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Research Paper

Impact of GST2.0 on Startups & Entrepreneurial growth in India

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ABSTRACT

This research paper analyzes the transformative impact of Goods and Services Tax (GST) reforms on the Start-Up India ecosystem. Using comprehensive secondary data from government publications, industry reports and expert commentary, the study examines how the transition from GST1.0 to GST2.0 has promoted a supportive environment for entrepreneurial ventures. Findings indicate GST 2.0 implementation has significantly reduced compliance burden, improved working capital efficiency, increased investor confidence and democratization of entrepreneurship across Tier-2 and Tier-3 cities. The paper highlights the remarkable growth of India's startup ecosystem from approximately 500 startups in 2016 to over 2lakh startups at present. including more than 118 unicorns with employment generation accounting to more than 2.19 million jobs. Rate rationalization, correction of inverted duty tax structure, and digital compliance tool adoption has been a crucial driver in promotion of startups in economy. The research findings conclude with concrete specific policy suggestion aimed at further strengthening the nexus between tax administration and startup ecosystem.

Keywords: GST Reforms, Start-Up India, Entrepreneurial Ecosystem, Tax Compliance, Ease of Doing Business, GST 2.0

1. INTRODUCTION

Over the past decade, the Indian startup ecosystem has undergone a spectacular change, evolving from newly established company to the world's third largest startup hub. Goods and Services Tax (GST) system has been a pivotal enabler driving the momentous shift. India's Indirect tax regime underwent a fundamentally restructured single tax system with the introduction of GST in 2017.The fragmented structure of several levies and cesses were replaced by GST (Press Information Bureau,2025a).

The transition from "GST1.0" to "Next Gen GST Reform" or "GST2.0 "demonstrate a crucial stage in India's tax reform process. Although the initial GST system consolidated the tax market, startups with limited resources and different tax slabs remain a challenge seeking redressal. The "Next Gen GST Reform" have restructure multiple tax slabs into two tiers (5% and 18%) with few exceptions. Furthermore, procedural simplification and enhanced technology integration have progressively transformed GST from a compliance burden to a catalyst for startups and entrepreneurial growth.

2. LITERATURE REVIEW

2.1 Evolution of GST in India

Earlier tax system before GST were characterized by tax cascading, interstate barriers and fragmented compliance impeding the business efficiency. Multiple levies consist of excise duty, service tax, Value added tax, CST and various cesses, forming a complex system that placed disproportionate burden on smaller enterprises (Press Information Bureau, 2025b). GST idea was first proposed in the year 2000 by the Empowered Committee of State Finance Ministers to study the sales tax reform. The 101st Constitutional Amendment Act ratified and advanced this tax initiative, building consensus among Indian states. GST introduction in 2017 recognized as "path breaking legislation for New India". It led to the formation of a single market by removing all interstate barriers and functioning of input tax credit across supply chain.

GST stands as a milestone achievement with uniform tax subsuming all different 17 taxes and 13 cesses. India's single national market symbolizes unique feature of uniform rates, procedural clarification, improved transparency, simple compliance window and elimination of cascading taxes. GST regime represents an economic integration in tax system of India.

2.2 From GST 1.0 to GST 2.0: The Reform Trajectory

The earlier GST1.0 regime, while being transformative in concept, pose implementation challenges. Startups faced problems related to multiple filings, registration complexities across states, and ambiguities in terms of understanding and interpretation that affected and unduly burdened the small companies against the established businesses with advanced and sophisticated compliance teams. The September 2025 GST reforms represent a watershed moment, introducing what observers have termed the Next- Generation GST or "GST 2.0." These reforms focus on uncomplicated tax structure, easy registration and refunds, simplified and digital compliance, boost MSME & manufacturing, strengthen Ease of doing business, improve affordability to common citizen, support entrepreneurs and small traders and encourage job opportunities (BNI,14) GST 2.0 introduces simpler 2-tier structure (5% and 18%) for fairer taxation, expansion of tax base and fulfill objective of "One Nation, One Tax". The reforms' central theme revolves around citizen centric, conducive business friendly aligned with India's growth ambition.

2.3 Theoretical Framework: Taxation and Entrepreneurship

Taxation has been core principle in public finance. This study draws upon theoretical perspectives. Optimal taxation theory deals in designing tax policies to minimize market distortions and maximize societal welfare through balancing agent diversity and economic constraint. Solow's Neoclassical theory posits fiscal policy does not directly affect long term economic growth. Taxation influence savings and investment in short term during transition phase to a steady stage.

Empirical studies have mixed results in context of taxation effect on economy. Global GST experience varies with different geographical and economic order. Kolahi and Noor (2016) study reveals positive effect of VAT on GDP growth across 19 developing nations. Capital accumulation still suffers setback. Several Asian economies GST experience including Australia, Singapore, Philippines and Malaysia faces increase in prices, spike in inflation, decline in GDP and negative impact on cost of living respectively (Valadkhani and Layton,2004; Venkadasalam,2014). Malaysia even revoked GST system in 2018 just within three years of implementation. However, economies like Japan, China and Australia witnessed normalized growth in consumer spending within three months and one year in Singapore. Similarly, numerous studies highlight tax revenue having different utilization efficiency favoring more the developed nation over developing nation in terms of economic growth and development (Sabina et al.,2017). GST being unified direct tax has positive implication on economic development of India (Nikita et al.,2022). GST emerged as crucial fiscal instrument enhancing efficiency, equity and sustainable economic growth (Naveen et al., 2018).

3. OBJECTIVE

The study aims at examining the objectives listed below.

1. To examine influence of GST reforms on growth trajectory of Start-Up India.
2. To understand mechanisms linked with GST simplification to enhance entrepreneurial activity.
3. To explore the extent of GST reforms in democratizing entrepreneurship across geographic and demographic dimensions.
4. To analyse the challenges in the GST-startup interface, and method to address them.

4. MATERIALS & METHODS

This study employs a descriptive approach combining secondary data analysis from the Department for Promotion of Industry and Internal Trade (DPIIT), GST portal statistics, systematic policy analysis of GST Council decisions; expert commentary synthesis from industry bodies and consulting firms; and comparative assessment of pre- and post-reform scenarios across key parameters. The study on the basis of secondary data analysis aims to address following research question.

5. RESULT

The secondary data indicates a significant increment in number of startups registered in India over years aligning with the implementation of GST and subsequent tax reform. Table 1. presents the startups growth from 502 startups in 2016 to over 2.07 lakh startups in 2025 representing massive expansion. The number of unicorns also increased from just 4 to more than 118 reflecting strong investor confidence and growing domestic innovation (Press Information Bureau, 2025c). Notably, a major share of 48% startups are women owned and 53% startups originate from Tier2 and Tier3 cities have 53% highlighting a considerable achievement in fostering inclusive and democratized entrepreneurship.

5.1 Startup Ecosystem Growth Trajectory

Table 1: ***Growth of Indian Startup Ecosystem (2016-2025)***

Indicator	Year (2016)	Year (2025)	Increment (CAGR)
Startups	502	>2.07 lakh	94%
Job created	308	21.9 lakh	168%
Women led startups	-	>99,000	
Tier 2/3 startups	-	53%	

Compilation: 5th edition of States' Startup Ecosystem Ranking Report and Press Information Bureau

5.2 GST Revenue Growth and Tax Base Expansion

The GST regime has shown a consistent increase in terms of revenue generation and an expansion of the taxpayer base, promoting a stable fiscal environment that supports entrepreneurship. Table 2 shows that the taxpayer base has increased from 66.5 lakh in 2017 to 1.51 crore currently, reflecting the successful formalization of Indian economy. Monthly GST collections have exceeded more than ₹2 lakh crore, a significant rise from the ₹80,000 crore collected during the initial post-GST period for states. This fiscal strength supports continuous investment in infrastructure and programs that are favourable to entrepreneurial ventures.

Table 2: ***GST Taxpayer Base and Collections Growth***

Year	Taxpayers	Avg. Monthly Collections
2017-18	66.5	82,000 crore
2024-25	1.51 crore	₹2.04 lakh crore

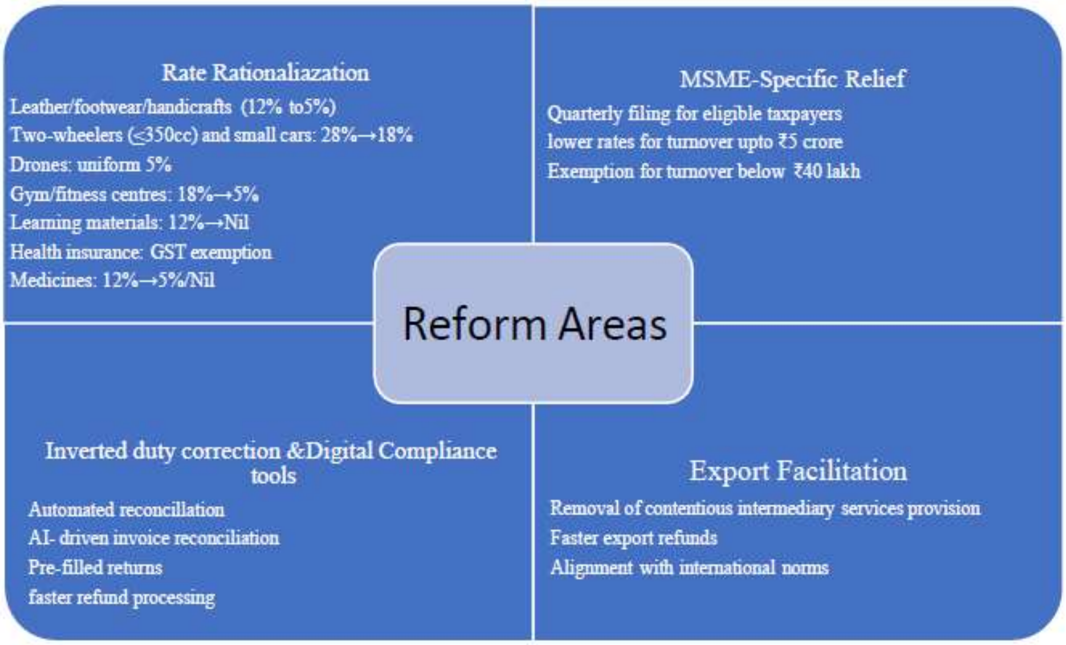
Note. Compiled from GST council and Press Information Bureau.

The increased taxpayer base record consistent rise in revenue collection reflecting trust and formalization of Indian economy.

5.3 GST 2.0: Key Reforms: Impact on startups

The 56th meeting of the GST Council, approved and introduced comprehensive changes across multiple dimensions. It aimed at improved tax environment focusing on common man, farmers, women, youth and middle-class families. Major reforms in form of rate rationalization, inverted duty correction, digital compliance tools, MSME-specific and export facilities were introduced. The chart summarizes key reforms and their implications for startups, demonstrating the multifaceted nature of the reform package.

Figure 1: ***GST 2.0 Reforms and Sectoral startups benefit***



Note. Compiled from 3one4 Capital (2025), CNBC TV18 (2025), and Press Information Bureau (2025a).

Direct Impact on Startups

Rate rationalization: Reduced input costs for manufacturing startups, enhanced affordability for consumer-focused ventures and support drone-tech and health-tech startups.

Inverted duty correction: Improved working capital for hardware, Electric vehicle components, Internet of Things (IoT), medical devices along with faster cash release for R&D reinvestment.

MSME- Specific Relief: Reduced compliance costs, more time for core business activities and lower barriers to formalization in economy.

Digital compliance tools: 40%+ reduction in compliance time, reduced need for heavy compliance teams and fewer errors and disputes cases.

Export facilitation: Enhanced global competitiveness, improved working capital for export-focused startups and support for GCC expansion.

5.4 Sectoral Impact Analysis

Table 3: ***Sectoral Impact Assessment of GST 2.0***

Sector	Key Reforms	Expected Outcomes
Manufacturing Startups	• Inverted duty correction • Lower input taxes • Simplified compliance	• 0.5-0.8 percentage points GDP contribution • Improved working capital cycles • Enhanced competitiveness
D2C/Consumer Internet	• Lower GST on mass consumption items	• Lower delivered price points • Enhanced conversion rates

	• Reduced logistics costs (trucks: 28%→18%)	• Stronger consumption demand
Fintech & Digital Services	• Single national registration vision • Simplified cross-border taxation • Uniform digital goods definitions	• Reduced compliance overhead • Easier cross-border scaling • Level playing field with global players
Health-tech	• Medicines: 12% 5%/Nil • Health insurance: GST exemption • 33 lifesaving drugs Medicine rate reductions • Health insurance exemption • Medical device tax cuts	• Support for preventive healthcare innovation • Reduced costs for health-tech startups
Ed-tech	• Continued education exemption • Learning materials: • 12%→Nil	• Enhanced affordability for ed-tech ventures • Enhanced accessibility in rural areas
		• Support for holistic learning solutions & expand innovation opportunities.
Agri-tech	• Lower input costs • Improved logistics efficiency • Packaging cost reduction	• Stable agrarian economy • Enhanced supply chain efficiency • Support for FPO linkages

Note. Compiled from 3one4 Capital (2025) and ET Edge Insights (2025).

Different startup sectors have experienced varying degrees of benefit from GST 2.0 reforms. Table 3 presents a sectoral impact assessment, revealing that manufacturing startups are expected to contribute an additional 0.5-0.8 percentage points to GDP through improved working capital cycles (3one4 Capital, 2025). Direct to customer (D2C) and consumer internet ventures benefit from both lower logistics costs and enhanced consumption demand, while fintech startups gain from simplified cross-border taxation and uniform definitions of digital goods.

5.5 Working Capital and Cash Flow Impact

One of the most remarkable advantages for startups has been the enhanced working capital dynamics. Correction of inverted duty structures and the provisional sanctioning of 90% refunds have made it easier to unlock input tax credit (ITC) efficiently, and reduced refunding of backlogs (Deloitte, 2025). Hardware startups, electric vehicle component manufacturers and other capital- intensive ventures, each freed rupee can be directed towards research and development, increased inventory turnover, or expansion of go-to-market strategies (3one4 Capital, 2025). Table4. Illustrates the improvement in working capital across key parameters.

Table 4: ***Working Capital Impact of GST Reforms on Startups***

Parameter	Pre- Reform challenges	Post-reform improvements
ITC refund time	60-90 days	90% refund within 7 days
Compliance time	High	Low
Working Capital Lock-up	High	Significantly reduced
Export refund processing	Delayed	Expedited

Note. Synthesized from the GST Council.

5.6 Investor Confidence and Ecosystem Formalization

Investor confidence is driven by the transparency and predictability pattern visible in GST2.0. Foreign investors, specially venture capitalist and sovereign funds, assess regulatory stability in addition to the market size. A stable and transparent

GST framework demonstrate policy maturity and minimizes uncertainty related to tax disputes, input credits, and the reverse duty bottlenecks. Table 5 illustrates the improvement in investment ecosystem dimensions post-GST 2.0.

Table 5: ***GST 2.0 Impact on Investment Ecosystem***

Dimension	Pre GST 2.0	Post GST 2.0
Regulatory risk perception	Moderate-high	Low- moderate
Due diligence complexity	High	Reduced
Cross border investment friction	Significant	Decreasing
Formalization Incentive	Mixed	Strongly positive

Note. Compiled from ET Edge Insights (2025) and 3one4 Capital (2025).

5.7 Democratization of Entrepreneurship

GST reforms have played a crucial role in democratizing entrepreneurship beyond metropolitan cities. Over 53% of startups are now emerging from Tier-2 and Tier-3 cities according to some estimates. The simplified registration processes under GST 2.0 expedite onboarding of MSMEs, reduced overhead costs, and empower rural artisans and entrepreneurs to foray into interstate markets without difficulty (Press Information Bureau, 2025c).

The One District One Product (ODOP) initiative, launched in 2020, has further promoted balanced regional growth by highlighting 1,240 unique products from 773 districts across India (Press Information Bureau, 2025c). Figure 2 and figure 3 presents the geographic distribution of startups across city categories and demographic representation in startups respectively.

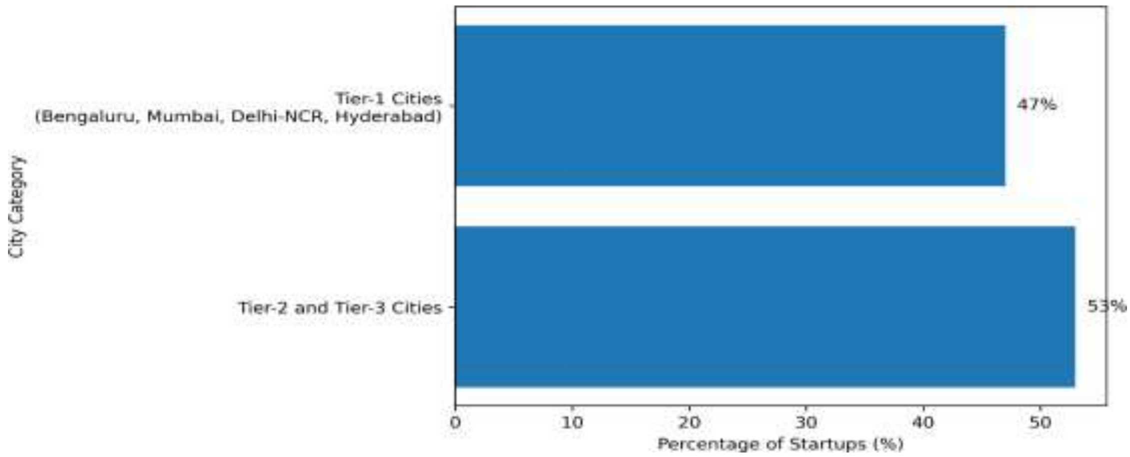


Figure 2: Geographical distribution of startups

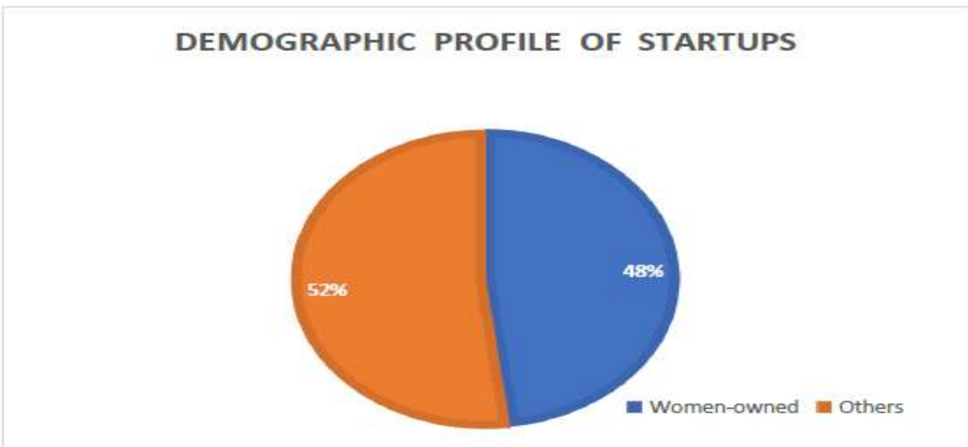


Figure 3: Demographic distribution of startups

5.8 Macroeconomic Impact

GST over past eight years achieved milestones in terms of inclusivity and formalization of economy. It accounts for more than 1.52 crore active GST registration with top leading states like Karnataka, Maharashtra, Uttar Pradesh, Gujarat and Tamil Nadu comprising for nearly half of the share in total active registration. It acts like national equalizer by encouraging price convergence across states. Moreover, in terms of inclusive growth, it records 14% entirely women owned taxpayers and 20% taxpayers with at least one women member.

The Next Gen GST reforms have a significant contribution to GDP numbers with the ambition to create a "virtuous cycle of growth". The cumulative effect of GST reforms extends to the broader economy, creating an enabling environment for startups. CRISIL Intelligence estimates that GST rate reductions are expected to boost revenue for Indian companies by 6-7% in the current fiscal year. This reduction is likely to lead to a 5-6% increase in two-wheeler sales, while also resulting in a 3.5-4.5% decrease in construction costs for housing projects (Mint, 2025). The RBI Bulletin notes that GST reforms should progressively result in sustained positive impact through significant gains in ease of doing business, lower retail prices, and strengthening of consumption growth drivers (Moneycontrol, 2025). Table 6 presents key macroeconomic indicators post-GST reforms.

Table 6: ***Macroeconomic Indicators Post-GST Reforms***

Indicator	Value	Implication for startups
GDP growth (Q1) (2025-26)	7.8%	Expanding market opportunity
Fiscal deficit (2025-26)	4.4%	Strong fiscal discipline and healthy economy
Retail inflation (2024-25)	4.6% 6 years low	Improved cost of living and consumer purchasing power.
Sovereign Rating	Upgraded after 18 years	Global recognition in credit rating and establish global confidence in India and enhanced foreign investment flows
EPFO Net addition (2025)	21.89 lakh	Expanding talent pool and increased employment opportunities

Note. Compiled from MOSPI press release and Ministry of Labour & Employment press release

5.9 Challenges

Persistent challenges in GST-Startup Interface

Despite the overwhelmingly positive impact, several challenges draw attention. Digital divide acts as a barrier in transmitting startups facilities in rural areas including Tier-2/3 cities. They are less likely to be expertise regarding tax awareness and advanced compliance mechanism. Transition mechanisms for accumulated compensation cess require clarity to prevent supply chain disruption. Anti- profiteering compliance lack clarity regarding consumer benefit assurance. Emerging sectors such as AI, crypto, and digital assets lack clear tax treatment, creating uncertainty for innovators. Bureaucratic implementation remains a bottleneck in addressing loopholes at different levels.

To address these persistent problem targeted training programmes, simplified interface system, robust internet connectivity can solve digital problems. A clear guidelines and transparent pricing mechanism can overcome anti-profiteering and accumulated compensation cess transition. Further a proactive guidance for emerging sector business model can be helpful. Finally, Successful bureaucratic support can coordinate and assure continuous monitoring of industry, tax mechanism and provide feedbacks.

6. DISCUSSION

6.1 GST 2.0 as a Catalytic Framework

The evidence presented demonstrates that GST 2.0 has indeed functioned as a catalyst for Start-Up India across multiple dimensions. The consolidated tax system has established a genuine single market, eliminating interstate obstacles that previously impeded business expansion. The reforms in compliance burden ranging from numerous filings and state-specific registration to streamlined, technology-enabled processes have uplifted entrepreneurial capacities for fundamental innovation activities (Press Information Bureau, 2025a).

6.2 The Working Capital Advantage

Managing cash flow is essential for survival of early-stage companies. Fixation of inverted duty structures where inputs are taxed higher GST against outputs has helped startups in accessing working capital faster directly extending the startup runway (30ne4 Capital, 2025). This initiative is especially important for hardware, omnichannel and manufacturing-related ventures that rely on capital efficiency for scalability. According to Deloitte (2025), resoling duty structures and the provisionally refunding of 90% claim makes the input tax credit more accessible, thereby directly addressing persistent long standing working capital challenges.

6.3 Consumption Stimulus and Market Expansion

Reduced GST on everyday products, electronics and certain services boosts mass demand. As household retain more of their income after taxes, demand increases, which benefits Direct to Customer brands, health tech, fintech, travel and consumer internet startups. The massive rate reduction across food items, consumer goods, services and automobiles generate a multiplier effect, expanding the potential market for several startups across different sectors.

6.4 The Trust-Based Governance Paradigm

A central theme in GST 2.0 is the shift towards the trust-based governance. The Jan Vishwas Act, 2023, decriminalized 183 provisions across 42 Acts (Press Information Bureau, 2025a). Over 1,500 archaic laws have been repealed, and 45,051 compliance burdens eliminated across central and state governments (Press Information Bureau, 2025a). This philosophical shift-from punitive oversight to enabling partnership, creates an environment where entrepreneurs can take calculated risks without fear of inadvertent non-compliance.

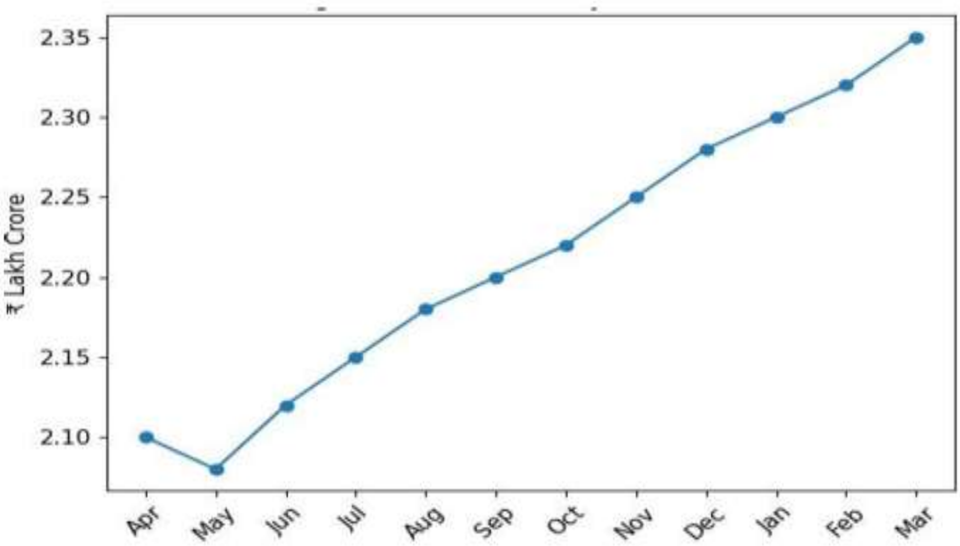


Figure 4: Monthly GST trend

7. CONCLUSION and RECOMMENDATIONS

7.1 Conclusion

This paper has examined the impact of GST reforms on Start-Up India, demonstrating that the evolution from GST 1.0 to GST 2.0 has indeed served as a catalyst for entrepreneurial growth. The evidence reveals exponential ecosystem growth aligning with GST reforms. Digital compliance tools along with rate rationalization and input tax credit have played a significant role in strengthening existing startups and promoting new sector growth. GST2.0 has positive impact on economic foundation. Macroeconomic indicators such as GDP, fiscal deficit, retail inflation, and EPFO all are positively associated with GST2.0. Investment ecosystem improved in terms of working capital and cash flow. GST2.0 symbolize more than a tax reform it signals that ongoing policy reforms encourages innovation, formalization and global competitiveness in India.

7.2 Recommendations

The following recommendations are proposed aligning with the findings of the study to further strengthen GST as a catalyst for entrepreneurial economy.

In the context of policymakers, formation of a well -defined sectoral advisory committee for emerging technologies such as Artificial Intelligence, Big Data and digital assets to ensure genuine advice on tax treatments. A transparent transition mechanism introduction would limit disruption to working capitals. Expansion of the single national registration concept will fully address the goal of “One Nation, One Tax”. There should be training centers facilities available in Tier2 and Tier3 cities with knowledge of digital services supporting the democratization of entrepreneurship.

Enterprises should better channelize input credits, adjust price strategies and lower effective GST would allow them to reinvest saving in increased market share. They should keep updating working capitals to account for rate adjustments and quick loan flows which ultimately increase financial efficiency. The GST procedures should be automated through real time refund cycles and rule-based conciliation. GST operation should be leveraged through lowering borrowing costs by 50-100 basis points during interaction with lenders or equity investors. Proper coordination of GST2.0 widens the scope of global competitiveness and cross border expansion with export incentives and free trade agreements.

From the viewpoint of industrial organizations, the impact of reform would be maximized by exerting collective pressure on administrative machinery to guarantee that declared advantages are actually delivered. Ecosystem capacity can be enhanced by encouraging knowledge exchange at GST compliance and optimizing best practices. Responsive governance would be made possible by giving policymakers feedback loops on new problems and sector-specific concerns.

In order to maximize the impact of reform, industrial organization should exert collective pressure on administrative machinery to guarantee claimed benefits turns into actual delivery. Strong ecosystem capacity can be built upon knowledge sharing at GST compliance and optimization of best practices. Responsive governance would be possible only through constructive feedback loops on emerging problems and sector-specific concerns.

7.3 Future Research Direction

Future research should aim at analysing the impact of GST on startup survival rate and growth trend: sector specific in-depth analysis of particular industry like fintech, ed-tech, health tech and their associated GST experiences in quantitative analysis. Further, studies can be carried out in direction of comparative studies with the tax treatment of startups in other jurisdictions, long term analysis of reduction in compliance cost and its reinvestment pattern and assessment of GST’s role in formalization of the informal economy and its implication on startups

Declaration by Authors

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