



Value Added Tax and GST Revenue

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Abstract

In this paper examines the similarities and differences between Goods Services Tax (GST) and Value Added Tax (VAT), There are two important indirect taxation systems enacted in various countries. While both taxes aim to aerodynamic revenue collection and reduce surge outcome in taxation, their structure, scope, and execution vary remarkable depending on dominion contexts.

VAT is a multi-stage tax applied to the value added at each stage of production and distribution, and it is widely used in part of Asia, Africa and Europe. GST, a variant of VAT, integrates multiple indirect taxes into a integrate system, often distinguishing itself with features such as broader coverage and dual governance in union like India and Canada.

This paper Discoverer key aspects of these systems, embracing their economic implications, administrative challenges, conformance mechanisms, and potency in revenue generation. It also highlights the pros and cons of each model, providing insights into their resilience to different economic environments. The comparative analysis sheds light on how businesses, consumers, and governments are impacted by the choice between VAT and GST, offering important considerations for policymakers in designing proficient tax systems.

Problems of Complexity and compliance issue in VAT & GST

Value Added Tax Complexity and Compliance Issues

1. Multiple Rates and Exemptions

- VAT often has multiple tax rates based on the type of goods or services (e.g., standard, reduced, and zero-rated).
- Sector-specific exemptions create confusion and increase compliance burdens for businesses, particularly those dealing in mixed supplies.

2. Cascading Effect Without Input Credit

- Ineffective or delayed input credit mechanisms can lead to a cascading effect, where taxes are levied on taxes, increasing costs for end consumers.

3. Inter-Jurisdictional Variations

- VAT rates and rules can differ significantly across regions or countries, creating challenges for businesses operating in multiple jurisdictions.

4. Record-Keeping and Documentation

- Businesses must maintain detailed records of transactions, invoices, and input credits, which can be resource-intensive and error-prone.

5. Audit and Inspection Challenges

- Complexities in VAT computation can lead to frequent audits, increasing administrative burdens. Non-compliance, intentional or unintentional, can result in heavy penalties.

6. Fraud and Evasion

- Fraudulent claims of input tax credit and underreporting of sales are common challenges in VAT regimes, leading to revenue losses for governments.

Goods and Services Tax Complexity and Compliance

1. Dual GST Structure in Federations

- In countries like India and Canada, GST is split between central and state governments, requiring separate compliance for both.
- Businesses must navigate complex filings and reconcile differences between central and state-level returns.

2. Frequent Changes in Rules

- Dynamic changes in GST rates, rules, and compliance procedures create uncertainty for businesses and increase compliance costs.

3. Digital Infrastructure Requirements

- GST relies heavily on technology for e-invoicing, filing returns, and input tax credit reconciliation, which can be challenging for businesses in regions with poor digital infrastructure.

4. Input Tax Credit Matching

- Claiming input tax credits requires matching purchase invoices with supplier filings, leading to disputes, delays, and working capital blockages.

5. Compliance for Small Businesses

- While GST thresholds exempt smaller businesses, those slightly above the threshold face disproportionately high compliance burdens.
- Complex registration processes and monthly or quarterly filings add to the challenges.

6. Sector-Specific Complexities

- Certain industries, such as real estate, e-commerce, and financial services, face unique compliance challenges due to ambiguities in GST provisions.

7. Fraud and Tax Evasion

- Similar to VAT, fraudulent claims for input tax credits, fake invoicing, and underreporting of turnover are significant compliance challenges under GST.

The main Common Implications of Complexity and Compliance Issues in value added tax and goods and service tax

- **Increased Administrative Costs:** Businesses must invest in software, training, and personnel to ensure compliance.
- **Penalties for Non-Compliance:** Complex regulations increase the likelihood of errors, leading to fines and penalties.
- **Revenue Loss for Governments:** Non-compliance, fraud, and tax evasion undermine the efficiency and revenue potential of VAT and GST.
- **Impact on Small Businesses:** High compliance costs disproportionately affect small enterprises, limiting their growth and competitiveness.

Value Added Tax and Goods and Services Tax Scope

1. Scope of VAT

- **Applicability:** VAT is a consumption-based tax applied at each stage of the supply chain, from production to retail. It is levied on the value added at each stage of production and distribution.
- **Coverage:** Commonly applied to goods and some services, but scope varies by country. Certain essential goods, like food and medicine, may be exempt or zero-rated.
- **Input Tax Credit:** Businesses can claim credit for VAT paid on inputs, reducing overall tax liability.
- **Global Use:** Primarily used in Europe, Africa, and parts of Asia.

2. Scope of GST

- **Unified Tax System:** GST consolidates multiple indirect taxes (e.g., sales tax, excise duty, service tax) into a single system.
- **Broad Coverage:** GST applies to nearly all goods and services, including manufacturing, trade, and services.

- **Dual Structure in Federations:** In countries like India and Canada, GST operates at central and state/provincial levels.
- **Input Credit Seamlessness:** Offers a comprehensive mechanism for input tax credit across goods and services.
- **Economic Integration:** Promotes free movement of goods and services by eliminating inter-state taxes and trade barriers.

Limitations of Value Added Tax

1. **Cascading Effect:** In systems without a robust input credit mechanism, VAT can lead to tax-on-tax, increasing costs for consumers.
2. **Complex Administration:** Requires precise tracking of value addition at each stage, which can be resource-intensive.
3. **Sectoral Exemptions:** Exemptions or zero-rating for certain goods and services complicate compliance and administration.
4. **Limited Harmonization:** Rates and rules may differ significantly across jurisdictions, leading to trade distortions.

Limitations of Goods and Service Tax

1. **High Initial Costs:** Transitioning to GST involves significant costs for businesses, including software upgrades and staff training.
2. **Complex Dual Structure:** In federations with dual GST systems, compliance may be challenging due to separate filings for central and state taxes.
3. **Tax Evasion Risks:** Fraudulent input credit claims and invoice mismatches can result in revenue loss.
4. **Economic Disruptions:** Implementation can lead to temporary disruptions in supply chains and business operations.

Methodology for this paper

The methodology for a paper on VAT and GST involves a systematic approach to exploring the structure, implementation, compliance, and economic impacts of these taxation systems. Below is a step-by-step methodology framework:

Process of Research Design

- **Type Study:** A comparative and analytical study to evaluate VAT and GST systems.
- **Approach:** Use qualitative and quantitative methods to analyse the structure, efficiency, and impact of VAT and GST in different regions.
- **Research Questions:**
 - What are the similarities and differences between VAT and GST?
 - How do VAT and GST affect businesses, consumers, and governments?
 - What challenges arise in implementing and complying with these tax systems?

Data Collection for this paper*Secondary Data*

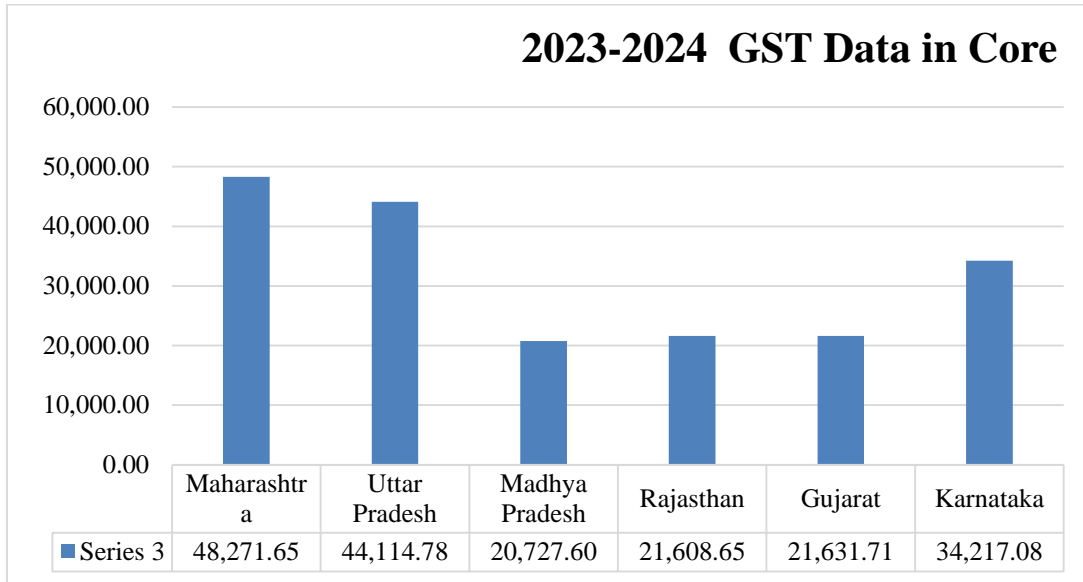
- Review **government reports**, research papers, and journal articles on VAT and GST.
- Collect **taxation statistics** from national and international organizations like the OECD, IMF, and World Bank.
- Analyse **case studies** of countries implementing VAT (e.g., EU countries, India) and GST (e.g., India, Australia, America Canada).
- Utilize official websites for legislative and procedural documents. (e.g. Maharashtra Govt.)

Settlement of Igst with States/Uts
Financial Year 2023-2024
(Rs. In Crore)

State	Regular Settlement	Adhoc Settlement	Total
Jammu and Kashmir	5,247.95	(99.90)	5,148.05
Himachal Pradesh	3,048.00	(61.20)	2,986.80
Punjab	13,960.65	(260.10)	13,700.55
Chandigarh	1,657.81	(32.40)	1,625.41
Uttarakhand	3,047.08	(59.40)	2,987.68
Haryana	14,852.15	(285.30)	14,566.85
Delhi	16,850.29	(332.10)	16,518.19
Rajasthan	22,076.65	(468.00)	21,608.65
Uttar Pradesh	45,273.08	(1,158.30)	44,114.78
Bihar	19,421.52	(334.80)	19,086.72
Sikkim	538.36	(7.20)	531.16
Arunachal Pradesh	1,297.97	(23.40)	1,274.57
Nagaland	764.35	(14.40)	749.95
Manipur	765.18	(15.30)	749.88
Mizoram	703.22	(13.50)	689.72
Tripura	1,092.42	(21.60)	1,070.82
Meghalaya	1,126.72	(21.60)	1,105.12
Assam	8,858.84	(178.20)	8,680.64
West Bengal	19,007.43	(467.10)	18,540.33
Jharkhand	3,694.29	(78.30)	3,615.99
Odisha	8,926.74	(440.10)	8,486.64
Chhattisgarh	5,878.31	(157.50)	5,720.81
Madhya Pradesh	21,145.20	(417.60)	20,727.60
Gujarat	22,077.21	(445.50)	21,631.71
Daman and Diu	0.97	-	0.97
Dadra and Nagar Haveli	431.30	(10.80)	420.50
Maharashtra	49,389.45	(1,117.80)	48,271.65
Karnataka	35,015.38	(798.30)	34,217.08
Goa	1,807.43	(38.70)	1,768.73
Lakshadweep	63.18	-	63.18
Kerala	17,238.17	(332.10)	16,906.07
Tamil Nadu	25,212.16	(459.90)	24,752.26
Puducherry	873.19	(16.20)	856.99
Andaman and Nicobar Islands	327.21	(5.40)	321.81
Telangana	21,093.41	(456.30)	20,637.11
Andhra Pradesh	17,969.65	(371.70)	17,597.95
Ladakh	403.02	-	403.02
Other Territory	891.96	-	891.96
Grand Total	4,12,027.90	(9,000.00)	4,03,027.90

Settlement of Igst with States/Uts
Financial Year 2023-2024
 (Rs. In Crore)

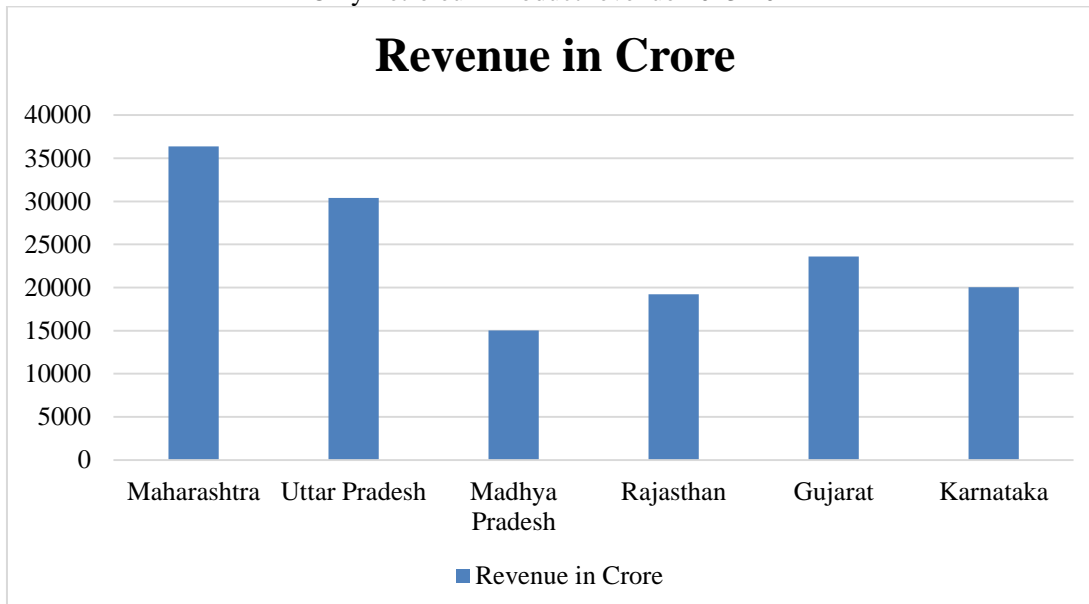
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5	Gujarat	22,077.21	(445.50)	21,631.71
6	Karnataka	35,015.38	(798.30)	34,217.08



Only Petroleum Product revenue 2023-2024

Sr.No.	State	Revenue in Crore
1	Maharashtra	36359.3
2	Uttar Pradesh	30411.4
3	Madhya Pradesh	15038.4
4	Rajasthan	19235.7
5	Gujarat	23604.9
6	Karnataka	20030.0

Only Petroleum Product revenue 2023-2024



Conclusion about of increase of GST and VAT

Value Added Tax & Goods and Services Tax is a comparison about of growth rate of GST is very high compare with Value Added Tax in 2023-2024 highlights several trends and outcomes in terms of tax collection and economic growth. These conclusions are drawn from their implementation across different countries:

1. Important Cascading Effect and Efficiency

❖ VAT:

- Mitigates cascading tax effects but to a limited extent, as it primarily applies to goods and only some services.
- The lack of a comprehensive credit mechanism for services in many countries reduces its efficiency.

❖ GST:

- Eliminates cascading taxes due to its seamless input tax credit system across goods and services.
- Promotes better tax transparency and compliance, leading to enhanced economic efficiency.

2. Government Revenue Collection

❖ GST:

Demonstrates higher revenue potential than VAT due to its broader base, including goods and services.

- Countries like India experienced an increase in indirect tax collections post-GST implementation (~18% in the first year).
- Simplified interstate trade in federations has helped boost collections, particularly from the services sector.

❖ VAT:

- Established as a steady revenue source in many countries, contributing significantly to national budgets.
- Typically contributes 5-10% of GDP in most regions, with consistent growth due to its broad applicability to goods and select services.
- However, revenue is often limited by exemptions and sector-specific exclusions.

3. Important Economic Growth in India

GST:

4. Directly facilitates economic integration in federations by eliminating inter-state barriers and streamlining taxation.
5. Countries like India and Australia reported growth in trade volumes and better compliance post-GST.
6. Encourages formalization of businesses, contributing to long-term economic benefits.

VAT:

7. Positive but modest impact on growth by providing a predictable tax framework.
8. May limit growth in economies with high compliance costs or cascading tax effects in systems with weak input tax credit mechanisms.

3. Important Administration and Compliance

• GST:

- More complex to implement due to its reliance on technology and dual-structure models in federations (e.g., India, Canada).
- Over time, digitization of filing processes improves compliance and reduces administrative costs.

• VAT:

- Simpler to administer in smaller economies or regions with fewer exemptions.
- However, inter-jurisdictional variations and manual processes in some countries create compliance challenges.

4. Important Transition Challenge

GST:

- Transition to GST often causes initial disruptions in trade and supply chains (e.g., India experienced a 1-2% GDP impact initially).
- Long-term benefits outweigh initial challenges, as businesses and governments adapt to the system.

• VAT:

- Transition to VAT is generally less disruptive, as it builds on existing sales tax systems.
- Historical implementation (e.g., EU) shows smooth adaptation but with limited short-term growth effects.

Important think

1. **Long-Term Benefits:** Both systems show steady contributions to economic stability, but GST offers better adaptability to modern economies with its reliance on technology and broader scope.
2. **Economic Impact:** GST's comprehensive approach fosters economic growth and integration, particularly in federations with multiple tax jurisdictions.
3. **Revenue Growth:** GST generally outperforms VAT in revenue generation due to its inclusivity of goods and services and streamlined processes.
4. **Efficiency:** The elimination of cascading taxes under GST enhances economic efficiency compared to VAT.

By addressing initial implementation challenges and refining compliance mechanisms, both VAT and GST systems can further optimize their contributions to national development and economic growth.

Recommendation about of Value Added Tax and GST

To enhance the efficiency, compliance, and economic impact of Goods and Services Tax (GST) and Value Added Tax (VAT), the following recommendations can be considered:

1) Simplification of Indian tax Structure**• GST:**

- Reduce the number of tax slabs to minimize complexity and improve compliance (e.g., India's four-tier structure could be streamlined).
- Standardize rates across states or regions in federations to avoid discrepancies.

• VAT:

- Harmonize VAT rates within economic unions (e.g., the European Union) to facilitate cross-border trade.
- Simplify exemptions and special rates to reduce administrative burdens.

02) Enhance its Input Tax Credit Structure system

- Ensure timely and seamless credit for input taxes to avoid working capital blockages for businesses.
- Implement robust systems for matching invoices in GST to prevent fraud and disputes over ITC claims.
- For VAT, expand ITC eligibility to include more goods and services to reduce cascading effects further.

03) Modern Infrastructure enhancement**• GST:**

- Strengthen e-invoicing and e-filing platforms to ensure smoother compliance processes.
- Use advanced analytics and AI to detect and prevent fraudulent activities such as fake invoices.

• VAT:

- Promote digital tax filing in regions where manual processes still dominate.
- Invest in digital tools for better record-keeping and auditing.

By implementing these recommendations, both GST and VAT systems can achieve greater efficiency, reduce compliance costs, and maximize their contributions to economic growth and government revenues. These changes will also create a more equitable and transparent tax environment, fostering trust and cooperation among taxpayers.

References:-

Here is a list of useful references that can provide credible and detailed information for studying and analyzing Value Added Tax (VAT) and Goods and Services Tax (GST)

Books References:-

1. **"GST in India: Challenges and Opportunities"**
 - Author: Nishith Desai Associates
 - Description: Discusses GST's introduction in India and its economic implications.
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- Author: V.S. Datey
Description: Focuses on GST concepts, implementation, and legal frameworks in India,

3. "Goods and Services Tax: Concepts and Practice"

- Author: V.S. Datey
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- Author: Alan Schenk, Oliver Oldman
- Description: Provides an in-depth analysis of VAT systems worldwide, with comparisons to other tax structures.

5. "Value Added Taxation in Developing Countries"

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- Description: Examines the challenges and opportunities of VAT implementation in developing economies.

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2. "Goods and Services Tax in India: A Way Forward"

- Journal: Economic and Political Weekly
- Year: 2017

3. "Understanding the Economic Impacts of Goods and Services Tax (GST)"

- Published by: World Bank Research Papers
- Year: 2019
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4. "The Impact of Value-Added Tax on Economic Growth"

- Journal: Journal of Economic Policy Reform
- Authors: Various (depending on the specific study).
- Focus: Transition from VAT to GST in India and its economic implication

Other document Reports about of official :-**1. European Commission Reports on VAT**

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2. IMF Working Papers on VAT and GST

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3. GST Annual Reports (India, Australia, Canada)
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➤ URL: www.oecd.org

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1. **GST Council (India)**

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➤ Focus: Policy updates, circulars, and compliance guidelines.

2. **OECD Tax Database**

➤ URL: www.oecd.org/tax/

➤ Focus: Comparative VAT and GST data for member countries.

3. **World Bank – GST Implementation Case Studies**

➤ URL: www.worldbank.org

4. **Revenue Statistics – OECD**

➤ URL: www.oecd.org/tax/revenue-statistics/