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Original Article

Recent GST Reforms in India: An Economic Boost to Growth, Compliance and Revenue

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Abstract

The Goods and Services Tax (GST) represents one of the most comprehensive indirect tax reforms undertaken in India with the objective of creating a unified national market. Since its introduction in 2017, the GST framework has undergone continuous modifications to address operational challenges, enhance compliance, and strengthen revenue performance. In recent years, particularly in the post-pandemic period, the Government of India and the GST Council have introduced several reforms focusing on rate rationalisation, simplification of return filing, expansion of e-invoicing, strengthening of the input tax credit mechanism, and extensive use of digital technology. The present study examines recent GST reforms in India, with special reference to the GST rate rationalisation introduced in September 2025, and analyses their economic impact on growth, compliance behaviour, and revenue mobilisation. The study is based on secondary data collected from government publications, GST Council releases, and published research. The analysis reveals that recent GST reforms have improved affordability, stimulated consumption, enhanced voluntary compliance, and contributed to revenue stability. The paper concludes that GST reforms have evolved as an effective policy instrument for promoting economic growth, transparency, and fiscal sustainability, while also suggesting measures for further strengthening the GST framework.

Keywords: *GST Reforms, Economic Growth, Tax Compliance, Revenue Mobilisation, Indian Economy, Indirect Taxation*

Introduction

Taxation is a crucial instrument of economic policy, playing a significant role in resource mobilisation, income redistribution, and economic regulation. Prior to the introduction of the Goods and Services Tax (GST), India's indirect tax system was characterised by multiple central and state-level taxes, resulting in cascading effects, administrative inefficiencies, and barriers to the creation of a unified national market. To overcome these structural limitations, GST was introduced on 1 July 2017 as a destination-based tax system subsuming various indirect taxes under a single framework.GST was envisaged as a transformative reform aimed at simplifying the tax structure, enhancing transparency, reducing compliance costs, and improving the ease of doing business. However, the initial years of implementation witnessed several challenges such as complex return filing procedures, frequent rate changes, issues related to input tax credit, and compliance difficulties for small and medium enterprises. Recognising these issues, the Government of India and the GST Council have undertaken continuous reforms to stabilise and strengthen the GST system. In recent years, particularly after the COVID-19 pandemic, GST reforms have increasingly focused on rate rationalisation, technology-driven compliance mechanisms, expansion of e-invoicing, strengthening of anti-evasion measures, and improvement in tax administration efficiency. These reforms have broader economic implications, influencing consumption patterns, business activity, revenue mobilisation, and overall economic growth. Against this background, the present study analyses recent GST reforms in India, with special emphasis on the GST rate revisions introduced in September 2025, and evaluates their role in providing an economic boost through improved compliance, enhanced revenue performance, and support to consumption-led growth.

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Objectives of the Study

- To examine the nature and scope of recent GST reforms implemented in India.
- To analyse the impact of recent GST reforms on economic growth and revenue mobilisation.
- To assess the role of GST reforms in improving tax compliance and transparency.
- To study the effect of GST reforms on businesses, particularly MSMEs.
- To suggest policy measures for strengthening the GST framework for sustainable economic development.

Research Methodology:

The present study is descriptive and analytical in nature and focuses on recent GST reforms, particularly the GST rate rationalisation introduced in September 2025. The study is based exclusively on secondary data collected from GST Council reports, Ministry of Finance publications, the Economic Survey, RBI bulletins, budget documents, and research articles published in reputed journals. Official government websites have also been referred to for updated information. The collected data have been analysed using qualitative and interpretative methods to assess the impact of GST reforms on tax compliance, revenue mobilisation, and economic activity. The scope of the study is confined to the Indian GST system, and the findings are subject to the limitations associated with secondary data sources.

Review of Literature

Existing literature on GST in India highlights its role in reducing cascading effects, improving market efficiency, and strengthening tax administration. Kumar and Gupta (2019) observed that GST significantly reduced tax inefficiencies by subsuming multiple indirect taxes and facilitating the creation of a unified national market. Rao (2020) noted that while initial implementation challenges affected revenue stability, subsequent reforms improved revenue mobilisation through simplified return filing and technology-based compliance mechanisms. Sharma and Verma (2021) emphasised the role of digital initiatives such as e-way bills and online return filing in improving tax transparency and voluntary compliance. A study by the Reserve Bank of India (2022) identified a positive relationship between GST reforms and the formalisation of the economy, highlighting the importance of strengthened input tax credit mechanisms and data analytics. Mehta (2023) examined the impact of GST reforms on MSMEs and found that recent simplification measures reduced compliance burdens for small businesses. Recent GST Council Secretariat reports (2024) highlighted that rate rationalisation and strengthened anti-evasion measures improved tax buoyancy and administrative efficiency, while also acknowledging the need for further policy stability. The review indicates the necessity for a focused analysis of recent GST reforms and their combined impact on growth, compliance, and revenue, which the present study attempts to address.

Next-Generation GST Reforms: Rate Rationalisation (September 2025):

The GST rate rationalisation announced in September 2025 represents a significant milestone in India's indirect tax reforms. The objective of this reform was to simplify the GST rate structure, reduce the tax burden on essential and mass-consumption goods, and promote economic efficiency, while maintaining revenue neutrality.

Category	Pre-Reform GST Slab	New GST Rate	Impact
Daily goods & essentials	12% / 18%	0% / 5%	Cheaper consumer goods
Household & retail items	18% / 28%	5% / 18%	Lower tax for many goods
Consumer electronics	28%	18%	Increased affordability
Small cars & motorcycles	~28–31%	18%	Lower vehicle prices
Luxury / sin goods	28% + cess	40%	Higher tax on harmful/luxury goods

By lowering GST rates on daily necessities, household items, consumer electronics, and small vehicles, the reforms aim to boost consumption and improve affordability. Simultaneously, higher tax rates on luxury and sin goods seek to promote equity and discourage socially undesirable consumption. The revised rate structure reflects a strategic shift towards a growth-oriented and socially balanced indirect tax regime.

Economic Impact of Recent GST Reforms (September 2025):

Impact on Consumption and Demand:

The reduction of GST rates on daily goods and essential commodities has lowered effective prices and increased purchasing power, particularly for middle- and lower-income households. This has positively influenced consumption demand and generated a multiplier effect on economic activity.

Impact on Manufacturing and Consumer Durables:

Lower GST rates on consumer electronics and household durables have reduced tax-induced price distortions and improved cash flow for manufacturers and retailers. These reforms support domestic manufacturing and complement initiatives such as "Make in India."

Impact on the Automobile Sector:

The reduction of GST on small cars and motorcycles to 18% has enhanced affordability and stimulated demand in price-sensitive segments. Increased vehicle sales have positively affected allied industries such as auto components, logistics, and financing, contributing to employment generation.

Impact on Equity and Social Welfare:
By lowering GST on essential goods and increasing taxes on luxury and sin goods, the reforms have enhanced the equity dimension of the indirect tax system. This approach supports distributive justice while ensuring partial revenue compensation.
Impact on Revenue Mobilisation and Compliance:
Although rate reductions may initially reduce per-unit tax collections, increased consumption, simplified rate structures, and improved compliance are expected to enhance tax buoyancy in the medium term. Reduced classification disputes and compliance complexity further strengthen voluntary compliance.

Findings
- GST rate rationalisation has reduced the tax burden on essential and mass-consumption goods, improving affordability and consumer welfare.
- Lower GST rates on household items and consumer electronics have stimulated consumption and market turnover.
- Reduced GST on small vehicles has supported growth in the automobile sector and allied industries.
- Higher taxation on luxury and sin goods has strengthened equity and social welfare objectives.
- Simplified GST slabs have reduced compliance complexity and classification disputes.
- Increased consumption and formalisation are expected to support revenue stability in the medium term.

Suggestions / Policy Implications:
- Continuous monitoring of consumption trends is necessary to evaluate long-term revenue effects.
- Further GST rate rationalisation should be gradual to ensure policy stability.
- Strengthening data analytics can enhance compliance and revenue outcomes.
- Additional support measures should be extended to MSMEs to maximise reform benefits.
- Periodic review of luxury and sin goods taxation is required to maintain revenue neutrality.
- Clear communication of GST changes is essential for effective implementation.

Conclusion
The GST rate rationalisation introduced in September 2025 represents a significant step towards creating a more efficient, equitable, and growth-oriented indirect tax system in India. By reducing tax rates on essential and mass-consumption goods and rationalising rates across key sectors, the reforms have enhanced affordability, stimulated demand, and supported industrial activity. Simultaneously, higher taxation on luxury and sin goods has reinforced equity and fiscal responsibility. The simplified rate structure has reduced compliance complexity and improved the ease of doing business, contributing to greater economic formalisation. Overall, recent GST reforms demonstrate the growing maturity of India's GST regime and its potential to function as a powerful instrument for sustainable economic growth and revenue stability.

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