

The Second Wave of Tax Reform: Projecting the Long-term Impact of GST 2.0 on India's Growth

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Abstract

Goods and Services Tax (GST), implemented in India in July 2017 GST 1.0, was a crucial reform of the indirect tax regime, which was intended to form a single national market, get rid of gushing taxation, and increase economic transparency. Although GST 1.0 has made significant milestones in tax harmonization and revenue collection, it had been criticized as complex to comply with, various tax rates, slow refund turnaround and lack of technological integration. A radical upgrade, the GST 2.0 in 2025, will solve these flaws by using artificial intelligence AI, automation, and streamlined operations. This paper will present an inclusive comparative study of GST 1.0 and GST 2.0, their economic, administrative, and social effects on India. The study based on secondary data of government reports, scholarly literature, and forecasted trends 2018 to 2028 indicates that GST 2.0 does not only increase revenue growth and compliance efficiency but also improves the general wellbeing of the people greatly because of lower prices, quicker refunds, and better formalization. The study concludes that GST 2.0 is a crucial move in the right direction to a fairer, better, and digitally approved fiscal ecosystem, whose impact goes deep into sustainable development and inclusive growth in India.

Keywords:

GST 1.0, GST 2.0, Indian Economy, Tax Reform, Economic Impact, Compliance, Digitalization, Public Wellbeing, Formalization, Fiscal Policy

1. Introduction

Taxation in India has had profound economic implications. The country was using an imbalanced system of indirect taxation before 2017, with several levies at the central and state level, resulting in tax on tax falling, economic changes, and inefficiency in the administration system. The implementation of the Goods and Services Tax (GST) on July 1, 2017 was dubbed as GST 1.0 because it was seen as a historic reform, which would streamline the taxation system, create a single national market, and make doing business easier (Kumar & Sharma, 2021). GST 1.0 aimed to make compliance easier, cut the cost of logistics and enhance transparency by consolidating over 17 central and state taxes into one tax. GST 1.0 aimed at making compliance simple, lowering the cost of logistics and enhancing transparency. Nevertheless, the introduction of GST 1.0 demonstrated that there were some structural and operational issues. These were a multi rate complex structure, high compliance cost to small and medium enterprises (SMEs), technical glitches in the GST Network (GSTN), slowness in input tax credit refunds, and tax classification ambiguities (Sharma, 2020). These problems were not just a problem in terms of business efficiency but the domino effect on consumer prices and economic sentiment. The Indian government, in turn, launched GST 2.0 in 2025, which is a modified form of the tax system, aimed at leveraging the benefits of digital innovation, artificial intelligence, and process re-engineering. GST 2.0 seeks to streamline compliance, make returns easier, speed up refunds, and improve data analytics to improve policymaking (Singh, 2023).

The paper will take a comparative analysis of GST 1.0 and GST 2.0 with particular attention paid to its economic, administrative and social effects. It also examines the consequences of GST reforms to the wellbeing of people, which are not well addressed in the existing literature. The work is organized in the following way: Section 2 is a review of the relevant literature, Section 3 presents the research objectives, Section 4 is the description of the methodology, Section 5 is the results and discussion section with detailed impact analysis, Section 6 is the discussion of the limitations and the future directions of the research and Section 7 is the conclusion.

2. Literature Review

2.1 GST 1.0: Foundations and Limitations

GST 1.0 has received a lot of scholarly and policy attention. Experts are united in their opinion that it managed to establish a unified tax base, ease the barriers on interstate trade, and enhance tax compliance with the help of digital reporting (Rao, 2021). Empirical evidence shows that GST 1.0 has helped to increase the tax revenue gradually, the gross GST collection increased by about 7.41 lakh crore in 2017 & 18 to more than 14.18 lakh crore in 2022 & 23 (Ministry of Finance, 2023). Tax evasion was also minimized and the supply chain efficiency was enhanced by the introduction of the e way bills and the input tax credit mechanism (Chakraborty and Banerjee, 2022). However, GST 1.0 received some remarkable criticism. The various slabs of tax (0 per cent and 5 per cent and 12 and 18 and 28 per cent) resulted in controversy in classification and high costs of compliance and particularly to SMEs. The complexity of submitting multiple returns (GSTR 1, GSTR 2, GSTR 3B) imposed a strain on business, and the slow processing of the refund impacted working capital cycles (Sharma, 2020).

2.2 GST 2.0: Innovations and Expected Outcomes

The small traders were not inclusive due to the digital divide and technological illiteracy of small traders that constrained the inclusive capability of GST 1.0. 2.2 GST 2.0: Innovations and Expectancy GST 2.0 is based upon the infrastructure of GST 1.0, but adds some transformative characteristics to it. Important innovations are: Automated e invoicing: Mandatory to companies over a specific turnover, minimizes errors in filling out manual forms and enhances payments. unified return filing: Only one monthly return to make compliance easier. Artificial intelligence powered analytics: In fraud and risk management. instant refund: Automated validation and sanctioning. Lower tax rates: Transition to two-or-three-rate system to make the regime simpler (Singh, 2023). as Chakraborty and Banerjee (2022) put it, these reforms will help considerably lower compliance costs, increase transparency, and speed-up solemnization of the economy. Estimates indicate that GST 2.0 will expand the taxpayer base by between 25 and 30 percent within the next five years and enhance compliance rates to more than 95 percent (Table2.docx).

2.3 GST and Public Well being

An Emerging Discourse As most of the studies are concerned with economic and administrative effects, an increasing literature on the social effect of GST is being discussed. Taxes such as GST have indirect impacts on the consumer prices, household budgets and purchasing power. GST 1.0 and its various slabs and exemptions were both a blessing and a curse: In its turn, the much-needed goods were taxed less, yet the variety of regular products and services were initially subject to price increases (Rao, 2021). The simplicity in the structure and technology

that has led to efficiency in GST 2.0 is likely to reduce the compliance costs of businesses and this may be translated into reduced prices by consumers. In addition, faster refunds and input tax credits enhance cash flows to SMEs and sustain employment and livelihood (Singh, 2023).

2.4 Research Gap

There is a paucity of comparative research on GST 1.0 and GST 2.0, primarily on long-term economic and social impacts. Also lacking is the research that has combined revenue data, compliance trends and wellbeing indicators into a single analysis tool. This research paper is going to address these gaps by giving a comprehensive analysis based on both historical and projected data.

3. Research Objectives

The study of economic and administrative effects of GST 1.0 and GST 2.0 in India. Assess the consequences of GST changes on the major macroeconomic variables, such as revenue growth, inflation, and formalization. Evaluate the effects of GST 1.0 and GST 2.0 on the wellbeing of the populace, including the consumer prices, compliance ease, and sustainability of the SMEs. Examine the trends and forecasts between the years 2018 and 2028 to forecast the long-term effect of GST evolution.

4. Methodology

The study will use a mixed methods design, which is a qualitative study of the policy and a quantitative study of the trends. Secondary Data, GST taxpayer base, GST compliance rates, and GST revenue collections of the Ministry of Finance, GST Network. Policy Documents, Official notifications, committee reports, budget documents of GST 1.0 and GST 2.0. Peer reviewed articles of Scopus indexed journals, books, and working papers. Predicted Data, 2024-2028 Projections in accordance with attached documents and economic modelling.

Side by side analysis of GST 1.0 and GST 2.0 in terms of economic, administrative and social parameters. Trend Analysis: Analysis of the trends in revenue, compliance, and business registration in 2018-2028. Thematic analysis of policy documents and academic literature to determine the most important effects and perspectives of the stakeholders. Visualization of data trends and comparisons with the help of charts and tables. Results and Discussion Revenue and Revenue Growth Trends. Both central and state governments have taken GST as a serious source of revenue. Revenue collection under GST 1.0 has been experiencing consistent growth albeit temporary backslides in a COVID 19 pandemic. Table 1 shows that the GST revenue has grown at an average rate of about 10 per year by increasing the revenue by 90,000 crores per month in 2018 to 145,000 crores per month in 2023.

Table 1 Monthly GST Revenue and Compliance (2018 to 2023)

Year	Revenue (INR Crores)	YoY Growth (%)	Compliance (%)	Key Events
2018	90,000	–	72	Initial rollout, teething issues
2019	105,000	16.7	75	Increased adoption, system stabilization
2020	102,000	-2.9	70	COVID 19 lockdowns, economic slowdown
2021	115,000	12.7	78	Recovery phase, improved filings
2022	130,000	13.0	82	E way bill enforcement, compliance drives
2023	145,000	11.5	85	GST 2.0 pilot begins

It is estimated that GST 2.0 will increase revenue growth faster because compliance will be enhanced, the tax base will be expanded, and the level of revenue evasion will be reduced. It is projected that monthly collections will hit [?]226,000 crores by 2028 (Table2.docx). Such expansion is likely to enhance fiscal stability and give governments more funds to spend on infrastructure, health and education.

5.1.2 Effect on Price Stability and Inflation:

Inflationary effects were one of the greatest issues of the implementation of GST 1.0. Changes in tax rates and the compliance costs caused a short-term rise of price on some goods and services as a result of the transition to GST. But in the long term the competence increases and omission of cascading taxes assisted in stabilising prices. Research shows that GST 1.0 led to a medium rise in the Consumer Price Index (CPI) in the first place, but it levelled off in two years (Rao, 2021). The simplicity of the GST 2.0 rate structure and use of computers in the processes is likely to drive down the costs of compliance to businesses. This may reduce the eventual cost of goods and services to the advantage of consumers. In addition, real time data analytics provided under GST 2.0 will allow tracking of increased trends with greater receptiveness in order to adjust fiscal changes. 5.1.3 Economization of the Economy. GST has played a key role in formalization of the largely relaxed Indian economy. With GST 1.0, the registered businesses grew to more than 14 million in 2023 after having grown to 6.8 million in 2017. GST 2.0 is likely to increase this trend where registered businesses are expected to hit 87 million by 2028 (Table2.docx). The integration of GST with other digital projects such as Aadhaar and UDYAM registration will also make formalization more difficult.

5.2 Administrative Impacts

5.2.1 Compliance Cost and Ease of Doing Business.

GST 1.0 introduced a computerized compliance model but it faced criticism because of its complexity. Businesses were required to make numerous returns, and, as a result, compliance costs were high in particular with the SMEs. GST 2.0 is the solution to this problem, as it is a simplified version of the return with one form and automated data filling with the help of the e invoices. The returns will be auto-filled using AI-assisted tools on the basis of transactions, minimizing the human input and mistakes.

Table 2: Comparative Compliance Metrics

Parameter	GST 1.0	GST 2.0
Number of Returns per Month	3+	1
Average Time for Filing (Hours)	8–10	2–3
Error Rate in Filing (%)	15–20	<5
Refund Processing Time (Days)	60–90	7–14

These improvements will have a suggestive effect on boosting India in the ease of doing business index by the world bank, especially in the Paying Taxes category.

5.2.2 Technology Implementation and Digital Transformation

GST 1.0 has provided the foundation of digital administration of tax by use of GSTN portal. But, technical difficulties and inaccessibility to other systems were problematic issues. GST 2.0 is based on the latest technologies, including AI, machine learning, and blockchain to ensure the safety of data exchange. The combination of e invoicing and accounting software and bank systems will make end to end automation and minimize scam and progress transparency.

5.3 Social Effects and Social Welfare

5.3.1 Welfare of the Consumers and the price effects

There are indirect taxes that have a direct impact on domestic budgets. GST 1.0 was an effort to protect the consumers by exempting or imposing reduced charges on basic products such as food grains, medical care, and education. But the multiplicity of rates brought about illusion and the anti-profiteering processes were not always effective in achieving price cuts. The simplified rate structure of GST 2.0 will tend

to make the prices more predictable and transparent. Also, the compliance costs can be reduced, and trades can transfer benefits to the consumers. As an example, the cash flows can be reimbursed by faster input tax credit refunds, which can be used to lower prices or provide higher quality services.

5.3.2 Small and Medium Enterprises (SMEs) Impact

The Indian economy is comprised of SMEs that have more than 110 million employees. GST 1.0 presented some challenges to SMEs as a result of the complicated compliance requirements and sluggish refunds. There are numerous small businesses that opposed due to the digital literacy and the expense of the compliance software. GST 2.0 also comes with a number of measures that are SME friendly such as increased compliance edge: Increase in exemption limits. It made returns easy: A single monthly return of auto populated data. Instant refunds system particularly to the exporters and small tax payers. offline business tools in low digital access regions. all these are likely to ease the compliance burden, enhance liquidity and attractiveness of SMEs, which will support the growth in employment and inclusivity.

5.3.3 Equity and Regional Dissimilarities

The GST is a destination tax, i.e., income accumulates to consumer states. This has raised the issue of loss of revenues by manufacturing heavy states. GST 1.0 was provided with the compensation mechanisms to the states; however, they were temporary. GST 2.0 is meant to resolve the regional disparities by sharing revenues in a more reasonable way and providing more assistance to less developed states in infrastructural development in the digital domain. Furthermore, the data analytics competences of GST 2.0 will allow pursuing interstate trade better and assist in identifying and tackling the imbalance in the economic activity and tax collection in the region.

5.3.4 Openness and Confidence in Government

One of the effects of GST on social life is that it is contributing to the transparency and decreased corruption. GST reduces possibilities of tax evasion and corruption by eliminating human element and discretion in the tax processes through digitization. The aspect is further reinforced by GST 2.0 real time analytics and fraud detection systems, which organize the trust of the population in the tax system and governance.

6. Limitations and Future Research

Although this research is a broad based analysis, it is limited in some ways. To begin with, the GST 2.0 forecasts are guided by forecasts and assumptions which will vary with the economic conditions. Second, the social impact analysis is based on the secondary indicators, primary survey data regarding consumer experiences and SME challenges would be more informative. Third, the research is conducted on the national level trends; it should be researched more on the state level trends. Future studies ought to investigate Longitudinal research of the effect of GST on various industries (e.g., manufacturing, services, agriculture). contextual research of the effect of GST on household consumption behavior. comparative research of the effect of GST on Sustainable Development Goals (SDGs), especially poverty reduction and inclusive growth.

Conclusion

The GST 1.0 to GST 2.0 expedition is a significant step in the tax policy of India that is glittering with a learning-oriented policy reform. GST 1.0 was able to harmonize the taxation system, improve transparency and provide a digital platform on which contemporary tax administration can be built. Nevertheless, it was too complex and had too many compliance requirements to realize its potential. GST 2.0 is a technologically advanced, user-oriented update, which fills the gaps of its predecessor. It will help increase revenues, decrease compliance costs, and formalize the economy, which will be made more efficient through the automation, universalization, and AI-powered analytics. Notably, GST 2.0 has far reached consequences to the wellbeing of the people, it can also reduce the prices to consumers, boost SMEs, bridge gaps between regions, and establish confidence in governance, as India aims to grow into a 5 trillion economy. GST 2.0, based on the legacy of GST 1.0 is set to be very instrumental in this process, fostering sustainable growth, inclusive development and enhanced quality of life of every citizen.

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