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UNDERSTANDING GOODS AND SERVICES TAX (GST) IN INDIA

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INTRODUCTION

The **Goods and Services Tax (GST)** is one of the most important tax reforms introduced in India to simplify the indirect taxation system. Implemented on *1st July 2017*, GST replaced several indirect taxes such as Value Added Tax (VAT), service tax, excise duty, customs duty, and entertainment tax. The main objective of GST is to establish a unified tax structure across the country under the concept of *“One Nation, One Tax.”*

Before the introduction of GST, India had a complex taxation system where both the Central and State Governments imposed different taxes at various stages of production and distribution. This often resulted in double taxation and increased the cost of goods and services. GST was introduced to remove these complications and create a transparent, efficient, and uniform tax regime.

GST is a destination-based tax that is levied on the consumption of goods and services. It allows businesses to claim input tax credit, thereby eliminating the cascading effect of taxes. The reform has improved tax compliance through online registration, digital return filing, and transparent procedures.

The implementation of GST has significantly impacted the Indian economy by promoting ease of doing business, encouraging economic integration among states, and increasing government revenue collection. Although the system initially faced certain challenges, it continues to evolve as an important pillar of India’s economic framework.

MEANING

GST stands for Goods and Services Tax. It is an indirect tax levied on the supply of goods and services in India. It was introduced to replace multiple indirect taxes such as *excise duty*, *VAT*, and *service tax*, so that taxation could become simpler and more uniform across the country.

GST is known as a value-added tax because it is charged only on the value added at each stage of production or sale. This means tax is collected step by step, and businesses can claim credit for the tax already paid on inputs. As a result, it helps avoid the problem of “*tax on tax*,” which existed under the earlier system.

It is also a *destination-based tax*, which means the tax is collected at the place where the goods or services are consumed. This makes the system more transparent and ensures that revenue is collected where the final use takes place.

In India, GST has improved tax administration by bringing many taxes under one framework. It has made interstate trade easier, reduced confusion for businesses, and created a more organized indirect tax structure. Because of these features, GST is considered one of the most important tax reforms in modern India.

OBJECTIVES OF GST

The Goods and Services Tax (GST) was introduced with the objective of reforming and modernizing India’s indirect taxation system. Prior to GST, the country followed a complex structure of multiple indirect taxes imposed by both the Central and State Governments. GST aimed to eliminate these complexities by introducing a unified and transparent tax regime. The major objectives of GST are as follows:

1. To Create “One Nation, One Tax”

A central objective of GST is to establish a unified indirect tax system throughout India. Before GST, businesses had to deal with different tax laws, procedures, and rates across states, which often created confusion and made compliance difficult. GST replaced this fragmented structure with one common framework, thereby promoting uniformity in taxation. This has helped reduce inter-state disparities and made the tax system more predictable for taxpayers.

2. To Eliminate the Cascading Effect of Taxes

One of the major defects in the earlier tax regime was the problem of “tax on tax.” Taxes were levied at multiple stages without proper credit in many cases, which increased the final cost of goods and services. GST addresses this issue through the mechanism of Input Tax Credit, which allows a taxpayer to set off tax paid on inputs against the tax payable on output. This ensures that tax is levied only on the value added at each stage, making the system more efficient and fair.

3. To Promote Ease of Doing Business

GST was also introduced to improve the overall business environment in India. Under the earlier system, companies often had to comply with multiple registrations, filings, and tax payments in different states. GST introduced a more streamlined, technology-based system for registration, filing returns, and making payments. This reduces administrative burden, saves time and cost, and encourages investment, especially in interstate trade and commerce.

4. To Increase Tax Compliance and Transparency

The GST system is built on digital processes, including online registration, e-filing of returns, and invoice matching. These features make tax administration more transparent and reduce the scope for evasion and manipulation. Since transactions are recorded electronically, the tax authorities can monitor compliance more effectively. This not only strengthens accountability but also improves the reliability of revenue collection.

5. To Boost Economic Growth

GST aims to support economic growth by removing tax barriers that previously increased the cost of doing business. When tax procedures become simpler and transportation across states becomes smoother, businesses can operate more efficiently. Reduced tax burden, lower compliance costs, and better flow of goods and services all contribute to increased production and economic activity. In the long run, this helps strengthen the national economy.

TYPES OF GST

Goods and Services Tax (GST) in India is a destination-based indirect tax that has been divided into different categories to suit the structure of India’s federal system. The classification of GST depends mainly on whether the supply takes place within the same state, between two different states, or within a Union Territory. This system was created to ensure that tax collection is

properly distributed between the Centre and the States while maintaining uniformity in taxation.

1. CGST

Central Goods and Services Tax, or CGST, is levied by the Central Government on the supply of goods and services taking place within the same state. It applies when both the supplier and the buyer are located in the same state. The revenue collected under CGST goes to the Central Government. In an intra-state transaction, CGST is charged together with SGST or UTGST, depending on the location of the transaction. For example, if a seller in Maharashtra sells goods to a buyer in Maharashtra, both CGST and SGST will apply.

2. SGST

State Goods and Services Tax, or SGST, is levied by the State Government on intra-state supplies of goods and services. It is collected along with CGST in transactions that take place entirely within one state. The revenue collected under SGST goes to the concerned State Government. This arrangement ensures that both the Centre and the State receive their respective shares of tax from transactions occurring within the state. SGST plays an important role in preserving the fiscal interests of the states under the GST framework.

For example, if a product is sold within a state for ₹1,000 with an 18% GST rate, 9% will be charged as CGST and the remaining 9% as SGST.

3. IGST

Integrated Goods and Services Tax, or IGST, is levied on inter-state supplies of goods and services, as well as on imports into India. It is applicable when the supplier and recipient are in different states or when goods/services are brought into India from outside the country. Unlike CGST and SGST, IGST is collected by the Central Government and later distributed between the Centre and the destination State according to the prescribed formula. This mechanism helps avoid multiple taxation and ensures smooth movement of goods and services across state borders.

If a manufacturer in Gujarat sells goods to a buyer in Karnataka, IGST will apply because the transaction is between two different states.

4. UTGST

Union Territory Goods and Services Tax, or UTGST, applies to supplies made within Union Territories without a legislature. It is similar to SGST but is meant for Union Territories such as Chandigarh, Lakshadweep, and Andaman and Nicobar Islands. In such cases, UTGST is levied along with CGST on intra-UT transactions. The purpose of UTGST is to bring Union Territories without legislatures into the same tax structure as states, while still respecting the administrative arrangement applicable to them.

If a seller in Chandigarh sells a refrigerator to a buyer in Chandigarh, CGST and UTGST will apply.

ADVANTAGES OF GST

Goods and Services Tax (GST) is one of the most important tax reforms in India because it has improved the way indirect taxes are collected, administered, and understood. Its advantages can be seen not only in tax policy but also in day-to-day business operations, consumer pricing, and interstate trade.

1. Reduced tax burden in many cases

GST helps reduce the overall tax burden by allowing businesses to claim credit for the tax paid on inputs. This means tax is not repeatedly charged at every stage in a way that increases the final cost unnecessarily. As a result, the tax system becomes more efficient and less expensive for many goods and services. If a chair was manufactured, sold to a wholesaler, and then sold to a customer, different taxes could apply at each stage under the old system. Under GST, tax is levied in a more structured way, and credit for earlier tax paid can be claimed.

2. Greater Transparency in Taxation

One of the most important advantages of GST is that it makes the tax system more transparent, traceable, and accountable. Under the GST regime, most compliance activities are carried out through an online platform, which means that transactions, invoices, tax payments, and input tax credit claims are recorded digitally and can be verified more easily. This reduces the scope for concealed transactions, under-reporting of sales, and manipulation of records. Suppose a manufacturer in Maharashtra sells raw materials to a trader in the same state. The manufacturer uploads the tax invoice on the GST portal, and the trader also records that purchase in his return. If both records match, the trader can claim input tax credit on the tax

paid. If the manufacturer fails to report the invoice or reports a different amount, the mismatch is visible in the system and the credit may not be allowed.

3. Encouragement to Formal Business Activity

GST encourages businesses to operate within the formal economy by making registration, invoice generation, return filing, and tax payment part of a structured compliance system. Since tax credit and other benefits under GST depend on proper documentation and digital records, businesses are motivated to maintain accurate accounts and report transactions honestly. This reduces the scope for informal or unrecorded trade and brings more economic activity under the legal tax net.

A small supplier sells goods to a larger company. If the supplier is not GST-registered and does not issue a proper invoice, the larger company may not be able to claim input tax credit. Because of this, the larger company will usually prefer to buy from a registered and compliant supplier. As a result, the small supplier is encouraged to register under GST, keep proper records, and operate formally.

4. More Consistent Pricing

GST has helped make product pricing more consistent across different regions because it applies a common tax structure throughout the country. Before GST, different state-level taxes often caused the same product to be priced differently from one state to another. This created confusion for consumers and made pricing less predictable for businesses. A manufacturer sells the same mobile phone in Maharashtra and Tamil Nadu. Before GST, different indirect taxes could affect the final price differently in each state. Under GST, the tax structure is more standardized, so the price difference between the two states is less likely to be caused by tax variation alone.

CHALLENGES UNDER GST

Goods and Services Tax (GST) was introduced to simplify India's indirect tax system, but its practical implementation has created several challenges for taxpayers, businesses, and tax authorities. These challenges do not negate the importance of GST, but they show that a complex reform requires time, stability, and better administrative support to work smoothly.

1. Compliance burden

GST is a technology-driven tax system, and compliance under it is more detailed than many businesses expected. Taxpayers must register, issue proper invoices, file periodic returns, reconcile data, and maintain accurate records. For large companies, this is manageable, but for small traders, shopkeepers, and micro enterprises, it often becomes a serious burden. They may need professional assistance, which increases compliance cost.

A small garments dealer may have only a few employees, but still has to file returns, track purchases, upload invoices, and ensure credit matching. For such a business, compliance may take more effort than actual trading activity.

2. Multiple tax slabs

One of the criticisms of GST is that it does not operate as one single tax rate. Instead, it has several slabs such as 5%, 12%, 18%, and 28%, along with exemptions and special rates. This creates confusion in classification and often leads to disputes about which slab applies to a particular product or service. The existence of multiple slabs partly weakens the idea of a simple “one tax” system.

A food item, a packaged snack, and a restaurant service may all seem similar to a consumer, but they may be taxed differently. This makes the system harder to understand.

3. Input tax credit problems

Input Tax Credit is one of the core features of GST, but in practice it can be difficult to use smoothly. Credit is available only when the supplier correctly reports the invoice and the buyer’s records match. If there is any mismatch, the buyer may lose credit temporarily or permanently until the issue is resolved. This makes the system sensitive to errors in documentation.

If a seller uploads an invoice for the wrong amount, the buyer may not be able to claim the credit immediately. Even a small clerical mistake can therefore affect cash flow.

4. Technical dependence

GST is heavily dependent on online systems. Registration, return filing, invoice upload, tax payment, and credit reconciliation all depend on digital platforms. If the portal slows down or technical errors occur, businesses may miss deadlines or face difficulties in compliance. This is especially challenging in areas where digital infrastructure or internet access is weak.

If a business tries to file its monthly return on the last date but the portal is not working properly, the delay may result in late fees or compliance stress, even if the business had prepared the return on time.

GST AS A STRUCTURAL ECONOMIC REFORM

GST is not important only because it simplifies taxes; it is important because it changes the way the Indian economy functions. It shifts India from a fragmented, state-divided indirect tax regime to a more integrated national market. This is a deeper reform than a mere tax substitution, because it affects business behavior, logistics, compliance culture, pricing, and the flow of goods across the country.

Before GST, tax barriers often influenced how businesses operated. Companies had to think not only about demand and supply, but also about where to store goods, how to move them across states, and how different taxes would affect final cost. GST reduced many of these distortions. In that sense, GST is best understood as a reform that improves economic efficiency, not just tax administration.

What Makes GST Truly Impactful

1. It changed business decision-making

Earlier, many business choices were driven by tax considerations. Warehouses were sometimes placed in certain states mainly to reduce tax burden rather than to improve business efficiency. GST reduced this distortion, allowing businesses to make decisions based more on logistics and commercial logic.

2. It strengthened the idea of a national market

GST made India move closer to a unified market. A trader or manufacturer can now operate across states under a more uniform tax framework. This is important because it reduces the feeling of doing business in separate tax territories and instead supports the idea of one economic space.

3. It brought formal discipline to informal trade

GST is powerful because it encourages record-keeping, digital invoicing, and traceable transactions. This does not just help the tax department; it changes business culture. Firms that earlier worked loosely are pushed toward formal compliance, which improves legal accountability.

4. It exposed the limits of India's informal economy

GST also revealed an important reality: a large part of Indian business activity had been operating outside structured tax systems. That is why GST is not only a reform of law, but also a reform of behaviour. It shows how difficult it is to modernize an economy unless compliance becomes part of daily business practice.

5. It made tax policy visible in everyday commerce

Under GST, tax is no longer hidden in the background. It appears in invoices, returns, credits, and digital records. This makes taxation more visible to businesses and consumers, and that visibility itself is a major reform feature.

CONCLUSION

In conclusion, GST has emerged as one of the most significant tax reforms in India, reshaping the indirect taxation system into a more unified, transparent, and structured framework. Its introduction marked a major shift from a fragmented regime of multiple taxes to a common national system based on the principles of value addition and destination-based taxation. Through this reform, India moved closer to the vision of “one nation, one tax,” thereby simplifying compliance and improving the efficiency of tax administration.

GST has also had a wider impact on the Indian economy by promoting formalisation, reducing the cascading effect of taxes, encouraging digital compliance, and supporting smoother interstate trade. At the same time, it has presented challenges such as compliance burden, multiple tax slabs, and practical difficulties for small businesses. Even so, its long-term contribution lies in creating a more integrated market and a more accountable tax structure.

Overall, GST represents a foundational change in India's fiscal architecture and remains central to the country's economic and legal development.

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