



LEVERAGING DIGITAL GOVERNANCE FOR INCLUSIVE ECONOMIC GROWTH: GST REFORMS AND FISCAL FEDERALISM IN TAMIL NADU

Editors

Dr. A. Anandhiprabha

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Ms. A. Gomathi

Dr. S. Mahalakshmi

Volume - I



A One Day National Seminar on

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Volume I

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GST REFORMS AND INCLUSIVE ECONOMIC GROWTH IN INDIA



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Abstract

The introduction of the Goods and Services Tax (GST) marked one of the most significant tax reforms in India's fiscal history. Launched on 1 July 2017, GST replaced a complex system of indirect taxes levied by the central and state governments, such as excise duty, service tax, and value added tax. By creating a unified tax structure under the guidance of the Goods and Services Tax Council, GST aimed to establish a “one nation, one tax” regime and promote cooperative federalism. GST reforms have enhanced transparency, reduced cascading taxes, and improved tax compliance through technology-driven systems like online registration, return filing, and e-invoicing. The implementation of the Goods and Services Tax Network has facilitated digital administration, minimized human intervention, and curbed tax evasion. These measures have broadened the tax base and increased revenue mobilization, enabling greater public investment in infrastructure, health, and social welfare programs.

GST has helped integrate small and medium enterprises (SMEs) into the formal economy through input tax credit mechanisms and simplified compliance schemes such as the composition scheme. By reducing logistical barriers and interstate tax complexities, GST has improved the ease of doing business and strengthened domestic supply chains. Consumers benefit from greater price transparency and reduced tax burdens on essential goods, supporting equitable access to products and services.

Keywords: *GST Reforms, Impact of GST, Public Investment, Inclusive Economic Growth.*

Introduction

The Goods and Services Tax (GST) represents a landmark reform in India's indirect taxation system and a major step toward achieving inclusive economic growth. Introduced on 1 July 2017, GST replaced multiple indirect taxes imposed by the central and state governments, such as excise duty, service tax, value added tax (VAT), and entry tax. By subsuming these taxes into a single, comprehensive tax structure, GST simplified the complex tax regime that previously created inefficiencies and barriers to trade. The reform was implemented under the constitutional framework guided by the Goods and Services Tax Council, which ensures cooperative decision-making between the Union and State governments.

The primary objective of GST is to establish a unified national market under the principle of “one nation, one tax.” By eliminating cascading taxes and allowing seamless input tax credit across the supply chain, GST reduces the overall tax burden on goods and services. This has improved cost efficiency, enhanced transparency, and encouraged voluntary compliance. The technological backbone provided by the Goods and Services Tax Network

has further strengthened tax administration through digital registration, return filing, and e-invoicing systems. From the perspective of inclusive economic growth, GST plays a crucial role in integrating small and medium enterprises into the formal economy, expanding the tax base, and promoting fair competition. It facilitates interstate trade, reduces logistical costs, and supports balanced regional development. Increased revenue collection enables the government to invest more in social welfare programs, infrastructure, education, and healthcare, thereby fostering equitable growth. Thus, GST reforms mark a transformative shift in India’s fiscal policy framework, aiming not only at tax simplification and efficiency but also at promoting long-term, sustainable, and inclusive economic development.

Objectives of the Study

- To find out relation between GST and economic revival.
- To explore the impact of GST on different Sectors of Indian economy.
- The tax are Shared between the central and state governments.

Research Methodology

This is can capital article based on secondary data. The tax rate for the research purpose collected from various government website and research articles related to GST with help of secondary data. The attempt has been made to find out the impact of GST on the major sectors of Indian economy. In this study, I have taken service sector, hospitality sectors, food item and durable goods. These are the major contributing sectors of our economy and influenced most due to the implementation of GST to an the impact of GST on the above mentioned sectors of our economy.

Key Aspects of 2025 GST Reforms & Inclusive Growth

- **Simplified Tax Structure:** Replaces the four-slab structure with two principal slabs (5% and 18%), with 99% of items in the 12% slab moving to 5%, and 90% of 28% items moving to 18%.
- **MSME and Job Support:** Reduced rates to 5% on labor-intensive sectors like leather, handicrafts, textiles, and toys to boost employment.
- **Affordable Living:** Lowered GST on essentials, including food items, packaged snacks, and healthcare products, with full exemption for health/life insurance.
- **Improved Mobility & Housing:** GST on two-wheelers and small cars cut to 18%, and cement reduced from 28% to 18%, aiding middle-class consumers.
- **Digital Compliance & Revenue:** The taxpayer base expanded to over 1.5 crore, with monthly collections averaging 2.04 lakh crore in 2025.
- **Special Rates:** A 40% rate is applied to luxury and sin goods (e.g., tobacco, online gaming) to maintain revenue

Key Features of GST in India

The Goods and Services Tax (GST) is a comprehensive indirect tax reform introduced to transform India’s taxation structure and promote inclusive economic growth. One of the most important features of GST is the creation of a unified tax system that replaces multiple central and state taxes such as excise duty, service tax, and value added tax (VAT). This integration has helped establish a common national market under the cooperative framework of the Goods and Services Tax Council, ensuring coordination between the Union and State governments in tax decisions.

Another significant feature of GST is the elimination of the cascading effect of taxes through the Input Tax Credit (ITC) mechanism. Under the previous system, taxes were levied on top of other taxes, increasing the overall cost of goods and services. GST allows businesses to claim credit for taxes paid at earlier stages of production and distribution, thereby reducing costs and promoting efficiency across the supply chain. This feature enhances competitiveness and benefits consumers through more transparent pricing.

GST is also characterized by its technology-driven administration. The digital infrastructure managed by the Goods and Services Tax Network enables online registration, return filing, tax payment, and e-invoicing. This minimizes human intervention, reduces corruption, and improves transparency. The use of technology has expanded the tax base and encouraged voluntary compliance, contributing to better revenue collection.

A further feature is the dual GST model, which includes Central GST (CGST) and State GST (SGST) for intra-state transactions, and Integrated GST (IGST) for inter-state transactions. This structure maintains fiscal federalism while ensuring smooth tax flow across states. By simplifying interstate trade procedures and removing entry taxes and check posts, GST has reduced logistics costs and improved the ease of doing business.

GST also incorporates special provisions such as the composition scheme for small taxpayers, allowing them to pay tax at a lower rate with simplified compliance requirements. This promotes inclusion by supporting small and medium enterprises (SMEs) and integrating them into the formal economy.

Overall, the key features of GST tax unification, input tax credit, digital compliance, dual structure, and support for small businesses collectively contribute to economic efficiency, transparency, and inclusive growth in India.

Policy Initiatives that Promote Inclusive Economic Growth

GST reforms in India are continuously strengthened through various updating schemes and policy initiatives that promote inclusive economic growth. These schemes aim to improve tax compliance, support small businesses, enhance digital infrastructure, and ensure that the benefits of GST reach all sections of society.

One of the key initiatives supporting GST is Digital India. Since GST operates through an online platform, Digital India enhances internet connectivity, digital literacy, and e-governance. This enables businesses, especially in rural and semi-urban areas, to register, file returns, and make tax payments electronically. It reduces paperwork, increases transparency, and promotes financial inclusion.

Another important initiative is Startup India. GST reforms simplify tax procedures and provide composition schemes for small taxpayers, which benefit startups and new entrepreneurs. Easier registration and online compliance systems reduce operational burdens and encourage innovation and employment generation.

The Make in India programme also complements GST reforms. By removing interstate tax barriers and allowing seamless input tax credit, GST reduces production costs and improves supply chain efficiency. This supports domestic manufacturing, attracts investment, and promotes balanced regional development.

To strengthen small and medium enterprises, the government implements schemes through the Ministry of Micro, Small and Medium Enterprises. These include credit guarantee schemes, financial assistance, and technology support. Since MSMEs play a major role in employment generation, their growth under GST ensures wider participation in economic activities.

In addition, the Atmanirbhar Bharat Abhiyan was introduced to boost economic resilience and self-reliance. Under this mission, GST rate rationalization, compliance relaxations, and financial relief measures were provided to support businesses during economic slowdowns.

Findings

The study on GST Reforms and Inclusive Economic Growth in India reveals several important findings. First, the implementation of GST has significantly simplified the indirect tax structure by replacing multiple central and state taxes with a unified system. Under the guidance of the Goods and Services Tax Council, cooperative federalism has been strengthened, ensuring joint decision-making between the Centre and States.

Second, the introduction of the Input Tax Credit (ITC) mechanism has reduced the cascading effect of taxes, lowering production costs and improving efficiency in supply chains. This has enhanced competitiveness in domestic markets and improved transparency in pricing.

Third, GST has promoted digitalization in tax administration through online registration, return filing, and e-invoicing systems supported by the Goods and Services Tax Network. This has increased tax compliance, reduced tax evasion, and broadened the tax base. The growth in GST collections over the years reflects improved revenue mobilization.

Fourth, GST has contributed to the formalization of the economy. Small and medium enterprises (SMEs) have gradually integrated into the formal sector through composition schemes and simplified compliance procedures. This has improved access to institutional credit and government benefits.

Conclusion

GST reforms represent a transformative step in India’s fiscal and economic framework. By creating a unified national market, eliminating cascading taxes, and promoting digital tax administration, GST has improved efficiency and transparency in the taxation system. It has strengthened cooperative federalism and enhanced revenue generation for developmental activities. Despite initial implementation challenges, continuous improvements in compliance mechanisms, rate rationalization, and technological systems have strengthened the overall structure of GST. The reform has supported inclusive economic growth by encouraging MSME participation, enhancing ease of doing business, and enabling greater public investment in infrastructure, education, healthcare, and social welfare.

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