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## GST Reforms and Their Impact

\*Priyanshu Gupta<sup>1</sup> and Dr. Harkesh Balai<sup>2</sup>

<sup>1</sup>Student, Jagannath University, Chaksu, Jaipur, Rajasthan

<sup>2</sup>Faculty, Department of Agriculture, Jagannath University, Chaksu, Jaipur, Rajasthan

\*Corresponding Author's email: [bpg8121@gmail.com](mailto:bpg8121@gmail.com)

India shift to the Goods and Services Tax on July 1, 2017 was far more than a routine policy update. It was a fundamental rethinking of how the country collects revenue from economic activity. Before that date, businesses had spent decades navigating a maze of overlapping levies — central excise duties stacked on state VATs, entry taxes tacked on at state borders, and service taxes running on their own parallel track. The combined effect was a tax structure that punished growth, rewarded evasion, and made doing business across state lines unnecessarily complicated. This article takes a close look at what actually changed after GST came in. It traces how government revenues have moved over seven years, examines what happened in critical sectors like manufacturing, freight transport, farming, and small enterprises, and honestly assesses where the reform has fallen short of its promise. All figures and statistics draw on official sources — the GST Council, the Press Information Bureau, the Ministry of Finance, and Data.gov.in.

**Keywords:** GST, Indirect Tax Reform, Indian Economy, Tax Compliance, Revenue, Logistics, Agriculture, MSMEs, Input Tax Credit

### Introduction

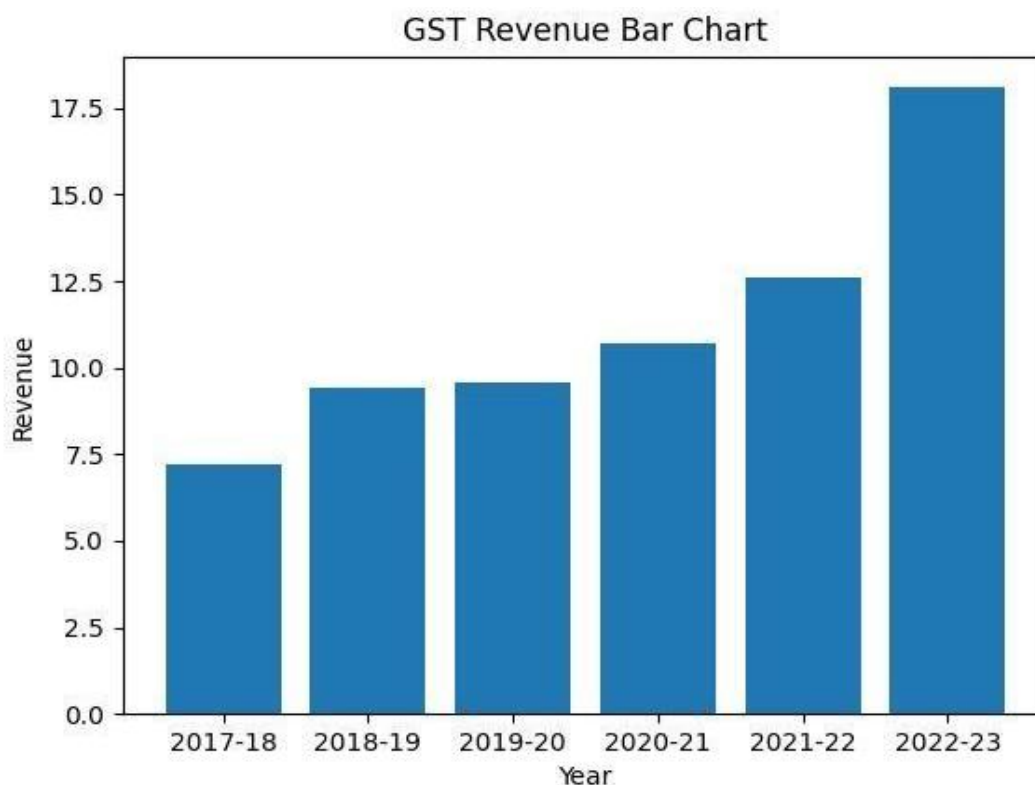
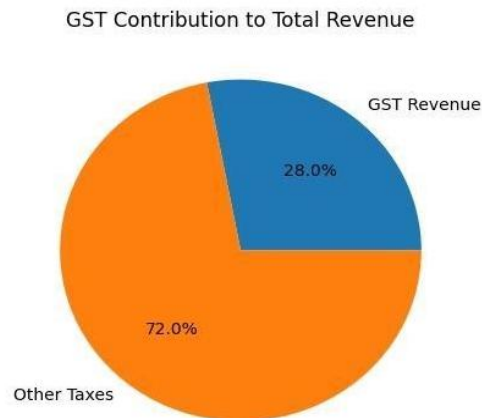
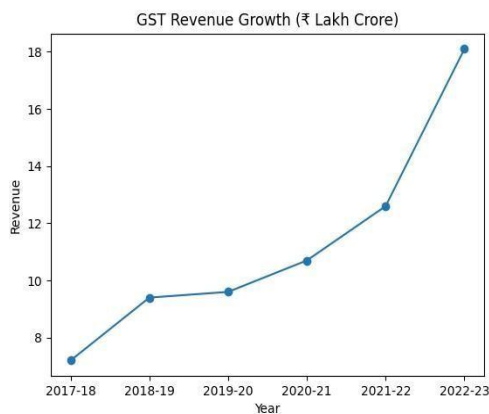
Anyone who ran a business in India before July 2017 and tried selling products across state lines will remember the tax headache vividly. Central Excise Duty applied at the factory gate. VAT kicked in at the point of sale, but the rules varied by state. Cross state movement triggered Central Sales Tax. Some states charged Entry Tax or Octroi on top of that. Each of these levies came with its own forms, its own deadlines, and its own officials to deal with.

What made this genuinely damaging wasn't just the complexity — it was the cascading effect. Taxes piled on top of taxes. A manufacturer couldn't fully offset the excise she had already paid against the VAT she owed at sale, so both costs got passed down the chain. By the time a product reached the consumer, a substantial chunk of its price was simply accumulated, unrelieved tax. Economists had a name for this phenomenon; most business owners just called it unfair.

The GST rollout was designed to address exactly this. By folding more than seventeen central and state taxes into a single destination-based, multi-stage levy, it set out to create a genuinely unified national market. The GST Council — a constitutional body bringing together Union and State Finance Ministers — was established to govern the new system and adjust it as experience accumulated.

In practice, GST runs through three channels: Central GST (CGST) collected by the Union government on transactions within a state, State GST (SGST) collected by the state on those same transactions, and Integrated GST (IGST) applied to goods and services crossing state boundaries. Tax rates were set at five levels — 0%, 5%, 12%, 18%, and 28% — keeping necessities either exempt or lightly taxed while applying higher rates to goods considered nonessential or luxury items.

## GST Revenue and Growth Curve



## Key Features of GST Reforms

### One Nation, One Tax

Before GST, selling goods from Maharashtra to a buyer in Gujarat required a business to simultaneously deal with Maharashtra's VAT regime, the Central Sales Tax on the inter-state movement, and Gujarat's entry tax at the destination. Companies that operated nationally needed entire compliance teams dedicated to managing state-specific requirements. GST swept that complexity away. A product now carries a single tax rate regardless of origin or destination. Inter-state commerce flows more freely, compliance costs have come down, and businesses can structure their supply chains based on economic logic rather than tax geography.

### The Input Tax Credit Mechanism

The structural change that matters most is probably the seamless Input Tax Credit chain. Under the old system, a manufacturer could offset central excise duties against other central taxes, but state VAT remained a separate, largely unrelievable cost. A service provider buying physical goods for her business had no way to recover the VAT embedded in those purchases. These stuck taxes pushed production costs up by an estimated 25 to 30 percent, according to industry studies of the time.

Under GST, every registered business can deduct the tax it paid on inputs, machinery, and services from the output tax it owes. The crucial condition is that the supplier must have reported and paid their own tax first. This creates a natural incentive for everyone in a supply chain to deal only with compliant businesses — tax compliance becomes commercially rational, not just legally required.

### Digital Tax Administration

GST moved the entire compliance process online through the GSTN, the Goods and Services Tax Network. Registration, return filing, invoice matching, refunds, payments — every step became digital. This change had implications beyond convenience. The discretionary human contact that had long created opportunities for petty corruption in paper-based systems was substantially reduced. The mandatory e-way bill — required for goods valued above ₹50,000 — combined with electronic invoice matching, gave tax authorities a real-time view of goods movement across the country that simply hadn't existed before.

### Tax Slabs and Rate Rationalisation

The five-tier rate structure was deliberately designed with distributional concerns in mind. Food grains, healthcare, and other essentials sit at zero or are fully exempt. Tobacco, luxury cars, and high-end consumer goods attract the 28% rate, sometimes supplemented by an additional cess. The GST Council hasn't treated these rates as fixed. It has met repeatedly to shift items between slabs, reduce rates on goods where the initial categorisation proved too burdensome, and address structural problems like the inverted duty issue in certain industries. Rate rationalisation is an ongoing process, not a one-time setting.

**Table 1: Agricultural Input Tax Rates — Before vs. After GST**

Input Item	Before GST	After GST
Seeds	VAT: 4–10%	0% (Exempt)
Fertilizers	VAT 6–12% + Excise	5%
Tractors	~30% combined	12%
Farm Machinery	Excise: 12.5%	12%
Fresh Produce / Grains	State VAT varies	0% (Exempt)

Source: GST Council Rate Notifications

### GST Revenue Trends: Official Data

The revenue story of GST is broadly one of success, though the journey wasn't smooth. Collections in the first full year were lower than hoped as businesses and tax authorities both adjusted to the new system. The COVID-19 pandemic knocked receipts down in 2020-21. But the recovery that followed was sharp and sustained, and by 2024-25 collections had reached levels that would have seemed ambitious when GST launched.

**Table 2: Year-wise GST Revenue Collection**

Financial Year	GST Revenue (₹ Crore)	Y-o-Y Growth
2017–18	7,40,650	—
2018–19	11,77,368	+58.9%
2019–20	12,22,116	+3.8%
2020–21	11,36,805	-7.0% (COVID impact)
2021–22	14,83,291	+30.4%
2022–23	18,07,680	+21.9%
2023–24	20,18,249	+11.6%
2024–25 (Provisional)	22,08,000	+9.4% — Record High

Source: GST Council / Ministry of Finance

GST now accounts for roughly 28% of India's total tax revenue, up from around 20% when it launched. The financial year 2024-25 recorded an all-time high annual collection of ₹22.08 lakh crore, with monthly receipts consistently crossing the ₹1.6 lakh crore mark. That

consistency is arguably more significant than any single monthly peak — it reflects a tax base that has genuinely broadened and a compliance culture that has taken root.

### Sectoral Impact of GST

GST has not affected every corner of the economy in the same way. Some sectors saw nearimmediate benefits; others faced a difficult adjustment before the structural advantages kicked in. The table below captures the broad picture before examining each sector in detail.

**Table 3: Sectoral Impact — Before vs. After GST**

Sector	Before GST	After GST
Manufacturing	Cascading taxes (VAT+Excise+CST); 25–30% cost burden	Unified tax + ITC; 20–30% cost reduction
Services	~14.5% service tax; complex cross-state rules	~18% GST; uniform rules; ITC refunds for exporters
MSMEs	Largely informal; multiple state levies; low compliance	Formalization; ITC benefits; Composition Scheme relief
Agriculture	Fertilizers 6–12% VAT + excise; tractors ~30%	Seeds 0%; fertilizers 5%; tractors 12%; fresh produce exempt
E-commerce	Inconsistent taxation; no uniform framework	Mandatory TCS; transparent reporting; level playing field
Logistics	Checkposts caused 20–30% transit delays; high cost	Checkposts abolished; 25% faster trucks; ~20% cost fall
Revenue	Fragmented; significant tax evasion	Near-tripled (₹7.4L Cr → ₹22.1L Cr); record highs

Source: GST Council / Ministry of Finance / Press Information Bureau

### Manufacturing Sector

Under the old tax structure, a product moving through multiple manufacturing stages accumulated excise duty at each step. VAT applied on the final sale. Cross-state movement triggered CST. There was no clean mechanism to offset these against each other. By the time goods reached consumers, embedded tax often exceeded 25 to 30 percent of the product's actual value. The ITC chain fundamentally changed this arithmetic. Manufacturers can now offset taxes paid on raw materials, machinery, and services against their output tax liability, cutting input and logistics costs by an estimated 20 to 30 percent. Sectors like automobiles, pharmaceuticals, and consumer electronics have been among the clearest beneficiaries.

### Logistics and Transportation

If there is one sector that felt the GST impact most immediately, it is freight logistics. State borders were once genuine choke points. Trucks would queue for hours at checkposts while drivers gathered paperwork proving they had paid the relevant state taxes on the goods they were carrying. These delays consumed 20 to 30 percent of total transit time and pushed transport costs up by roughly 20 percent. Perishable goods frequently spoiled in the queues. The abolition of checkposts — replaced by the digital e-way bill system — transformed freight movement almost overnight. Average truck speeds climbed from 20-25 km/h to around 30-35 km/h. Delivery timelines shortened by 25 to 30 percent. Logistics costs fell 15 to 20 percent. Major players like DHL, Blue Dart, and Delhivery restructured their warehouse networks, moving away from state-by-state storage to hub-and-spoke models driven by actual demand rather than tax geography.

### Agriculture Sector

Fresh produce and food grains are exempt from GST entirely. The farming sector's gains from the reform have been mostly indirect — lower costs on the inputs that farmers actually buy. Seeds are now taxed at zero percent, fertilizers at five percent, and tractors at twelve percent, all significantly lower than the composite burdens that applied before. Total farming

input costs have fallen somewhere between 2 and 4 percent depending on crop type and region.

Digital platforms like e-NAM, which connect farmers to buyers across states, have also benefited from the smoother inter-state trade environment. Prices for certain commodity segments have improved by 5 to 10 percent as a result. That said, a real limitation remains: small and marginal farmers who operate outside the formal GST system cannot directly claim input tax credits, which caps their direct financial gains from the reform at an estimated 3 to 7 percent.

### Service Sector

Most services are taxed at 18 percent under GST, a modest step up from the 14.5 percent service tax that applied before. The headline rate increase is real, but the structural improvements matter more in practice. Service exporters can now claim ITC refunds, reducing effective costs for internationally oriented businesses. IT companies, financial services firms, hospitality businesses, and professional service providers all operate under a cleaner, more uniform compliance framework. Classification disputes and the treatment of bundled services remain live issues, but the overall picture for the service sector is positive.

### MSMEs

Small and medium enterprises — which together contribute roughly 30 percent of India's GDP and 45 percent of its exports — had a genuinely difficult initial period under GST. Businesses that had never maintained digital records suddenly faced monthly return filing requirements. The invoice-matching obligations were demanding for firms without accounting infrastructure. Frequent rule changes in the early years added to the uncertainty. Over time, the Composition Scheme — which allows businesses with turnover under ₹1.5 crore to pay a flat rate between 1 and 6 percent — eased the compliance burden for smaller firms. Access to institutional credit improved as formalization made businesses legible to banks and financial institutions. The number of registered MSME taxpayers grew from around 80 lakh in 2018 to over 1.4 crore by 2023, a real indicator of the formalisation that has taken place.

### Tax Compliance and Formalisation

India had roughly 65 lakh indirect tax registrants when GST launched in 2017. By 2023, that number had grown to over 1.4 crore. That doubling isn't just an administrative statistic — it reflects genuine economic formalization driven by a market mechanism rather than enforcement. To receive input tax credits, a business must be registered. To pass those credits on to customers, it must deal with registered suppliers. This creates a commercial pull toward compliance throughout supply chains that no enforcement-driven approach had managed to replicate. The GSTN processes between 15 and 20 crore invoices every month, enabling real-time crossmatching of supplier and buyer records. When a supplier fails to report a transaction, the buyer's ITC claim is automatically blocked — a self-correcting mechanism that reduces fraudulent billing and circular trading without requiring manual investigation. Over 300 crore e-way bills have been generated since 2018. The compliance rate among regular taxpayers has climbed from around 65 percent in the early quarters to over 85 percent more recently.

### Advantages and Challenges of GST

Seven years in, an honest assessment of GST requires acknowledging both what has worked well and where the reform still has unfinished business.

**Table 4: GST — Key Advantages vs. Persisting Challenges**

Advantages	Challenges
Eliminated cascading tax-on-tax burden via seamless ITC	Five tax slabs are complex; classification disputes persist
Unified national market; reduced inter-state trade friction	MSMEs still struggle with digital compliance and frequent rule changes

Revenue nearly tripled: ₹7.4L Cr → ₹22.08L Cr (2024–25)	Inverted duty structure causes refund pile-ups in textiles, footwear
Logistics costs down 20–30%; truck speed up 40%	ITC mismatches generate litigation and lock up working capital
Taxpayer base doubled: 65L → 1.4 Cr registered businesses	Petroleum, real estate, alcohol still outside GST framework
Full digitisation reduced corruption opportunities	State fiscal uncertainties since compensation guarantee ended in 2022
NCAER/IMF: potential 1–2% GDP growth boost from full GST	Small farmers outside formal GST cannot claim ITC on inputs

Source: GST Council Reports / NCAER / IMF

The structural achievements are substantial. Cascading taxation has been largely eliminated. Revenue has grown dramatically. The logistics sector has been transformed. The taxpayer base has roughly doubled. Digitisation has reduced the scope for the kind of discretionary corruption that characterised the old paper-based system. But real challenges persist. The five-slab rate structure generates constant classification disputes, and businesses in sectors like textiles and footwear continue to struggle with inverted duty structures that create refund backlogs and tie up working capital. Petroleum, alcohol, and real estate remain outside the GST framework, creating continuing distortions. States have had legitimate concerns about fiscal autonomy since the compensation mechanism that guaranteed their revenues during the transition expired in 2022. And for small farmers and businesses at the margins of the formal economy, the benefits of the reform remain largely indirect. The NCAER and the IMF have both estimated that a fully functioning GST could add 1 to 2 percentage points to India's long-run GDP growth rate. Whether that potential is realised depends on continued reforms — further rate rationalisation, eventual inclusion of excluded sectors, and ongoing improvements to the compliance infrastructure.

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