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B2K
Economy Bytes

Goods and Service Tax

July 2025

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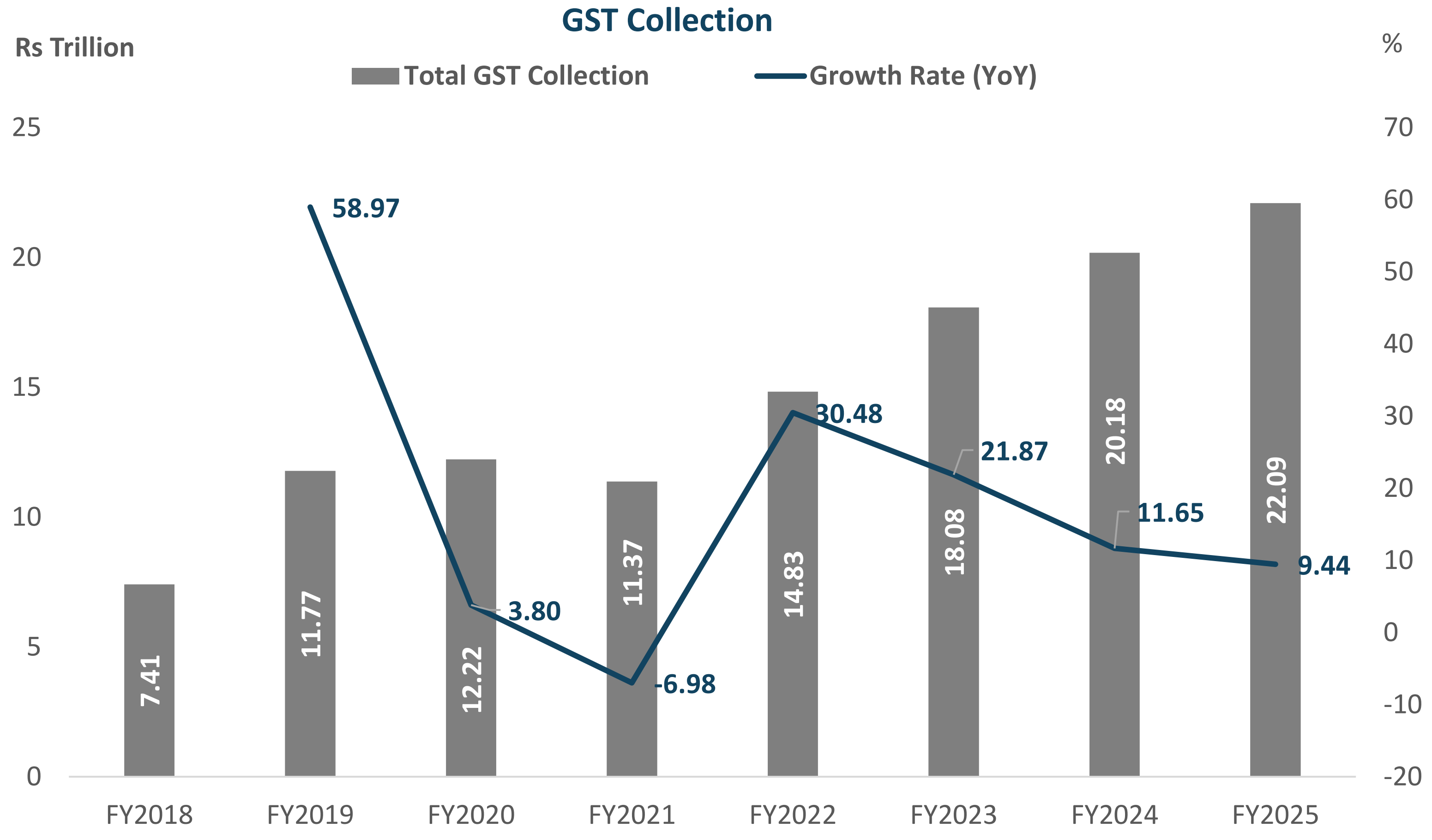
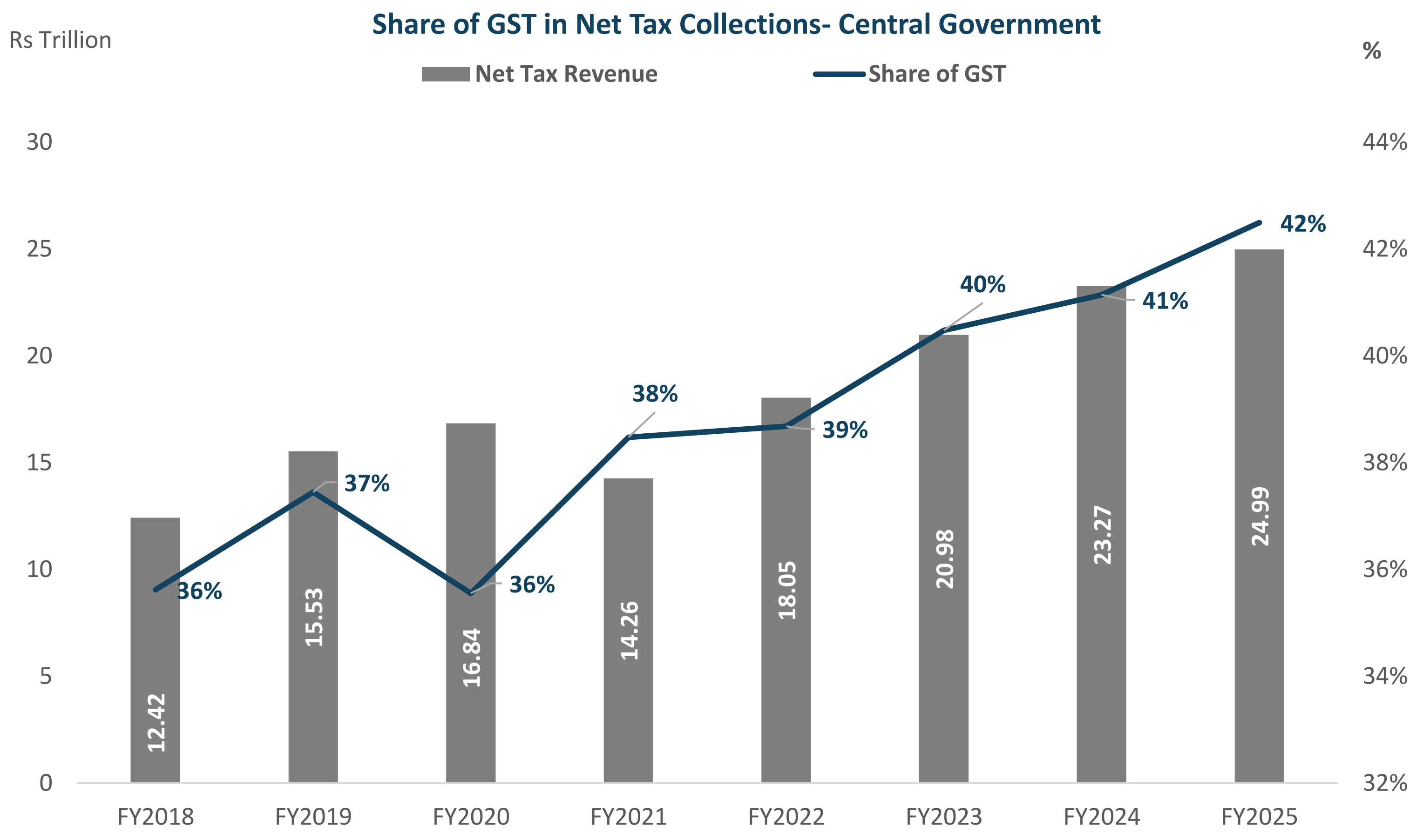
An Introduction to the GST

On July 1st, 2025, the Goods and Services Tax (GST) completed eight years since it's rollout. The GST was introduced in 2017, by replacing all the indirect taxes such as the VAT, with a single unified system. It is the biggest tax reform in Indian history and currently 1.52 crore businesses are registered under GST. GST has improved efficiency by reducing compliance burdens, business costs and logistics barriers of moving goods across states. In FY2025, GST collections hit a record high of Rs 22.09 trillion, marking a growth of 9.44% from FY2024 and a CAGR of 16.90% since FY2018.

8 years of GST Collection



Share of GST



Note: Share of GST in total taxes is the net proceeds of central GST

Source: GST Council, Union Budget, B2K Analytics

Key Events of GST Introduction: A Timeline

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The history of GST begins before it's implementation in 2017. A timeline of the events that led to the introduction of GST are listed below:

2000: PM Vajpayee created the concept of GST and created a committee to design the GST model

2003-04: The Fiscal Responsibility and Budget Management was created which suggested the introduction of GST

2006: The Union Finance Minister announced the introduction of GST from April 1, 2010, in the 2006-07 Budget Speech.

2009: The first paper discussing GST was released to examine it in detail

2011: The Constitution (115^{th} Amendment) Bill 2011 was introduced in parliament to amend the constitution to enable the implementation of GST

2011-13: The GST Bill was referred to a standing committee for a more detailed examination in 2011 which submitted its report in 2013

2014: The Lok Sabha dissolution led to the lapse of the GST bill

2014-15: The Constitution (122^{nd} Amendment) Bill, 2014 was introduced and passed in May 2015 to amend the constitution to introduce the GST

August 2016: The Constitution (101^{st} Amendment) Act was enacted which introduced the GST from July 1^{st}, 2017

September 2016: The GST council was created a constitutional body established to oversee GST implementation, and the 1^{st} GST council meeting was held

May 2017: The GST council approved the rules covering the details of GST and finalising the GST rates.

July 1, 2017: The GST is officially rolled out across India

Source: B2K Analytics

Key Events of GST post rollout

Significant Amendments to GST

April 2018: The e-way bills were introduced to monitor interstate movement of goods and reduce tax evasion

Oct 2019: E-invoicing was introduced for B2B transactions for large enterprises

June 2020: Covid relief was implemented including rationalisation of GST on medical supplies and essential goods

Nov 2021: GST returns simplified, including auto-populated data and introduction of dynamic QR codes for easy digital payments

March 2022: Trade facilitation by allowing additional modes of tax payment such as UPI

September 2024: GST council announces pilot launch of B2C e-invoicing in 2024-25 with full implementation by 2026-27 if successful

Source: B2K Analytics

Key Features of GST

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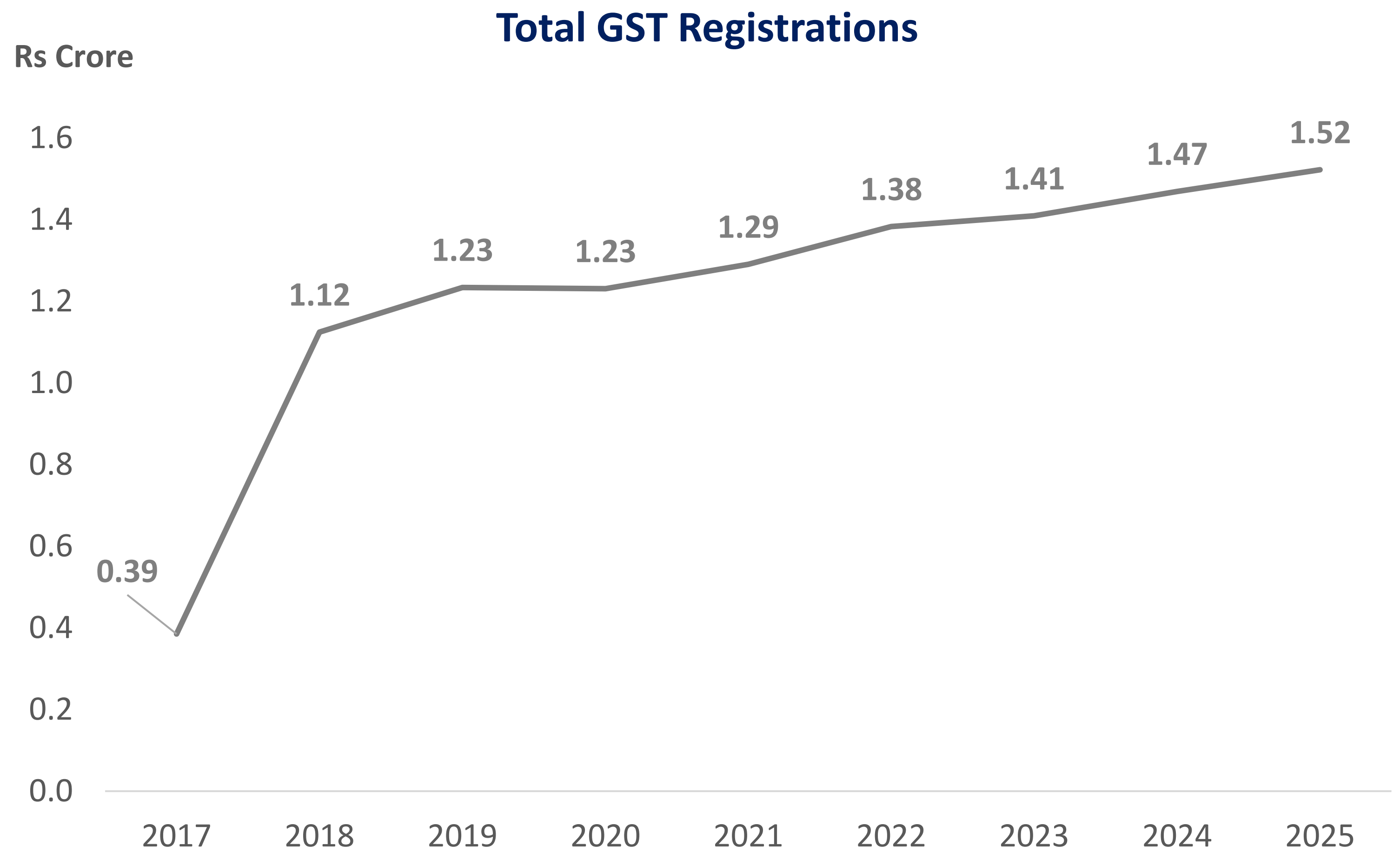
The GST system is a nation-wide indirect tax that was implemented with the goal of making India a unified market

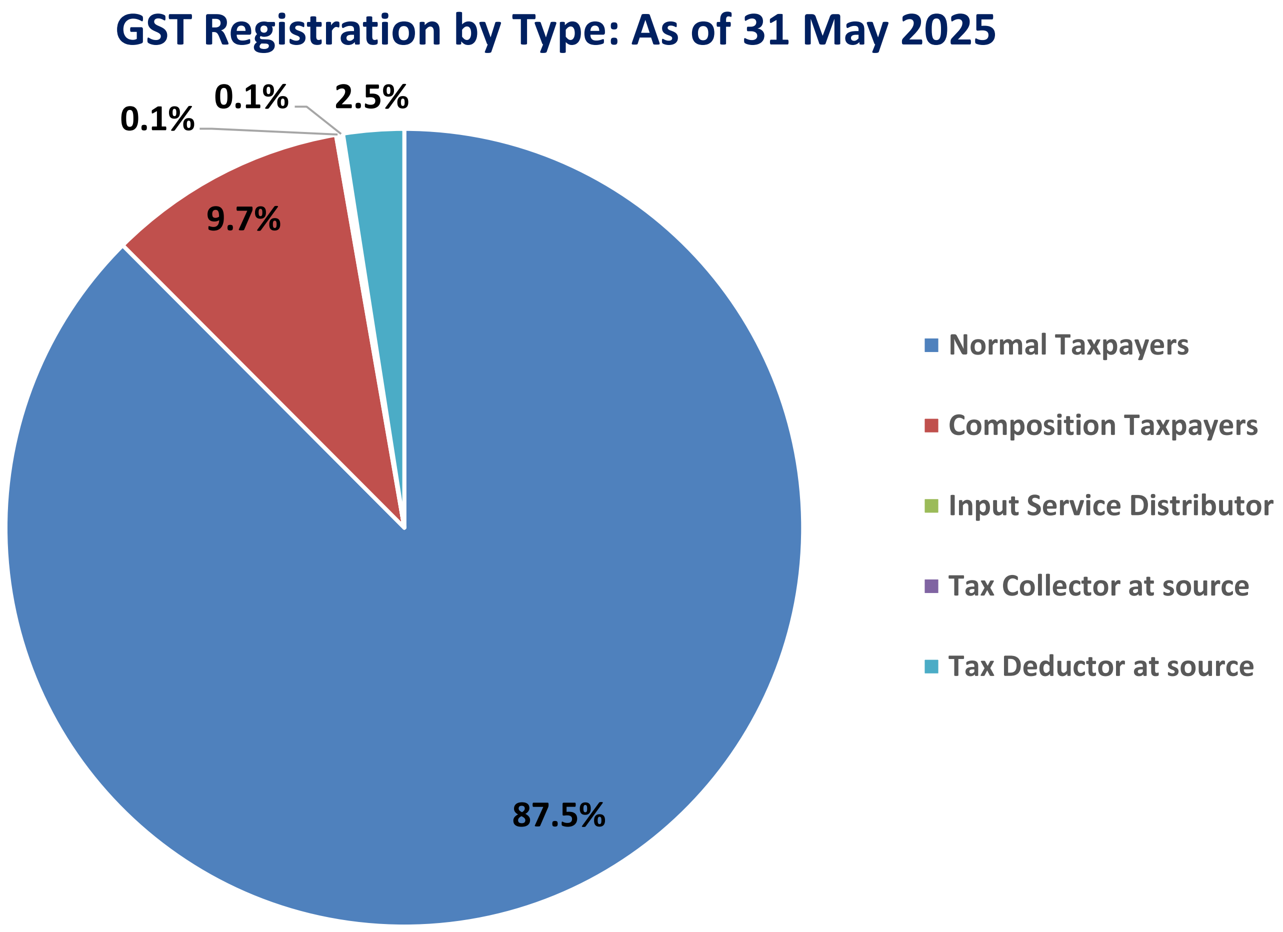
- **One Nation, One Tax**: GST replaced a wide range of indirect taxes with one tax system. It replaced taxes such as excise duty, service tax, VAT and others to have consistency in the tax system across the country.
- **Dual Structure**: The GST system is designed as a dual model system. For transactions within a state, it has the Central GST (CGST) and the State GST (SGST). For transactions between states, the Integrated GST (IGST) exists.
- **Destination-Based Tax**: Rather than at the origin, GST is charged at the point of consumption to ensure a smooth flow of tax credit across the supply chain. It also lowers the overall tax burden on the final consumer
- **Input Tax Credit (ITC):** Businesses can reduce their tax liability by claiming credit for inputs used in producing or supplying goods and services. This reduces costs for businesses and makes it easier for them to operate.
- **Threshold Exemption**: Small businesses that have a turnover below a certain threshold are exempt from GST. This makes it more efficient for small businesses to operate.
- **Composition Scheme**: Small taxpayers with a turnover below a set limit can pay GST at a fixed rate on their turnover to allow for less documentation and simpler returns.
- **Online Compliance:** All the steps of GST including registration and payments are done through the GSTN portal to improve efficiency and ease of doing business. Digitalization reduces error and fraud and speeds up filing, invoicing and other matters.
- **Sector-Specific Exemptions**: Essential service sectors such as healthcare and education are either exempt or taxed at lower rates to allow them to be accessible to all.
- **Account Settlement**: GST allows for efficient sharing of revenues between Centre and States to maintain fiscal balance and cooperation.
- **Multiple Tax Slabs**: GST is implemented at 5 different rates- 0%, 5%, 12%, 18% and 28%, with the GST council guiding product classification

Source: B2K Analytics

GST Registration

Since it's implementation, GST has had a massive uptick in registration. In 2017, only 38.51 lakh taxpayers were registered under GST, and by 31st May 2025, the registrations reached to 1.52 crore signifying its success at tax compliance and formalisation of the Indian economy. GST registrations have steadily increased over the years as more businesses have registered themselves for GST due to the rising digitization, making it easier to register and file for GST across the country.





Source: GST Council, B2K Analytics

Breakdown of GST Collection

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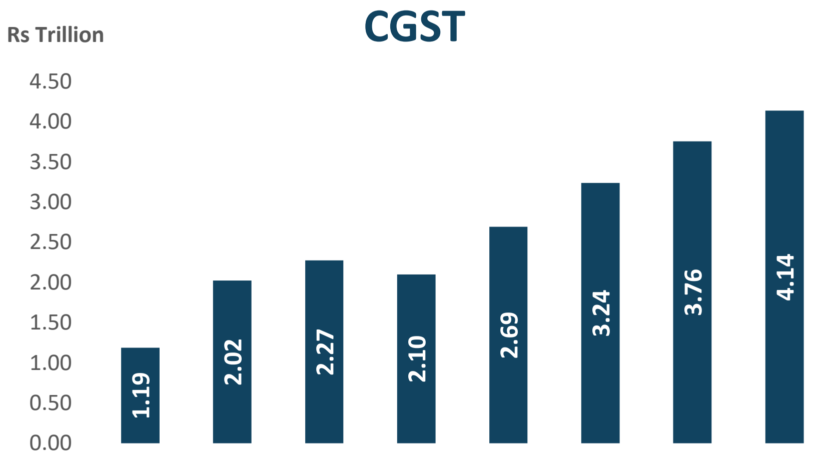
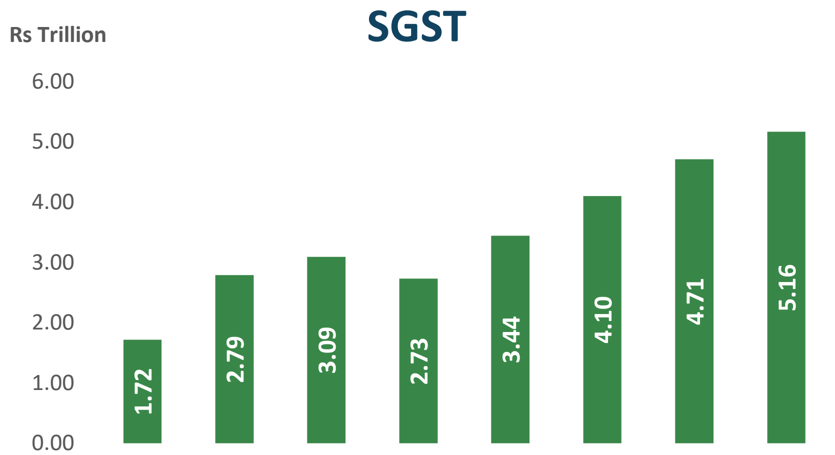
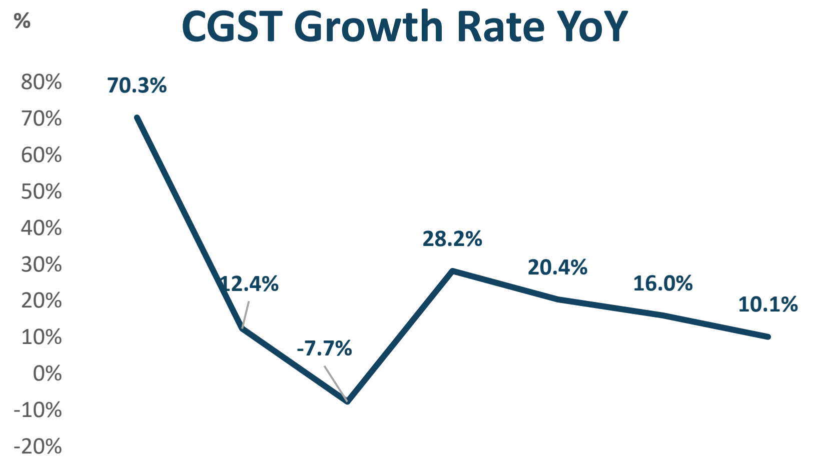
GST collection can be broken down into 4 categories:

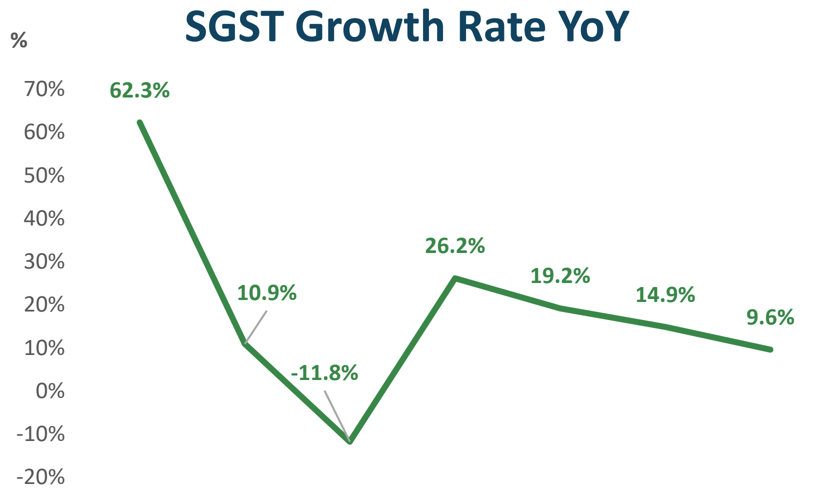
- **Central Goods and Services Tax (CGST):** It is levied by the Central government on transactions within a state.
- **States Goods and Services Tax (SGST) :** It is levied by the State government on transactions within that specific state.
- **Integrated Goods and Services Tax (IGST):** It is levied by the Central government on transactions between states and is applicable on import of goods and services into India.
- **Central Excise and Service Tax (CESS):** It is an additional levy imposed on certain goods such as luxury cars and aerated drinks to compensate states for any revenue loss from the implementation of GST.

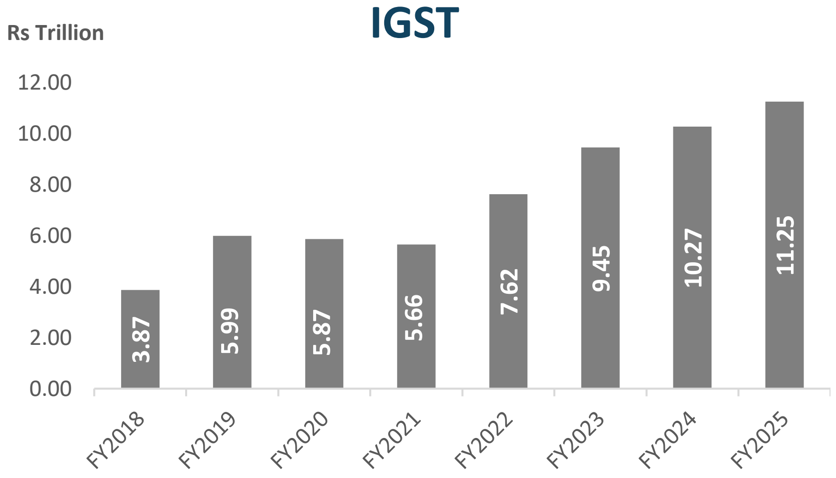
Observation: After showing sharp uptick since its implementation, the GST collections fell in FY2021 due to the slowdown in the economy caused by Covid pandemic and repeated lockdowns. Over the past few years, GST growth has moderated but remained consistently strong.

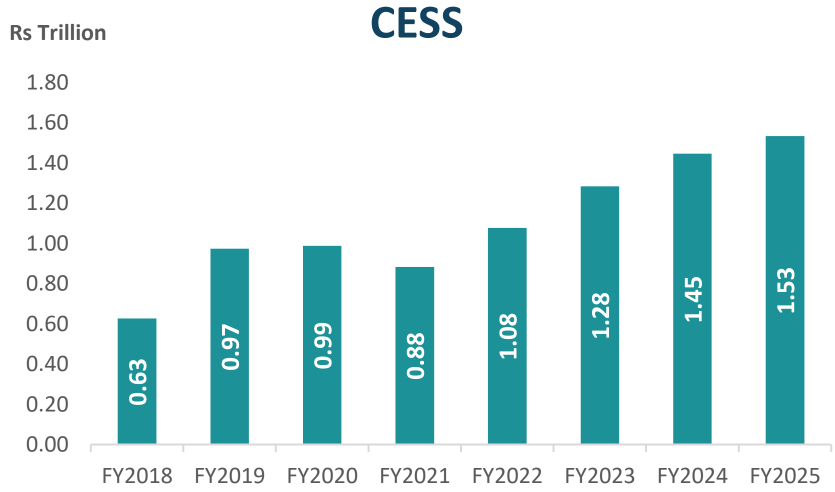


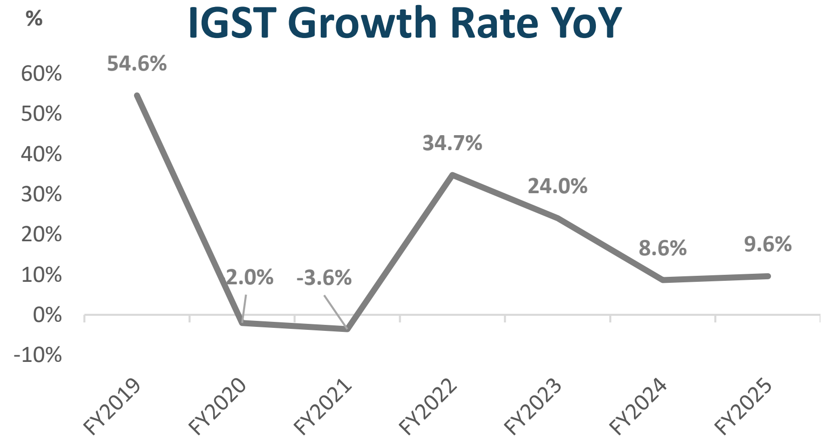


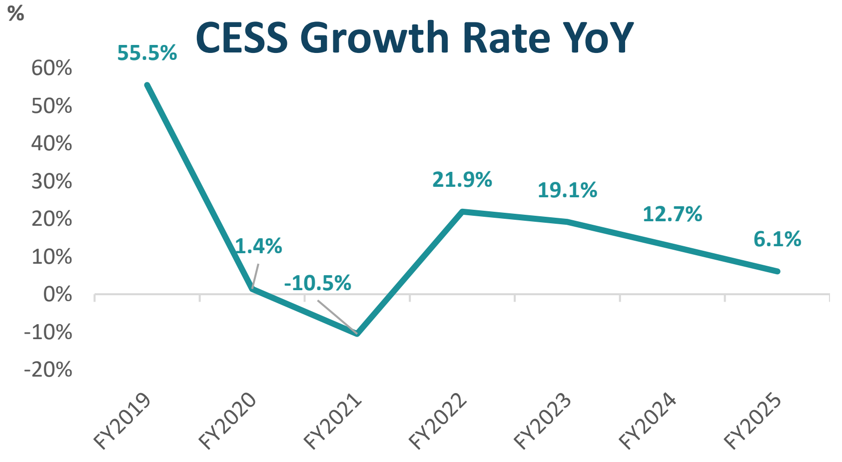








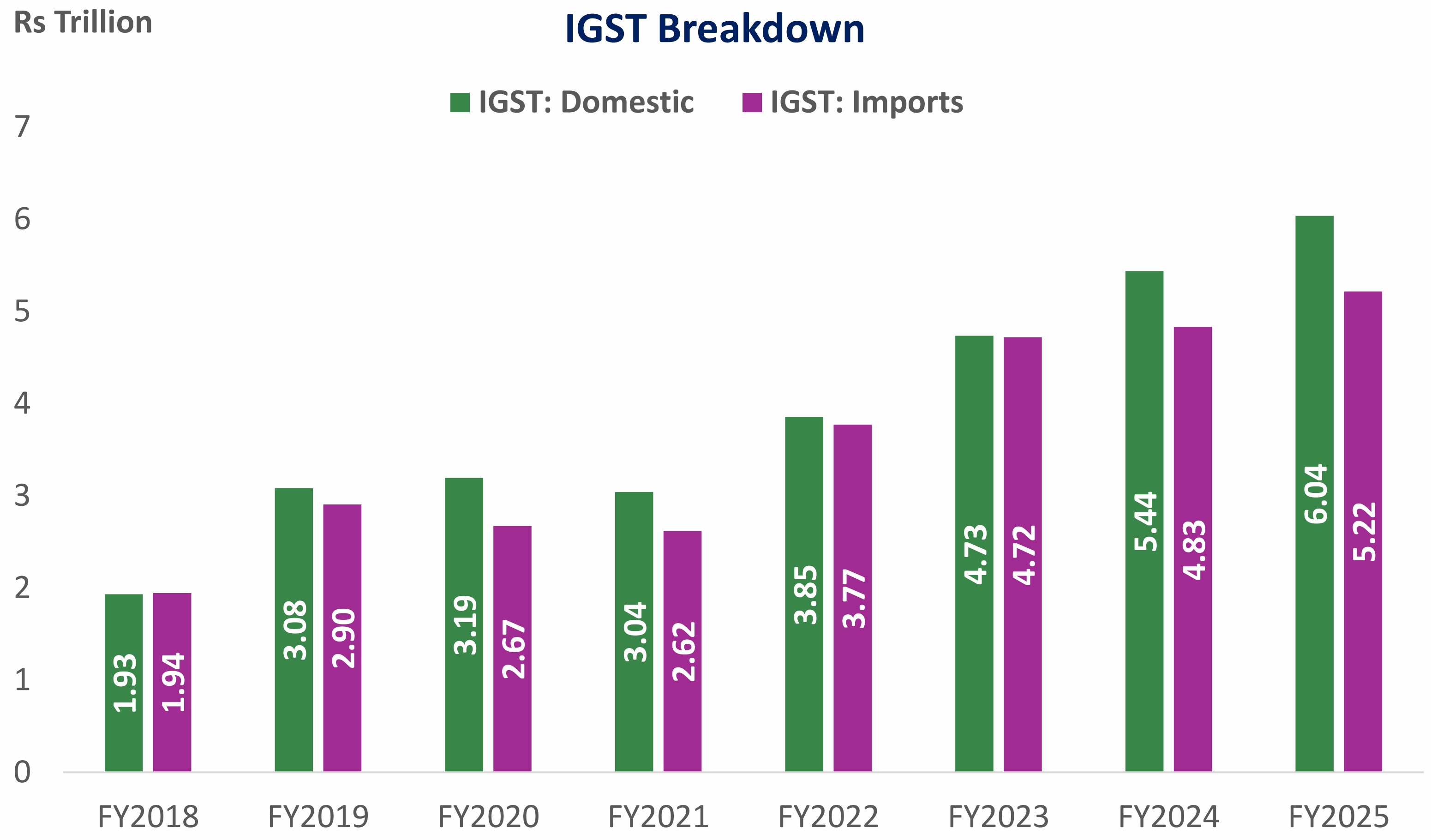


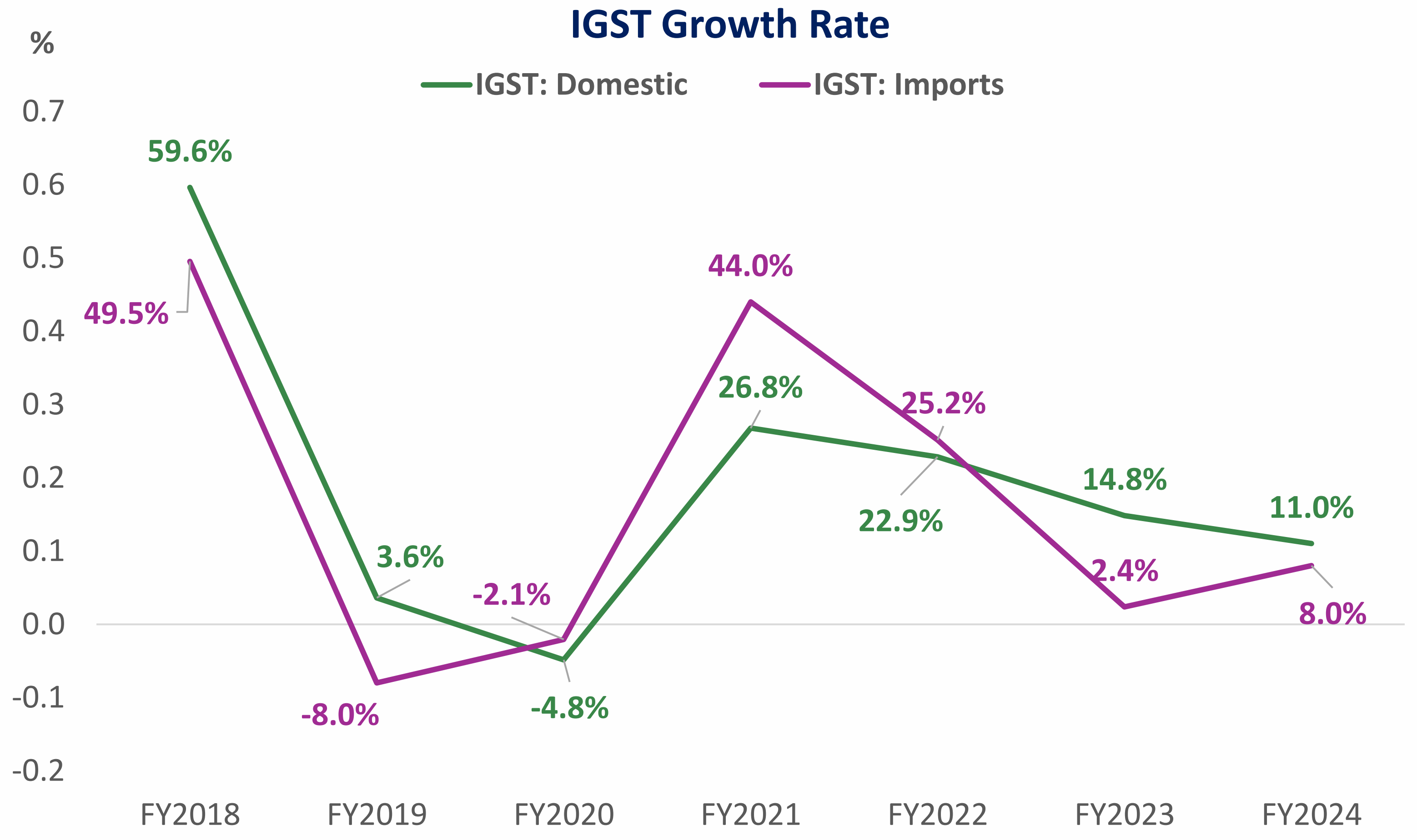


Source: GST Council, B2K Analytics

IGST Breakdown

IGST comprises the largest share at over 51% of the total GST collections and is collected on both domestic transactions and imports. Exports are treated as a zero-rated item which means exporters don't have to pay taxes on their sales. Zero GST on exports encourages exports and boosts trade. In FY2025, domestic IGST and imports comprise a similar share in total GST collection with domestic IGST comprising 27% of total GST collection and imports making up 24%.



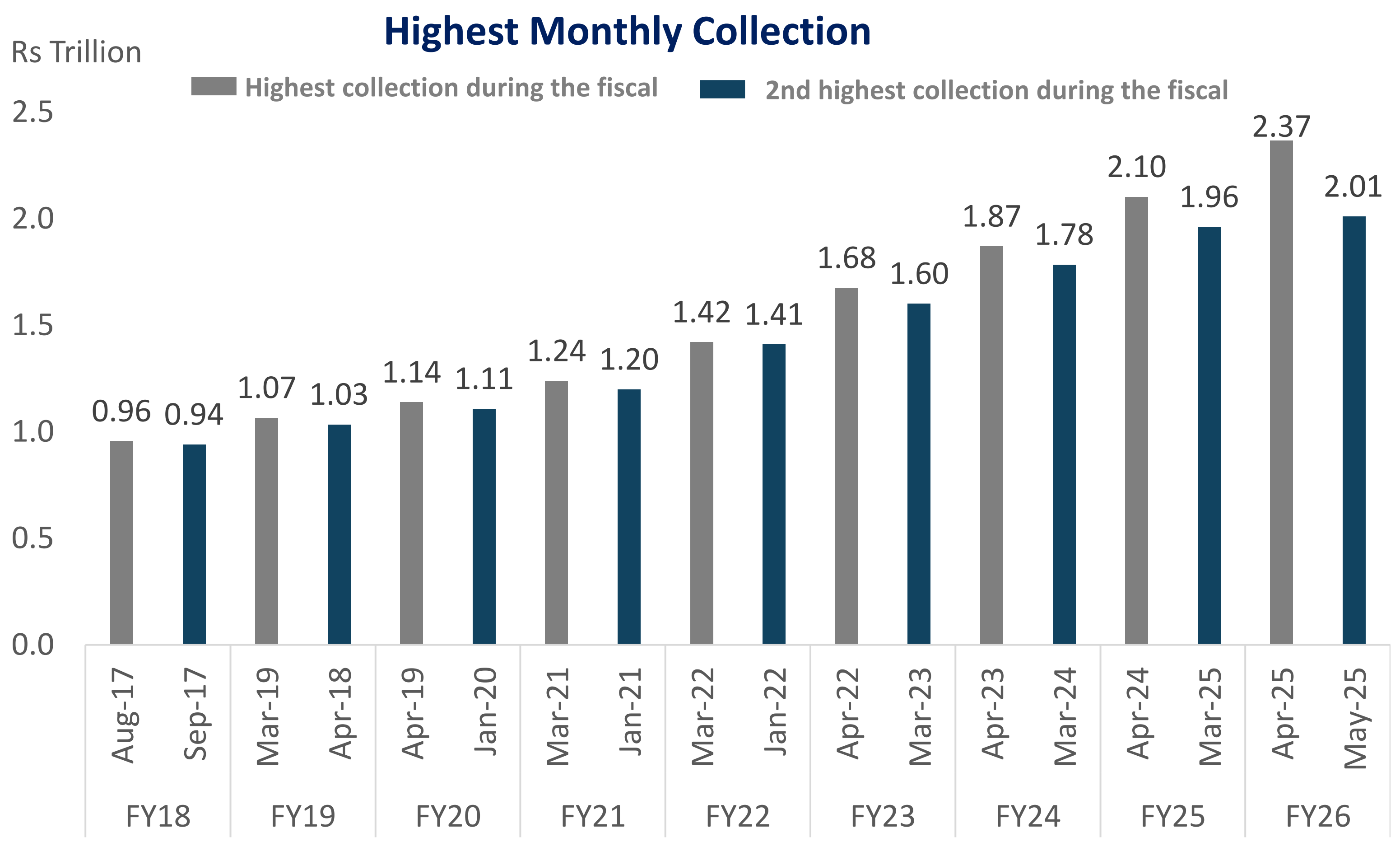


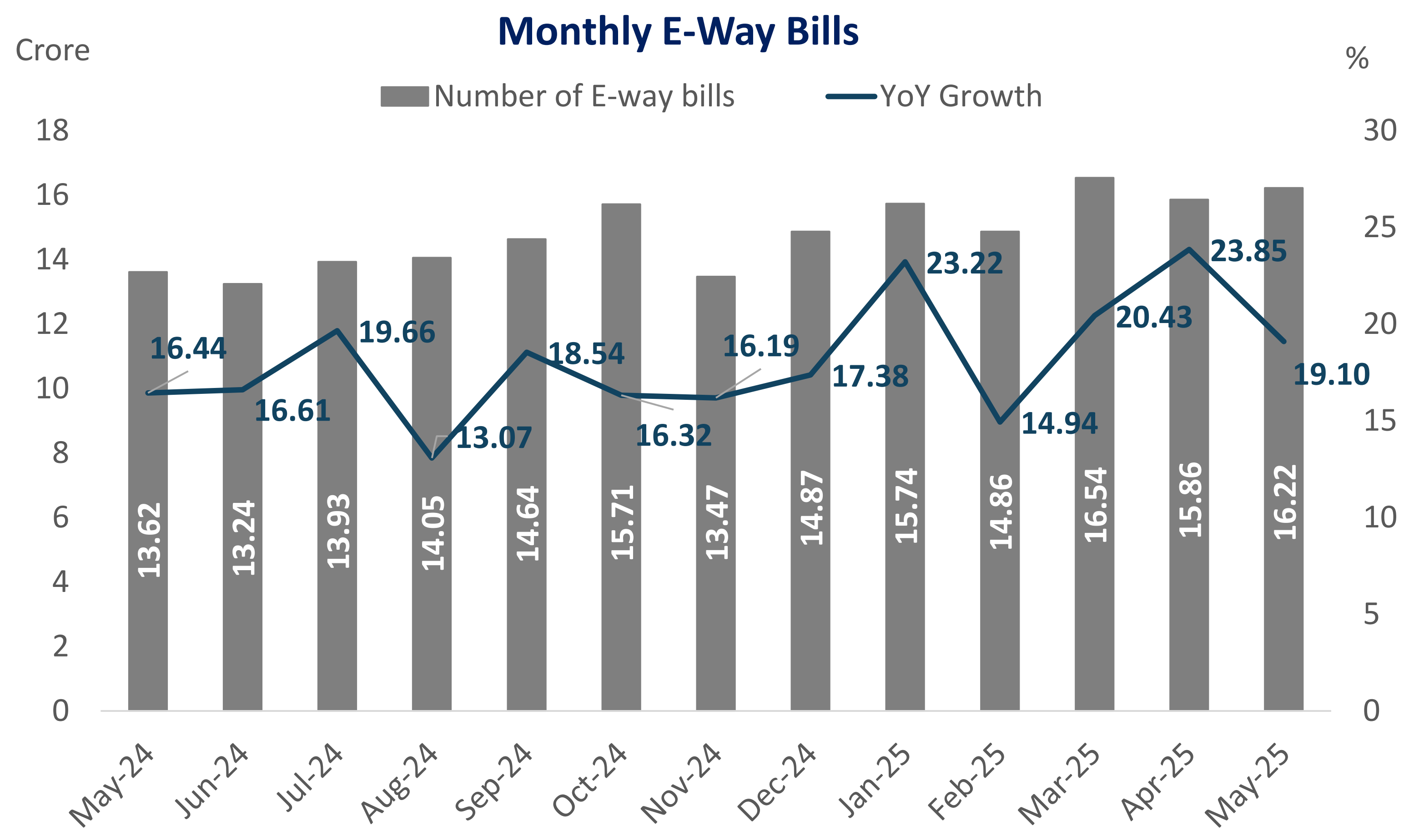
Source: GST Council

Trends in GST Collection and E-way bills

Highest GST collection: GST collection is often recorded at either the start or the end of the financial year. April is the most common month to show the highest activity in total GST collection. This surge is due to transactions that took place in March at the end of the previous financial year, as businesses scramble to meet year-end targets and settle their accounts. Also, economic activity towards the end of the year is also generally remains strong which is why April is often witness highest GST collections.

E-way bills: E-way bills are electronic documents confirming the movement of goods and are generated on the GST portal. Any shipment of goods worth Rs 50,000 or more that is travelling across states must generate an e-way bill. For the past financial year, the number of e-way bills generated have been consistent and witnessed double digit growth on a YoY basis. The increase in the generation of e-way bills reflects increasing compliance with the GST regime as businesses make sure to adhere tightly to GST rules to avoid being fined for non-compliance.





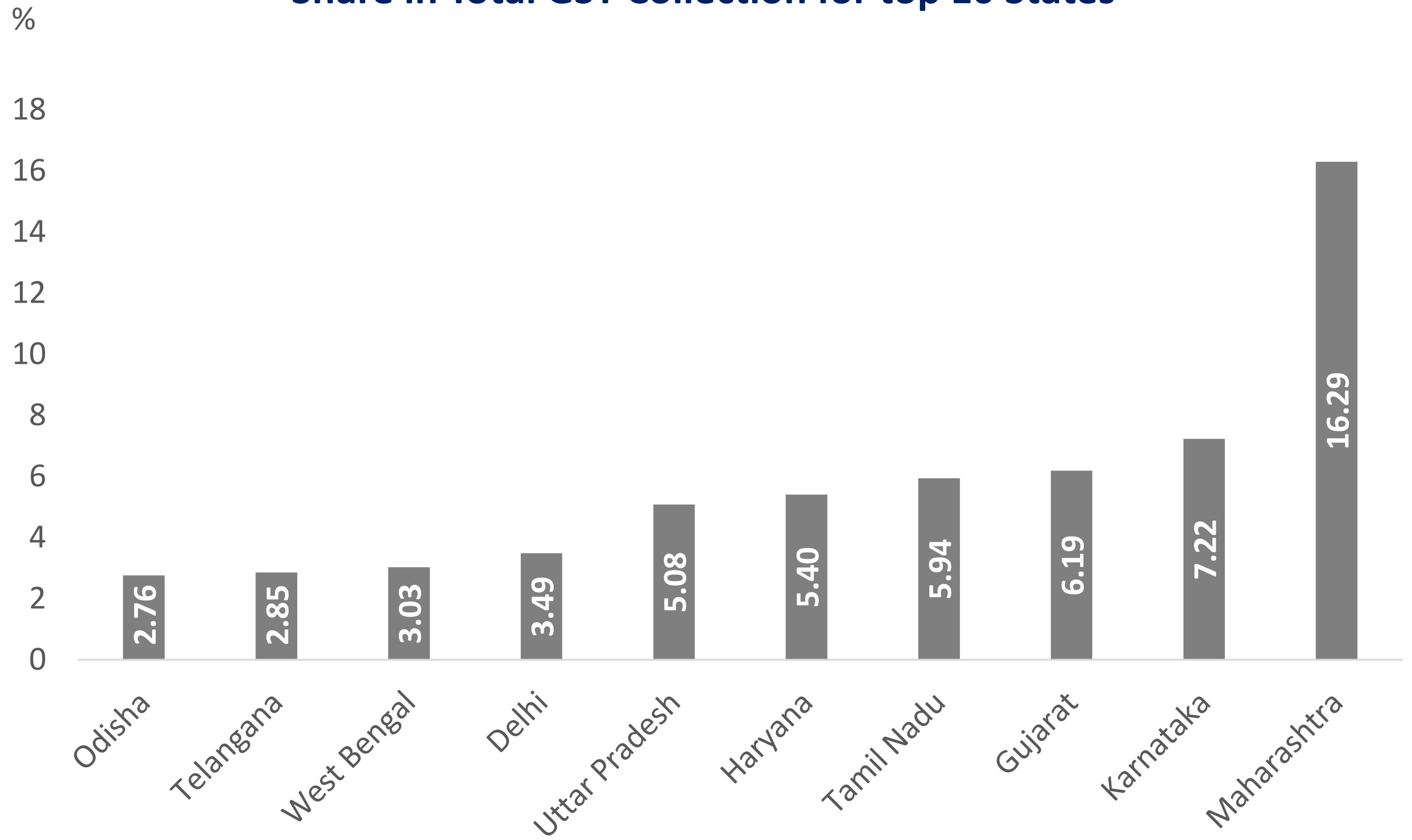
Source: GST Council

State wise GST Collection

State-wise GST collection shows that Maharashtra had the highest GST collection in FY 2024 and FY 2025. So far, it still has the highest in GST collection for FY 2026. Maharashtra's GST collection was driven by its industrial hubs and high consumption patterns. Maharashtra boasts several industrial hubs such as Pune and Mumbai which lead to significant growth. Maharashtra is an economic leader in India due to being one of the most industrialized states in India. Maharashtra's GST contributed 16% to total GST collection in FY 2025.

	GST Collection: Top 10 States (Rs Trillion)			
States	FY 2024	FY 2025	YoY Growth	FY 2026 Q1
Maharashtra	3.20	3.60	**12.41%**	1.04
Karnataka	1.45	1.60	**9.84%**	0.46
Gujarat	1.25	1.37	**9.25%**	0.38
Tamil Nadu	1.21	1.31	**8.07%**	0.37
Haryana	1.03	1.19	**15.98%**	0.34
Uttar Pradesh	1.02	1.12	**10.34%**	0.32
Delhi	0.66	0.77	**15.89%**	0.24
West Bengal	0.63	0.67	**6.83%**	0.20
Telangana	0.60	0.63	**5.08%**	0.17
Odisha	0.55	0.61	**11.29%**	0.16

Share in Total GST Collection for top 10 States



Source: GST Council, B2K Analytics

GST Implications

The GST has replaced many indirect taxes with one single tax . Such a bold reform is bound to have advantages and disadvantages.

Advantages

- **Eliminates cascading tax effect**: GST is an indirect tax that consolidates all previous indirect taxes under a single system and replaced taxes like VAT and service tax, This simplified the tax structure for businesses, by eliminating the cascading effect of multiple taxes on the same transaction.
- **Supports MSMEs:** Before the GST regime, thresholds under VAT and other state taxes were very low, making it difficult for small businesses to comply. Now, GST has set the threshold much higher with the limit set at Rs 40 lakhs for goods and Rs 20 lakhs for services. Companies with a turnover below these limits can choose whether to register for GST and pay tax or not. This allows small businesses to operate more freely.
- **Composition scheme for small businesses:** Under GST, smaller businesses can opt to pay a lower tax set at a fixed rate on their turnover allowing them to reduce their tax burden. Currently, the scheme covers goods up to Rs 1.5 crore and services up to Rs 50 lakh in annual turnover. Service providers with turnover of up to Rs 50 lakh can pay tax at a flat rate of 6 %.
- **Benefits Consumers**: GST is a consumer-friendly reform as it removed multiple taxes and maintains only one tax at the point of purchase leading to the average tax rate coming down and an increase in compliance. The government has also reduced tax rates on essential items making them cheaper to purchase.
- **Simple online procedures**: The various steps of GST such as registration and filing have all been digitalised making it easier for businesses to be able to file their returns and pay their taxes easily without having to run around trying to gather all the different forms. Digitalisation has also made it easier for startups to register and get off the ground.
- **Credit schemes for manufacturing:** Under GST, there are various mechanisms that can benefit a business. The Input Tax Credit (ITC) is especially beneficial for manufacturing companies as businesses can use it to deduct taxes on goods or services that are used for business purposes. This serves as a tax incentive for manufacturing companies to expand their business since they can reduce the cost of purchasing inputs.
- **Improved efficiency in logistics sector:** Under GST, the restrictions on movements on inter-state movement of goods have been lessened making it easier for goods to be moved across state lines and faster.

Source: B2K Analytics

GST Implications

GST came into effect after the first quarter of the financial year in 2017-18 on 1st July 2017. Businesses found it difficult to adjust to the new GST regime, as they were still following older tax structures, causing confusion and compliance issues initially. While businesses have adjusted to the new regime, yet they are still facing some challenges.

Disadvantages

- **Increased software costs**: To keep up with GST updates and GST suggested accounting, businesses need to make sure their accounting software are compliant with GST. The specialised GST-compliant software has additional costs of purchasing, installation, training and maintenance.
- **Not being GST-compliant causes penalties**: Small businesses can have difficulty in adapting to GST and figuring out the nuances. Poor compliance can lead to fines and penalties.
- **Excessive compliance burden**: Under the GST regime, the number of tax returns to be filed is significant. This increases the compliance burden especially for small businesses that must file multiple returns with strict deadlines to avoid paying fines. This can increase the administrative costs for small businesses who may need to hire individuals to help them handle all the required forms for GST.
- **Small businesses must choose:** When a business opts for the GST composition scheme, it becomes ineligible for the Input Tax Credit (ITC) scheme. This forces small businesses, especially manufacturers to choose between paying lower taxes or reducing their tax liability on inputs. For those without the resources, making this decision can be challenging.
- **Lower threshold for GST**: Under the previous excise duty system, a tax on domestically produced goods, only businesses with a turnover of Rs 1.5 crore or more had to pay tax. Now the threshold for GST has been brought down to Rs 40 lakhs brining more businesses under the tax net which has increased the burden on small manufacturing businesses.
- **Not equipped for new sectors**: Though the GST system is comprehensive, the current set of rules it follows does not equip it to track new software sectors that are just now emerging. Tax authorities have not yet developed a framework for collecting taxes from the digital value sectors of artificial intelligence or crypto-assets leading to a loss in revenue collection. New rules must be developed to be able to properly track and regulate these emerging sectors.

Source: B2K Analytics

Conclusion

GST regime has been active for 8 years and there is no denying that it has been a success. It has transformed the tax landscape and led to a huge expansion in registered taxpayers leading to a boost in tax collections. The GST has made tax collection and filing more efficient and eased the logistic difficulties in matters such as interstate trade of goods. It also aids small businesses through mechanisms such as the ITC and composition scheme. According to GST@8 report by Deloitte, 85% of respondents had a positive view of GST due to features such as its simplified and more transparent tax process, uniform procedures across states, ITC which helped reduce tax burdens and widespread use of digital platforms that eased the process. Across the sectors, positive perception of GST is incredibly high showcasing how successful it has been since its implementation. Despite its success, it is not fully efficient. Various challenges still exist which require reforms. Additionally, the current GST system is not equipped to handle the advent of new software technology sectors such as AI. They require new GST reforms to be able to properly collect tax from them. Simplifying GST system by reducing the number of tax rates, expanding its base, and leveraging digital tools could be a transformative step in addressing inefficiencies. India's tax-to-GDP ratio is 11.7% (FY2025), which is significantly lower than the 19-20% seen in developed nations. The GST which holds nearly 42% of the net tax revenue in India is effective in garnering income. Hence it needs additional focus as reforms are vital to addressing tax evasion and litigation issues.

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