

EMERGING ISSUES & FUTURE DIRECTIONS FOR GST REFORMS IN INDIA

MEENA RANI

Associate Professor of Commerce, Ch. Ishwar Singh Kanya Mahavidyalya, Dhand-Dadwana (Kaithal)

Abstract

The Goods and Services Tax (GST) was implemented in the year 2017 with the aim of streamlining the domestic consumption tax framework by consolidating various taxes, reducing the compounding effects of taxes through the allowance of offsets from taxes paid in previous stages of the production and distribution process, and boosting revenue generation through a self-regulating system linked to value-added tax. Nonetheless, the anticipated benefits of this reform have yet to come to fruition. The expected increase in revenue efficiency still hasn't been achieved. The tax base continues to be limited due to an extensive list of exemptions. The failure to stabilize the technological platform has hindered improvements in compliance. The presence of multiple tax rates has complicated the tax system, leading to potential misclassifications, an inverted rate structure, and disputes that arise from these issues. The exclusion of petroleum products and electricity from the GST base has continued significant cascading from the excluded taxes. In addition, the agreement on compensating the States for the loss of revenue will come to an end in June 2022, even before stabilizing the reform. The paper makes detailed recommendations on the future reform agenda on the GST to reap the potential benefits of the reform and suggests that the compensation scheme may be extended by three years with modifications and used as an incentive to the States to agree for undertaking the much-needed reform.

Keywords: tax reforms, goods and services tax (GST)

INTRODUCTION

The introduction of the value added tax (VAT), is perhaps, the most important tax reform seen across countries in the last three decades. As of 2018, as many as 166 countries out of 193 with UN Membership had implemented the VAT (VAT) in one form or another. All the OECD countries with the sole exception of the US have implemented the VAT. Most developing countries have replaced their cascading type domestic consumption taxes with the VAT primarily to garner additional revenues. This is an essential component of IMF programme to recoup revenue loss from the reduction in tariffs (Bird and Gendron, 2007, Keen, 2009). Of the countries that implemented the VAT so far, only five countries have repealed them but reintroduced them with improvements.

After several years of deliberations, India implemented the GST on July 1, 2017 by combining the domestic indirect taxes levied by both Union and State governments except the State excise duties on alcoholic products, taxes on petroleum products, electricity, and real estate. It is designed as a destination-based tax with central GST (CGST), State GST (SGST), and inter-state GST (IGST), with a seamless input tax credit on transactions across the country and the revenue from the latter credited in a separate account and finally settled through a clearing house mechanism to the destination state. The decisions relating to the structure and operation of the tax are taken by a separate

institution created by amending the Constitution – the GST Council, and the registration, payment, and submission of returns are to be done through the GST Network (GSTN) – an IT-enabled administration.

REVIEW OF LITERATURE

- Yadav, S. S. and Shankar, R. (2018) in their research paper analysed the history and evolution of GST in the country and how it has replaced various indirect taxes. Rupa, R. (2017) in her research paper explained the concept of GST. Also she highlighted the advantages and disadvantages of GST in our economy.
- PohJin Goh et al., (2017) highlighted the overall view of GST in Malaysia and suggested that there is a significant need for the Malaysian government to put in more effort to ensure that consumers have a clear understanding and develop a positive perception towards GST, leading to its acceptance. They have pointed out the need to GST awareness among the Taxpayers in Malaysia. But this feature cannot be limited to any particular region or community. Spreading of awareness is the key to ensuring the success of taxation reforms.
- Ehtisham Ahmed and Satya Poddar (2009) studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the tenets of GST are critically dependent on rational design of GST.

OBJECTIVES OF THE STUDY

Following are the objectives of this study:-

1. To understand the concept of GST.
2. To analyse the effect of GST on Indian Economy.
3. To discuss the present reforms of GST and future directions for GST reforms.

Types of GST Rates in India (2025)

India follows a multi-tier GST Rate structure, with different slabs designed to balance affordability for consumers and revenue needs for the government. As of mid 2025, the major GST slabs are:

Table 01: Types of GST Rates in India (Year 2025)

Types of GST Rates in India (Year 2025)		
GST Rate	Type	Category of Goods/Services
0	Zero Rate	Essential goods and services
5	Lower Rate	Mass consumption items
12	Standard Rate (Lower tier)	Standard goods & services
18	Standard Rate (Higher tier)	Most goods and services
28	Higher Rate	Luxury and demerit goods

Collections of GST

Table 02: GST Gross and Net Collections

GST Gross and Net Collections as on 31/07/2025 (Amount in crores)						
GST Collections	Monthly			Yearly		
	Jul-24	Jul-25	% Growth	Jul-24	Jul-25	% Growth
A	B	C	D = C/B-1	E	F	G = F/E-1
A.1. Domestic						
CGST	32,386	35,470		1,41,268	1,54,095	
SGST	40,289	44,059		1,74,808	1,90,601	
IGST	49,437	51,910		2,06,406	2,28,861	
CESS	11,923	11,584		47,571	47,960	
Gross Domestic Revenue	1,34,036	1,43,023	6.7%	5,70,052	6,21,517	9.0%
A.2. Imports						
IGST	47,009	51,626		1,64,756	1,92,050	
CESS	1,030	1,086		4,086	4,532	
Gross Import Revenue	48,039	52,712	9.7%	1,68,841	1,96,581	16.4%
A.3. Gross GST Revenue(A.1+A.2)						
CGST	32,386	35,470		1,41,268	1,54,095	
SGST	40,289	44,059		1,74,808	1,90,601	
IGST	96,447	1,03,536		3,71,161	4,20,911	
CESS	12,953	12,670		51,657	52,491	
Total Gross GST Revenue	1,82,075	1,95,735	7.5%	7,38,894	8,18,099	10.7%
B.1. Domestic Refunds						
CGST	1,970	3,317		10,669	13,962	
SGST	2,445	4,542		13,479	17,630	
IGST	3,228	8,647		16,649	28,070	
CESS	161	478		937	1,446	
Refund - Domestic	7,805	16,983	117.6%	41,734	61,108	46.4%
B.2. Export GST Refunds through ICEGATE						
IGST	8,335	10,014		40,584	45,213	
CESS	135	150		602	650	
Refund - Imports	8,470	10,164	20.0%	41,186	45,863	11.4%
B.3. Total Refund (B.1+B.2)						
CGST	1,970	3,317		10,669	13,962	
SGST	2,445	4,542		13,479	17,630	
IGST	11,564	18,661		57,232	73,283	
CESS	296	627		1,539	2,096	
Total Refund	16,275	27,147	66.8%	82,920	1,06,971	29.0%
C.1 Net Revenue Domestic (A.1 - B.1)						
CGST	30,416	32,153		1,30,599	1,40,133	

CESS	11,762	11,106		46,634	46,513	
Net Domestic Revenue	1,26,231	1,26,040	-0.2%	5,28,318	5,60,409	6.1%
C.2 Net Revenue Customs (GST) (A.2 - B.2)						
IGST	38,674	41,612		1,24,172	1,46,837	
CESS	895	937		3,484	3,882	
Net Customs Revenue	39,569	42,548	7.5%	1,27,656	1,50,719	18.1%
C.3 Net Revenue (C.1+C.2))						
CGST	30,416	32,153		1,30,599	1,40,133	
SGST	37,844	39,517		1,61,328	1,72,971	
IGST	84,883	84,875		3,13,929	3,47,629	
CESS	12,657	12,043		50,118	50,395	
Total Net GST Revenue	1,65,800	1,68,588	1.7%	6,55,974	7,11,128	8.4%

(Source: <https://tutorial.gst.gov.in>)

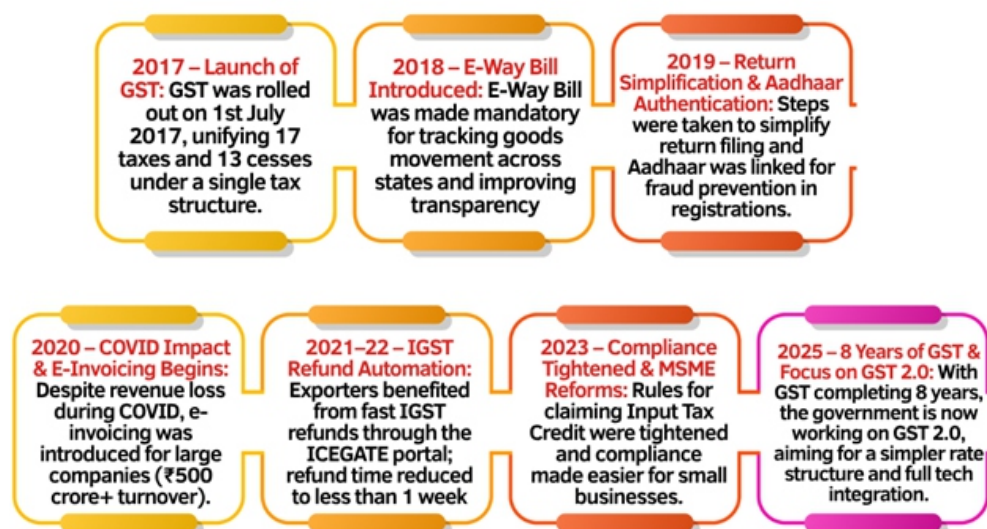
Table 03: State-wise growth of GST Revenues during July, 2025*

State/UT	Jul-24	Ju-25	Growth (%)
Jammu and Kashmir	629	599	-5%
Himachal Pradesh	854	950	11%
Punjab	2,069	2,323	12%
Chandigarh	233	221	-5%
Uttarakhand	1,700	1,774	4%
Haryana	9,082	10,149	12%
Delhi	5,964	6,057	2%
Rajasthan	4,369	4,564	4%
Uttar Pradesh	9,125	9,760	7%
Bihar	1,569	1,813	16%
Sikkim	325	401	23%
Arunachal Pradesh	81	88	9%
Nagaland	58	70	22%
Manipur	68	43	-36%
Mizoram	39	31	-21%
Tripura	72	101	41%
Meghalaya	142	178	26%
Assam	1,370	1,470	7%

West Bengal	257 ^{5,}	5,895	12%
Jharkhand	135 ^{3,}	3,040	-3%
Odisha	925 ^{4,}	4,991	1%
Chhattisgarh	319 ^{3,}	3,180	-4%
Madhya Pradesh	683 ^{3,}	4,329	18%
Gujarat	,015 ¹¹	11,358	3%
Dadra and Nagar Haveli and Daman & Diu	9 ³³	395	17%
Maharashtra	,970 ²⁸	30,590	6%
Karnataka	,025 ¹³	13,967	7%
Goa	3 ⁵⁹	586	-1%
Lakshadweep	1	1	-52%
Kerala	493 ^{2,}	2,721	9%
Tamil Nadu	,490 ¹⁰	11,296	8%
Puducherry	5 ²²	245	9%
Andaman and Nicobar Islands	39	52	31%
Telangana	940 ^{4,}	5,417	10%
Andhra Pradesh	346 ^{3,}	3,803	14%
Ladakh	38	42	11%
Other Territory	0 ²²	212	-4%
Center Jurisdiction	8 ²³	311	31%
Grand Total	34,036^{1,}	1,43,023	7%

(*Does not include GST on import of goods)

GST TIMELINE: 2017–2025



(Source: Business Standard, 2025 and InsightsonIndia.Com)
Fig. 01: GST Timeline from the year 2017 to 2025

IMPACT OF GST REFORMS

There have been considerable gains from the reform though; the full potential of the reform in terms of gains in revenue productivity and economic efficiency would require important additional changes in the tax system. The most important gain is from the abolition of inter-State check-posts erected to trace cross-border transactions and intra-state check-posts erected to collect octroi and entry tax by local bodies. This has substantially removed impediments to the movement of goods across the country and is an important step in creating a national common market. In addition, it has helped to reduce the cost and time required for the transportation of goods. The merger of Inter-State sales tax has helped to make the tax destination-based and reduced tax exportation from the more developed producing states to the consumers in less developed States. Besides, the merger of central sales tax has put an end to the supply chain inefficiency due to the consignment transfers and abolition of branch offices in different States set up to avoid the tax.

GST REFORMS ISSUES AND FUTURE DIRECTIONS

The important reforms areas identified in the foregoing analysis are:

- (i) Expanding the tax base by reducing exemptions and incorporating petroleum products and electricity into the GST;
- (ii) Rationalising the rate structure by reducing the number of rates to avoid the problems arising from misclassification, disputes and inverted duty structure;

- (iii) Tackling the problem of compensating states for lost revenue since the tax has not yet stabilized and developing a compensation formula to encourage the reform process. and
- (iv) Creating a multidisciplinary technical advisory unit in the GST Council to analyse economic, administrative and legal implications of the tax and its changes to help in the scientific calibration of the required changes from time to time.

CONCLUSION

The Goods and Services Tax is such task that is expected to deliver the much needed economic growth in India by changing the present base of indirect taxation in the direction of the free flow of goods and services. GST is also anticipated to eliminate the cascading effect of taxes. India is expected to play a significant role in the world economy in the years to come. The expectation of GST being introduced is not only high within the country, but also within near & developed countries of the world.

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