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## Impact of GST on Effectiveness of Indirect Tax Administration

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### **Abstract**

Government in any country spends huge amount of money on various Developmental and Non-Developmental plans to put the best of its efforts for the welfare of its citizens. However, the Government collect this huge amount mainly through two sources- tax revenue and non-tax revenue. The major part of this revenue is from tax sources further classified into Direct Tax Revenue and Indirect Tax Revenue, Present study has been undertaken about the tax system prevailing in our country, there is mesh of taxation system in our highly populated country. The study aims to establish a link between the administration of Indirect Tax Administration and Enactment of Goods and Service Tax whether it has brought any positive changes and made it easier to collect and administer the Indirect Tax Revenue and keep a check on it.

**Keywords:** Tax Administration, Tax returns, Goods and Service Tax, E-filing

### **Introduction**

The taxation system of any nation undergoes Continuous scrutiny and modifications adjusting conditions to contemporary needs and economic conditions of the masses carrying its burden. More so in case of the indirect taxation system of world's largest democracy. The dusk of previous millennium saw the conceptualization of a unified indirect taxation system for India in place of the existing uneven and Scattered system of multiple taxes throughout the length and breadth of the nation (Sivasubramanian, 2016).

VAT or GST were initially known as Broad Based Consumption Tax when first introduced in 1968 (Kloeden,1998). France being the first country, after those 160 countries have familiarized their citizens with the concept of Goods and Services Tax (Sansui, Omar & Sansui, 2015). After continuous mulling for two decades the system finally took shape in the form of Goods and Services Tax on 1st July, 2017 for whole of India except the erstwhile state of Jammu and Kashmir. The said state was brought under the ambit of GST a week later on 8th

July, 2017 thus making GST the first and only indirect taxation system in the Indian history to be applicable with same force throughout the territorial boundaries of India. The applicability of GST in India proved to be a historical step in many senses. In terms of effect on the administration of the tax. India being a union of states follows federation system of revenue collection thus empowering both central government and state government to levy tax at different rates to avoid regressive affect (Jaitley,2016). Thus, Central Govt as well State Govts levy indirect taxes for revenue generation. Prior to applicability of GST, the central govt. administered following Indirect Taxes (Lee, 2011):

**1. Service Tax:** Introduced through Finance Act of 1994, this uphill now was the only tax levied on service providers.

**2. Excise Duties:** Primarily levied on manufacturing, this tax is charged on removal of goods from factories.

**3 Central Sales Tax:** Charged on Inter State Sale of goods i.e., from one state to another.

Similarly, the State govts throughout the country administered Value Added Tax (VAT) introduced in 21 Indian States with effect from 1st April, 2005 and Uttar Pradesh being the last state to implement VAT with effect from 1st January, 2008. This tax is primarily levied on Intra State sale of Goods i.e., within a particular state. Chelliah also recommended to replace VAT with GST (Jain, 2016). Since the above-mentioned taxes were individualistic in nature, there was no or minimal interaction or interference within the central and state authorities regarding the indirect taxes. However, the post GST phase saw a leap and bound in this scenario. The administration of GST was done by passing of a Central GST Act, Integrated GST Act and separate State GST Acts for each state. The point of taxation was affixed at supply of goods around which pivots the whole concept of GST (Ebrill et.al.2002). While Intra State supply attracted Central GST and State GST levy, the Intra state supply attracted Integrated GST levy. As the name suggests, the entire proceeds of Central GST were pocketed by the Central Govt, the State GST revenue went to the respective state Govts and the

integrated GST proceeds first went to the pocket of central govt. which in turn remits half of the revenue to the concerned state govt.

### **Literature Review**

The study aims at finding the Impact of GST on Effectiveness of Indirect Tax Administration. GST was introduced in the year 2017, It has been 5 years, So, the purpose is to find out whether Introduction of 'One nation one tax has proved itself as it was Indirect promised. The Revenue Collected from Indirect Taxation was not in proportion with the number of businessmen and Tax Payers in the Country, the idea was to trap the problem of tax evasion and bring maximum Business into its purview (Morrell & Tuck, 2014). The problem and challenges pertaining to collection of Indirect Tax Revenue was thoroughly studied and examined when GST was introduced for the first time in France in Mid 50s (Palil & Ibrahim, 2012; Lin, 2008).

The system of Indirect taxation works on the principal and of value addition whereby supply of goods and services requires the procurer to remit along with the transaction value of goods and services, a certain amount as tax at a certain rate on transaction value to the supplier. For a usual business transaction, the procurement of goods and services which is also known as input supply entails with its tax at a certain rate called Input Tax which is paid by the procurer to the supplier (Kelker, 2009).

Similarly, when the same procurer further supplies the goods and services, it is known as Output supply. In this case, the person collects a certain tax from his customer called the output tax which in turn becomes the input tax for the customer. Now, this output tax collected by the person from his customer is to be deposited to the account of govt after availing credit of the input tax. Thus, the person is effectively paying the net difference of output tax and input tax. In case the businessman works on a high profit margin, the difference between his sale price and purchase price would be higher and thus the difference between his output tax and input tax will be higher. Also, if he supplied his goods and services at cost to cost i.e., without any value addition, his output tax will be equal to his input tax and thus he would be paying zero tax to the govt

(NorHafizah & Azleen, 2013). One of the most important issues in GST administration is ensuring the flow of seamless input tax credit. This also comes down as one of the biggest advantages and argument in favor of GST. Earlier, the credit availability conditions were governed by CENVAT Credit Rules, 2004 which specified what constituted input and under what circumstances credits were allowed.

The filing of Tax electronically has also helped profiles of different businesses and provided them a sense of satisfaction (Hwang, 2000). Kopczuk and Pop-Eleches (2007) found that electronic filing has a substantial outcome on Earned Income Tax Credit (EITC).

The scope of credit availability was widened to a great extent under the GST where credit of all input goods and services were allowed against output of all goods and services barring a few exceptions. Exemption Limit for GST Registration for turnover of supply of goods INR 40 lacs and for supply of services INR 20 lacs and for specified category INRR 20 lacs and INR 10 lacs (Rao, 2016).

This posed a challenge for administration of GST and made it mandatory for authorities at various levels to interact and interchange information.

1. E Way Bill
2. Articles of Constitution
3. Petrol and Other NON-GST Goods
4. Rates of Tax
5. GST Compensation to states
6. Use of HSN Codes for ease
7. Composition scheme for small taxpayers

### **Data and Methodology**

The study titled " Impact of GST on effectiveness of Indirect Tax Administration" is solely based on conceptual format and on the review of literature of governance, impact on various businesses due to implementation of GST, performance of the Government in its administration and control to endorse about their relationships. However, it will be indispensable to conduct an

empirical study in future to confirm the results more accurately. In this paper we have majorly talked about the amount of revenue collected through indirect taxes before and after implementation of GST, its impact on GDP, Number of registrations in GST as it had become mandatory to get registered and pay for your share electronically. Data has been collected from Government sites and theoretical analysis has been done to derive some meaningful results. Along with this, the empirical results will unfold the variables and its impact after implementation of GST.

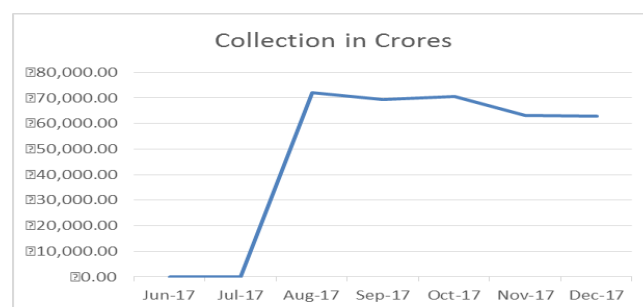
These reports are based on secondary data acquired from Government Website - [gst.gov.in](http://gst.gov.in)

Data has been taken from the year 2017 when GST was introduced to march 2022. As per reports shared by official sources, Total Registered Persons under GST as on 31<sup>st</sup> March 2022 were 13,633,998 with total collection from Indirect Tax revenue stood at a substantial position of INR 1,097,545.35 Crs. Revenue collected from Indirect sources after implementation of GST as on March 2018 was INR 68,997.68 Crs. which rose to a considerable amount of INR 1,028,547.67 Crs. In March 2022.

Source: <https://www.gst.gov.in/download/gststatistics>

**TABLE 1: (Collection of Revenue through GST in 2017)**

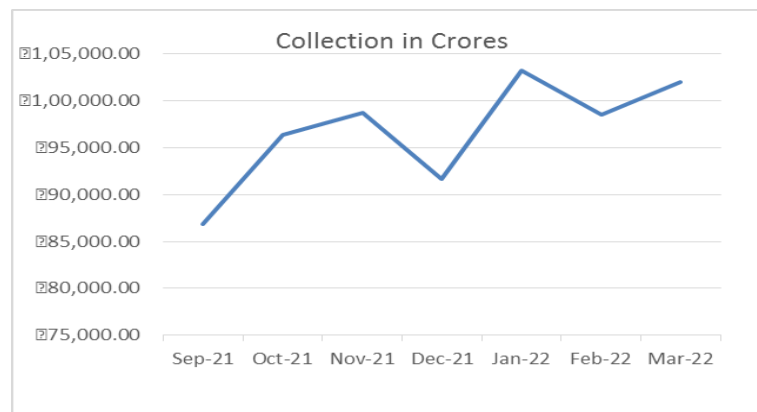
Month of Payment	Collection in Crores
Jun-17	□0.00
Jul-17	□53.01
Aug-17	□72,017.30
Sep-17	□69,412.59
Oct-17	□70,477.37
Nov-17	□63,070.67
Dec-17	□62,838.20



**Chart 1: Representing Collection through GST in year 2017**

**TABLE 2: (Collection of Revenue through GST in 2021-22)**

Month of Payment	Collection in Crores
Sep-21	₹86,832.35
Oct-21	₹96,429.58
Nov-21	₹98,707.86
Dec-21	₹91,639.09
Jan-22	₹1,03,251.19
Feb-22	₹98,550.52
Mar-22	₹1,01,982.91

**Chart 2: Representing Collection through GST from Sep-21 to Mar-22****DISCUSSIONS**

The findings revealed that GST has soaked into our system much faster than expected. The government managed to unleash the mesh of indirect taxes and coined the term 'one country one tax'. It removed the cascading effect and increased the tax base as more and more people have to get themselves registered under this act thus no tax evasion. However, there is need to present evidences from empirical study to determine these propositions. The paper puts light on the aftermath of GST implementation and determine the relationship between GST and Indirect Tax Revenue collection and effect on the network of business fraternity. To bring them on the board which will ultimately reflect the Value of total sales affected by a particular business which is confined to a particular zone in a given time frame. So that Revenue from indirect taxation can also be increased in proportion to increase in Business and taxpayers in the country which will directly contributes towards the Nation Building and Country's economic development.

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