United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

Evolution, Challenges, and Future Prospects of GST in India's Indirect Tax System

Dr. Sake Akkulanna
Lecturer in Economics, Government Degree College, Buttaigudem, Eluru district, Andhra Pradesh, India, Mobile Number:9949341164, E-mail: drakkul.sake@gmail.com

Article Received:12-02-2026 Article Modified:22-03-2026
Article Accepted:26-03-2026 Article Published:26-03-2026
DOI:10.37854/UIJMR.2026.3.1.323

Abstract

India's indirect tax system has undergone significant transformation over the decades, evolving from a complex and fragmented structure to a more unified and streamlined regime with the introduction of the Goods and Services Tax (GST) in 2017. GST represents one of the most comprehensive tax reforms aimed at subsuming multiple indirect taxes levied by the central and state governments into a single tax framework. This paper examines the historical evolution of India's indirect tax system, highlighting key milestones such as MODVAT and VAT, which laid the foundation for GST. It further analyzes the structure and objectives of GST and evaluates the major challenges faced during its implementation, including structural complexities, technological barriers, and compliance issues. The study also explores the economic and administrative impact of GST on businesses, consumers, and government revenue. Finally, the paper discusses future prospects and policy recommendations to enhance the efficiency and effectiveness of the GST system. The study adopts a descriptive and analytical approach based on secondary data sources.

Keywords: GST, Indirect Tax, Tax Reform, VAT, Indian Economy, Fiscal Policy

1. Introduction

Taxation plays a crucial role in the economic development of a country by generating revenue for public expenditure and promoting equitable growth. In India, indirect taxes have historically been a major source of government revenue. However, the pre-GST indirect tax system was characterized by multiplicity, complexity, and inefficiencies, leading to cascading effects and increased compliance burdens.

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

The introduction of GST marked a paradigm shift in India's taxation system by integrating various central and state taxes into a unified structure. It aimed to simplify the tax regime, improve compliance, and create a common national market. This paper explores the evolution, challenges, and future prospects of GST within India's indirect tax framework.

2. Objectives of the Study

1. To examine the evolution of India's indirect tax system.
2. To analyze the structure and objectives of GST.
3. To identify the major challenges in GST implementation.
4. To evaluate the impact of GST on the Indian economy.
5. To suggest measures for improving the GST system in the future.

3. Research Methodology

This study is based on a **descriptive and analytical research design**. It uses **secondary data** collected from government reports, journals, books, and official GST portals. The analysis focuses on interpreting existing data to understand the evolution, implementation challenges, and future direction of GST in India.

4. Evolution of India's Indirect Tax System

India's indirect tax system has evolved through several phases:

4.1 Pre-Independence Era

During the colonial period, indirect taxes such as customs duties and excise duties were major revenue sources. The system was primarily designed to serve colonial interests rather than economic development.

4.2 Post-Independence Era

After independence, India continued with a similar tax structure, with excise duty at the central level and sales tax at the state level. However, lack of uniformity across states created inefficiencies.

4.3 Introduction of MODVAT (1986)

Modified Value Added Tax (MODVAT) was introduced to reduce the cascading effect of taxes by allowing input tax credit on excise duties.

4.4 Value Added Tax (VAT) – 2005

VAT replaced the sales tax system and brought uniformity in taxation across states. It improved transparency and reduced tax evasion but still did not eliminate inter-state tax complexities.

4.5 Introduction of GST (2017)

GST was implemented on July 1, 2017, subsuming multiple taxes such as excise duty, service tax, VAT, and others into a single system.

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

Table 1: Evolution Timeline of Indirect Taxes in India

Year	Reform	Key Feature
Pre-1947	Colonial Tax System	Basic indirect taxes
1986	MODVAT	Input tax credit introduced
2005	VAT	State-level uniform taxation
2017	GST	Unified national tax system

5. Concept and Structure of GST

GST is a **destination-based tax** levied on the consumption of goods and services. It replaces multiple indirect taxes with a unified system.

Types of GST:

- **CGST** – Central Government
- **SGST** – State Government
- **IGST** – Inter-state transactions

Tax Slabs:

- 5%, 12%, 18%, 28%

GST Council:

The GST Council is responsible for making decisions regarding tax rates, exemptions, and policies, ensuring cooperative federalism.

6. Objectives of GST

- To create a **unified national market**
- To eliminate **cascading effects of taxation**
- To enhance **ease of doing business**
- To improve **tax compliance and transparency**
- To increase **government revenue efficiency**

7. Challenges of GST in India

7.1 Structural Challenges

- Multiple tax slabs leading to complexity
- Frequent policy changes

7.2 Technical Challenges

- Initial glitches in GST portal
- Complexity in return filing system

7.3 Administrative Challenges

- Coordination issues between central and state governments

United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 www.uijmr.in Impact Factor: 6.934 (SJIF) Vol-3,Issue-1 ;Jan,Feb & Mar),2026

- Lack of adequate training and awareness

7.4 Business-Level Challenges

- Compliance burden on small businesses
- Working capital blockage due to input tax credit delays

8. Impact of GST

8.1 Economic Impact

- Improved tax compliance
- Broadened tax base
- Increased transparency

8.2 Impact on Businesses

- Simplified tax structure
- Reduction in logistics costs
- Increased formalization of the economy

8.3 Impact on Consumers

- Reduction in tax cascading
- Price stabilization in certain sectors

8.4 Impact on Government

- Better revenue collection
- Improved monitoring through digital systems

9. Future Prospects of GST

The future of GST in India looks promising with several potential improvements:

- **Simplification of tax structure** (fewer slabs)
- **Inclusion of petroleum and electricity** under GST
- Increased use of **AI and data analytics** in tax administration
- Strengthening of **compliance mechanisms**
- Enhanced **digital infrastructure**

10. Suggestions and Recommendations

- Reduce the number of tax slabs for simplicity
- Improve GST portal efficiency
- Provide training and awareness programs for taxpayers
- Simplify return filing procedures
- Strengthen coordination between central and state authorities

11. Conclusion

The evolution of India's indirect tax system reflects a gradual shift toward simplification and efficiency, culminating in the introduction of GST. While GST has significantly transformed the taxation landscape by creating a unified system, it continues to face several challenges that need to be addressed. With ongoing reforms and technological advancements, GST has the potential to further strengthen India's economy and enhance fiscal governance. A balanced approach focusing on simplification, transparency, and stakeholder support will ensure the long-term success of GST.

References

Government of India. (2017). *GST Act and Rules*.

Reserve Bank of India. (2020). *Annual Report*.

Kelkar, V. (2009). *Report on Tax Reforms in India*.

Ministry of Finance. (Various Reports).

Garg, G. (2014). Basic Concepts and Features of GST in India. *International Journal of Scientific Research*.