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Impact of Goods and Service Tax on Revenue Collection by Punjab Government

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Abstract

The Indian government has taken a major step in the direction of indirect tax reform. Since 1 July 2017, government has implemented Goods and Service Tax (GST) in place of other indirect taxes. The idea behind GST is to bring uniformity in the prices of goods and services across the nation. This new system brings a lot of transparency in indirect tax structure of our country. It helps in tracking tax evasion. GST brings a lot of changes in Indian economy. This helps in removing obstacle of doing business in our country. In this way, it attracts lot of domestic and foreign investors to set up their business in India. Once foreign companies start their operation in India, they will hire lot of Indian youth to do work in their business. This will pave the way to sort out the problem of unemployment in India and enhance our foreign exchange reserve. Business development will further enhance the infrastructure growth in our nation. It will direct the path of growth in government revenue and support government initiatives such as Make in India, Digital India and so on. In this way, GST will give a spur to Indian economic growth prospects. The above-mentioned growth path will make Indian equity market lucrative for domestic and foreign investors. Here, we can say GST will not only simplify indirect tax system but also give a way of further economic development of our nation.

Keywords

Goods & Service Tax, Revenue collection, Central & State Government.

Introduction

The word "tax" is derived from Latin word "taxare" which means to estimate. Taxation is not a voluntary payment or donation, but a mandatory contribution. According to legislative authorization, it is a contribution imposed & collected by government, in the name of tolls, tributes, taxes, duties, custom, excise, subsidies, aid, supply or any other name.

Taxation was first imposed in Ancient Egypt around 3000 B.C. during the first dynasty of the old kingdom (Nayyar & Singh, 2018). Due to inappropriate market prices for public goods, taxation is the only way to fund public goods. It can only be imposed & collected by the government, through funds raised from taxation. It is very important to design the tax system properly that it will not cause any type of market distortion and economic failures. In India, the tax system was started in ancient times. During the British Empire, the entire tax system of India was changed. It was entirely in favor of the British Empire, but it also incorporated modern and scientific techniques of taxation systems. Another remarkable transformation came in the year 1922 in the taxation system when Britishers established an entirely new administrative and taxation system in India. In this system, the tax system was divided into two categories: Direct Taxes and Indirect Taxes. In India, the tax system is fully controlled by Central and State governments. The authority to levy tax is derived from the Indian Constitution of India, which gives the power to levy taxes between Central Government and State Government.

At the central level the important taxes are the Central Value Added Tax (CENVAT), the Service Tax, the Central Sales Tax (CST), the Countervailing Duties (CVD), and the Special Additional Duty of Customs (SAD). The CENVAT (or Excise Duty) is a tax levied on the manufacture of movable and marketable goods in India, with a tax rate of approximately 12.36%. The service tax is a 15% tax on all services rendered, where the service provider collects the service tax from the recipient of the service and pays it to the government.

At the state level, important taxes include the state Value Added Tax (VAT), entry tax, luxury tax, and entertainment tax. Value Added Tax is levied on manufactured goods produced in the state and the tax ranges from 10 to 14.5 percent across states. Sales tax is a tax levied on goods sold in the state and the tax ranges from 0 to 15 percent. It has been replaced by the Value Added Tax in most states, but it still exists in a few states

Goods and Service Tax (GST)

The Goods and Service Tax (GST) is a tax which has replaced many Indirect taxes in India. It has been passed on 29th March 2017 in the Parliament through the implementation of 101st Amendment of the Constitution of India by the Indian Government but became effective on 1st July 2017.

Goods and Services Tax (GST) is an indirect tax (or consumption tax) used in India on the supply of goods and services. It is a comprehensive, multistage, destination-based tax. It is comprehensive because it has subsumed almost all the indirect taxes except a few state taxes, Multi-staged as it is, the GST is imposed at every step in the production process, but is meant to be refunded to all parties in the various stages of production other than the final consumer and as a destination-based tax, it is collected from point of consumption and not point of origin like previous taxes.

The GST was launched at midnight on 1 July 2017 by the President of India, and the Government of India. The launch was marked by a historic midnight (30 June – 1 July) session of both the houses of parliament convened at the Central Hall of the Parliament. Though the session was attended by high-profile guests from the business and the entertainment industry including Ratan Tata, it was boycotted by the opposition due to the predicted problems that it was bound to lead for the middle and lower class Indians. The tax was strongly opposed by the Indian National Congress. It is one of the few midnight sessions that have been held by the parliament - the others being the declaration of India's independence on 15 August 1947, and the silver and golden jubilees of that occasion (Adhana & Raghuvanshi, 2019). After its launch, the GST rates have been modified multiple times.

Table: 1 Taxes subsumed and not subsumed in GST

Subsumed in GST	Not Subsumed in GST
Service Tax	Electricity Duty
VAT/Sales Tax	Basic Custom Duty
Central Tax	Toll Tax
Entertainment Tax	Alcohol for Human Consumption
Tax on Lottery	Property Tax
Luxury Tax	

GST Rates for Services:

Government has also imposed GST on Services with the same 4-tier tax structure as of commodities. GST rates on services comprising of 5%, 12%, 18% and 28% comes with various pros and cons for the consumers. However, government has exempted healthcare and educational (academic) services from the purview of the GST. The Goods and Services Tax council has passed the rate slabs at NIL, 5%, 12%, 18%, 28%.

Under the old system, Article 246 distributed the power to levy taxes between Centre and State governments. As the Governments at Centre and state levels had distinct powers to levy and collect taxes to meet their revenue requirements, hence a system was needed where concurrent powers were given to Centre and State Governments to levy taxes. Due to this reason constitution was amended and following four legislations were enacted:-

- The Central Goods and Services Act, 2017.
- The Integrated Goods and Services Act, 2017.
- The Union Territory Goods and Services Act, 2017.
- The GST (Compensation to States) Act, 2017.

Tax revenue of Punjab Government

Taxation is the primary source of income for the government. It is the most important revenue receipts for the government. Taxes are involuntary fees levied on individuals and corporations to finance government activities. Revenue receipts can be of two types- non tax revenue and tax revenue. Tax revenue is the income gained by the government through taxation.

Tax revenue forms a part of the Receipt Budget, which in turn is part of the Annual Financial Statement of the Union Budget.

Tax revenue is the result of the application of a tax rate to a tax base. Total tax revenue as a percentage of GDP indicates the share of the country's output collected by the government through taxes. Tax revenue can be regarded as one measure of the degree to which the government controls the economy's resources.

Taxes collected from both direct tax and indirect tax are the government's tax revenue. It includes collections from income tax, corporation tax, customs, wealth tax, tax on land revenue etc.

Direct tax is the tax that is paid directly to the government by the person or the company on whom it is levied. Income tax, wealth tax, corporation tax and property tax are some examples of direct tax. Indirect taxes are those that are collected by intermediaries from individuals and corporations who bear the burden of tax and passed on to the government. Goods and Service Tax (GST) is an example of Indirect tax. Corporation tax forms a large chunk of the government's tax revenue.

The introduction of GST would mark a clear departure from the scheme of distribution of fiscal powers envisaged in the Constitution. The proposed dual GST envisages taxation of the same taxable event, i.e., supply of goods and services, simultaneously by both the Centre and the States. Therefore, both Centre and States will be empowered to levy GST across the value chain from the stage of manufacture to consumption.

Literature review

1. **Khurana & Sharma (2016)** in their study '**GST in India: A positive reform for indirect tax system'** had the objective to study the impact of Goods and Service Tax on the Indian Economy & to assess its benefits. Their study is based on secondary sources. According to authors, The Goods and Service Tax have a positive impact on major sectors & industries, but still require the concentrated efforts of all stakeholders (i.e. Central & State Government).
2. **L. Rayka (2017)** in her article titled **'GST: Impact on consumers'** studied about GST & its impact on consumers along with its benefits & opportunities. The author has used secondary data for her research. The study has revealed that GST is likely to be inflationary in nature and have the greatest impact on lower income group hardest because they currently pay less tax. The Sales tax and service tax are already hidden in the prices of all goods and basic goods would be largely exempt from Goods and Service Tax.
3. **Nayyar & Singh (2017)** in their study **'A Comprehensive Analysis of GST in India'** revealed the characteristics and functioning of the new tax structure implemented in India. They also differentiated the current taxation system in India i.e. pre GST v/s GST. Their study is based on Secondary data. According to researchers, all sectors in India manufacturing, service, telecom, automobile, Small & Medium sized Enterprises will be affected by Goods and Service Tax. The study indicated that the Goods and Service Tax will provide India a fair and transparent tax system, but is also faces several challenges. More analytical based research is needed to be successfully implemented in the country.
4. **Vicky & Kumar (2018)** in their study **'Impact of GST on Indian Economy'** highlighted the impact of GST on Indian economy, working mechanism of GST in India. The study is based on secondary data. The study indicated the potential impact of GST on business operations. There is great awareness within the organization about the

changes. According to authors, the formation of GST evaluation committee should monitor and evaluate the implementation of GST.

5. **Sabari Nath T V (2019)** in his study **'Implementation of GST in India Emerging opportunities & challenges'** indicated the core concept of GST with empirical analysis of GST model, examined the opportunities & challenges after its implementation in addition to comparative study on impact of taxes in GST & non GST regime. The author has used secondary data in his study. It has been concluded from the study that GST will help to reduce distortion of prices due to tax policies, also reduce the burden of tax payer by eliminating the cascading of taxes at multiple levels, help in equal distribution of burden of taxation between manufacturing and services and to lower the tax rate by broadening the tax base & reducing exemptions.

6. **Sengupta et al. (2020)** in their article **'A Study on Goods and Service Tax'** has defined the need for GST in India. The authors have used secondary data in their study. The study is carried on sentiment analysis based on Twitter data. Sentiment analysis is done on the basis of Tweet Sentiment Visualization application. The study shows that the implementation of GST has given a positive notion in 150 countries across the world and it will give a positive impact on the Indian service sector. So, execution of GST will give relief to the producers and consumers by giving them input tax credit setoff.

7. **Jamil Ahmad (2021)** in his study **'GST: Benefits and its impact on Indian Economy'** analysed the cost and benefits bear by the economy due to implementation of GST. The study also evaluated the expected rate of growth of economy after the introduction of GST. According to study, GST seems to eliminate all tax differences, putting small and medium-sized companies on a level playing field. However, Indian economy can be uplifted in the long run.

Objectives of the study

1. To study the concept of GST.
2. To study the impact of implementation of GST on the revenues of the Government of Punjab.
3. To study about the challenges due to implementation of GST.
4. To provide suggestions and recommendations regarding GST.

Scope of the study

The study focuses on the impact of implementation of new taxation system i.e. GST on revenues of Punjab government. For fulfilling this objective, study is made through secondary data. The study also focuses on the introduction of post VAT system and due to this, various challenges faced by the traders & manufacturers.

Research methodology & data collection

This paper is prepared by utilizing Explanatory research method in light of Secondary data gathered from various Journals, newspaper, magazines and websites. Descriptive type of research design is adopted by considering the objectives of the study to have more accurate and thorough investigation on the research study. The open auxiliary information is intensively utilized for the Research study

Limitations of the study

The main limitations of the study are:

1. The study is based only on secondary data. Therefore, the limitations of this data will affect the study.
2. The study uses various multivariate analysis techniques for analyzing the results. The limitations of these tools might affect the outcome of the study.
3. The study confines itself only to revenue of Punjab government. It does not reflect the impact of GST on other areas.
4. The study limits itself to revenue part only but gradually changes in tax rate also affect the revenue of government which has not been considered.

Problems in implementing GST challenges

GST is the biggest milestone in Indian taxation history since Independence, but the system has to undergo and defeat several challenges for its successful implementation. These are as following:

- **Consent of the states:** For executing, it is important that GST bill is passed by the individual state bodies in state congregations in order to bring greater part. This is a massive undertaking.

- **Revenue Neutral rate:** It is one of the most important and prioritized factor for its prosperity. We realize than in GST regime, the income would not be the same when contrasted with the earlier structural framework. Consequently, through RNR government is to guarantee that its income continuous as before in spite of tax credits. Threshold limit in GST, while implementing the GST , both the empowered committee and the central government should make notice that the threshold limit in tax would not become a burden for the small scale business man in the nation.

- **Robust IT network:** The need of a strong and secured Robust IT network is important and it can't be denied as the government bodies already incorporated Goods and Service Tax Network, so there is a need arrived for the registration of GST, filing of tax return, IGST settlements etc. so we can compromise on a robust IT backbone.

- **Training to administration of tax staff:** As the GST system is different from the earlier tax system. There should be a need of proper awareness about the system to the administration staff so for that there should be proper training given to both state and central staff in terms of concept, procedures and legislation.

- **Additional levy on GST:** As we all know about the purpose of implementation of GST that to make India as one state where the movement of Interstate goods are common. So for the purpose of additional levy is to compensate the loss of revenue of state while moving to GST.

There are certain challenges and problems in implementing the GST in India.
Some of them are as follows:-

1. There is no such clear picture about the GST both to the government and to the general public.
2. There is no cooperation between the Central government and the state government in implementing the GST. Even though, if implemented the levy of tax remains on the part of the state.
3. The State government generally refuses to accept it. As the states levy taxes on the Destination principle i.e. (the state in which the product or service is sold or rendered), so in order to lose the revenue they were avoiding it.
4. The Revenue Neutral Rate (RNR) is the key factor responsible for the effective implementation of GST. But under GST, we could not say that the revenue remains same as that of the current system of taxation.
5. Even though the government said that they will pay the loss of revenue to the State government, it will be again imposed on the general people in some other forms.
6. It involves massive cost on the training of the staff of the Taxation department.
7. **Lack of political support.** The Bill must be passed in the Rajya Sabha for its successful implementation.
8. IT is the backbone of GST which would connect the various stakeholders through the Virtual platform. So, government must show keen interest on the development of portal for GST and successfully achieves it.

Analysis of Punjab Government revenue from GST

Table: 2

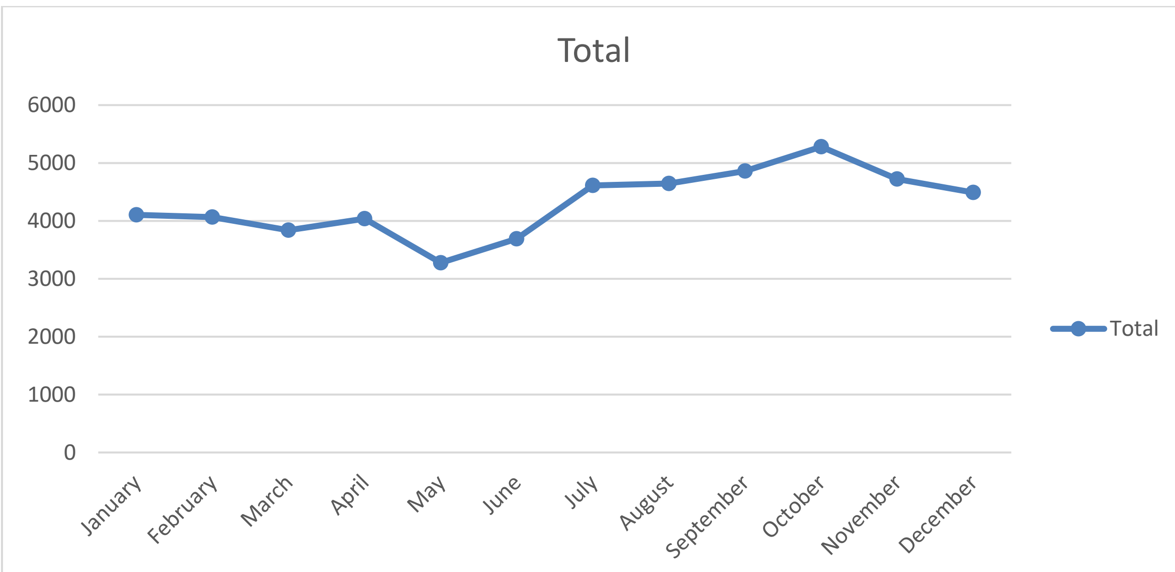
Year	(All)

Row Labels	**Sum of IGST**
January	4106.093267
February	4065.107489
March	3838.03
April	4035.161236
May	3276.75
June	3691.440721
July	4614.750951
August	4645.163254
September	4860.577687
October	5280.168088
November	4719.80341
December	4489.544432
Grand Total	**51622.59054**

Source: www.gst.gov.in

Above table gives the data of total proceed of IGST of all the years i.e. from implementation year 2017 to 2023. The sum of IGST is rs.51622.59054cr.which indicates the sharing of revenue between Central government & most of the state governments including union territories. The government had less revenue from IGST in the month of may i.e. rs.3276.75cr.and the maximum income is in the month of October i.e. rs.5280.17cr.Tax proceed assists as a major revenue source for the government & for country's development also.

Fig.2



The above figure indicates the amount of IGST from year 2017 to 2023 which shows the overall revenue of the nation IGST is imposed on inter-state transactions i.e. the supply of goods & services from one state to another. The figure shows the slightly lower trend in the months of April, May , June etc. of the Covid year then after the lockdown period , the line of revenue proceed of IGST is moving upward which is a healthy sign for the country's revenue position.

Table: 3

Month	(All)

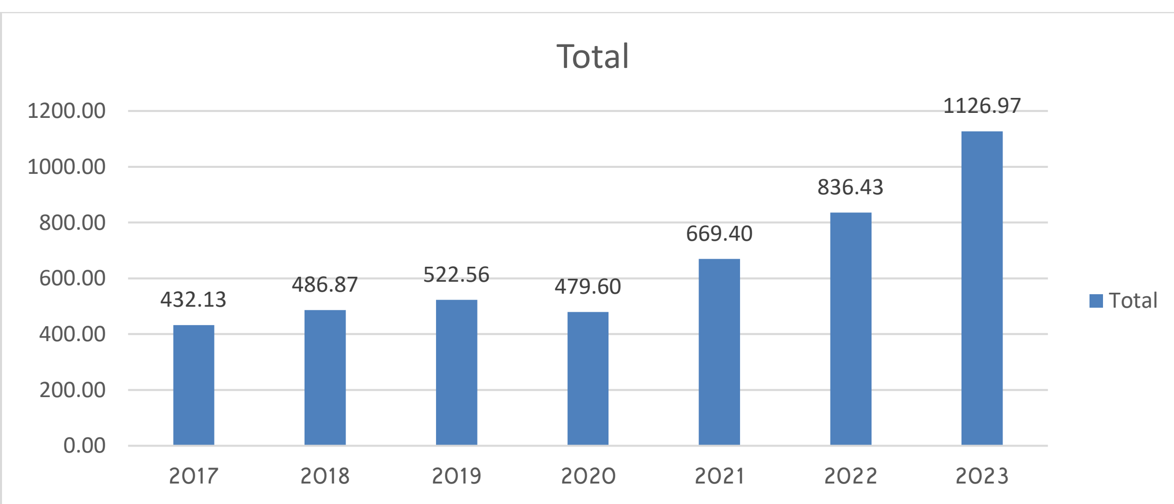
Row Labels	Average of IGST
2017	432.13
2018	486.87
2019	522.56
2020	479.60
2021	669.40
2022	836.43
2023	1126.97
Grand Total	**670.42**

CAGR	**17.32**
Mean	650.57
SD	252.317626

Source: www.gst.gov.in

The above table indicates the sum of average IGST of all year's i.e.rs.670.42cr. In these years, the CAGR is 17.32 cr. & average of one year is rs.650.57cr.Standard deviation of proceed if IGST of all years is rs.252.32cr.which represents the increasing income of the government from GST in all the years.

Fig: 3



The above figure indicates the proceed of IGST which is showing upward growth year by year except in the Covid year from implementation year to year 2023, there is major increase in the revenue proceed of IGST. In 2017 it was rs.432.13cr.and in the year 2023 it is rs.1126.97cr.which indicates that people are accepting GST & indulging more in GST.

Table: 4

Number of registered dealers & tax realised in Punjab

Year/Districts	**Punjab general sales tax act2005 VAT Act 2005**	**Punjab general sales tax Act,1948/ VAT Act 2005**	**Central Sales tax Act,1956**	**Total tax ('00000 rs.) (cols.2+3)**
0	**1**	**2**	**3**	**4**
2013-14	243626	1585394	52493	**1637887**
2014-15		1651018	55700	**1706718**
2015-16	263478	1699572	56750	**1756324**
2016-17	243912	1869007	65573	**1934580**
2017-18	285636	1109360	39221	**1148581**
2018-19	310664	712463	21794	**734257**
2019-20	3313	533123	18594	**551716**
2020-21	376852	599114	18027	**617142**
CAGR	6.43	-12.98	-14.16	**-13.02**
Mean	246783.00	1219881.38	41019.00	**1260900.63**
SD	116963.57	547412.49	19279.50	**566631.31**

Source: www.gst.gov.in

Above table indicates the proceeds of tax realized in Punjab from registered dealers. The CAGR of year 2013-14 to 2020-21 is 6.43 according to Punjab general sales tax act 1948 and CAGR was -12.98 according to Punjab general sales tax/ VAT Act 2005. The average of all the years is rs.1260900.63 and Standard deviation is rs.566631.31cr.

Table: 5

Revenue position of Punjab at a glance

	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**CAGR**	**Mean**	**SD**
Sales tax	1637887	1706718	1756324	1936670	1148582	734256	551715	617143	779078	-8.86984	1207597	554177.3
Goods & Service Tax					1193658	2070392	2210482	3071662	3340302		2377299	856233.1
Motor vehicle tax	89429	110666	118344	126797	150440	138680	129194	104058	144809	6.209814	123601.9	19948.65
Entertainment tax	3456	4096	4910	5421	1820	9	218	9		-57.2624	2492.375	2264.039
Luxury tax	3515	3726	4139	4626	1693	67	3			-69.2013	2538.429	1937.993
State Excise duty	346841	420141	379403	437794	498711	507598	502197	610921	610818	7.330382	479380.4	92918.1
Total revenue	2081128	2245347	2263120	2511408	2994904	3451002	3393809	4403793	4875007	11.22683	3135502	992162.7

Source: www.gst.gov.in

Above table indicates the revenue position of Punjab from pre and post GST period. The government has average from indirect taxes is rs.3135502cr and Standard deviation from GST era is rs.856233.1cr.CAGR of this period is 29.34 which is a good indicator of application of new tax system by citizens of the country.

Suggestions & recommendations

- To provide literacy and awareness about the GST.
- Effective spending on efficient Tax administration of staff.
- Well maintenance and frequent follow ups of GSTN (Goods and Service Tax Network) portal for better relationship with various stakeholders.
- In order to avoid the unnecessary loss of revenue to the state government, the central government may think about the considerable percentage of GST which will be helpful for all stakeholders of GST.
- Consent from all states and suggestions from every state for betterment of GST and the source of Tax revenue.
- The government should take care about the RNR which should not affect the tax revenue to any government either central or state.
- The loss of Tax revenue should be managed and compensated properly through proper diversification of funds without burden to anyone.

- The Central and the State government should be in proper understanding and cooperative with each other for the successful implementation.

Conclusion

Goods and Service Tax, with end-to-end IT enabled tax mechanism, is likely to bring good amount of revenue to government. It is expected that the nasty activity of tax theft will be drastically reduce under GST regime in order to benefit both governments and the consumers. In reality, that extra revenue that the government is expecting to generate would come from the reduction of tax theft instead from the consumer pocket. Though the structure of GST might not be a perfect one but once it is placed, this tax structure will make India a better economy advantageous for foreign investments. GST avoid with multiple tax rates by central and states Tax collection in India is dependent on indirect taxes. Corporation tax is the major contributor in direct tax revenue collection. General sales tax is the major contributor in indirect tax revenue collection. The contribution of indirect tax in GDP is more than that of direct tax. Government should try to increase the share of direct tax in total tax revenue collection and for that structural reform should be brought by the government. There is high need to consolidate and simplify the tax laws.

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