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A Study on Central State Financial Inclusion Outcomes on GST

*¹RV Bala Shanmugam and ²Dr. MD Chinnu

*¹Student of B.C.A, LLB(HONS), School of Excellence in Law, Tamil Nadu Dr. Ambedkar Law University, Chennai, Tamil Nadu, India.

²Assistant Professor, Department of Economics, School of Excellence in Law, Tamil Nadu Dr. Ambedkar Law University, Chennai, Tamil Nadu, India.

Abstract

Financial inclusion has emerged as a key policy objective in India, aiming to integrate individuals and businesses into the formal financial system. The introduction of the Goods and Services Tax (GST) marked a significant fiscal reform jointly administered by the Central and State governments, with potential implications for financial inclusion outcomes. This study examines the role of Central and State-level GST implementation in promoting financial inclusion across India. It analyses how GST has influenced formalization of businesses, digital payment adoption, tax compliance, and access to banking and credit facilities, particularly among small traders and micro-enterprises. The study highlights variations in financial inclusion outcomes across states due to differences in administrative capacity, digital infrastructure, awareness levels, and policy execution.

Keywords: Financial Inclusion, GST Reform, Cooperative Federalism, Fiscal Decentralization, Tax Compliance, Digital Economy, GST Revenue Sharing, State Autonomy, Economic Equity, Inclusive Growth, Tax Administration, Centre-State Relations, Public Finance.

1. Introduction

Financial inclusion is a crucial component of inclusive economic growth, aiming to provide affordable access to financial services such as banking, credit, insurance, and digital payment systems to all sections of society. In India, both the Central and State governments have undertaken various initiatives to promote financial inclusion, especially among economically weaker sections, small businesses, and informal sector participants. A major structural reform in this direction was the introduction of the Goods and Services Tax (GST) in 2017, which unified multiple indirect taxes under a single tax framework through cooperative federalism.

GST represents a significant shift in India's fiscal architecture, jointly administered by the Centre and the States, with the objective of simplifying taxation, enhancing transparency, and broadening the tax base beyond revenue generation, GST has had wider economic implications, particularly in encouraging the formalization of businesses and increasing the use of digital platforms for tax filing and payments. This transition from the informal to the formal economy has direct relevance to financial inclusion, as registration under GST often necessitates bank accounts, digital transactions, and interaction with formal financial institutions.

2. Statement of Problem

Financial inclusion is central objective of India's development strategy, with the Central and State governments implementing various policies to bring individuals and businesses into the formal financial system. The introduction of the Goods and Services Tax (GST) was expected not only to simplify the indirect tax structure but also to promote formalization, digital transactions, and broader financial inclusion. Since GST is jointly administered by the Centre and the States, its impact on financial inclusion depends significantly on coordinated implementation and state-level capacity.

Despite the potential of GST to enhance financial inclusion, disparities exist in its outcomes across different states and sectors. Small traders, micro and small enterprises, and informal businesses often face challenges such as compliance costs, limited digital literacy, inadequate infrastructure, and uneven administrative support. While some states have successfully leveraged GST to improve digital payment adoption and access to banking services, others have struggled to achieve similar results, leading to uneven financial inclusion outcomes.

3. Review of literature

i). Rao (2017) ^[1] examined the structural impact of GST on

India's taxation system and observed that GST simplified indirect taxes and improved transparency. The study highlighted that a unified tax regime enhances tax compliance, which indirectly supports financial inclusion by bringing informal businesses into the formal economy.

- ii). Mukherjee (2018) ^[2] analysed the relationship between GST and cooperative federalism. The study emphasized the role of the GST Council in balancing Centre-State financial relations and noted that revenue-sharing mechanisms are crucial for ensuring equitable financial inclusion across states.
- iii). Kumar & Gupta (2019) ^[3] focused on the impact of GST on small and medium enterprises (SMEs). Their findings suggested that GST encourages digital transactions and formal registration, thereby improving access to banking services and promoting financial inclusion, though compliance costs remain a challenge.
- iv). Sharma (2020) ^[4] studied digitalization under GST and found that e-governance tools such as e-filing and e-invoicing have increased transparency and accountability. The study concluded that digital tax systems play a significant role in linking GST with financial inclusion, especially in urban sectors.
- v). Patel & Singh (2021) ^[5] critically evaluated GST's impact on state finances and inclusivity. The study pointed out that while GST has broadened the tax base and improved revenue collection, disparities among states and dependence on central compensation may affect balanced financial inclusion outcomes.

4. Research Gap of the Study

Although several studies have analysed the economic and structural impact of GST in India, there remains a significant research gap in understanding its direct relationship with financial inclusion outcomes. Most existing literature focuses on macroeconomic benefits such as tax efficiency and revenue generation, while neglecting how GST influences access to financial services, particularly among marginalized and rural populations. Further, there is limited state-wise analysis, despite clear regional disparities in financial inclusion across India. The role of Centre-State coordination and cooperative federalism in promoting inclusive financial outcomes under GST is also underexplored. Additionally, insufficient attention has been given to the integration of the informal sector into the formal financial system through GST mechanisms. Issues such as the digital divide, compliance burdens on small businesses, and their impact on financial inclusion are not adequately addressed. Therefore, a comprehensive study linking GST reforms, federal financial relations, and inclusive growth is necessary to fill these gaps.

5. Objective of the Study

- i). To find Out the study aims to find out the extent to which GST has contributed to financial inclusion in India
- ii). To analyse this objective analyse the relationship between GST policies and financial inclusion indicators.
- iii). To examine the study examines the effectiveness of GST in integrating the informal sector into the formal economy.
- iv). To evaluate this objective evaluates the overall performance of GST in achieving financial inclusion goals.
- v). To understand the study aims to understand the concept of financial inclusion in the context of GST reforms.

6. Methodology

This Research is based on both Doctrinal and Non-Doctrinal Research. The Sources of data collected from different Newspaper, Journals, Magazine, All India Reports and E-Resources. This Research is used stratified Random Sampling. There are 103 sample size of the respondents are used in this Research. This Research is adopted some of the statistical tools such as Percentage method and Average method. The duration of the research is Three months.

7. Significance of the Study

The study of GST is important for the government because it shows how GST has affected people's access to services in different states in India. This helps the people who make policies understand how well the central and state governments work together on money matters and how GST helps make sure everyone benefits from growth. The study results can help make tax policies improve digital infrastructure and make financial services more available to people who really need them. It also helps the government make decisions about sharing revenue and planning finances. The study also talks about the problems that happened when GST was first implemented, which helps the government fix these problems. So the study helps the government work efficiently and makes sure different regions develop evenly. For researchers this study helps us understand how GST changes affect how easily people can get services. It gives us a picture of how tax policies can impact society and the economy. The research helps us think critically about money and how the central and state governments work together. It also gives us information about real problems like some people not having access to digital services and how to get informal businesses to follow the rules. The study is also useful, for researchers who want to study taxation and inclusive growth in the future. Over all it helps us know more about Indias system and how it is changing.

8. Hypothesis of the Study

H₁: Do you think GST has encouraged financial inclusion (such as bank accounts, digital payments, formal registration of businesses)

H₂: GST increased the use of digital transactions and formal financial systems among small traders and businesses in your state

9. Limitations of the Study

The study has some limitations because it uses data from government reports and published statistics. This data may not be completely accurate or up to date which can affect the study's findings. For example the study may not have the information on GST and financial inclusion for all states. The study may not be able to show how policies are changing in time. So the conclusions are limited by the data that's available.

The study also has limitations because it does not include data from surveys or field studies of businesses and individuals. This means the study may not fully understand the problems that people are facing on the ground. The study may not accurately show the experiences of businesses or people living in rural areas. It is also hard to capture the differences in conditions and economic diversity. Therefore the study findings may not represent everyone equally.

The study mainly looks at GST and financial inclusion. It does not examine all the related factors in depth. Other things that can affect the outcomes like changes in the economy or

new government schemes are not fully considered. The study also does not fully address the financial relationships, between the Centre and States. The study had to be done and with limited resources so it is not as detailed as it could be. The study provides an overview of GST and financial inclusion but it does not have all the answers.

10. Research and Discussion

Part (A): Doctorial Research

The Goods and Services Tax is an important change in the tax system in India. It was brought in to make one tax system for the whole country. Before this the Central Government and State Governments had different taxes. The Goods and Services Tax Aims to make the tax system easy to understand reduce problems with taxes and make everything transparent. The Goods and Services Tax has changed the way businesses work and follow tax rules. This change is very important for making the country economy strong^[6].

The Goods and Services Tax is also connected to making sure everyone has access to services. By helping people use payments and register their businesses the Goods and Services Tax Brings more businesses into the formal economy. This makes businesses more accountable. Helps more people take part in the financial system. However some people do not know how to use payments and following tax rules can be difficult. These things affect how well the Goods and Services Tax works to help everyone grow.

The Goods and Services Tax has also changed how the Central Government and State Governments work together on money matters. The GST Council makes sure the Central Government and State Governments make decisions together. This has improved how they work together. Some people are worried about States having less control, over their money. The Goods and Services Tax affects areas and businesses in different ways. So it is very important to study how the Goods and Services Tax affects inclusion and the economy in a detailed way.

Background of the Study: The Goods and Services Tax or GST was introduced in India to make a change in the way taxes are collected. It replaced different taxes that the central government and states used to collect. This made the tax system simpler and easier to understand. The main goal of GST was to make it easier for people to do business and to reduce tax evasion. GST also aimed to bring businesses into the formal economy. So this study looks at how GST affects inclusion.

Need for GST: Before GST India had a complex tax system with many different taxes like VAT, excise duty and service tax. This caused a lot of problems. Made it hard for businesses to comply. GST was needed to simplify the tax system and create a market across the country. It helps make tax compliance easier through systems. GST also ensures that tax rates are the same across all states. It supports economic growth and financial inclusion by encouraging businesses to formalize. The Goods and Services Tax is a part of India's tax system.

Statement of Problem:^[7] Even though GST has been implemented there are still questions about how it is working to promote financial inclusion. Some people are concerned that GST has not helped all states and sectors equally. Small businesses and the informal sector are struggling to comply with GST and adapt to systems. There are still differences in access to financial services across different regions. This study looks at whether GST has contributed to financial inclusion. It also examines the role of the government and

states in achieving these outcomes. The Goods and Services Tax need to be studied

Review of Literature:^[8] Many studies have shown that GST has had an impact on tax efficiency and transparency. Researchers have highlighted its role in reducing tax evasion and improving revenue collection. Some studies focus on how GST's implemented and how it affects small businesses. However not many studies have looked directly at the impact of GST on inclusion. This review shows that there is a need for research in this area. The Goods and Services Tax is a topic.

Research Gap of the Study: Most research on GST has focused on its impact rather than its social impact. There is analysis of how GST affects financial inclusion. The relationship between the government and states in implementing GST is not well understood. The integration of the sector into the formal economy is also not well studied. Additionally the impact of divide on GST compliance is not well researched. This study aims to fill these gaps. The Goods and Services Tax needs research.

Objectives of the Study: This study aims to examine the impact of the Goods and Services Tax on inclusion in India. It seeks to analyze the relationship between the government and states in implementing GST. The research aims to evaluate the effectiveness of GST in promoting formalization. It also intends to understand the role of digitalization in tax compliance. Further the study aims to identify challenges faced by businesses. Finally it suggests measures to improve inclusion under GST. The Goods and Services Tax is an area of study.

Research Methodology: This study uses a research methodology based on secondary data sources. It relies on books, journals, government reports and official publications. Relevant statutes, policy documents and GST provisions are analyzed. Judicial decisions related to GST are also examined. The study uses an approach to interpret legal and policy frameworks. The Goods and Services Tax is studied in detail.

Limitations of the Study:^[9] This study is limited to data and does not include primary research. It may not fully reflect real-time developments in GST implementation. Regional variations may not be comprehensively covered. The study does not include statistical analysis. External economic factors influencing inclusion are not deeply examined. Therefore the findings are general in nature. The Goods and Services Tax has aspects.

Impact of GST: The Goods and Services Tax has had an impact on the Indian economy by simplifying the tax structure. It has increased transparency. Reduced tax evasion. The system has encouraged transactions and formalization of businesses. GST has improved revenue collection for both the government and states. However it has also created compliance challenges for businesses. Overall GST has both negative implications for financial inclusion. The Goods and Services Tax is a system.

Legal Framework:^[10] The Goods and Services Tax is governed by statutory provisions in India. The **101st Constitutional Amendment Act, 2016** introduced GST. Amended various provisions. Article 246A grants concurrent taxing powers to the government and states. Article 279A provides for the establishment of the GST Council. The Central Goods and Services Tax Act, 2017 and State GST Acts regulate GST implementation. Integrated GST governs-state transactions. These legal provisions form the backbone of the GST regime. The Goods and Services Tax has a legal framework.

Relate Case Laws

[11] Case1-Union of India v. Mohit Minerals (Supreme Court, 2022) The Supreme Court held that the GST Council’s recommendations are only persuasive and not binding on the Centre and States. This clarifies the fiscal autonomy and simultaneous power of both under Article 246A of the Constitution, which is important for understanding how the Centre and States interact in GST law implementation and potentially in financial inclusion policy frameworks

[12] Case 2-Recent High Court Case — Frequent GST Registration Cancellations (Allahabad HC, 2025) The Allahabad High Court criticized the frequent cancellation of GST registrations without reasons, calling it akin to “economic death” for traders. The court emphasized that authorities must provide reasoned orders and follow fair procedures, protecting taxpayers’ economic security. Courts can protect small businesses from arbitrary cancellations of their GST registration.

[13] Case3-VKC Footsteps India PVT. Ltd. v. Union of India. This case is a significant judgment relating to the refund of Input Tax Credit (ITC) under the GST regime. The Supreme Court upheld the validity of Rule 89(5) of the CGST Rules, which restricts refund of unutilized ITC on input services. The Court ruled that such restrictions are within the legislative competence and do not violate constitutional provisions. It emphasized the importance of statutory interpretation in tax laws and recognized the government’s authority to frame rules for GST implementation. This case is important for understanding compliance and taxpayer rights under GST.

Part (B): Non-doctrinal Research

Table 1: The Goods and Services Tax (GST) introduced by the Central Government in coordination with State Governments

Particulars	Yes	No	Total
Male	77 (72.6)	7 (6.6)	84 (79.2)
Female	20 (18.9)	2 (1.9)	22 (20.8)
Transgender	0 (0.0)	0 (0.0)	0 (0.0)
Total	97 (91.5)	9 (8.5)	106 (100)

Source: Primary data

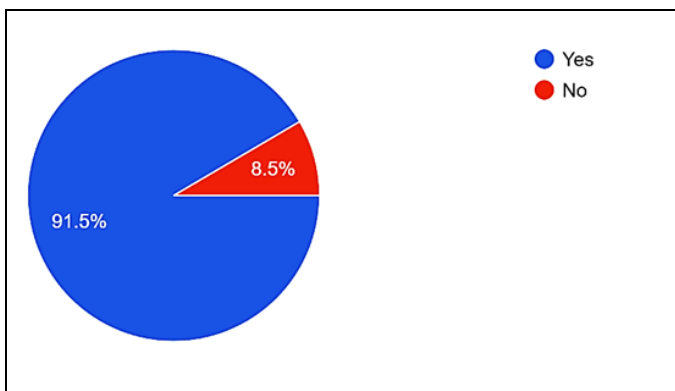


Table No. 1 shows the respondents’ level of agreement. Out of total 106, 91.5percentage were say’s yes and 8.5 percentage of people says no about the Goods and Services Tax (GST) introduced by the Central Government in coordination with State Government

Table 2: Do you think GST has encouraged financial inclusion (such as bank accounts, digital payments, formal registration of businesses

Particulars	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Male	18(17.0)	14(13.2)	19(17.9)	14(13.2)	19(17.9)	84(79.2)
Female	5(4.7)	4(3.8)	5(4.7)	3(2.8)	5(4.7)	22(20.8)
Transgender	0(0.0)	0(0.0)	0(0.0)	0(0.0)	0(0.0)	0(0.0)
Total	23(21.7)	18(17.0)	24(22.7)	17(16.0)	24(22.7)	106(100)

Source: Primary data

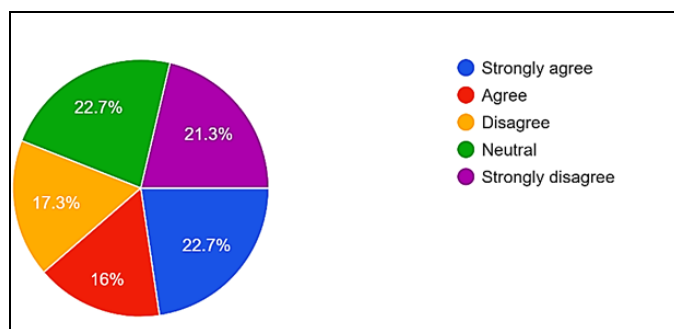


Table No: 2 shows the respondents’ level of agreement. Out of the total, 22.7percentage strongly agreed, 16.0 percentage Agree 22.7 neutral, 17.0 percentage, disagree and 21.7 percentage strongly disagreed.

Table 3: GST increased the use of digital transactions and formal financial systems among small traders and businesses in your state

Particulars	Yes, significantly	Yes, to some extent	No significant change	Not sure	Total
Male	23(21.7)	18(17.0)	37(34.9)	6(5.7)	84(79.2)
Female	5(4.7)	4(3.8)	9(8.5)	2(1.9)	22(20.8)
Transgender	0(0.0)	0(0.0)	0(0.0)	0(0.0)	0(0.0)
Total	28(26.4)	22(20.8)	46(43.4)	8(7.5)	106(100)

Source: Primary data

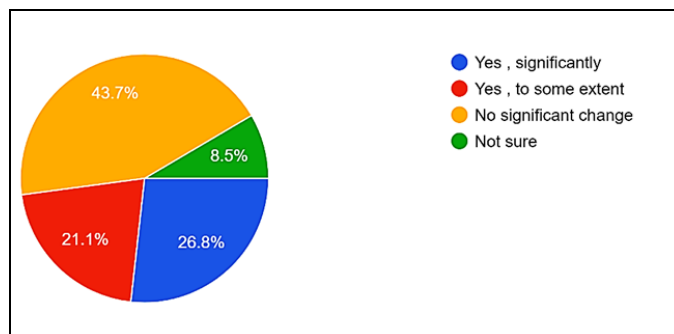


Table No: 3 shows the respondents’ opinions on the GST increased the use of digital transactions and formal financial systems among small traders and businesses in your state Out of the total,100percentage reported 26.5 percentage Yes, significantly,20.8 percentage Yes, to some extent, 43.4 percentage No significant change and 7.5 percentage Not sure

Hypothesis Testing

H₁: Do you think GST has encouraged financial inclusion (such as bank accounts, digital payments, formal registration of businesses): The data indicates that 22.7 percentage strongly agree and 16 percentage agree, showing that a significant portion believes GST has promoted financial inclusion. Meanwhile, 17.3 percentage disagree and 21.3 percentage strongly disagree, highlighting some negative perceptions. Additionally, 22.7 percentage respondents are neutral, indicating uncertainty or lack of clear impact. As the positive responses slightly exceed the negative ones, the null hypothesis is rejected. Therefore, GST has moderately encouraged financial inclusion.

H₂: GST increased the use of digital transactions and formal financial systems among small traders and businesses in your state: The hypothesis testing examines whether GST has significantly increased the use of digital transactions among small traders and businesses. The null hypothesis (H₀) assumes that GST has no significant impact, while the alternative hypothesis (H₁) assumes a positive impact. Based on the data, a considerable proportion of respondents (26.8% significantly and 21.1% to some extent) agree that GST has improved digital transaction usage. Since the combined agreement outweighs neutral and uncertain responses, the null hypothesis is rejected. Therefore, it can be concluded that GST has contributed to increased adoption of digital transactions and formal financial systems.

Conclusion

The findings indicate that the Goods and Services Tax (GST) has had a noticeable impact on financial inclusion. A considerable proportion of respondents expressed agreement that GST has encouraged the use of formal financial systems such as bank accounts and digital payments. This suggests that GST has contributed to bringing more individuals and businesses into the formal economy. The reform has particularly promoted transparency and accountability in financial transactions. Overall, GST appears to have played a positive role in strengthening financial inclusion.

In conclusion, GST has moderately improved financial inclusion but requires further support to maximize its potential. Policymakers should focus on increasing awareness, simplifying compliance procedures, and enhancing digital infrastructure. Special attention should be given to small traders and rural populations to ensure inclusive growth. Strengthening financial literacy programs can also help in better adoption of formal financial systems. With these measures, GST can achieve a more comprehensive and inclusive impact on the economy.

Suggestions

- i). Strengthening Digital Literacy and Financial Awareness
- ii). Simplification of GST Compliance Mechanisms
- iii). Improving Coordination Between Central and State Governments
- iv). Development of Digital and Financial Infrastructure
- v). Provision of Incentives and Capacity-Building Support for Small Businesses
- vi). Increase awareness programs about GST and its benefits for financial inclusion.
- vii). Improve digital literacy among small traders and rural populations.
- viii). Simplify GST compliance procedures to reduce complexity for small businesses.
- ix). Strengthen internet and digital infrastructure in rural and

semi-urban areas.

- x). Provide training programs on digital payment systems and online filing.
- xi). Offer financial incentives for businesses adopting digital transactions.
- xii). Ensure better grievance redressal mechanisms for GST-related issues.
- xiii). Promote banking accessibility by expanding financial institutions in remote areas.
- xiv). Encourage collaboration between government and private sector for financial inclusion.
- xv). Conduct regular monitoring and evaluation of GST's impact to make necessary improvements.

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