

**21/06/2024**

**(MODEL ANSWER)**

Q. Discuss the recent trends in Goods and Services Tax (GST) revenues in India. Analyse the challenges faced and suggest reforms to enhance GST implementation.

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**Answer Template:**

**Introduction:**

- Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in India.
- It replaced multiple indirect taxes levied by the central and state governments, aiming to simplify the tax structure and boost economic efficiency. Since its implementation in July 2017, GST has been a significant reform in India's tax system.
- Recent trends in GST revenues reflect its impact on the Indian economy. According to the **Economic Survey 2023**, GST collections have shown resilience despite economic fluctuations, contributing substantially to government revenue.

**Body:**

- **Overview of GST Revenue Trends**
  - GST collections have shown steady growth post-implementation, with the monthly average collection increasing over the years.
  - As of FY 2023-24, GST collections have consistently surpassed Rs. 1 lakh crore per month, indicating robust revenue generation.
  - In April 2024, GST collections reached a record high of ₹2.10 lakh crore, reflecting robust economic activity.
  - May 2024 saw collections of ₹1.73 lakh crore, maintaining an upward trajectory.
  - Domestic transactions contributed significantly to revenue growth.
- **Factors Influencing GST Revenue**
  - Economic Growth: Higher GDP growth typically leads to increased consumption and, consequently, higher GST collections.
  - Compliance: Improved compliance due to technological advancements such as the **GSTN** (Goods and Services Tax Network) has contributed to revenue stability.
  - Sectoral Performance: Different sectors contribute variably to GST revenue; for example, services and manufacturing sectors contribute significantly.
- **Impact on Different Sectors**
  - Manufacturing: GST has streamlined supply chains and reduced cascading effects, benefiting manufacturing.
  - Services: Service sector growth has been supported by reduced tax burden and simplified compliance.
  - Consumer Goods: Lower tax rates on essential goods have made them more affordable, benefiting consumers.
- **Challenges in GST Implementation**
  - Complex Tax Structure

- Multiple tax rates (e.g., 5%, 12%, 18%, 28%) and compliance procedures pose challenges, particularly for small and medium enterprises (SMEs).
  - IT Infrastructure Issues
    - Glitches in GSTN portal and filing systems lead to delays and compliance difficulties.
  - Tax Evasion
    - Despite measures, instances of tax evasion persist, affecting revenue targets.
  - Uneven State-wise Growth
    - Some states experienced declining GST revenues, highlighting regional disparities.
      - *Kerala's tourism sector relies heavily on services, while Maharashtra's manufacturing sector drives GST revenues.*
      - *State-specific strategies are necessary.*
  - Excluded Items:
    - Electricity, natural gas, and petroleum products remain outside the GST ambit.
    - Inclusion would enhance credit availability for businesses.
  - Legal and Administrative Challenges
    - Complex litigation and interpretation issues require streamlined resolution mechanisms.
    - Delays in refunds and ITC verification impact business liquidity and compliance.
  - Impact on Inflation and Consumer Behaviour
    - GST has generally been inflation-neutral or slightly inflationary, influencing consumer spending patterns and price stability.
    - Changes in pricing dynamics and consumption patterns due to GST rate revisions.
  - Public Perception and Feedback
    - Stakeholder engagement and feedback from businesses and consumers shape GST policy revisions and implementation strategies.
  - Compliance Burden
    - Smaller firms struggle with compliance requirements.
- **Suggested Reforms to Enhance GST Implementation**
  - Government Initiatives
    - **GST Council:** Regular meetings of the GST Council to address issues, revise tax rates, and simplify compliance procedures.
    - Implementation of **e-invoicing** to curb tax evasion and enhance ITC verification.
    - **GST Simplification:** Rationalization of tax rates and procedures to reduce compliance burdens.
      - *"One Nation, One Tax" campaign emphasizes GST's benefits.*
      - *"GST Suvidha Kendras" assist small businesses in compliance.*
  - Impact on Different Sectors
    - Streamlined supply chains and reduced cascading effects to benefit manufacturing sectors.

- Improved tax efficiency and simplified compliance to bolster service sector growth.
  - Lower tax rates on essential goods to stimulate consumption.
- Inclusion of Excluded Items:
  - Bring electricity, natural gas, and petroleum products under GST.
  - Streamline input tax credit across sectors.
- Case Study: SMEs
  - Benefit from reduced logistics costs and simplified tax procedures.
  - Address challenges of high compliance costs and technology adoption for GST filing.
- International Comparisons
  - Learn from global best practices in GST implementation for effective tax reform and compliance strategies.
- Environmental Considerations
  - Explore **green tax** incentives for eco-friendly products to promote sustainability goals.
  - Influence manufacturing and consumption patterns towards greener practices.
- Education and Skill Development
  - Upskill tax professionals and businesses through GST training programs.
  - Integrate GST into educational curricula to educate future professionals about tax reforms.
- Technology Integration and Future Prospects
  - Utilize emerging technologies like blockchain and AI for GST administration to enhance transparency and reduce fraud.
  - Increase digital transactions under GST to streamline revenue collection processes.
- Global Economic Trends
  - Implement GST reforms post-COVID-19 to support economic recovery and resilience.
  - Align GST with international trade agreements for seamless business operations and competitiveness.

### Conclusion

- While GST has significantly improved tax compliance and revenue generation in India, challenges such as complex tax structures, compliance issues, and technological gaps remain.
- To enhance GST implementation further, reforms should focus on simplifying tax procedures, upgrading IT infrastructure, and reducing compliance burdens for businesses, especially SMEs.
- With continued reforms and stakeholder engagement, GST can continue to contribute positively to India's economic development and fiscal stability.