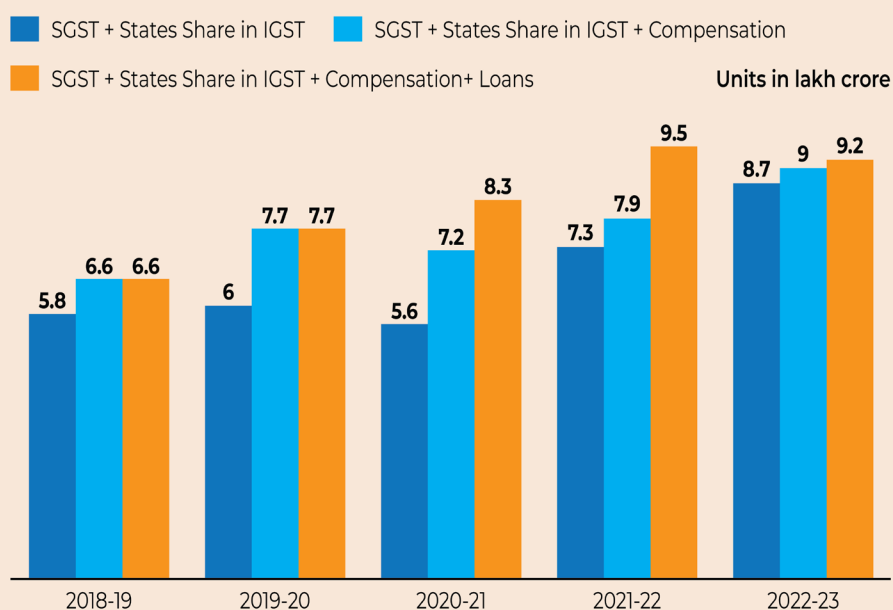
This reflects the strength of a unified national market that replaced the fragmented tax regime of the past.

When compensation is included, revenues grew from ₹6.6 lakh crore in 2018–19 to a peak of ₹9.2 lakh crore in 2022–23, demonstrating the system's capacity to support states during the transition.

Even during the 2020–21 pandemic, GST proved resilient, with revenues stabilising at ₹9.74 lakh crore by 2024–25, signalling a shared fiscal destiny for states built on seamless tax flows and deeper integration.

GST: States Thrive With More Seamless Tax Flows

GST Outshines Old Taxes With More Predictive Revenue Stream



Source: EAC Working Paper, 2023 & GST System Statistics & Tutorial, GOI

For India, such performance highlights GST's institutional strength. Steady revenues have enabled states to plan infrastructure and social spending with greater confidence, making GST both a driver of growth and a model of fiscal innovation.

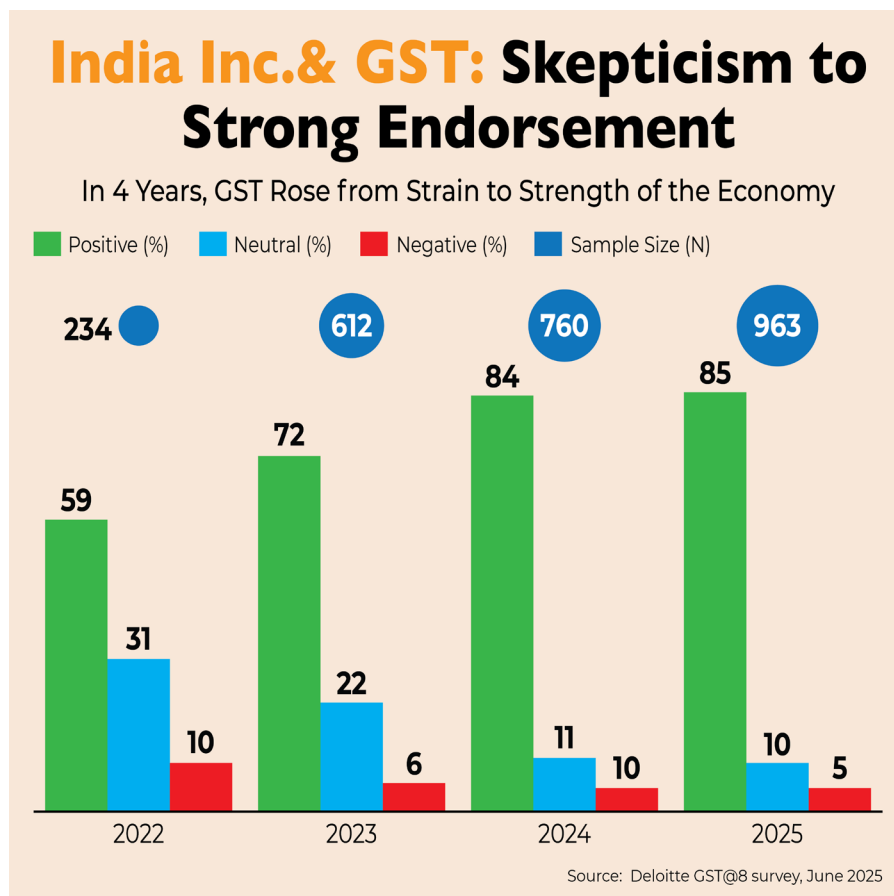
Improved Compliance

Compliance has been central to this success story. Filing discipline has improved sharply, with GSTR-3B return rates rising significantly.

Simplification of processes and the infusion of technology-driven solutions reduced friction for taxpayers while enhancing transparency.

The benefits of these reforms are echoed in industry sentiment, **as shown in the graphic.**

By 2025, 85% of respondents, including MSMEs and large corporates,





reported positive experiences with GST, up from just 59% in 2022, according to Deloitte's survey.

This shift from hesitation to confidence underscores how GST has evolved beyond a tax mechanism into a pillar of trust, compliance, and economic efficiency.

Transformational Impact on Stakeholders

1. One Nation, One Tax

The Goods and Services Tax (GST) created a truly unified national market by bringing together 17 major indirect taxes and 13 cesses under one harmonised system. This historic reform replaced a fragmented regime where every state had its own levies, octroi, and entry taxes that hampered the movement of goods.

By eliminating multiple layers of taxation and ensuring seamless credit flow across the supply chain, GST turned India into a single integrated market of 1.4 billion consumers.

It enhanced transparency, curbed tax evasion, and boosted formalisation. Taxpayer registrations have more than doubled. The shift also simplified compliance through digital tools like the GSTN portal, e-way bills, and e-invoicing.

A research study (2022) shares a precise comparison of the benefits of subsuming multiple taxes, including Value Added Tax (VAT), Service Tax, Central Sales Tax (CST), Octroi, and other state and local levies in GST. With the introduction of GST in July 2017, these taxes were subsumed into a unified structure.

The comparative analysis reveals a distinct upward trend in revenue collections under GST between 2017 and 2020, as opposed to the



fragmented tax receipts during 2014–2017.

For example, between 2016–2017 and 2017–2018, collections increased by over 30%, while 2018–2019 registered a growth exceeding 60% compared to the preceding fiscal year. While due to the pre-GST times, it dipped from Rs. 2.8 lakh crore in 2012-13 to Rs. 1.07 lakh crore in 2017-18. This sustained revenue growth reflects both the expansion of the taxpayer base and a decline in tax evasion.

2. Efficiency Gains in Logistics

The removal of inter-state check posts and harmonised taxation cut average transport time by nearly one-third, allowing goods to move freely across the country. Trucks that once averaged 225 km a day now cover over 300 km, as idle hours at state borders have been eliminated.

15–20% savings in logistics costs benefited businesses and consumers alike. India's global competitiveness improved correspondingly; we climbed from 44th in 2018 to 38th in 2023 on the World Bank's Logistics Performance Index.

Faster turnaround times, the rollout of the e-way bill system, and better warehousing integration have also strengthened supply chains.

As a result, logistics now contributes significantly to India's goal of becoming a \$35-trillion economy by 2047, driven by lower operational costs and greater market connectivity.

3. Affordability Boost

GST has directly improved affordability for ordinary households by simplifying taxation and reducing the overall tax burden on goods and services. Studies show it has cut average monthly household expenses



by at least 4%, thanks to the elimination of cascading taxes and rationalisation of rates on essential items.

The uniform tax structure has made products like home appliances, FMCG goods, and menu-based services more affordable across states, while anti-profiteering provisions ensured that tax reductions were passed on to consumers.

Moreover, input tax credits have helped manufacturers avoid tax-on-tax distortions, helping stabilise prices even during inflationary cycles. For the common citizen, GST thus acts as a silent contributor to lower living costs and more predictable pricing, further fuelling consumption-led growth.

4. Cooperative Federalism

GST has become an emblem of cooperative federalism, transforming the relationship between the Centre and States into one of shared revenue and accountability.

By merging multiple taxation powers into the GST Council, where all decisions are taken jointly with equal vote weight for States and the Centre, policymaking became more collaborative and inclusive.

Since its rollout, the system has delivered ₹9 lakh crore more in revenue to states compared to the pre-GST regime, enhancing their capacity to fund welfare, infrastructure, and social schemes. The compensation mechanism introduced during the transition ensured that no state suffered a revenue shock. The Council's regular meetings, rate rationalisations, and consensus-driven decision-making have set a template for federal cooperation in complex fiscal areas, underscoring India's strength as a unified economic entity.



5. Support for MSMEs

GST has been particularly transformative for Micro, Small, and Medium Enterprises (MSMEs), which form the backbone of India's industrial and employment base. The exemption threshold was doubled from ₹20 lakh to ₹40 lakh by January 2019, relieving millions of small traders and enterprises from compliance burdens. The timing was precise when they needed capital and management bandwidth for growth rather than regulatory compliance.

Simplified return filing, composition schemes with lower flat tax rates, and digital platforms have made tax administration easier for first-time formal entrants.

The Trade Receivables Discounting System (TReDS) has emerged as a lifeline by unlocking working capital for MSMEs through invoice financing, ensuring faster payment cycles and liquidity. E-invoicing and e-way bills have given small firms national visibility and created credit trails to access institutional finance.

The combined TReDS ecosystem has channelled Rs 5.33 lakh crore in total financing since inception, with FY24 alone witnessing Rs 1.46 lakh crore, nearly doubling from the previous year. This performance spans 2,200 cities with 1.5 lakh registered MSMEs, creating a nationwide working capital revolution that transforms traditional payment cycles from months to hours.

Together, these reforms have spurred MSME formalisation, with over 1.5 crore MSMEs registered under GST, contributing to both employment generation and a more robust supply chain ecosystem. By 2025, over 6 crore MSMEs were employing 30 crore + people, distributed as 1.45 crore micro enterprises, 4.53 lakh small



enterprises, and 40,678 medium enterprises. This surge in itself led to a fundamental restructuring of India's business landscape.

6. Boost to Ease of Doing Business

Within 2 years of the introduction of GST, India's leap in global competitiveness was astounding. The ranking in the World Bank's Ease of Doing Business ranking among 190 countries improved sharply from 142nd in 2014 to 63rd in 2019, marking a remarkable 79-place jump in five years.

This improvement stemmed largely from tax simplification and digitised compliance systems that replaced a maze of state-level laws with one common framework.

GST has also facilitated seamless inter-state trade, reduced start-up barriers for enterprises, and inspired confidence among investors and global supply chains.

While the pre-GST average FDI (2014-2017) was \$53.64 billion annually, the post-GST average (2018-2021) jumped up to \$76.02 billion annually.

The World Bank's Logistics Performance Index showed India's supply chain competitiveness advanced post-GST to 38th out of 139 countries by 2023.

As a result, India is now seen as a more predictable and transparent business destination, with consistent tax treatment across sectors and geographies. For both domestic entrepreneurs and multinational firms, GST represents a vital step toward a modern, unified, and globally competitive Indian economy.

SECTION IV: GST- A Four-Fold Game Changer- A Nation-Building Necessity

GST: AS A SOCIAL NECESSITY

A social necessity, GST has proven to foster inclusion and equity for MSMEs, embracing technology at scale, restoring citizen trust, and driving India's growth.

Inclusion & Equity by Empowering MSMEs

For micro, small, and medium enterprises (MSMEs), GST was more than a tax reform; it became a gateway to opportunity. Research validates that by January 2025, a broad segment of over 3.16 crore MSMEs had actively engaged with the GST system, distinct from formal registrants.

Simplified tax slabs and accessible digital tools levelled the playing field, enabling these enterprises to compete with larger players.

MSMEs found new markets and greater confidence, as they were no longer burdened by complex, discriminatory tax structures. Their growth is fueling local economies across India's diverse regions.

A Digital Revolution in Taxation

By 2025, India emerged as a global leader in e-invoicing adoption, with over 80% of invoices received electronically and 70% issued electronically, surpassing the global averages of 71.5% and 68.2%, respectively.

This phased implementation, lowering thresholds over time, has been instrumental in improving compliance, reducing errors, and enhancing transparency.

This wasn't just compliance; it was a leap toward efficiency.



Businesses, once bottled up by paper ledgers, now navigate seamless, tech-driven systems, ensuring accuracy and speed. The digital tide lifted all, from urban conglomerates to rural traders, knitting them into a unified economic framework.

Rebuilding Citizen Trust

GST didn't just change systems; it reshaped perceptions. Qualitative surveys captured a growing sense of trust among citizens, who saw the GST's unified payment structure as a fairer deal.

Gone were the hidden, cascading taxes of the past, replaced by clear, predictable rules. This transparency boosted tax morale, forging a stronger bond between citizens and the state. For the first time, many felt their contributions were part of a shared national purpose, not lost in opaque layers.

Driving Growth, Uniting a Nation

Beyond the numbers, GST rewove the threads of India's economy. By dismantling inter-state trade barriers, it transformed supply chains and logistics, creating a truly national market.

Research links these efficiencies to a 0.2%–0.5% boost from initial GST reforms and an additional 0.6%–1.0% from GST 2.0 measures, cumulatively driving GDP growth while integrating India's diverse states into a cohesive economic powerhouse. This wasn't just economic growth; it was nation-building, binding India's diverse states into a cohesive economic powerhouse.

Hence, GST's legacy is one of inclusion, innovation, and unity. It empowered small businesses, embraced digital progress, restored trust, and fueled growth, proving that a bold reform lit the way for a stronger, fairer India.



GST: AS AN ECONOMIC NECESSITY

As an economic necessity, GST was the indispensable catalyst India needed to transcend a fragmented and inefficient tax landscape. Such tax barriers had suppressed competitiveness and fiscal capacity. GST, an economic necessity, propelled India towards a formal, integrated economy.

Breaking 70 Years of Fragmentation

For over 70 years, since independence in 1947, the indirect tax system has been a patchwork of central and state levies.

GST shattered this legacy by creating a unified "One Nation, One Tax" framework, abolishing inter-state barriers, and enabling a borderless internal market.

This integration allowed businesses to operate without the drag of differential rates and compliance hurdles across 28 states and 8 union territories.

By 2025, India had become a more attractive destination for pan-India operations and had reduced the economic silos that once capped potential at sub-optimal levels.

Ending Tax-on-Tax Legacy

The pre-GST era's cascading "tax-on-tax" effect, where taxes on inputs were not creditable, led to compounded burdens up to 25-30% on final goods, eroding competitiveness by inflating prices and discouraging investment.

GST's input tax credit mechanism ended this vicious cycle, allowing seamless offsets and ensuring a single, transparent levy that lowers the effective tax incidence on average.



This reform has directly boosted manufacturing and export competitiveness, with studies showing a 1-2% uplift in GDP through reduced production costs and enhanced supply chain fluidity.

By 2025, amid GST 2.0 simplifications to fewer slabs (5%, 18%, and 40% for de-merit goods), businesses expressed optimism in savings in compliance time, translating to accelerated growth and a more level playing field for domestic firms against global rivals.

Efficiency at Unprecedented Scale

GST's e-way bills and unified invoicing digitised logistics, eliminating multiple checkpoints and facilitating digital supply chain management. It slashed transit times by a scale of modernisation unseen in India's 70-year tax evolution.

Logistics costs, once at 14% of GDP, plummeted to 8% by 2025. It led to streamlined supply chains that enabled just-in-time inventory and reduced warehousing needs by 15-20%.

Consumption patterns shifted toward efficiency, with faster goods movement boosting retail penetration in Tier-2/3 cities.

This unprecedented overhaul has not only curbed inflation but also amplified India's export edge, marking a pivotal economic reset.

Growth and Investment Catalyst

In the pre-GST landscape, distortions like multiple filings and opaque incentives deterred investors, keeping the tax base narrow at around 65 lakh to 78 lakh assesseees.

GST revolutionised this by expanding the base to 1.54 crore registrants by 2025, a staggering 125%+ growth through simplified online portals and incentives for formalisation, which curbed evasion worth ₹7.08



lakh crore over the last five financial years (2020–21 to 2024–25).

This buoyancy has supercharged the FDI appeal with inflows jumping from \$43.5 billion in FY17 to a cumulative \$1.05 trillion by mid-2025, with a distortion-free environment that slashes compliance.

Unlike the fragmented past, GST's reforms have made India a magnet for sectors like electronics and renewables, fostering job creation and a virtuous cycle of investment-led growth.

GST: AS A POLITICAL NECESSITY

GST's legacy is one of political foresight, federal harmony, and global ambition. It revived reform momentum, instilled accountable governance and showcased India's decisiveness on the world stage, proving that this strategic tax policy is the bedrock of a resilient democracy.

Constitutional & Parliamentary Legitimacy

GST was embedded in the Constitution by the 101st Constitutional Amendment (Article 279A) and required a new institutional architecture (the GST Council), so the change could not be a one-office executive tweak.

It was legislated and jointly governed by the Centre and the states. This constitutional route gave the reform political legitimacy and distributed ownership across federal players.

Governance Accountability

GST has revolutionised governance by introducing transparency and accountability, contrasting sharply with the opacity of pre-2017 tax policies.

The introduction of compliance technologies, i.e. e-invoicing, real-time



returns, and e-way bills, has improved audit trails, reduced manual errors, and made transactions traceable.

By embedding public disclosures and data-driven decisions, GST raised governance standards, curbed corruption risks, and strengthened public trust in policymaking.

GST Council as a Deliberative Forum

The GST Council institutionalised negotiation through regular, consensus-driven meetings and transparent disclosures, reducing charges of unilateralism and ensuring predictable governance. Coupled with parliamentary approval of key amendments, this framework builds legitimacy.

Between 2016 and 2018, the GST Council met 30 times and made 918 decisions covering laws, rates, thresholds, compensation-related issues, etc. Over 96% of these decisions were implemented via notifications.

Reduced Corruption Risk

GST 2.0's introduction of mandatory e-invoicing ensures that every invoice is electronically reported and matched across the supply chain, creating a verifiable and tamper-proof audit trail. This system enforces rigorous cross-verification of purchase and sales data between buyers and sellers, drastically curtailing invoice manipulation and fictitious input tax credit claims.

Any mismatches trigger automated flags. This makes invoice-based evasion and fictitious credits harder.

In the five years (2020-21 to 2024-25), GST evasion cases detected amounted to approximately ₹7.08 lakh crore, including fake ITC claims



totalling around ₹1.79 lakh crore in 44,938 cases as per data from the Central Board of Indirect Taxes and Customs (CBIC).

In the pre-GST phase, the scene was quite disappointing for the officials and businesses alike. Fragmented across multiple state and central levels, it created complexity and numerous opportunities for corruption through fake invoicing, manipulation of purchase and sales records, and opaque multi-stage tax administration.

Post 2017, the deployment of e-invoicing and enhanced analytics tools such as DGARM (Directorate General of Analytics & Risk Management) has led to better detection and recovery efforts, collecting over ₹1.29 lakh crore through voluntary deposits and enforcement actions.

Global Positioning of India as a Decisive, Reform-Driven Democracy

GST has elevated India's global stature as a decisive democracy. GST has showcased India's democratic strength in executing transformative reforms, enhancing global investor confidence through predictable policies and stability, vetted by international bodies.

In September 2025, Standard & Poor's (S&P) Global Ratings upgraded India's sovereign credit profile for the first time in 18 years, specifically noting decisive GST reforms and improved policy stability.



Quote From An IMF Release Of A Selected Issue on India in 2018



The Goods and Services Tax (GST) is a milestone reform in India's tax policy, taking the important step of unifying and harmonising numerous indirect taxes across all states of the federation and the central government.

By replacing fragmented levies with a single national regime, it simplified M&A due diligence, made valuations cleaner, cut hidden liabilities, and facilitated quick deal closures. The rollout of GST 2.0 signals policy continuity, positioning India as a prime hub for global capital.



The World Bank, in 2014, had commented on the GST

Implementing the Goods and Services Tax (GST), for instance, can transform India into a common market and dramatically boost the competitiveness of the manufacturing sector. This sector's share in India's GDP at some 16% has remained largely unchanged over the past two decades and is relatively low compared to the 20% plus shares in Brazil, China, Indonesia, Korea and Malaysia, even when per capita incomes of these economies were similar to India's levels today.

World Bank, Oct 2025, Affirmed Impact of GST Reform

India is expected to remain the world's fastest-growing major economy, underpinned by continued strength in consumption growth. Domestic conditions, particularly agricultural output and rural wage growth, have been better than expected. The government's reforms to the Goods and Services Tax (GST)—reducing the number of tax brackets and simplifying compliance—are expected to support activity.

Quote From The OECD's Economic Outlook, Interim Report, September 2025

In India, higher tariff rates will weigh on the export sector, but overall activity is anticipated to be supported by monetary and fiscal policy easing, including the reform to the Goods and Services Tax, with growth projected to be 6.7% in 2025 and 6.2% in 2026.

GST: As An Administrative Necessity

As an administrative necessity, GST became the transformative force India required to modernise public governance.

By curbing evasion with data-driven enforcement, unifying fragmented systems, cutting governance costs through automation, and streamlining processes via a centralised portal, GST proved that a modern, efficient, and resilient tax regime is vital for effective administration.

Reduced Governance Costs

E-invoicing, automation of audits, and risk-based scrutiny have reduced the need for extensive manpower, lowering governance costs while easing compliance burdens for millions of small businesses.

Before July 2017, businesses followed the manual processes, which were prone to errors and inefficiencies.



High transcription errors and manual data entry: Manual invoicing often resulted in data mismatches during return filing, with error rates exacerbated by non-standardised formats. Up to 60% of small businesses experience billing errors due to manual practices, which contribute to compliance delays.

The processing costs for paper invoices were 90% higher than for digital invoices. The pre-GST era experienced 70% higher dispute resolution costs.

The finance minister in July 2019 had shared data that more than Rs. 3.75 lakh crore was blocked in litigations in service tax and excise tax since pre-GST times.

Paper-based systems have incurred 3-5 times higher costs due to printing, storage, and handling. Disputes arose from unverifiable invoices, with resolution costs 2-3 times higher due to audits and litigation.

Post-GST E-Invoicing Benefits

The transformative features, such as real-time GSTN integration, auto-population of GSTR-1, single-point entry via IRP, QR code validation, and 24-hour cycles, as core to the system, were implemented in phases since October 2020 for businesses. It enabled seamless flow to returns and e-way bills.

Auto-population of GSTR-1 eliminated manual input: Invoice details auto-populate in GSTR-1 and GSTR-2A, reducing manual entry by 80-90% for compliant users.

Single-point data entry through IRP: Businesses generate invoices in their ERP/software, upload JSON/XML to the Invoice Registration Portal (IRP), for IRN/QR code generation, ensuring one-time entry.



QR code validation prevented fake invoices: Each e-invoice includes a digitally signed QR code for instant verification, curbing fraud (e.g., fake ITC claims reduced via real-time checks).

24-hour processing cycles from invoice to payment: Real-time validation shortens cycles from days/weeks (manual) to under 24 hours, improving cash flow.

Manpower and Time Reduction

The Pre-GST system involved multiple tax authorities at both central and state levels, with separate departments working across silos.

Manual compilation exceeding 27 annual filings, with dedicated staff for each tax type, resulting in error rates up to 20-30%. Pre-GST registrations took approximately 18 working days across agencies.

GSTN streamlined registrations to less than 13 days. World Bank's Paying Taxes indicator shows a drop in tax compliance time from 241 hours (pre-GST, across multiple taxes) to 143 hours post-GST. GSTN's helpdesk resolves 80% of queries within this timeframe, handling 10-15 lakh calls/month post-automation.

Streamlined Administrative Processes

The GST portal replaced fragmented department-specific paperwork with a single unified platform for registration, returns, and payments. This centralisation has simplified operations, reduced bottlenecks, and created a transparent, user-friendly tax administration system.

Refund performance also improved, with 85 per cent of claims processed within the statutory 60-day limit. The national average for GSTR-3B return filing reached 94 per cent during FY25.

Grievance redressal saw improvement, with the average disposal time

reduced to nine days from the stipulated 21-day timeline.

Dynamic Policy Adaptation

GST’s architecture allows for flexible policy adjustments, such as targeted rate revisions or compliance relaxations, without disrupting enforcement. This demonstrates that a modern tax regime is crucial for agile and effective public administration in a growing economy.

A COMPARISON OF THE PRE AND POST GST TAX REGIMES; ARCHITECTURAL REVAMPS

Parameter	Pre-GST (Before 2017)	Post-GST (After 2017)
Structure	Multiple central & state taxes (VAT, excise, CST, etc.)	Single unified regime (CGST, SGST, IGST)
Administration	Manual, decentralised enforcement	Automated, centralised compliance via GSTN
Tax Burden	Cascading effect of taxes	Seamless credit chain eliminating tax-on-tax
Coordination	Dual bureaucracy between the Centre and the states	Cooperative federal architecture under the GST Council
Policy agility	Slow policy response due to a fragmented system	Swift data-led adjustments, e.g., during pandemic recovery
Audit & Data Systems	Dependent on paperwork and field audits	Data-driven risk-based audits and AI alerts

Curbing Tax Evasion

GST embedded technology at its core, shifting tax governance from reactive policing to predictive, data-driven enforcement.

By consolidating compliance and replacing overlapping agencies, it



made evasion harder, simplified compliance, and strengthened trust. Detection was 49% lower than post-FY 2017, reliant on physical audits with limited recovery.

Between FY 2020–21 and FY 2024–25, authorities detected ₹7.08 lakh crore of evasion across 91,370 cases, showcasing a measurable impact.

In contrast, pre-GST enforcement agencies detected only a few thousand cases annually, for instance, about 3,600 cases in FY 2016-17 involving roughly ₹15,000 crore.

This indicates a 25–45-fold increase in detection volume and value under the GST regime, reflecting deeper enforcement reach and enhanced data visibility through digital tools.

Of this, ₹1.79 lakh crore pertained to Input Tax Credit (ITC) fraud. Central GST (CGST) recoveries exceeded ₹1.29 lakh crore over these five years, supported by analytics, risk profiling, and voluntary compliance drives.

In FY 2024–25 alone, ₹2.23 lakh crore worth of evasion was unearthed, marking the highest annual detection in history, driven by automated cross-verification and system audits.

Audit coverage under GST increased from 62 per cent in FY23 to 89 per cent in FY25, with officials noting that no taxpayer had been audited more than once in three years.

Unified Tax Architecture

By merging 17 taxes and 13 cesses into a single regime, GST eliminated cascading levies and fragmented state-level frameworks.

By letting go of these, the challenges that arose from overlapping



jurisdictions, administrative delays, and a cascading “tax-on-tax” effect, which raised logistics costs and distorted market integration, became things of the past.

Centralised, data-driven management has enabled swift and efficient policy responses during complex scenarios, including post-pandemic recovery.

Examples Of The Central Taxes Subsumed under GST

1. Service Tax
2. Central Excise Duty
3. Additional Excise Duties
4. Additional Customs Duty, also known as Countervailing Duty (CVD)
5. Special Additional Duty of Customs (SAD)
6. Central Sales Tax (CST)

Examples of State Taxes Subsumed Under GST

1. Value Added Tax (VAT)
2. Sales Tax
3. Entertainment Tax, Not Including The Entertainment Tax Levied By Local Bodies
4. Luxury Tax
5. Entry Tax
6. Taxes On Lotteries, Betting, And Gambling
7. Octroi
8. Purchase Tax

Examples of the Cess Subsumed Under GST

1. The Rubber Act 1947 – Cess on Rubber
2. The Industries (Development and Regulation) Act 1951 –



Cess on Automobile

3. The Tea Act 1953 – Cess on Tea

4. The Coal Mines (Conservation and Development) Act, 1974 – Cess on Coal

5. The Beedi Workers' Welfare Cess Act 1971 – Cess on Beedis

6. The Water (Prevention and Control of Pollution)

Cess Act 1977 – Cess levied on Water consumed by certain industries and by local authorities.

7. The Sugar Cess Act 1982, the Sugar Development Fund Act 1982 – Cess on Sugar

8. The Jute Manufacturers Cess Act 1983 – Cess on Jute Goods manufactured or produced or in part of Jute.

9. The Finance (2) Act 2004 – Education Cess on Excisable Goods

10. The Finance Act, 2007 – Secondary and Higher Education Cess on Excisable Goods

11. The Finance Act 2010 – Clean Energy Cess

12. The Finance Act 2015 – Swachh Bharat Cess

13. The Finance Act 2016 – Infrastructure Cess and Krishi Kalyan Cess

SECTION V: International Benchmarking: India in the Global Tax Rationalisation Story

Enacted in 2017 and refined through GST 2.0 effective September 22, 2025, India's GST has transcended its origins as a domestic reform to become a beacon for cooperation, managing an unparalleled scale while delivering EQUITY, EFFICIENCY, AND GROWTH.

GST not only benchmarks favourably against mature economies but also leapfrogs them to serve as a replicable model



for emerging markets.

With 1.54 crore registered taxpayers in August 2025 and monthly collections averaging ₹1.86 lakh crore, India is poised to emerge as a leader in tax modernisation among developing nations, powered by scale and adaptive reforms.

Unprecedented Scale and Adaptability

India's GST exemplifies administrative audacity, overseeing 1.54 crore taxpayers across 28 states and 8 UTs, a base exponentially larger than Australia's 3 million+ tax registrants or Canada's 2 million, while sustaining ₹1.86 lakh crore in monthly revenues as of August 2025.

Unlike the EU's VAT, averaging 19-21% across 27 member states with slower refund processes often exceeding 30 days, India's 2025 reforms have slashed average refund timelines. It has been reduced to under 60 days through automated portals, enhancing cash flow for exporters and boosting foreign direct investment (FDI) appeal.

This adaptability has now evolved into a resilient system that projects a 0.8% GDP uplift from GST 2.0's rate rationalisation, injecting a ₹2.5 lakh crore fiscal stimulus amid global tariff headwinds.

For developing economies like Vietnam, where firms are already adapting supply chains to India's simplified model, this scale offers a blueprint for formalising informal sectors without overwhelming infrastructure.

Balancing Equity with Growth Acceleration

The GST 2.0's streamlined three-tier structure, 0% for essentials, 5% merit rate, 18% standard slab, and 40% for luxury/sin goods like tobacco and pan masala strikes a revenue-equity balance far superior to Australia's flat 10% GST or the EU's convoluted 19-21%



averages, fostering 7% consumption growth and a 1-2% GDP contribution through reduced household burdens.

By rationalising items into these slabs via the 56th GST Council meeting on September 3, 2025, India has leapfrogged the UK's 50-year VAT evolution (1973-2025), which still grapples with 20% flat rates and persistent inversions.

A projected revenue of \$18-22 billion logistics sector by 2030, generating 6.5-7.5 million jobs through unified supply chains, is readying up to surpass Brazil's ICMS-driven efficiencies in both speed and scope, where inter-state variances persist.

For Indonesia, which hiked VAT rates in 2022 amid similar federal challenges, India's model provides a scalable template without the US-style sales tax fragmentation across 45 states.

A Digital Frontier for the Global South

India's GST Network (GSTN) leads with real-time e-invoicing, adopted by over 80% of large firms in 2025, exceeding Canada's digital portals (with around a 60% uptake) and rivalling Singapore's AI-driven audits.

This tech edge, tailored from the EU's digital VAT for services and New Zealand's zero-rating (yielding a 15% export trade boost), accommodates India's 1.54 crore taxpayers, five times the base of Australia's, enabling seamless adaptation for diverse sectors.

In contrast to the US's stalled digital sales tax unification, India's innovations position it as the "Go-To Advisor" for the African Union's 2025 harmonisation efforts, where 54 nations seek scalable anti-evasion tools.

Federal Harmony as an Exportable Model

The GST Council's 2025 rate rationalisation, resolving legacy 2017



disputes through unanimous decisions on September 3, 2025, embodies cooperative federalism, unifying 29 states in a way that eludes the US's 45,000+ sales tax jurisdictions or Brazil's protracted ICMS negotiations.

This consensus mechanism influences the ASEAN Economic Community Blueprint, which references India's GST as a model for cross-border VAT alignment, inspiring rate convergence in Malaysia and Thailand. India's model serves as a template for developing economies, where streamlined compliance aids in formalising informal sectors without overwhelming infrastructure. These nations have piloted unified digital reporting systems akin to GSTN to combat evasion in their fragmented ASEAN supply chains.

GST not only outperforms developed peers but also empowers the Global South, from Vietnam's export pilots to Africa's union-wide reforms.

India's GST has outpaced even developed economies, managing massive volumes with agile innovation and driving an additional 0.8% GDP growth along with rapid job creation at a scale unmatched globally.

India as a G20 member, promotes cooperative global tax solutions drawing from its GST experience. India advocates for balancing developing countries' needs in global minimum tax negotiations and tax sharing reforms, leveraging GST's federal and consensus-driven approach as a model. GST as a diplomatic asset through knowledge-sharing with G20 peers has amplified India's soft power, transforming tax policy into a tool for equitable global leadership.

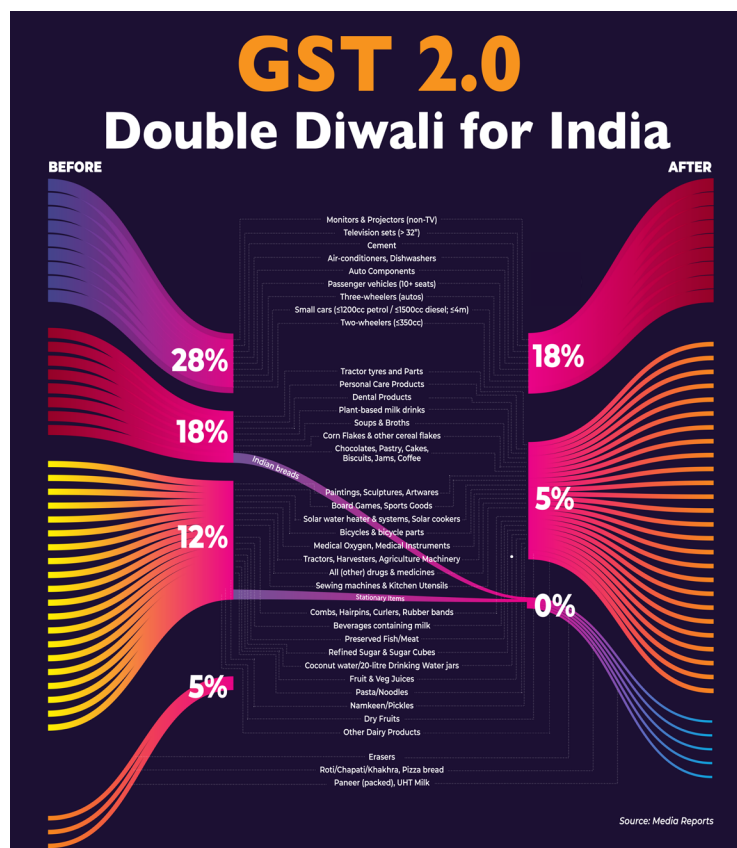
SECTION VI: Next Generation GST 2.0 Reforms- What's in Store?

India's GST 2.0 marks a new phase that leverages trust-based federalism and digital innovation, propelling post-pandemic fiscal recovery and amplifying economic momentum.

This section uses graphics as well to collectively demonstrate how digitisation, rate rationalisation, and compliance reforms now underpin India's sustained tax buoyancy, increased affordability, and competitiveness.

GST 2.0: A Double Diwali for India

A shift from fractured tax slabs (28%, 18%, 12%, 5%, 0%) across goods to a cleaner structure (18%, 5%, 0%) under GST 2.0 has been welcomed by all stakeholders.

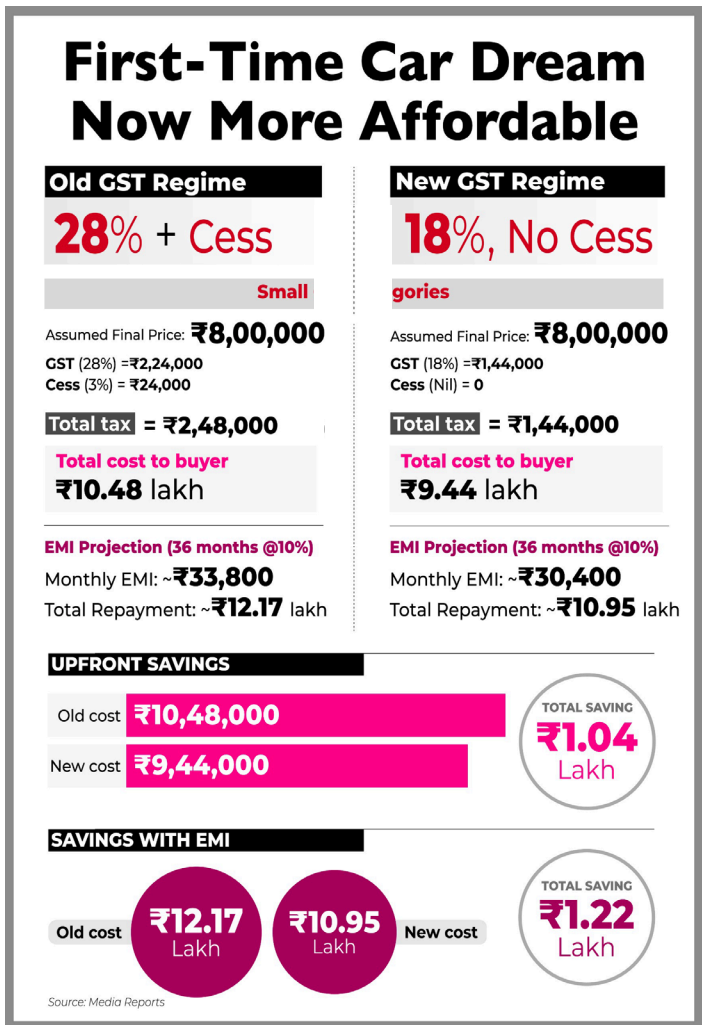


More goods attract lower GST rates, delivering direct consumer savings. It is a clear example of how policy translates into tangible economic relief for households and businesses.

Tracing Savings and Affordability: Category-Wise Impact

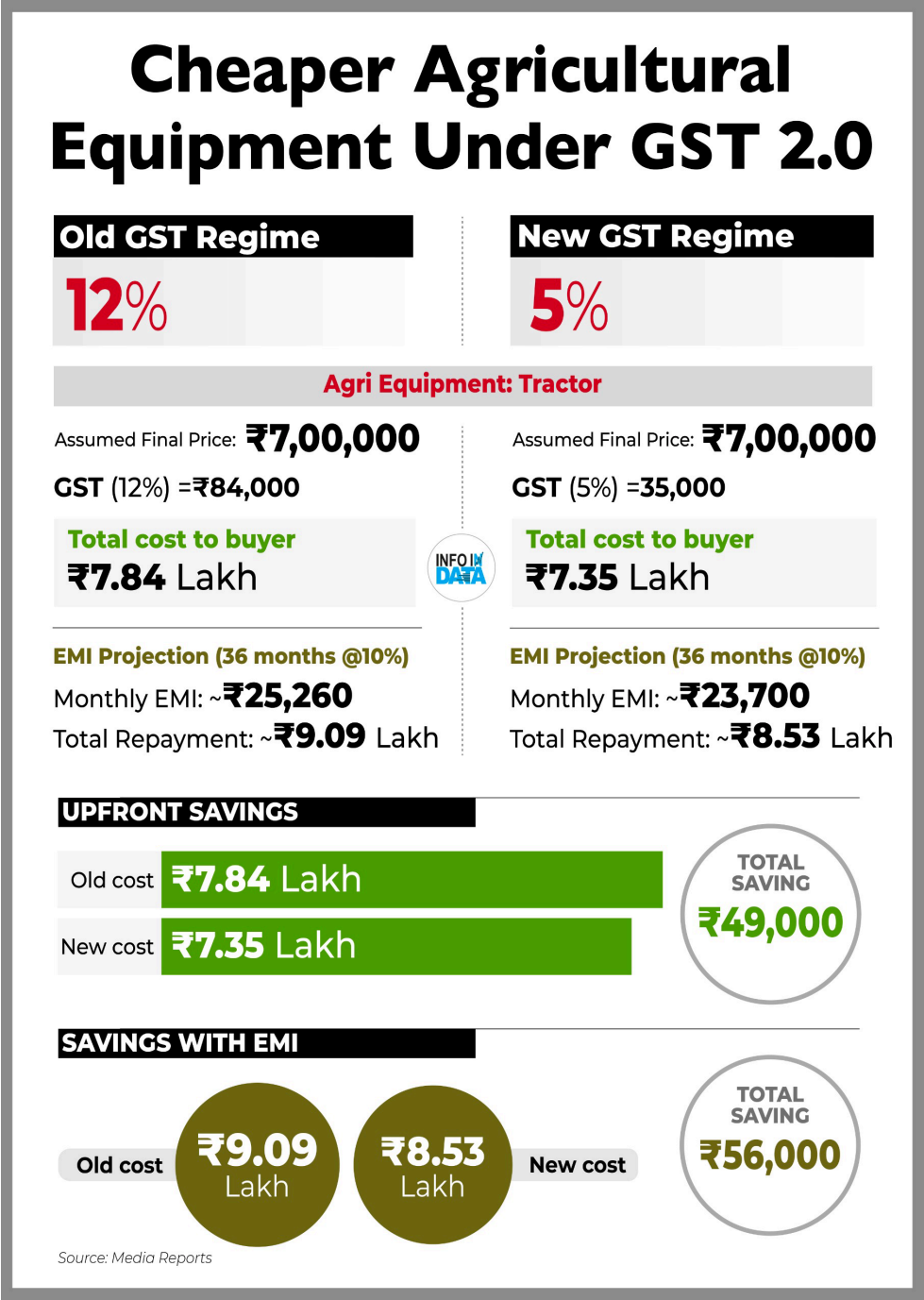
A complementary set of graphics here quantifies how GST 2.0 rate cuts reduce costs for certain selected core items for ease of interpretation.

Cars: The Old regime with 28% GST plus cess had led to total prices around ₹10.48 lakh. GST 2.0 drops this to ₹9.44 lakh, a savings of ₹1.04 lakh. EMI differences in graphic signals increased automobile affordability.



The lowering of purchase and financing costs brings small cars within reach for many middle-class households, who aspire to and achieve car ownership at a substantially reduced barrier.

Agricultural Equipment: The graphic highlights that the tractor prices drop from ₹7.84 lakh at 12% GST to ₹7.35 lakh under 5%.



Major GST rate cuts drive market expansion through increased consumer participation and industry innovation, transforming sectoral penetration and empowering underserved beneficiaries. These savings compounded signals new opportunities for rural sector growth and mechanisation.

The lower total repayment (from ₹9.09 lakh to ₹8.53 lakh) means substantial long-term savings, benefiting individual farmers' financial health and encouraging multi-member FPOs to upgrade equipment collectively.

Health Insurance: The graphic shows key impacts of GST 2.0 on insurance penetration by comparing the cost of health insurance under the old and new GST regimes.

It highlights the abolition of the 18% GST rate on health insurance premiums, directly reducing the annual policyholder cost from

GST 2.0 Brings Down Health Insurance Cost

Old GST Regime

18%

Assumed Final Price

₹40,000 Per year

GST (18%) = ₹7200

Total cost

₹47,200

New GST Regime

0%

Assumed Final Price

₹40,000 Per year

GST (0%) = 0

Total cost

₹40,000

Savings for Policy holders

₹47,200
per year

₹40,000
per year

INFO IN
DATA

TOTAL SAVING

₹7,200
per year

OLD COST

NEW COST

₹47,200 to ₹40,000, generating a savings of ₹7,200 per year.

The ₹7,200 per year saving for each policyholder makes health insurance considerably more affordable, helping large sections of society secure financial protection without additional tax burden.

The significant reduction in total insurance cost immediately expands the addressable market for insurers, especially among price-sensitive and first-time buyers.

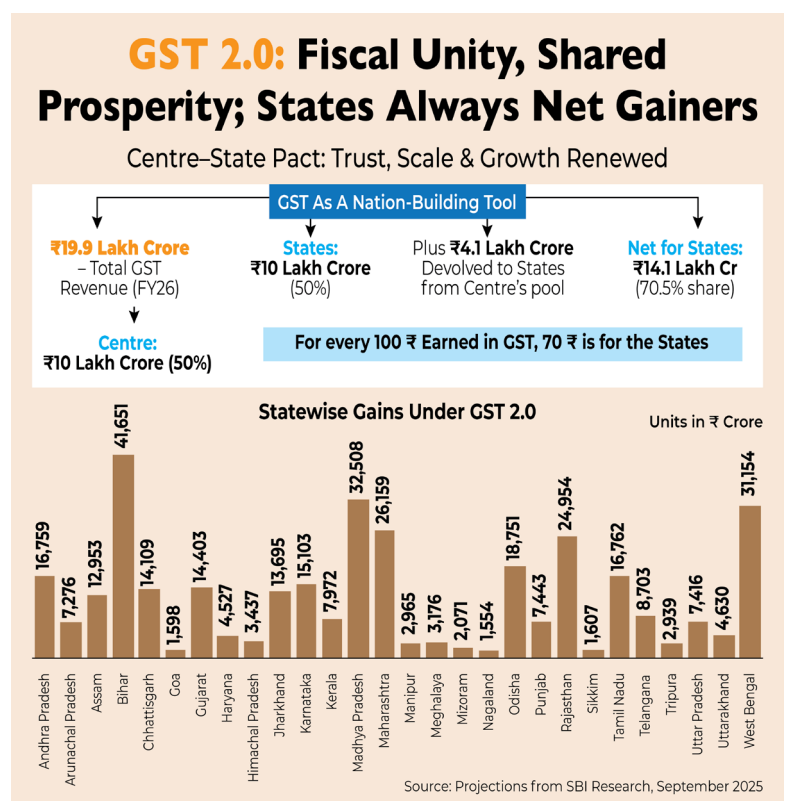
Lower premiums foster increased volumes and retention, encouraging insurers to scale outreach and innovate affordable products, which, in turn, drives deeper market penetration and formalisation across the sector.

The zero GST regime enhances industry competitiveness, allowing insurers to tap into untapped segments and rural markets.

GST 2.0 transforms both industry strategy and consumer behaviour, framing health insurance not just as a financial product but as a mass-accessible social security tool, driving India toward universal coverage and robust sectoral growth

GST 2.0 strengthens fiscal federalism by ensuring states are the biggest beneficiaries of the unified tax system, **as shown in the graphic.**

The graphic depicts that





states not only retain half of the GST pool directly but also receive a significant devolution from the centre, securing 70.5% of all GST revenue, i.e. over ₹14.1 lakh crore out of a total projected ₹19.9 lakh crore in FY26.

This guarantees predictable, buoyant revenue flows for states, empowering even less-industrialised regions to invest confidently in development, services, and infrastructure.

State-wise, the gains are broad-based, with major growth states like Maharashtra, Tamil Nadu, and West Bengal earning upwards of ₹31,000 crore each.

Even smaller and less developed states receive sizable allocations. By making GST a true nation-building tool, this structure replaces fragmented, uncertain local tax regimes with a transparent, scalable source of fiscal prosperity, locking in a growth dividend for every region and promoting balanced socio-economic expansion nationwide.

In another landmark validation of India's economic transformation under GST 2.0, this Diwali 2025 sets a new precedent. It witnessed record retail sales exceeding ₹6.05 lakh crore; a ₹5.40 lakh crore in goods and ₹65,000 crore in services. A remarkable 25% year-on-year growth from ₹4.25 lakh crore in 2024 marks the highest-ever festive business turnover in India's retail history, driven by surging consumer confidence and formalised trade channels.

The sustained momentum reflects the far-reaching success of GST 2.0 reforms, which streamlined taxation, enhanced liquidity, and improved purchasing power across households. Notably, 72% of traders attributed this sales surge directly to reduced GST rates on essential items, underscoring how GST 2.0 has tangibly expanded dispos-



able income, strengthened household savings, and empowered local enterprises at scale.

A message that clearly stands out from these trends is that the GST 2.0 dispenses with bureaucratic inertia and nurtures a 'win-win' for all stakeholders. As GST 2.0 takes effect, India's reform trajectory now aligns with global competitiveness.

CONCLUSION

When PM Modi described India's GST as a "Good and Simple Tax" and envisioned it becoming a global model, it was a bold declaration of intent.

Today, eight years on, the vision is reality, with India's GST now studied, emulated, and admired worldwide.

The transition to GST 2.0 has transformed India's fragmented tax system into a streamlined, digital-first framework, enhancing fiscal resilience, increasing disposable income, and driving consumption and formalisation. This citizen-centric reform has significantly benefited India's vast middle class and consumers in smaller cities and towns, boosting their purchasing power, especially during the festive season. From apparel to electronics, vehicles to jewellery, locally made goods have gained preference, making once-aspirational items accessible to many households. Fast-moving consumer goods and groceries, followed by gold and jewellery, electronics and electricals, and consumer durables, ready-made clothing, and gifts, reflect this



vibrant and inclusive economic surge.

GST's legacy transcends economics. It is a testament to India's ability to unite diverse stakeholders, harness technology, and execute bold reforms. It has empowered communities, strengthened federal bonds, streamlined administration, and elevated India's global standing.

As nations worldwide look to India's GST model, it stands as a beacon of how visionary policy can transform a country, proving that GST is not just a tax but a catalyst for a stronger, fairer, and more cohesive India. At this scale and pace, the day is not far when India will be acknowledged for offering a global model of tax innovation and cooperative federalism.

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