

A COMPARATIVE STUDY OF GST AND GST 2.0: IMPACT ON ECONOMIC GROWTH

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Abstract. *In order to streamline the tax code and increase revenue efficiency, the Goods and Services Tax (GST), which was implemented in India in July 2017, was replaced by a number of indirect taxes, including the Value Added Tax (VAT), Central Sales Tax (CST), and others. However, because of its intricate processes and higher tax rates on necessities, the original system was criticized. The government has responded by implementing a number of reforms aimed at rationalizing tax slabs, easing the burden on individuals, and fostering economic competitiveness. The GST lowers fiscal fraud, raises the GDP rate from 1% to 2%, and promotes tax system transparency. This article assesses the effects of the GST on India's economic growth by contrasting the pre-reform (GST) and post-reform (GST 2.0) periods. The report provides insights into how the country's long-term growth has been influenced by the GST reforms by highlighting shifts in revenue generation, consumer spending, and sectoral performance.*

Keywords GST, GST2.0, Tax Rates, Economic Growth, etc.

INTRODUCTION

Many earlier indirect taxes have been superseded by the comprehensive, multi-stage, destination-based Goods and Services Tax. France was the first country in the world to introduce the GST in 1954. The 2017 introduction of the GST in India exemplifies the idea of "One Nation, One Tax, One Market." There are two types of GST in India: the Central GST and the State GST. CGST, SGST, and IGST (Integrated GST) have replaced taxes like as Excise Duty, Service Tax, VAT, CST, and Octroi. People's final costs increased as a result of the cascading tax. Input Tax Credit (ITC) eliminates the cascading effect reducing the final cost. GST simplified compliance through a centralized port.

Definitions of GST

According to new article 366(12A), "Goods and service tax means any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption."

GST is a value-added tax levied at each stage of the supply chain, from production to consumption. Businesses charge GST on the goods or services they sell and can claim credit for the GST paid on their purchases.

A Goods and Services Tax (GST) is a value-added tax levied on goods and services and included in the price of a product.

Objectives

- To analysis how GST helps Indian economy.
- To identify key changes in GST 2.0.
- To examine the effect of GST and GST 2.0.
- To assess how GST 2.0 reforms have addressed the limitations and challenges of the initial GST framework.

Research Methodology

The analysis makes use of secondary data from government reports, the GST Council, and a number of journal-published research papers pertaining to GST. The Ministry of Finance website provided the numerical data used in this investigation.

GST in India

After 70 years of Independence India passed the GST in 1st July 2017 by the 101st constitutional Amendment Act. The Indian government has accomplished something very

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amazing. The GST replaced a number of indirect taxes. Because they disrupt global trade and misallocate resources. Therefore, GST has taken the place of the former Indian taxation system.

Breakdown of the Key Taxes Before GST

Excise Duty

- *Governing Authority:* Central Government (Union List).
- *Constitutional Basis:* Entry No. 84 in List I of the Seventh Schedule.
- *Taxable Event:* Manufacture or production of goods within the country.

Service Tax

- *Governing Authority:* Central Government.
- *Constitutional Basis:* Residuary powers under Entry No. 97 in List I of the Seventh Schedule (as there was no specific entry for taxing services).
- *Taxable Event:* Provision of a service.

Sales Tax / Value Added Tax (VAT)

- *Governing Authority:* State Governments.
- *Constitutional Basis:* Entry No. 54 in List II (State List) of the Seventh Schedule.
- *Taxable Event:* Sale of goods within a state.

Customs Duty

- *Governing Authority:* Central Government.
- *Constitutional Basis:* Entry No. 83 in List I of the Seventh Schedule.
- *Taxable Event:* Import of goods into or export of goods out of India.

Central Sales Tax (CST)

- *Governing Authority:* Central Government (but collected by the originating state).
- *Constitutional Basis:* Entry No. 92A in List I of the Seventh Schedule.
- *Taxable Event:* Sale of goods from one state to another (inter-state sale).

Local Body Tax (LBT)

- *Governing Authority:* Local Municipal Bodies (in some states).

- *Constitutional Basis:* Entry No. 52 in List II (State List) of the Seventh Schedule, which pertains to taxes imposed by local authorities.
- *Taxable Event:* Entry of goods for consumption, use, or sale into a local area (e.g., a city or municipality) from a place outside that area.

In summary, the pre-GST regime was characterized by a cascade of taxes on the same supply chain, with separate jurisdictions for goods (manufacture, sale) and services. This complex structure was replaced by GST to create a unified national market.

Global View of GST

In 2025, as many as 175 countries have implemented a GST style taxation system. The structure of GST in Canada and Brazil bears resemblance to the Indian GST framework. India has multiple GST rate but its standardized GST is 18%. Some countries have low GST than India. The countries are UAE – 5%, Oman – 5%, Bahrain – 5%, Qatar – 5%, Kuwait – (planned VAT 5%, not yet implemented as of 2025), Switzerland – 8.1%, Singapore – 9%, Thailand – 10%, Malaysia – 10% (Sales and Service Tax, SST, after GST rollback), Indonesia – 11%, Japan – 10%, Taiwan – 5%, South Korea – 10%, Philippines – 12%, Turkey – 18% (same as India).

Several countries impose higher GST than India. These include Hungary – 27%, Croatia – 25%, Denmark – 25%, Sweden – 25%, Norway – 25%, Iceland – 24%, Finland – 24%, Greece – 24%, Poland – 23%, Ireland – 23%, Portugal – 23%, Italy – 22%, France – 20%, Germany – 19%, UK – 20%, Spain – 21%, Netherlands – 21%, Belgium – 21%, Austria – 20%, Czech Republic, Slovakia, Slovenia – 20–22%.

Hungary has highest GST rates than other countries. Its nearly 1.5x India's standard GST rate. Most of the Gulf countries and East Asian countries have lower GST than India. India is mid to high range globally with its standard 18% GST rate.

How GST Helps Indian Economy

By establishing a single national market and reducing border waiting times and logistics expenses (for instance, a truck drive from Delhi to Mumbai now takes hours fewer), the Goods and Services Tax (GST) increases India's GDP and improves economic production and supply chain efficiency. By eliminating the "tax-on-tax" cascade, it boosts GDP growth. For example, a smartphone manufacturer can now claim input tax credits on components, reducing the cost of the finished device and increasing consumer demand, both of which directly contribute to the GDP's consumption component. Additionally, GST expands the

tax base by bringing informal companies into the formal sector through the digitization of compliance and the development of an invoice-matching system. Due in large part to this formalization, the number of GST registrants increased from 6.5 million in 2017 to over 14 million by 2024, which directly increased the economy's recorded size and gave the government more money to spend on infrastructure, which drives future GDP development. These structural efficiencies improve India's long-term economic potential and competitiveness, notwithstanding their early disruption.

GST Impacts

The implementation of GST has had a highly beneficial effect on India by establishing a cohesive national market, removing interstate check-posts and obstacles to enable the smooth transportation of goods and lower logistics expenses. It eliminated the cascading effect of "tax on tax" through an open input tax credit system, resulting in more transparent and often reduced prices for consumers. Additionally, GST greatly simplified compliance by merging various central and state taxes into a single framework, enhancing the 'Ease of Doing Business,' attracting foreign investment, and formalizing a significant portion of the economy by incorporating millions of businesses into the organized sector, which in turn expanded the tax base and improved revenue efficiency for the government.

Problems in GST

In the eight years of GST in India, some aspects of the framework still remain unclear. GST has multiple tax slabs 0%, 3%, 5%, 12%, 18%, and 28%—and certain goods also attract special rates. These multiple slabs create confusion, and the initial goal of simplification has instead led to complications, especially for MSMEs, retailers, and consumers. A crucial problem with GST is that people often perceive it as "high taxes." Most people in India, particularly in rural areas, are not aware of how much tax they paid under the earlier cascading tax system. Before GST, most product receipts did not mention tax rates, whereas under GST, bills and receipts clearly show the applicable tax. This new transparency has created some misunderstandings. From the public's point of view, they feel they are paying more tax under GST. Many rural people even think they started paying taxes only after GST was implemented. For example, before GST, gold was taxed at 1% VAT, but under GST, it attracts 3% GST (1.5% CGST and 1.5% SGST). This has led to the perception that all products are taxed more heavily under GST. Another common misconception is about alcohol for

human consumption. Since it does not fall under GST and is subject to a separate state taxation system, many people wrongly believe that alcohol carries zero tax under GST.

GST Reform: GST 2.0

After eight years of the GST and many difficulties, the government has finally changed the GST slabs. The new slabs will go into effect on September 22, 2025. The three main slabs of the new GST rate structure are 0%, 5%, 18%, and 40%. Luxury and sin items were specifically subject to the higher 40% tariff. The common guy will benefit from the new GST. Numerous necessities are exempt from taxes. Businesses, especially MSMEs and startups, are now less burdened as a result of the simplification of registration and return procedures, the acceleration of refund processing, and the reduction of compliance expenses.

Impact of GST Reduction in India

The short-term difficulties with GST 2.0 could result in long-term benefits. By lowering the tax rates on items, the next generation GST lowers the cost of goods and is anticipated to boost consumer demand and consumption as well as household savings. By lowering taxes on inputs like cement 28% to 18%, the new legislation helps businesses. There are fewer disagreements, decisions are made more quickly, and compliance is made easier with the two-tier tax structure. Lower rates promote compliance, which broadens the tax base and boosts income. Improving inverted duty arrangements increases exports and domestic value addition. As seen by previous reforms, collections rise when rates are lowered and compliance is improved. Access to healthcare and home security are improved by the exemption of critical medications and insurance from GST.

Due to price variations, the introduction of GST may have an effect on consumer behavior and purchasing decisions. Lowering GST rates could lead to lower prices for consumers, which could increase sales and, eventually, boost the profitability of the business. Depending on market conditions and firm size, GST may have an impact on profitability. GST simplified procedures and lessened cascading impacts in the hotel and restaurant sector by replacing other levies. The system has become more technologically advanced since the implementation of GST 2.0, which includes real-time input tax credit tracking, e-invoicing, and streamlined returns. By lowering compliance expenses and increasing operational effectiveness, these reforms may increase the profitability of the hotel industry. Economically speaking, reduced costs increase demand, which in turn creates a bigger tax base, higher revenues, and longer-term growth.

Comparison of GST and GST 2.0

Few products tax rates on pre and post GST reform.

Products	GST	GST 2.0
Erasers	5%	Nil
Laboratory notebook and notebooks	12%	Nil
Life-saving drugs	12%	Nil
Packaged foods	28%	18%
Tractors	12%	5%
Contact lenses; Spectacle lenses	12%	5%
Handicraft	12%	5%
Salons	18%	5%
Veterinary Devices	18%	5%
Chocolates	18%	5%
Television, air conditioners, and dishwashers	28%	18%
Small cars, Two wheelers under 350cc	28%	18%
Products containing tobacco and alcohol	28%	40%
Luxury cars	28%	40%
Aircraft for personal use	28%	40%

Source: Ministry of finance.

A comparison of the GST and the planned GST 2.0 rates for a few chosen products is shown in this table. It has been noted that under GST 2.0, customers have benefited from a large reduction in the tax rates on necessities including food, medications, and agricultural products. Similar to this, rates for a number of non-essential items, such as packaged foods, chocolates, and cosmetics, have decreased, suggesting an attempt to streamline and rationalize the tax system. The overall goals of the GST 2.0 amendment are to create a more equitable and consumer-friendly tax structure, encourage affordability, and lessen the tax burden.

SOCIAL IMPLICATION

GST and GST 2.0 demonstrate a transition from immediate hardship to sustained inclusivity. When the GST was first implemented in 2017, the price of a number of goods and services went up, making middle- and lower-class households feel as though they were struggling financially. Its regressive nature, which subjected the rich and poor to comparable tax rates on a wide range of necessities, sparked worries about social injustice. Furthermore, the complexity of compliance had a negative effect on conventional enterprises and small traders, temporarily disrupting livelihoods and employment. GST 2.0, on the other hand, aims to improve consumer welfare by lowering

inequality and making necessities more accessible through its streamlined dual-slab structure and lower compliance costs. It is anticipated that this updated model will empower rural customers, safeguard vulnerable populations, and encourage MSMEs to become entrepreneurs. Additionally, by promoting increased stability and transparency, GST 2.0 restores public confidence in government.

CONCLUSION

A new chapter in India's tax history has begun with the implementation of a streamlined GST framework and extensive rate reductions. These changes turn the GST from a tax system to a drive of inclusive prosperity and economic transformation by emphasizing affordability for citizens, competitiveness for enterprises, and transparency in compliance. The changes, which take effect from September 22, 2025, reinforce India's commitment to creating a more straightforward, equitable, and growth-oriented GST system that would make it easier for businesses to conduct business and for individuals to live their lives.

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