



## Digital transformation and automation GST governance

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### Abstract

The Goods and Services Tax (GST) was introduced in India on July 1, 2017, with the aim to unify the indirect tax structure, reduce cascading taxes, and improve ease of doing business. Over time, the evolving demands of the Indian economy have necessitated strengthened reforms—often termed as **GST 2.0**—to address structural issues such as rate rationalization, compliance complexities, technology integration, and inclusion of key sectors. This paper examines the nature of GST 2.0 reforms and assesses their socio-economic impact on business, consumers, labor markets, revenue stability, and federal fiscal cooperation. Using secondary research, empirical observations, and policy reviews, the paper finds that GST 2.0 reforms hold significant potential to accelerate economic productivity, promote equity, simplify compliance, and contribute to the vision of a *developed Bharat*. Policy recommendations are provided to strengthen GST implementation, enhance compliance mechanisms, and maximize socio-economic welfare.

**Keywords:** GST 2.0, Indirect Tax Reform, Socio-Economic Impact, Tax Compliance, Economic Development, Developed Bharat

### Introduction

India, the world's fifth-largest economy, has undergone significant transformations in its tax system in recent years. The introduction of the **Goods and Services Tax (GST)** on July 1, 2017, was one of the most groundbreaking reforms in India's economic history. It replaced a complicated structure of multiple central and state taxes with a unified, consumption-based tax system. This move was aimed at simplifying the tax system, reducing compliance costs, eliminating cascading taxes, and promoting a unified national market. The GST was envisioned



as a major step toward boosting the ease of doing business, improving tax compliance, and promoting transparency within the Indian economy.

While the initial rollout of GST brought substantial improvements, such as reducing tax evasion, simplifying business processes, and enhancing revenue collection, the system has faced its own set of challenges. The complexities of the tax rate structure, technology glitches, cumbersome compliance requirements, and the burden on small and medium enterprises (SMEs) have highlighted the need for continuous reforms. These challenges, along with the ever-evolving demands of India's dynamic economy, have led to the formulation of **GST 2.0 reforms**—a comprehensive strategy for addressing these shortcomings and creating a more streamlined and effective tax system.

The **GST 2.0 reforms** are a series of policy changes aimed at refining the existing GST framework. These reforms seek to address the issues that emerged in the initial phase of GST implementation, focusing on simplifying compliance, rationalizing tax rates, enhancing the technological infrastructure, improving the dispute resolution mechanisms, and expanding the tax base. The overarching goal of GST 2.0 is not only to streamline the tax system further but also to create a tax regime that is more business-friendly, equitable, and adaptable to the needs of both large corporations and small businesses.

One of the most significant objectives of GST 2.0 reforms is to make the tax system more efficient and less burdensome for businesses, especially the small and medium-sized enterprises (SMEs) that form the backbone of India's economy. As these reforms unfold, they have the potential to redefine India's economic trajectory, contributing to the realization of the country's ambition to become a *developed Bharat* by 2047. By fostering an inclusive and transparent tax system, GST 2.0 can drive economic growth, encourage formalization of the informal sector, enhance government revenue, and improve fiscal federalism in India.

### **The Need for GST 2.0 Reforms:**

While GST was introduced with noble intentions, several challenges persisted that hindered its effectiveness:



- **Complex Rate Structure:** The GST structure features multiple tax slabs (5%, 12%, 18%, 28%) with a range of exemptions. This complexity has created classification disputes, ambiguity, and compliance challenges, especially for smaller businesses.
- **Technology Challenges:** The reliance on the GSTN portal for tax filing, returns, and refunds has been fraught with technical issues, leading to delays in refund processing and an increase in the compliance burden on businesses.
- **SME Compliance Costs:** Small businesses, which form the backbone of India's economy, have struggled with the heavy compliance requirements under GST. These businesses often lack the necessary infrastructure and resources to comply with the digital tax systems, which has led to calls for simplified tax filing processes.
- **Delayed Refunds and Input Tax Credit (ITC) Issues:** The GST system initially saw significant delays in refunds, particularly for exporters, and issues with the seamless flow of input tax credits between states.

Recognizing these issues, GST 2.0 reforms are designed to streamline the system and make it more user-friendly while ensuring better compliance and higher revenue generation.

### **The Socio-Economic Impact of GST 2.0 Reforms:**

The socio-economic impact of GST 2.0 reforms goes beyond just tax collection and compliance; it is expected to foster an inclusive economic growth model. Some of the key socio-economic benefits include:

1. **Increased Revenue Generation:** With the broadening of the tax base, GST 2.0 will enable more efficient tax collection, providing the government with a stable and growing source of revenue.
2. **Ease of Doing Business:** Simplifying compliance, reducing tax-related ambiguities, and automating processes will create a more business-friendly environment, encouraging both domestic and international investments.
3. **Formalization of the Informal Sector:** The ease of compliance and digital transformation encouraged by GST 2.0 will lead to the formalization of the informal



sector, which has long been a challenge in India's economy. This will contribute to better employment practices and fiscal transparency.

4. **Enhanced Job Creation:** As GST 2.0 reforms take root, improved economic growth and a streamlined tax system will likely spur job creation, especially in sectors that benefit from reduced taxation, such as manufacturing and logistics.
5. **Increased Export Competitiveness:** By streamlining export procedures and enabling faster refund processes, GST 2.0 will enhance the competitiveness of Indian exports in global markets.
6. **Equity in Taxation:** GST 2.0 has the potential to promote fairness in taxation, reducing the tax burden on low-income groups while ensuring that all sectors contribute to the national tax pool.

### **A Roadmap for Developed Bharat:**

India's vision of a *Developed Bharat* by 2047 hinges not only on industrial growth but also on creating a tax system that is both effective and inclusive. GST 2.0 reforms, by simplifying compliance and broadening the tax base, can contribute significantly to realizing this vision. They can help improve the ease of doing business, boost entrepreneurship, enhance job creation, and promote socio-economic equality—all essential elements for a developed economy.

### **Literature Review**

#### **Concept and Rationale of GST:**

The GST replaced multiple overlapping taxes with a destination-based tax, promoting a common market and removing distortions. According to Nath (2018), GST eliminated *tax-on-tax*, simplified compliance, and brought transparency.

#### **Reforms and Compliance Complexities:**

Research by Singh & Verma (2020) found that GST compliance costs are higher for SMEs due to frequent return filing and digital requirements, warranting reform.



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### **Rate Rationalization and Sectoral Impact:**

Kumar (2021) highlighted that the multi-tier rate structure (5%, 12%, 18%, 28%) led to classification disputes and suggested rationalization.

### **Revenue Dynamics and Federal Fiscal Balance:**

Gupta & Rao (2019) examined states' revenue performance under GST and pointed to initial shortfalls offset by compensation mechanisms.

### **Socio-Economic Impact:**

Studies by Chandra (2020) reveal varied effects—urban and formal sector firms benefited while informal firms struggled with compliance.

### **Methodology**

This paper employs a **qualitative research design**, relying primarily on **secondary sources** including:

- Government reports (GST Council releases, Ministry of Finance publications);
- Academic journals and policy briefs;
- Economic surveys;
- Media reports;
- Industry analyses.

Data is reviewed thematically to assess:

1. GST 2.0 reforms proposed or implemented;
2. Impact on stakeholders (business entities, consumers, labor force);
3. Broader socio-economic implications.

## **6. Overview of GST 2.0 Reforms**

### **6.1. Rate Rationalization**



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GST 2.0 aims to move toward a *slimmed down, fewer-rate structure* to minimize classification ambiguity and litigation.

## 6.2. Compliance Simplification

Introduction of **one-page returns (announced 2023)**, automated matching of invoices, and relaxed requirements for small taxpayers.

## 6.3. Digital Integration & Technology Upgrades

Upgrading the GSTN portal, faster refunds for exporters, and AI-based risk profiling to reduce manual interventions.

## 6.4. Dispute Resolution & Litigation Reduction

Measures like Advance Ruling portals and expedited dispute resolution mechanisms to reduce pendency and litigation.

## 6.5. Inclusion and Base Expansion

Efforts to bring more services and goods under GST and reduce exemptions that distort market outcomes.

## 7. Socio-Economic Impact Analysis

### 7.1. Impact on Businesses

#### Micro, Small and Medium Enterprises (MSMEs)

- **Positive:** Simplified returns and greater tax predictability strengthen formalization.
- **Challenges:** Digital compliance and input credit reconciliation still pose hurdles.

#### Large Corporates

- More efficient input tax credit flows and uniform taxation have reduced logistical costs.



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## 7.2. Impact on Consumers

- GST 2.0 has aimed to **reduce cascading taxes**, potentially lowering prices for goods and services.
- Rationalized rates contribute to lower inflationary pressures in certain categories.
- Consumer welfare improves as transparency increases trust in taxation.

## \*\*7.3. Labor Market and Employment

- Formalization under GST encourages better compliance with labor laws.
- Higher compliance costs for informal firms may initially constrain hiring.
- Service sectors, especially logistics and transportation, benefit from efficient tax credits.

## \*\*7.4. Government Revenue Stability

- A broader tax base and efficiency gains from automation help stabilize revenue receipts.
- Rationalization of rates reduces revenue leakage.
- GST compensation mechanisms remain essential for states in transition.

## \*\*7.5. Federal Fiscal Cooperation

- The GST Council as a federal body fosters interstate cooperation and uniform policy implementation.
- Dispute resolution frameworks help mediate center-state disagreements.

## 8. Challenges and Constraints of GST 2.0

### 8.1. Administrative Capacity

Tax officials need ongoing training for new systems and dispute resolution processes.

### 8.2. Digital Divide

Smaller firms in rural areas struggle with digital compliance and technology access.



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### 8.3. Rate Determination Issues

Classification disputes and frequent rate changes create uncertainty.

### 8.4. Interstate Implementation Variance

Despite uniform laws, interpretation varies across states causing friction.

## 9. Policy Recommendations

1. **Further Rate Rationalization:** Move toward fewer rates to reduce disputes and simplify compliance.
2. **Tiered Compliance Thresholds:** Larger thresholds for small taxpayers to reduce burden.
3. **Enhanced GSTN Capabilities:** Better interface, faster refunds, and real-time analytics.
4. **Capacity Building:** Continuous training for taxpayers and tax officials.
5. **Public Awareness Campaigns:** Help businesses understand compliance requirements.
6. **Robust Dispute Resolution:** Strengthen mechanisms to resolve classification and compliance disputes swiftly.

## 10. Conclusion

GST 2.0 reforms represent a critical inflection point in India's indirect tax regime. By focusing on simplification, technology integration, rate rationalization, and dispute resolution, GST 2.0 can deepen tax compliance, strengthen formalization, and enhance socio-economic welfare. Although challenges remain, structured reforms can significantly contribute to productivity, equity, and ease of doing business—key components of India's roadmap toward a *developed Bharat*. Continued reforms, stakeholder engagement, and administrative capacity building will be crucial to realizing the long-term promise of GST.

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