

# IMPACT OF GST ON TAX REVENUE IN INDIA

Priyanshu Kumar 1 , Hrithik Verma 2, Nitishwar Rai 3

Mentor:-Dr. Bhavna Sharma

School of Finance and Commerce, Galgotias University, Greater Noida.

## Abstract

India's tax system has always depended significantly on indirect taxes. Until the tax changes of the 1990s, indirect taxes were the most important source of tax income. The main rationale for relying heavily on indirect taxes was that India's majority of people were impoverished, and therefore broadening the base of direct taxes had inherent constraints. However, the Indian indirect taxation system is characterised by a cascading, distorting tax on goods and services production, which results in poorer productivity and slower economic growth. In the current system, there are several taxes, some of which are levied by the federal government and the rest by the states; to eliminate this multiplicity of taxes and reduce the tax payer's burden, a simple tax, such as the Goods and Services Tax, is necessary.

**Keywords :** Impact of GST on tax revenue in India.

## Introduction

The GST (Goods and Services Tax) is a comprehensive concept that supports and improves the complicated tax structure. The economic progress of a country. GST is a federal tax imposed on the production, sale, and consumption of goods and services. The Goods and Services Tax Bill, commonly known as the Constitution (122nd Amendment) Bill, 2014, takes effect. A national value added tax will be implemented in India. To achieve system homogeneity, GST will be an indirect tax levied at all stages of manufacturing. All federal and state taxes will be merged into a single tax payment once GST is completely established. This will also benefit India's position...

Any government can employ this technology to achieve perpendicular fairness through income redivision or minimise the gap between the affluent and the poor, which is unthinkable under the current taxation system. It is a tax imposed by the government on its citizens, either on their income (income duty) or on their consumption or goods (value added duty, services duty, and custom duty) in order to fulfil the fiscal demand for the country's social and profitable growth. It serves as an abecedarian source of profit in order to encourage lucrative and social growth plans. India currently has a very restricted direct taxation structure, such as Income Tax, Tip Distribution Duty, Securities Deals Duty, and so on. Even yet, India has more than twenty-seven different types of circular taxation systems, including Still in July 2017, i.e., the preamble goods and services duty, value added duty, customs duty, exercise duty, services duty, entrance duty,

entertainment duty, and so on. Circular duty profit accounts for more than sixty-five percent of overall duty profit on average.

### **Features**

- It has simpler tax structure.
- It needs more fund for production.
- It supports small and medium enterprises.
- It help in increased volumes of export.

### **GST Rates in India**

Essential services and food are taxed less highly, whereas luxury goods and indulgences are taxed more steeply. Fresh fruits and vegetables, milk, buttermilk, cottage cheese, natural honey, wheat, and bread were all free from taxation by the government. Approximately 1300 items and 500 services are taxed at varying rates (5, 12, 18, and 28 percent) (Figure 1). The GST rate on gold has stayed at 3%, while it has been reduced to 0.25 percent on gemstones, diamonds, and semiprecious stones (Kotak, 2019).

#### **Positive impact :-**

- • The tax base is broadened, resulting in more revenue for the government. All indirect taxes are collected under one roof.
- • It will reduce the circulation of black money. This can only happen if the "kacha bill" approach, which is commonly employed by traders and retailers, is verified.
- • The Goods and Services Tax (GST) will make the country corruption-free.
- • The GST will provide producers in the supply chain a tax credit for the taxes they pay. This is intended to encourage Producers to buy raw materials from a wide range of registered Dealers, with the hope of attracting additional vendors and suppliers as a consequence. This is where taxation comes into play.

#### **Negative impact:-**

- Each firm must file a large number of GST declarations, necessitating a large workforce to keep track of them.
- Tax administration officials at the federal and state levels must acquire sufficient training in principles, law, and procedures in order to effectively apply GST.
- Because this is a new tax, it will take hours for people to completely comprehend.
- Because this is a consumption tax, it is vital to establish where a service is supplied. Proper invoicing and bookkeeping are also required to properly match the tax.

### **Objective of the study**

1. The major purpose is to look into the benefits and drawbacks of the GST on tax revenue.
2. The impact of the Goods and Services Tax on the Indian economy will be investigated.

### **Objective of the research**

The major purpose of this research is to look into how GST affects tax income. Where we examine tax buoyancy and indirect tax buoyancy tendencies before and after the GST adoption. Tax revenues are expected to be more sensitive to changes in GDP after the implementation of the GST.

## **Literature Review**

According to the World Bank (2018) and any other study on " GST in India," India's GST system is one of the most confusing in the world due to its high tax rate and large number of tax rates. G. Garg (2014) investigated the impact of the GST on the Indian duty script. He aimed to synthesise the proposed GST strategy's aims, as well as the challenges and possibilities that GST may present. He concluded that the GST is the most feasible road ahead in our country's entire cyclical duty overhaul since independence. All goods and services, as well as any combination of the two, are subject to GST. GST will affect all aspects of the economy, including assiduity, business, government agencies, and the service sector. GST will have an impact on big, medium, and small enterprises, as well as interposers, importers, exporters, dealers, professionals, and consumers. One of India's most major tax developments is the Goods and Service Tax (GST).

In their study, Pinki et al. (2014) looked at the concept of GST, the need to implement it in India, the obstacles it would encounter, and methods for overcoming them. First and foremost, the study discusses the benefits of applying GST. The authors go over the many options for establishing a binary GST in India, such as concurrent binary GST, national GST, and state GST. The concurrent binary GST option, which applies GST to both goods and services, was chosen as the preferred option. The second option explored was whether the national GST would apply to both commodities and services, but the state GST would only apply to goods, due to the difficulty of identifying whether the state would collect GST on services. This option also advised filing a single return with both CGST and SGST data, as well as Visage grounded enrollment. The authors have also explored the indigenous adjustments that would be necessary if GST were to be imposed, as taxing both items and services with a single tax is not feasible. The credit medium in the CGST/SGST paradigm is also discussed in the paper, which is challenging to execute effectively in terms of defining where a service is taxed. The lack of a stable IT network, structure, and programmes, as well as agreement on other parameters such as the introduction threshold, amnesty for items and services, rates to be applied, and so on, are all obstacles to GST implementation in India.

As Malaysia prepares to adopt GST in 2015, Rashid et al. (2014) analyse the implications of the tax. The GST is being adopted to help the government collect more revenue and decrease the deficit. The authors looked into the impact of the GST preamble and how it related to key metrics like the consumer price index and structural balance. In order for Malaysia's government to steal the trendy strategy while implementing GST, the link between these aspects and GST is examined for Singapore, Thailand, and Indonesia. The report recommends that GST enforcement be made public, that GST rates and bases be evaluated every five years, and that corrections be made based on the findings.

According to Kumar (2014), GST would assist to reduce beneficial distortions caused by the present Indian tax system and will encourage unprejudiced duty structures unaffected by geolocation.

Through a more comprehensive and wider content of input duty set-off and service duty beautifier, the inclusion of several levies in the GST, and the phase-out of the CST, Jaiprakash (2014) stated in his research

paper that the GST, both at the federal and state levels, is expected to provide additional relief to assiduity, trade, agriculture, and consumers.

Saravanan Venkadasalam (2014) examined the post-effect of the goods and services tax (GST) on public development in ASEAN nations using the Least Places Dummy Variable Model (LSDVM). He said that seven of the ten ASEAN countries have already implemented the GST. He also stated that household final consumption expenditure and general government consumption expenditures are both critical components of the gross domestic product, and that these connections justify the attractive plans. However, the post-GST effect differs per nation.

The origins of GST and its impact on Indian frugality were explored by Shaik et al. (2015). Several aspects of GST models were also examined in the study. The advantages and operation of GST were also investigated in this study. According to the report, introducing GST in India will result in marketable advantages previously inaccessible under the hand basket technique, as well as attractive growth opportunities.

In India, Sehrawat and Dhanda (2015) looked into the pros and cons of the GST. They arrived to the conclusion that Indian thrift demanded a tariff policy that was simple and straightforward. They said that GST would provide India with a world-class tax structure and an error-free tariff system, but that the success of its implementation would be determined. Khurana and Sharma (2016) performed a study with the goal of illuminating the diverse benefits and opportunities of GST by examining its origins, planned GST plan objects, and influence on the Indian tariff script. They concluded that the implementation of GST will undoubtedly benefit directors and consumers, despite the fact that it will necessitate concerted perspiration from all stakeholders, particularly the federal and state governments.

In their article "Goods and Services Tax in India - A Positive Reform for Indirect Tax," A. Khurana and A. Sharma (2016) emphasised the goals of GST and improvements in India's circular taxation structure. Finally, with the implementation of GST, manufacturers, wholesalers, and retailers may easily recoup input levies through duty credit.

Munde and Chavan (2016) performed study to examine the benefits and drawbacks of GST, as well as give recommendations for closing loopholes and enhancing its efficiency. They arrived to the conclusion that if potential loopholes are appropriately addressed, duty payers would embrace the shift, and if GST processes are easy and allow all stakeholders to participate, it will almost certainly result in profitable development and price vindication.

Kumar, R., (2016) compares the GST framework from the previous taxation system and emphasises the impact of GST on the Indian economy in his research 'Comparison between Goods and Services Tax and Current Taxing System – A Detail Study.'

Shefalidani (2016) investigated the impact of GST on Indian frugality in a study that assessed some of the benefits of GST, including one nation, one tax, no slinging effect, higher consumption due to slinging effect, transparency, and GDP growth. Petroleum, real estate, and liquor are exempt from GST.

In her research, Dani, S., (2016) discovered that GST, as a system that replaces all circular taxes, may block the country's progress because the implementation effort isn't complete.

Lourdesthan F. and Xavier P. investigated the uncertain attitudes of manufacturers, dealers, and society (2016). It also looked at the difficulties and opportunities of GST in India. The paper also looks into federal and state-level job levies. In colourful nations, the use of GST to promote thrift is depicted. Demonetisation, a difficult era, political hurdles, the rate for manufacturers and dealers, the impact on working and cash inflow, and the implementation in unorganised sectors are all key impediments on the GST's route.

Lourdunathan and Xavier (2017) conducted exploratory study on the basis of existing literature to explore the attitudes of manufacturers, dealers, society, and others toward the GST, as well as the challenges and potential of GST implementation in India. They determined that there was no mistrust. GST stands for "one duty, one nation," and it will benefit both business owners and consumers. Its effective implementation will yield resource and economic benefits. They also suggested that the government must educate, train, and conduct GST shops to ensure flawless credit and refund processing without human intervention.

Mujalde, S., and Vani, A., (2017) focused their study paper on 'Goods and Services Tax (GST) and its Issues in India,' on the features of GST, the impact of GST on Indian frugality, and the possible advantages and difficulties of GST.

Nath, B. (2017) assessed the benefits and impacts of GST on the Indian economy in his paper "Goods and Services Tax: A Milestone in Indian Economy," finding that GST favours many sectors and diligence.

According to Nishitha Guptha (2017), GST adoption in India would result in marketable benefits not accessible under the hand basket technique, and will fundamentally lead to profitable development.

Kawle, S.P., and Aher, L.Y., (2017) focused their research on how GST works in India and how it influences Indian frugality.

## **Research Methodology**

In this chapter a shot has been to gift the small print with reference to this survey undertaken. In accordance with the title of the research paper its projected to produce an awfully general because of the tax revenue on GST. We utilise some data from previous year and specially from Odisha state.

While the foremost half of the information are collected through the survey technique i.e., Questionnaire and secondary data are collected from varied printed materials , newspaper, magazine, booklet ,internet, etc., This chapter present small print concerning the character of knowledge collected, organisation ,analysis and presentation . It provides an outline of the chapterisation.

### **Objectives of study:**

1. 1. Conduct an analysis and interpretation of the impact of the GST on tax revenue.
2. To examine certain unique elements of taxation in each state.

### **Types of research**

This study incorporates both quantitative and qualitative descriptive research methods. Descriptive research is used to describe the information gathered. The information gathered by the survey was analysed statistically. The Google forms tool was used to create the questionnaire for this investigation. An Excel format file was downloaded from the Google Docs website when the data collection was completed.

### **METHODOLOGY / PROCEDURE**

This research paper on the impact of Gst on tax revenue has utilised each primary similarly as secondary knowledge.

### **PRIMARY DATA**

The first knowledge has been collected for this purpose on the premise of a field check. A questionnaire was prepared for this purpose with the help of google docs., and google forms. Questionnaires were picked for this exploration paper since they're a reliable and fast strategy to gather data from colourful repliers in a complete and ideal way. This study was no special case and questionnaires were a fast and successful route for us to arrive at multitudinous repliers inside half a month. An overall vexation of the questionnaires anyway is their fixed and severe arrangement, which takes out the openings for fresh inside and abstract observation.

**SECONDARY DATA** In order to conduct the analysis the application of vital benefactions within the subject through journals, magazines, check accoutrements, diurnals, reports, pamphlets, journals published were allowed of.

## **Data analysis & interpretation**

- GST is imposed on both products and services, but not on alcoholic drinks intended for human use.
- At initially, the GST will not apply to petroleum crude, high-speed diesel, motor spirit (petrol), natural gas, or aviation turbine fuel.
- The GST council will decide when they will be subject to GST.
- Tobacco and tobacco products will be subject to GST. The federal government may impose excise duties on tobacco.

## **Data description and source .**

The government of India's total duty profit was utilised as the dependent variable to analyse the impact of the GST preamble on total duty profit. The Indian government's budget records provided us with total duty profit numbers from 1980 to 2018. The Gross Domestic Product (GDP) data came from the RBI text of Indian economic statistics. GDP was chosen as the explanatory variable because total duty profit is impacted by GDP. The other explanatory factors in our study were the hand basket, GST, and VAT GST.

## **Here is the special reference of Odisha state**

### **It's results and discussion:**

The number of registered taxpayers has increased significantly after the implementation of GST. As of December 31, there were 278645 active taxpayers registered in Odisha, representing an increase of 8.94% over the previous fiscal year, which is double the national growth rate. On the other hand, as of 31 December 2020, India's total number of active taxpayers was 10782730, with a monthly growth rate of 4.01. The relative trend of active taxpayers' number of returns over the previous four years. In Odisha, at least 76 percent eligible taxpayers submit GSTR-1, which provides details about outside forces, whereas the national average is 80. Also, GSTR-3B i.e., yearly returns for all regular taxpayers is nearly the

The rise of goods and services duty profit in India from its inception is seen .The duty profit is the smallest in April 2020, at Rs. 32172 crores, and is atrocious due to the onset of Corona disease and subsequent tighten down, as well as the shutdown of business conditioning. Because of overdue GST payments from

previous months, the highest rise in annual profit collection is shown in the months of May and June 2020. Since its inception in March 2021, the maximum GST earnings have been collected.

GST profit growth rates of (-) 41, (-) 8, 8 and 14 in the four diggings separately during 2020-21, as compared to four diggings in 2019-20, demonstrating the efficacy of collection and the growth of frugality as a whole.

Government and now contained in GST. It also shows analogous pattern of growth over the months as witnessed in all India profit. The profit collection decreases up to 70.3 in the month of Table-4 shows Odisha's goods and services duty profit collection since commencement. It includes the Odisha Goods and Services Levies, the IGST, and any other levies evaluated by the state government and now included in GST. It also exhibits a similar trend of expansion over time as shown in all India profit. In April 2020, profit collection drops by up to 70.3 percent compared to March 2020. The average OGST revenue is Rs. 603 crore, with the overall GST collection averaging Rs. 1003 crore. Figure 3 depicts an unchanging pattern of OGST and IGST collection in Odisha, whereas other taxes included in GST are on the decline.

According to the GST Act, the Central Government must reimburse state governments for profits lost owing to the implementation of GST during the first five years. Each state must prepare and quantify the loss of profit in their respective state each month and submit a demand to the federal government. Table 5 and Figure 4 illustrate the compensation cess that Odisha has requested and received from the Central Government during the previous four years. It's worth noting that the likelihood of a compensatory cess being imposed on demand has decreased with time. The Centre has issued only about half of the appropriate compensating cess.

### **Forecasting revenue using ETS functions :**

I utilised the exponential triple smoothing (ETS) function to forecast future indirect tax revenue using existing time series data from before the implementation of GST, namely from 2013 to 2017. Because this approach relies on advanced machine learning algorithms and is seen as a rule-of-thumb strategy rather than one based on theoretical underpinnings, practitioners have frequently overemphasised it. The formulas offer triple exponential smoothing with multiplicative seasonality:

When we compare the read profit to the real circular duty profit under GST without taking into account the compensating cess, the p value is less than 0.05, rejecting the null hypothesis. We might conclude that the estimated profit and the actual profit differ significantly. However, when profit includes compensation cess, the p value is similarly greater than 0.05, indicating that there is no significant difference between factual and read profit.

The factual circular duty profit after GST is somewhat lower than the read value, but it is slightly higher or equal to the read value if we include the compensating cess in the factual circular duty collection for the period.

Yearly circular duty profit based on yearly duty collected under goods and services duty. The compensating cess is not included in the read value. It has an increasing tendency throughout time.

### **Conclusions:-**

We conducted a retrogression analysis to determine the impact of GST implementation on duty earnings in India. According to our findings, duty profit has been less vulnerable to GDP fluctuations after the implementation of GST. The data contradict our premise that tariff profit has become increasingly responsive to changes in GDP. Given the country's current economic situation, the findings of our study have significant policy implications. India's GDP increased at a 6.8% annual rate in fiscal year 2018-19, but just 5% in the first quarter of fiscal year 2019-20. Given the current downturn in GDP, if the government tries to encourage growth by raising public expenditure in the hopes that the increased income would result in enough duty profit to help the financial position in the long run, Frugality would be inadequate to mobilise sufficient profit through taxes to offset the expansion in government expenditure, however, since duty profit has grown less responsive. If no proper policy initiatives are taken, financial sustainability may suffer long-term effects. GST is, without a question, a simple and effective tax system that will increase the duty base and profit in the long term. Profit has gradually increased since the company's beginning, as predicted. This might be due to systemic limits as well as the nimbus pandemic's global expansion. It takes time to get used to a new system, and India's GST will be celebrating its fourth anniversary in July 2021. In this short time, several modifications and variants have been done to improve the system's openness and efficacy. GST profits have continuously exceeded one lakh crore for India and one thousand crore for Odisha in the last six months, suggesting a speedy and robust recovery from the pandemic. Closer protection against fake invoicing, deep data analytics using data from a range of sources, including GST, Income-tax, and Customs IT systems, and effective duty administration have all contributed to the continual development in duty profit in recent years few months. The GST has yet to provide the expected outcomes in Odisha, as evidenced by the agreement of compensating cess over time. The profit loss is still occurring, and the compensation scheme is only in place for the first five times, and it will expire in July 2022. The government is concerned. GST is, without a question, a simple and effective tax system that will increase the duty base and profit in the long term. Profit has gradually increased since the company's beginning, as predicted. This might be due to systemic restrictions as well as the global spread of the nimbus pandemic. Any new system will take time to become completely familiar, and GST in India will be celebrating its fourth anniversary on July 2021. Several improvements and variations have been implemented in this short period to increase the system's transparency and efficacy. GST profits have continuously exceeded one lakh crore for India and one thousand crore for Odisha in the last six months, suggesting a speedy and robust recovery from the pandemic. Closer protection against fake invoicing, deep data analytics using data from a number of sources, including GST, Income-tax, and Customs IT systems, and effective duty administration have all contributed to the steady increase in duty profit over the last few months. The GST has yet to provide the expected outcomes in Odisha, as evidenced by the agreement of compensating cess over time.

## **References**

- Belinga, V., Benedek, D., Mooij, R., Norregaard, J. 2014. Tax Buoyancy in OECD Countries. IMF Working Paper 110.
- Breen, J., Bergin-Seers, S., Roberts, I., Sims, R. 2002. The Impact of the Introduction of the GST on Small Business In Australia. *Asian Review of Accounting*.
- Choon, L.S., Osman, A., Muhammad, S., Yeng, S.K., Jin, L.Y. 2016. Goods and Services Tax (GST) Compliance among Malaysian Consumers: The Influence of Price, Government Subsidies and Income Inequality. *Procedia Economics and Finance*, 198-205.
- Clartax. 2018. Impact of GST on the Indian Economy. Retrieved from <https://cleartax.in/s/impact-of-gst-on-indian-economy>
- Das, D. 2019. GST Pass-through Across Indian States: Evidence from Difference-in- Differences. *The Indian Economic Journal*.
- Das, K. 2018. Decoded: Why India's GST has multiple tax slabs? Retrieved from <https://www.timesnownews.com:https://www.timesnownews.com/business-economy/economy/article/decoded-why-india-s-gst-has-multiple-tax-slabs/247658>
- Dudine, P. 2018. How buoyant is the tax system? New evidence from a large heterogeneous panel. *Journal of International Development*, 30(6), 961-991.
- Dwivedi, H.K., Sinha, S.K. 2017. Trends in Collection of Value Added Tax in West Bengal: A Commentary. *South Asian Journal of Macroeconomics and Public Finance*, 5(2), 238-248.
- Emran, M.S., Stiglitz, J.E. 2005. On selective indirect tax reform in developing countries. *Journal of Public Economics*, 599-623. Dani, S., (2016), A Research Paper on an Impact of Goods and Service Tax (GST) on Indian Economy, *Business and Economics Journal*, Bus Eco J 7: 264. doi: 10.4172/2151-6219.1000264.
- Kapil Kapoor (2017), GST New Tax Regime: Issues and Challenges, *International Journal of Recent Scientific Research*, vol. 8(4), pp. 16786- 16790.
- Kawle ,S, P. and Aher, L.,Y.(2017), GST: An economic overview: Challenges and Impact ahead, *International Research Journal of Engineering and Technology*, Volume: 04 Issue: 04, pp. 2760-2763.
- Lourdunathan F and Xavier P (2016), A study on implementation of goods and services tax (GST) in India, Prospectus and challenges, *International Journal of Applied Research*, vol. 3(1), pp. 626-629.
- Nayyar, A. and Singh, I. (2017), A Comprehensive Analysis of Goods and Services Tax (GST) in India. *Indian Journal of Finance*, DOI: 10.17010/ijf/2018/v12i2/121377.

Rupa, R.(2017),GST in India: An Overview, International Education and Research Journal, <https://www.researchgate.net/publication/315331885>.

Shefali Dani (2016), A Research Paper on An Impact of Goods and Service Tax on Indian Economy, Business and Economics Journal, vol. 7 (4). DOI: 10.4172/2151-6219.1000264.

Yadav,S., S. and Shankar, R. (2018), Goods and service tax (GST): How and Why, Journal of Advances in Management Research, Vol. 15 Issue: 1, pp.2-3.

<http://www.gstcouncil.gov.in/>

<http://www.gstindia.com/>

<http://www.gstindia.com/basics-of-gst-implementation-in-india/>

14.

[https://en.wikipedia.org/wiki/Goods\\_and\\_Services\\_Tax\\_\(India\)ncy](https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)ncy)

Alappatt M., Shaikh J. M., “Forthcoming procedure of goods and service tax (GST) in Malaysia,” Issues in Business Management and Economics, vol. 2, no. 12, pp. 210-213, 2014. DOI: 10.15739/IBME.2014.008

Beri Y., “Goods and Services Tax (GST) -A global scenario,” International Journal of Social Science and Interdisciplinary Research (IJSSIR), vol. 6, no. 1, pp. 1-9.

Bird Richard Miller, “The GST/HST: Creating an Integrated Sales Tax in a Federal Country,” Rotman School of Management Working Paper No. 2115620, 2012. DOI: 10.2139/ssrn.2115620

Chakraborty S., “A study on impact of Goods and Services Tax on Indian textile industry,” Research Review International Journal of Multidisciplinary, vol. 3, no. 11, pp. 86-91, 2018. DOI: 10.5281/zenodo.1481899

Charan P., Benjamin R., Khan Z. H., “Goods and Services Tax (GST) Bill’2016: Gearing up for the next big wave in the Indian Economy,” International Journal of Scientific & Engineering Research, vol. 8, no. 1, pp. 1454-1461, 2017.

Garg M., Kumar M., “Indian tax structure and relevance of GST,” International Journal of Advance Research and Innovative Ideas in Education, vol. 3, no. 4, pp. 2199-2205, 2017.

Holla R., “SWOC analysis of Goods and Services Tax (GST): Implementation in India,” International Journal of Current Research and Modern Education (IJCRME), vol. 1, no. 2, pp.