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Unresolved Issues**

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# **GST Implementation in India: Some Unresolved Issues**

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## **Abstract**

The introduction Goods and Services Tax (GST) in India is often considered as the most significant tax reforms in recent history. While the GST has undoubtedly streamlined indirect taxation and fostered a unified market, several critical issues still remain unresolved. This paper examines some of the persistent challenges, that include, but not limited to, problems in revenue performance, sharing of tax revenue between the Union and the states, IGST settlement, compliance challenges and data related issues. Evidently, these and other issues impacted the revenue collection and the overall efficacy of the GST regime on the one hand and the fiscal health of the states that surrendered their autonomy for the making of the new system on the other. The study makes the case for addressing these issues sooner than later in the interest of the business and that of the Union and the states.

**Key Words:** GST, Revenue performance, Unsettled amount, Compensation Cess, Compliance challenges, Rate rationalization

## **1 Introduction**

The idea of Value Added Tax (VAT)/Goods and Services Tax (GST) was first conceptualized by Wilhelm von Siemens, a German businessman, in the 1920s and first introduced in France in 1954, followed by many countries such as Japan, South Korea, the United Kingdom, Australia, Canada, among others. As of now, over 160 countries have some form of VAT/GST (World Bank, 2015). Though it is designed as a destination-based tax levied on the consumption of goods and services, GST is not uniform across the countries. In India, GST was implemented as a continuation of the process initiated by VAT implemented in 2004. It was originally conceived as a single tax that subsumes all central and state indirect taxes in India. However, at the implementation level, India adopted a dual GST model following Canada considering the importance of preserving Centre-State relations.

Many believe that the introduction of GST has been a major achievement which stimulated the growth of the national market and provided a stable source of revenue to both Centre and States (Subrahmanian et.al, 2024). The introduction of GST aimed at economic unification in India resulting 'One Nation, One Market and One Tax'. But during its implementation 'One Tax' in the slogan was replaced with uniformity in tax rules and procedures such as centralization of tax administration, registration, tax payments, and return filing, instead of uniform tax and tax rate. Also, the exclusion of taxes on petroleum products, electricity, stamp duties on immovable properties, and excise duties on alcohol from the purview of GST leaves a gaping hole in the plan to implement a common indirect tax regime (Kumar, A, 2015; Mukherjee, S., 2019).

In the analysis of the challenges faced by small businesses during the wake of the introduction of GST, Banerjee and Prasad (2017) listed several issues that exist in the GST structure especially in the collection cost and compliance cost, the unwillingness of large businesses to bear the burden of the Reverse Charge Mechanism (RCM), problems faced by those who opted for composition scheme, technical issues in availing Input Tax Credit (ITC), lack of consistency and clarity in commodity classification and the tax rates, and transition challenges. Till 31 December 2022, 718 notifications (not including the notifications issued by various state governments and union territories) made by the appellate authority regarding various aspects of GST indicate the deficiencies in the conceptualisation and the implementation of the new system (Thekkekkara, and Kumary, 2023). Even after seven and a half years of implementation, GST is still a work in progress (Rao, 2022) leaving behind a number of unresolved issues. Against this backdrop, this study attempts to look into some of the unresolved issues under the Indian GST system having their crucial bearing on the revenue performance of the Indian GST.

### **Revenue performance**

The revenue performance of GST is analyzed by examining the performance of various components of GST such as Central Goods and Services Tax (CGST), States Goods and Services Tax (SGST), and Integrated Goods and Services (IGST). Table 1 presents the details of the actual amount that the government collected from the GST. The details of GST revenue collection, refund and net revenue collection is given in Appendix table 1. The GST revenue reported for 2023-24 is Rs 18.01 lakh crores, equivalent to 6.10 percent of GDP. This implies that the GST to GDP ratio could reach the pre-GST level of tax-GDP ratio of 6.13 percent (average annual share (2012-13 to 2016-17) of taxes

subsumed in GST to GDP ratio (S.Mukherjee,2023). The tax buoyancy ratio was 1.5 percent in 2021-22 but it slightly reduced to 1.4 per cent in 2023-24. However, the state wise expected and actual GST revenue collection gives a different picture.

Table 1: Gross and Net GST Revenue Collection and its components (Rs crore)								
Gross GST Revenue Collection								
Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (up to Oct-24)
CGST	118857.1	202433.7	227443.0	209916.0	269137.2	323923.1	375710.4	237372.7
SGST	171781.7	278805.9	309231.5	272827.8	344215.8	410251.2	471195.0	294365.1
IGST	387354.4	598736.8	586698.7	565719.4	762270.5	945220.5	1026789.9	654487.4
CESS	62614.3	97368.7	98748.6	88342.0	107667.2	128285.5	144553.8	88216.5
<b>Total</b>	<b>740607.4</b>	<b>1177345.1</b>	<b>1222121.7</b>	<b>1136805.1</b>	<b>1483290.8</b>	<b>1807680.3</b>	<b>2018249.2</b>	<b>1274441.8</b>
Net GST Revenue Collection (Gross Revenue - Refund)								
	2017-18*	2018-19*	2019-20*	2020-21	2021-22	2022-23	2023-24	2024-25 (up to Oct-24)
CGST	108301.1	184455.0	207243.1	191744.8	242767.2	294755.7	345404.6	217772.8
SGST	156939.1	254715.9	282512.7	250610.1	311117.5	374003.9	433654.1	270023.1
IGST	329398.9	509154.6	498917.6	485018.2	643208.7	795892.5	881348.6	554064.0
CESS	60167.1	93563.3	94889.2	84321.8	102713.0	123416.9	140671.6	85212.5
<b>Total</b>	<b>654910.5</b>	<b>1041112.7</b>	<b>1080708.1</b>	<b>1011694.9</b>	<b>1299806.5</b>	<b>1588069.0</b>	<b>1801078.9</b>	<b>1127072.4</b>
<b>Growth (GST)</b>			<b>3.8</b>	<b>-6.4</b>	<b>28.5</b>	<b>22.2</b>	<b>13.4</b>	
GDP (current)	17090042	18899668	20103593	19854096	23597399	26949646	29535667	15391471
<b>Growth (GDP)</b>		<b>10.6</b>	<b>6.4</b>	<b>-1.2</b>	<b>18.9</b>	<b>14.2</b>	<b>9.6</b>	
<b>Net GST-GDP ratio (%)</b>		<b>5.5</b>	<b>5.4</b>	<b>5.1</b>	<b>5.5</b>	<b>5.9</b>	<b>6.1</b>	
<b>Tax buoyancy (%)</b>			<b>0.6</b>	<b>5.1</b>	<b>1.5</b>	<b>1.6</b>	<b>1.4</b>	

\*GST portal gives refund data from 2020-21 onwards only. We projected Net Revenue data for the years, 2017-18, 2018-19, and 2019-20 based on the average proportion of net revenue in gross revenue collection.

Source: GST Revenue - GST Portal, GDP – NIITI Aayog

## **Expected and actual revenue**

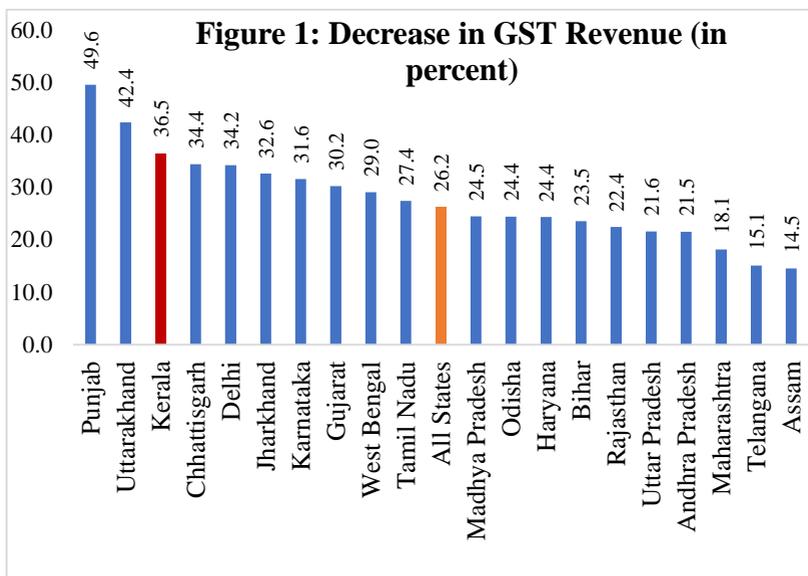
GST was introduced with the expectation that States could attain 14 percent revenue growth in five years, which is why the GST (Compensation to States) Act, 2017, was implemented to protect states' revenue for the initial five years. In light of this, we have calculated the expected revenue assuming an annual rate of 14 percent growth in revenue collection recorded in 2015-16 (CAG certified).

When we compare this expected revenue with the actual GST revenue (net of refund) in 2023-24, it is amply clear that the GST revenues are nowhere near the levels attained by the taxes subsumed under GST, even after seven years. The revenue attainment of all states and union territories (UTs) is 26 percent below the expected (Figure 1 and Table 2). While 10 states remain above this percentage, the decline as a percentage of the expected was found to be substantial in states like Punjab (49.6%), Uttarakhand (42.4%) and Kerala (36.5%). The evidence tends to indicate the loss that the states had to live with notwithstanding the 14-year-long deliberations since 2002 that preceded its implementation. While the COVID 19 hit the State's revenue mobilization hard during the years 2020-21 and 2021-22, it should be noted that the revenue performance did not improve significantly during the later period either. No states have achieved the protected growth rate of 14 percent per annum in 2021-22 when the GST compensation was ended ( Joseph and Kakarlapudi). Many argue that tax rate cutting without serious examination of its revenue implications was responsible for the poor revenue performance and the current rates are not revenue neutral (RBI, 2019; Isaac, T, 2020; Mukherjee, S, 2021 & 2023; Joseph and Kumary L, 2023; Subramanian, 2024).

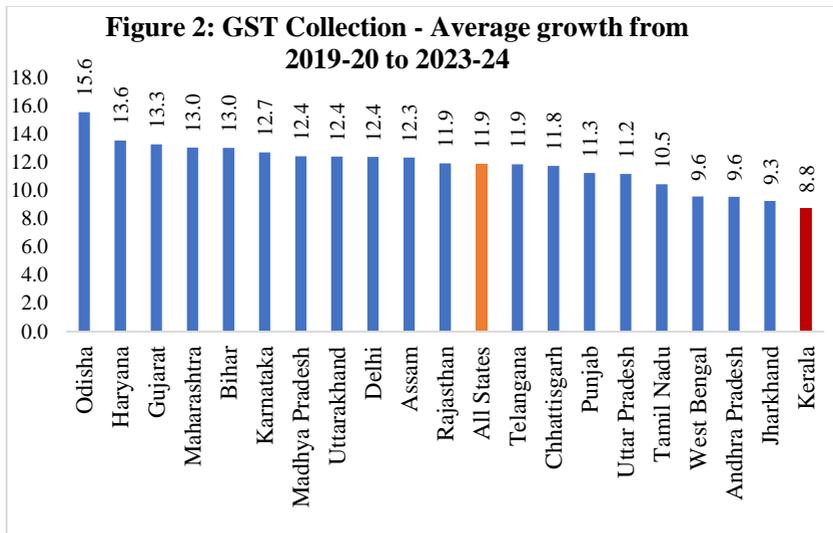
<b>Table 2: The difference between expected and actual revenue (Net) in 2023-24 (Rs crore)</b>				
<b>Name of State/UT</b>	<b>Expected</b>	<b>Actual</b>	<b>Difference</b>	<b>Difference as % of Expected</b>
Andhra Pradesh	39574.8	31056.0	8518.8	21.53
Assam	17074.2	14598.3	2475.9	14.50
Bihar	36001.2	27528.0	8473.2	23.54
Chhattisgarh	20986.5	13765.0	7221.4	34.41
Delhi	47878.2	31507.3	16370.9	34.19
Gujarat	82315.3	57434.6	24880.7	30.23
Haryana	43446.6	32867.0	10579.6	24.35
Jharkhand	18286.5	12327.0	5959.6	32.59
Karnataka	103104.3	70546.1	32558.2	31.58
Kerala	47984.4	30472.8	17511.6	36.49
Madhya Pradesh	43727.9	33030.7	10697.2	24.46
Maharashtra	172594.6	141317.1	31277.5	18.12
Odisha	31519.2	23823.1	7696.1	24.42
Punjab	41282.0	20825.8	20456.1	49.55
Rajasthan	48946.4	37965.8	10980.7	22.43
Tamil Nadu	84968.2	61708.3	23259.8	27.37
Telangana	45951.5	39032.9	6918.6	15.06
Uttar Pradesh	95241.7	74698.1	20543.6	21.57
Uttarakhand	14152.3	8155.2	5997.1	42.38
West Bengal	57330.5	40682.9	16647.6	29.04
All States	1133431.9	836682.0	296749.9	26.18

**Source:** Calculated based on the data availed from GST Portal

Note: State GST revenue includes SGST plus IGST settlement



Source: Table 2



Source: Based on the data availed from GST Portal

Figure 2 shows the average annual growth rate of GST collection in the States from 2019-20 to 2023-24. This indicates that the states' revenue growth performance is also poor compared to the expected growth rate of 14 percent. Odisha (15.6%) is the only State that could barely pass this benchmark, followed by Haryana (13.6%). Kerala is the lowest performer with an average growth rate of 8.8 percent. It is 12 percent for All states and UT's.

Undoubtedly, the central government has an upper hand in GST compared to the state governments since many taxes in which states had autonomy were subsumed in GST. States do not have the flexibility to raise taxes constitutionally without the consent of the GST council and Central government. The above analysis shows the GST experience of the State governments has not been in desired direction raising the question as to whether a unified tax system is good for a diverse country like India, where the States vastly vary from each other in their sectoral composition and consumption pattern. For example; the proponents believe that this new taxation system would benefit the consumer States since it is a last-point, consumption-based tax. But the reality is entirely different. Maintaining the State's fiscal autonomy is crucial. The goal of the GST should be to strike the balance between fiscal autonomy and tax harmonization.

### **Collection Vs. Net Revenue**

It is understood that the collection and revenue realization cannot be the same in the GST regime. The claim of GST refunds can be a reason for the discrepancy between GST collection and revenue realization (Mukherjee, 2024). Refunds can be mainly on account of exports. Exports are zero-rated under GST, which implies that exporters are eligible for refunds of the taxes they paid on their inputs, but do not pay taxes on their product of export. In short, the difference between the collection and revenue can be the

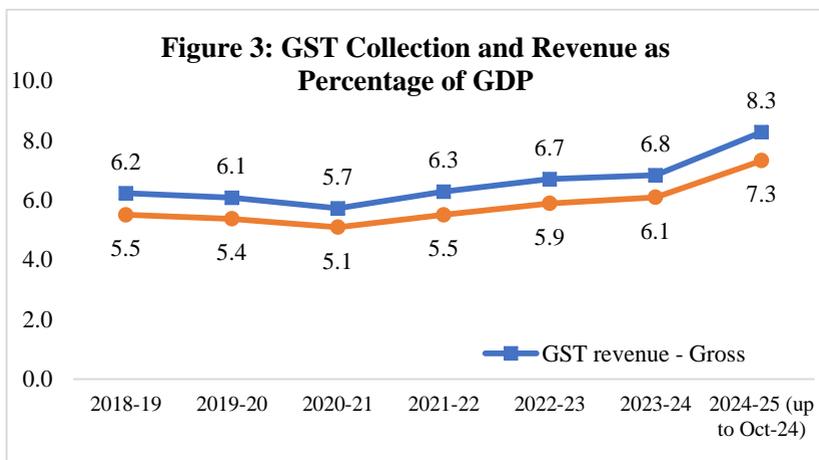
refunds given to the exporters for the IGST they paid. Subrahmanian et.al, (2024) hypothesize that this IGST is more related to imports used in production than to items imported from other states. Stated differently, the primary purpose of the refunds is to reimburse exporters for the IGST they paid on their imported inputs.

Table 1 presents both the gross collection and net revenue of GST collected from the GST Portal. Based on that, net GST revenue as a percentage of the gross GST collection is calculated and presented in Table 3. It is evident that out of the total GST collection, around 12 percent is refunded (4-year average). That is, the remaining 88 percent can be considered as the realized revenue. Both in CGST and SGST collections, almost 9 percent of the total collection is refunded. But in IGST, 15 percent of the total collection is refunded, implying that 15 percent of the IGST collection has been forgone primarily as a refund to the exporters.

<b>Table 3: Net GST Revenue as % of Gross GST Revenue - All India</b>					
<b>Year</b>	<b>CGST</b>	<b>SGST</b>	<b>IGST</b>	<b>CESS</b>	<b>TOTAL</b>
2020-21	91.3	91.9	85.7	95.4	89.0
2021-22	90.2	90.4	84.4	95.4	87.6
2022-23	91.0	91.2	84.2	96.2	87.9
2023-24	91.9	92.0	85.8	97.3	89.2
Average	91.1	91.4	85.0	96.1	88.4

*Source: Same as Table 2*

Figure 3 reveals that there is an almost one percentage point difference between the gross and net GST revenue to GDP ratio. When the former ranged between 6.2 to -8.3 percent, the latter varied between 5.5 to -7.3 percent during the period under consideration. This leads us to an exploration of the composition of GST.



*Source: GST Revenue - GST Portal, GDP – Niti Ayog*

### Composition of GST revenue

The total GST is composed of three taxes - CGST, SGST, IGST- and Cess. The share of these components in both the gross and net GST revenue is more or less similar. The average share of CGST in net GST revenue is 19 percent, while SGST is 24 percent, together contributing 43 percent of the net GST revenue. Almost half of the total revenue (49.1%) is composed of IGST. The remaining 8 percent is Cess revenue (Table 4). This implies that the actual amount of revenue currently raised by the GST will be smaller than present if the compensation cess is deducted from the total revenue.

When we consider the domestic GST collection (without imports) alone, the picture is slightly different from the previous. The CGST and SGST share increases to 24 percent and 31.5 percent respectively and the IGST share declines to 35.4 percent, which means the IGST on import of goods and services into the territory of India is significantly contributing to the GST revenue

collection. On average, 1/4<sup>th</sup> of the total GST revenue collected from imports is solely accounted as part of the IGST revenue.

<b>Year</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25*</b>	<b>Average</b>
<b>Domestic GST Collection</b>									
CGST	22.0	23.1	24.1	24.2	24.5	24.4	24.7	24.6	24.0
SGST	31.8	31.8	32.7	31.5	31.4	31.0	30.9	30.5	31.5
IGST	35.8	35.2	33.8	35.1	35.1	35.7	35.7	36.5	35.4
CESS	10.4	10.0	9.4	9.1	9.0	8.9	8.7	8.4	9.2
<i>Total</i>	<i>100.0</i>	<i>100.0</i>							
<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Gross GST Collection</b>									
CGST	16.0	17.2	18.6	18.5	18.1	17.9	18.6	18.6	18.0
SGST	23.2	23.7	25.3	24.0	23.2	22.7	23.3	23.1	23.6
IGST	52.3	50.9	48.0	49.8	51.4	52.3	50.9	51.4	50.9
CESS	8.5	8.3	8.1	7.8	7.3	7.1	7.2	6.9	7.6
<i>Total</i>	<i>100.0</i>	<i>100.0</i>							
<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Net GST Revenue#</b>									
CGST				19.0	18.7	18.6	19.2		18.8
SGST				24.8	23.9	23.6	24.1		24.1
IGST				47.9	49.5	50.1	48.9		49.1
CESS				8.3	7.9	7.8	7.8		8.0
<i>Total</i>				<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>		<i>100.0</i>
				<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>		<i>0</i>

\*GST data is available up to 31st Oct-24 in GST portal.

#Gross GST collection minus Refunds – Data available from 2020-21 onwards only

**Source:** Same as Table 2

<b>Table 5: IGST, CESS, and Total GST Composition - Domestic Vs Import</b>									
	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25*</b>	<b>Average</b>
IGST Domestic	49.8	51.5	54.4	53.7	50.5	50.1	53.0	53.8	52.1
IGST Import	50.2	48.5	45.6	46.3	49.5	49.9	47.0	46.2	47.9
<i>IGST Total</i>	<i>100.0</i>	<i>100.0</i>							
CESS Domestic	89.9	89.6	89.4	89.6	91.8	91.5	91.8	92.3	90.8
CESS Import	10.1	10.4	10.6	10.4	8.2	8.5	8.2	7.7	9.2
<i>CESS Total</i>	<i>100.0</i>	<i>100.0</i>							
GST Domestic	72.9	74.5	77.3	76.2	74.0	73.3	75.5	75.7	74.9
GST Import	27.1	25.5	22.7	23.8	26.0	26.7	24.5	24.3	25.1
<i>GST Total</i>	<i>100.0</i>	<i>100.0</i>							

*\*GST data is available up to 31st Oct-24 in the GST portal*

**Source:** Same as Table 2

Table 5 gives the differences in IGST on domestic transactions and import of goods and services. While the share of domestic IGST (IGST on inter-state sales) is 52 percent, the share of import on IGST (import from foreign countries) is 48 percent. However, the present practice of reporting the total GST revenue without duly accounting for the input tax credit on IGST on imports could lead to an overstatement of the total GST collection,

### **Difference in CGST – SGST share**

The CGST and SGST rates applied to goods and services are the same by law. Therefore, the tax amount that a taxpayer declares on their return under the CGST and SGST should be the same. However, data shows that the amount collected from both these taxes, CGST and SGST differed significantly (refer to Table 4). The general observation in this case is that the entire discrepancy is due to the IGST credit adjustment and the improper transitional credit claims. Goods and Services Tax Network

(GSTN) responded to this issue (October 2022) with an explanation that the variation in CGST and SGST amounts might be due to the debit/credit notes from the previous regime having different SGST/CGST components. However, from the examination of Goods and Services Tax Return-1 (GSTR-1) data without including transactions from the pre-GST period, the Comptroller and Auditor General (CAG) audit found that it is unacceptable. Also, differences in the CGST and SGST amounts continue even after years of the implementation of GST, which cannot be attributed to the pre-GST period. Because the debit/credit notes from the pre-GST period were time-barred in these years. Another explanation given by the GSTN also was not valid and unacceptable for the audit wing that there was a check built in GSTR-3B on the common portal in June 2018, in API in February 2020, and in GSTR-1 in November 2021 to ensure equal values of CGST and SGST. However, there was no check was built in GSTR-9, as it is the summary of GSTR-1 and 3B and the difference continued after the implementation of the said check in June 2018/February 2020.

*“During field verification of 20 sample cases with such discrepancies, Audit noticed that in ten cases, difference in figures was apparently due to data entry error by the taxpayers in the absence of validations controls in the systems. In two cases, the Department attributed this difference to debit/credit notes pertaining to pre-GST period invoices. In two other cases, though the Department stated that the differences were due to debit/credit notes against pre-GST invoices, the difference could not be explained fully by such debit/credit note. In one case, the taxpayer adjusted pre-GST advance irregularly by showing only CGST component. In one case, the taxpayer had apparently declared different CGST and SGST values in GSTR-1 deliberately. In the remaining four cases, Audit could not ascertain the reasons for the discrepancies due to non-receipt of Department’s response (January 2024) above data inconsistencies indicate the existence of unreliable data and may*

*have revenue implications by way of differential tax collections by the Union and States” --- (Chapter VI - Report No. 7 of 2024 (Indirect Taxes – Goods and Services Tax) – CAG).*

Based on GST propositions, matching CGST and SGST components is a very serious issue that leads to revenue loss. But neither the GSTN nor the government have taken any action in this regard. The data collected so far is indeed unreliable due to the absence of proper validation controls in the systems, and these inconsistencies may increase the complexity and resources required for compliance functions that the tax administration must carry out. This is an unexplained issue under GST even after seven years of GST implementation. Therefore, a thorough analysis could help to pinpoint the reasons for the discrepancy between the CGST and SGST collections.

### **Unsettled amount**

We have already seen that the share of IGST revenue collection is high in the composition of GST (Tables 1 and 4). This IGST collection mainly takes place on account of interstate domestic trade and international trade. Domestic trade implies the interstate transactions between States ((1) business-to-business (B2B), (2) business-to-consumer (B2C) where the invoice value is more than 2.5 lakh, (3) business-to-consumer (B2C) where the invoice value is less than or equal to 2.5 lakh) and the international trade implies the imports (business-to-business (B2B)) (Mukherjee, S, 2019). This IGST collected from the States and Union Territories is to be settled between the Centre and the destination State/UT where the consumption of the goods/services happens. Here arises another set of problems; How did this settlement happen and how efficient is the present settlement process? finally, if the system is efficient, why huge unsettled amount remain in the IGST account? (Joseph and Kumary 2023).

The data presented in Table 6 shows that the IGST amount shared between the Centre and States is more or less similar and there is no such huge amount retained in the Centre's kitty. Also, the States receive half of the total IGST revenue collected each year. In response to the claim of Tamil Nadu that their Rs.1523.95 crores remain in the central government kitty (The Hindu, June 13, 2024), the Union Finance Ministry clarified that the Central government does not retain any GST that is due to any State government and also no amount is pending to be given to any State due to Integrated Goods and Services Tax (IGST) (The Hindu, June 15, 2024). But evidence from Table 7, taken from the answer to the Lok Sabha unstarred question No. 2373 answered on 18th December 2023, it is evident that the IGST amount retained by the centre till November 23, 2023-24 is Rs.3,09,309 crore. which is against the initial agreement that the amount available in the IGST account will be distributed between the center and the states at an equal proportion.

The underlying reason for the unsettled amount lies in the way in which the ISGST settlement has been designed. The system works in such a way that buyers claiming Input Tax Credit (ITC) for IGST in their returns identify the beneficiary State. If the beneficiary state is not indicated, the state is likely to lose the revenue. Once the ITC is utilized, the State's portion is settled. Thus the receipt of IGST by the state is contingent on the ITC claim. If ITC is not utilized for reasons, such as the supply of exempt or non-GST goods; the blocked ITC as per law; or a lapsed period. In these scenarios, the beneficiary State cannot be determined, leading to a surplus in the IGST head (The Hindu, June 15, 2024). Here comes the question of efficiency and the need for a robust technological system. IT system is the backbone of the GST system in India and the efficiency of the system will ensure tax compliance and strengthen the tax administration.

<b>Table 6: Net GST Revenue Collection and IGST Settlement</b>					
	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25 (up to Oct-24)</b>
GST Revenue Collection (net)	1011694.9	1299806.5	1588069	1801078.9	1127072.4
CESS	84321.8	102713.0	123416.9	140671.6	85212.5
GST Revenue Collection (net) - CESS	927373.1	1197093.5	1464652.1	1660407.4	1041859.9
IGST Settlement (States)	217884	295497.8	358893.1	403027.9	260861.5
State's Revenue (SGST+IGST Settlement)	468494.1	606615.3	732897	836682	530884.6
Centre's Revenue* (CGST+IGST Settlement)	463586	593345	723270	815520	
Unsettled Amount	-4706.9	-2866.9	8485.1	8205.3	
<b>Share in GST Revenue Collection (net) - CESS</b>					
State	50.5	50.7	50.0	50.4	51.0
Centre	50.0	49.6	49.4	49.1	
Unsettled amount	-0.5	-0.2	0.6	0.5	

*Source: Calculated based on the data availed from the GST portal and \*Receipt Budget.*

<b>Table 7: Details of IGST Retained by the Centre (in Rs. Crore)</b>					
<b>FY 2018-19</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24 (till Nov.23)</b>
265518	283491	265601	348966	424180	309309

*Source: Answer to the Lok Sabha unstarred question No. 2373 to be answered on 18th December 2023.*

Due to the above-mentioned reasons, the IGST account remains with a huge unsettled amount, with its implications on the fiscal health of the States, especially those who are eligible for this settlement. At present, there is also an enormous delay in settling the IGST amount due to the states concerned. The IGST settlement portion will be available to the states only after the dealers concerned file their monthly/quarterly returns. This has also led to the building up of unsettled amount in the IGST account which is neither available to the states nor the Centre. Needless to say, it adds to the fiscal stress of the states. To address this issue, there is a need to provide for the transfer of SGST and CGST portion of the IGST amount instantaneously to the respective accounts of the Centre and States when the Taxpayer pays the IGST. Also, it would be beneficial to understand the state's overall revenue profile if the State-wise IGST settlement on the CGST account is presented.

### **GST Compensation Cess**

The GST (Compensation to States) Act, 2017 was established to assure revenue protection to the States for the first five years of the introduction of the GST, on account of any shortfall in the State's revenue from an annual growth rate of 14 percent of the taxes subsumed under GST in 2015-16. For this temporary arrangement to appease the dissatisfied States and pacify the political opposition, the Central government promised quarterly compensation till 30 June 2022, using the Compensation cess on luxury and demerit items, since 1 July 2017. The major issue with the Cess was that those States that collected Cess could not realize it by themselves. It was pooled and distributed according to the proportionate share of the revenue loss faced by the States.

The economic slowdown aggravated by COVID 19 adversely affected the GST collections and led to a shortfall in the Cess

collection. Thus, the compensation payment to the States got delayed, which was against the stipulated norms, that compensation must be given out every two months after being provisionally estimated. During the COVID 19 period, due to the fall in revenue of both Centre and State governments, the Central government made large borrowings to compensate the States. This compensation promised and provided by the Central government helped the States to continue with the system of GST at least during the initial years by lessening the friction between the Centre and the States by providing some fiscal space to the governments.

<b>Table 8: Compensation Cess Collected from and Shared with the States</b>			
	<b>Cess revenue (net)</b>	<b>Compensation to States</b>	<b>Difference</b>
2017-18	60167.1	49622.0	10545.1
2018-19	93563.3	84619.4	8943.9
2019-20	94889.2	165568.0	-70678.8
2020-21	84321.8	168399.7	-84077.9
2021-22	102713.0	68939.0	33774.0
2022-23	123416.9	17973.0	105443.9
<b>Total</b>	<b>559071.3</b>	<b>555121.1</b>	<b>3950.2</b>
2023-24	140671.6	0	140671.6
2024-25 (up to Oct-24)	85212.5	0	85212.5
<b>Total Cess Revenue Collected (up to Oct-24)</b>	<b>784955.5</b>	<b>0</b>	<b>229834.3</b>

*\*In the GST portal, net cess revenue is available only from 2020-21 onwards. We projected net cess revenue data for the previous years based on the average proportion of net revenue in gross revenue collection.*

**Source:** Cess revenue data availed from the GST portal, Compensation to States – Annexure details-PIB, Accessed from; <https://static.pib.gov.in/WriteReadData/specificdocs/documents/2022/jul/doc202271971401.pdf>

Table 8 presents the details of the compensation cess collected and shared with the States. The total cess revenue collected from the States till October 2024 was Rs.7.84 lakh crore and the compensation paid to the States till 2022-23 was Rs.5.55 lakh crore. This implies that even after the end of the GST compensation period, the GST compensation Cess collection was extended (till March 2026) against the original scheme, and the Rs.2.29 lakh crore collected additionally after the compensation period is to be used for servicing the back-to-back loans taken to compensate the revenue loss of the States.

The earlier section showed that most States are still suffering in collecting revenue at the proposed growth. The request by those States to extend the compensation period for another three years till 2024-25 went to the deaf ears. However, the government of India has been collecting the compensation cess and adjusting it to the loan amount that they have already taken for compensating the state's revenue loss during the COVID period. It is a fact that the GST compensation period cannot be continued forever, since it is more of a constitutional matter and has an effect on the fiscal space of the Central government to ensure a 14 percent growth for all the States over a longer period. It is in the interest of sustaining cooperative federalism the GST compensation cannot be confined to a limited period of five years; as long as there is GST there shall be GST compensation for the State (Joseph and N Ramalingam). Hence the feasibility of continuing the Cess even after the repayment of borrowing for the compensation can be thought of. The possibility of transferring 50 percent of the cess collection to the states can be considered for the next fiscal.

### **Multiplicity of Tax, Rate, and Inflation**

Conceptually, GST seeks to level the playing field by eliminating current obstacles, distortions, and intricate tax systems with multiple tiers. The proponents of GST are of the view that it would be a less distorting tax system than the previous regime by

substituting 17 separate taxes and 23 Cesses of both the centre and the states. However, in the GST regime, the majority of supplies subject to the GST have to pay at most three taxes and some are liable to additional cess. The CGST, the SGST/UTGST, and the IGST are the three primary taxes in GST. Along with this multiplicity of taxes, multiple rates also are another crucial aspect of this tax system. The report submitted to the Government of India in 2015 viewed that the Revenue Neutral Rate (RNR) should be in the range of 15-15.5% and recommended a three-rate structure with the standard rate kept close to the RNR (Government of India, 2015). But when it was implemented, the standard rates have been pegged lower at 0% (nil rated), 5%, 12%, 18%, and 28%. Therefore, the three-layered, multi-rate Indian GST system does not appear to be straightforward and is against the initial proposition of an efficient and less distortionary tax system. As a result, the original 'One Nation, One Market, One Tax' dictum was dropped in favor of a dual GST model with five rates and other levies.

The general notion is that since the GST rate is revenue neutral (RNR), the GST should have no aggregate impact on inflation and the price level. Aravind Subramanian committee cautions that the RNR has no guarantee in controlling price because the weights of commodities in the consumption basket (on which the CPI is based) differ from their contribution to indirect tax collections (Government of India, 2015). However, the international experiences show that the GST tends to be inflationary. For instance, Singapore saw a spike in inflation in 1994, when it introduced the GST (Teltumbde, 2017). There was a steep increase in prices in countries such as Australia, New Zealand, and Canada after the GST implementation. From the five-year experience of GST implementation in the Indian context, Kumar and Dash found that GST positively impacted the inflation of the non-food sector and reduced the price levels of

food items but the fact that the existing market power determines whether the benefits of GST are passed down to the consumers (Kumar and Dash, 2022). The important concern that arises when inflation comes into the discussion is which strata of the population are the worst affected. For example, the poorer classes will be more negatively impacted by the increasing costs of numerous mass-consumption goods that were formerly tax-free but are now subject to the GST. International experiences show that they are keen on adopting strict price control measures when the indirect tax system is undergoing a complete transformation since it directly affects the population irrespective of class. The Goods and Services Tax Act, 2017 presented a feature of the Price Monitoring Mechanism (PMM) by incorporating section 171 on anti- profiteering measure. However, it is questionable from the experience of India whether this system is successful or not in controlling prices passing the benefits to the consumers.

### **Compliance challenges**

With numerous and frequent modifications to the tax returns and reporting requirements, GST compliance, which was supposed to be simpler and less complicated, has become a challenge. The issuance of a large number of notifications after the implementation of GST has affected the revenue neutrality of rates. As notifications reduce rates or exempt various commodities and services directly reduce revenue collection. The major reasons for the issuance of a large number of notifications are the lack of clarity in sections under the GST Act and the corresponding procedure in the GSTN system along with the absence of a stable and simplified return filing system. The issuance of notifications will lead to a lack of coordination of sections of the Act and GSTN network changes. Changes made with the issuance of notifications are carried out in the GSTN portal with a time lag. This lag leads to further issuance of

notification for postponement of the date for return filing (Thekkekkara, and Kumary L, 2023). Though the pace of issuing notifications reduced to a greater extent, but continues.

Doing business by understanding the changes in various sections and rates is a major problem for manufacturers and traders. They require sufficient time to understand the legal changes and make corresponding changes/updates while filing monthly returns. Those who register under GST have to file three monthly returns in addition to one annual return; a total of 37 filings per year. Along with this, the expenses for software upgradation and the purchase of new computers increase the compliance cost of small manufacturers under the GST system. They have faced serious problems on return filing including technical issues of GSTN. Lack of clarity in return filing procedures has led to extra workload and burden, diverting attention from doing business to paying tax, especially in the initial years of GST implementation (GIFT Report, 2018). The greater the percentage of compliance expenses, the greater the motivation to evade taxes.

Along with this, another issue is related to the input-output invoice matching linked to the tax payment, which is the core of GST design to prevent the input credit scams. To avail of ITC, the buyer must have tax invoices of the goods and services purchased and file the return without any errors. The supplier also should pay the tax collected from the buyer and file the return correctly. It becomes the responsibility of the taxpayer to ensure that the supplier pays taxes to the government. Also, if these invoices do not match, the buyer may suffer and cannot avail credit in time. This matching of invoices can be blocked also due to technical difficulties. The errors in data input or typographical errors can be a reason for this. If there is any error in the sales or ITC details made by the taxpayer while filing the return, there is no provision to file a revised return instantly. The only way out of

this issue is to submit the correct one in the subsequent GST returns (Circular No. 26/2017 dated December 29, 2017). This delay in unblocking the credit further creates difficulty for the taxpayer (Banerjee, S. and Prasad, S., 2017). Again, if there is any delay in claiming ITC or the payment of taxes, interest is due at the rate of 24 percent or 18 percent. If the tax payment is delayed due to their financial crisis, the high interest rate makes compliance further difficult for the taxpayer. In contrast to this, delays in getting refunds on exports are also a problem faced by manufacturers and the interest rate for late refunds is only 6 percent.

### **Issues in GST data**

Even after seven and a half years of the implementation of GST, there is very little accounted data in the public domain. Currently, different sources provide GST data, which vary significantly from each other. Most of the analysis on GST done by academicians, journalists, and policymakers is based on the data from the GST Portal, which reports the monthly collection of GST revenue. However, the data in the portal itself is with a disclaimer that it is provisional. Other major sources are; (a) monthly press releases of the Department of Revenue, Ministry of Finance, (b) state and union finance accounts (c) CGA's monthly accounts, (d) receipt budget of the union government (e) state budget documents, etc. The revenue performance assessment of the GST will vary depending on the database chosen (Mukherjee, S, 2024). Therefore, it is high time that the GST Council should make an effort to reconcile the GST data issued by various source.

More importantly, tax authorities do not have sector-specific or item-wise tax collection information and cannot determine which industry/ sector/ product collects higher revenue and which one lags behind. The lack of item-wise data has its disadvantages.

Government officials, policymakers, and researchers cannot dive deep into the data and are unable to identify which sector needs a boost to mobilize more revenue. One of the major reasons for not getting item-wise details due to the return formats of GSTR1 and 3B since the GSTR3B return does not include the filing of HSN-wise details of revenue. Though GSTR1 has the details, it might not match with GSTR3B. The audit reviewed the progress made concerning the GST return mechanism and observed that the existing GSTR3B still has gaps and needs improvement (Chapter III - Report No. 7 of 2024 (Indirect Taxes – Goods and Services Tax) – CAG).

### **Concluding observations**

The Goods and Services Tax (GST), implemented in India in 2017, is still a 'work in progress' as observed by Rao M G (2022) concerning its fundamental structure and design. Though the current GST regime is an improvement on the earlier tax regime, it is still far from an ideal GST structure. The revenue performance of both the Centre and the States did not come up to the expectations due to various reasons that remain unresolved even after the seven and a half years of its implantation. We cannot rely on the exaggerated figure that we are getting every month as revenue collection since there is almost a 12 percent difference between the collection and net of refunds. The difference in the ratio of CGST and SGST also is a cause of concern. SGST revenue is almost 5 percent higher than that of CGST. The highly technologically advanced system as the proponents of GST claim could not rectify this discrepancy even now. Likewise, the huge unsettled portion remaining in the IGST kitty should be cleared without further delay to the respective states. When it was introduced, there was a high element of selectivity in taxation. But to get the benefit of its initial propositions and to increase the tax base, it is important to

minimize the selectivity in taxation since it is contrary to the basic principles of GST. There should be rate restructuring and harmonization between commodities and services in favor of improving the tax base. The lack of commodity-wise data on GST collection is a major hindrance to Government officials, policymakers, and researchers in identifying sectors and commodities that contribute to the tax net and evade taxes. Research backed by empirical evidence is crucial to resolve the issues that remain. But theoretically informed empirical research is almost impossible since the relevant data is not made public for unknown reasons.

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## Appendix

Appendix Table 1: GST Revenue							
			CGST	SGST	IGST	CESS	TOTAL
2020 -21	A. Collection	Domestic	209916.0	272827.8	303945.7	79152.1	865841.6
		Imports	0.0	0.0	261773.7	9189.9	270963.6
		Gross Revenue	209916.0	272827.8	565719.4	88342.0	1136805.1
	B. Refund	Domestic (RFD-05)	18171.2	22217.7	28081.0	2666.0	71135.9
		Export Refund	0.0	0.0	52620.1	1354.2	53974.3
		Total Refund	18171.2	22217.7	80701.1	4020.2	125110.2
	(A-B)	Net GST Revenue collection (A-B)	191744.8	250610.1	485018.2	84321.8	1011694.9
2021 -22	A. Collection	Domestic	269137.2	344215.8	385314.3	98877.9	1097545.3
		Imports	0.0	0.0	376956.2	8789.4	385745.5
		Gross Revenue	269137.2	344215.8	762270.5	107667.2	1483290.8
	B. Refund	Domestic (RFD-05)	26370.0	33098.3	38187.6	2881.1	100537.0
		Export Refund	0.0	0.0	80874.2	2073.2	82947.4
		Total Refund	26370.0	33098.3	119061.8	4954.2	183484.4
	(A-B)	Net GST Revenue collection (A-B)	242767.2	311117.5	643208.7	102713.0	1299806.5
2022 -23	A. Collection	Domestic	323923.1	410251.2	473421.3	117389.7	1324985.3
		Imports	0.0	0.0	471799.2	10895.8	482695.0
		Gross Revenue	323923.1	410251.2	945220.5	128285.5	1807680.3
	B. Refund	Domestic (RFD-05)	29167.3	36247.3	46930.5	2454.2	114799.4
		Export Refund	0.0	0.0	102397.4	2414.4	104811.8
		Total Refund	29167.3	36247.3	149328.0	4868.6	219611.2
	(A-B)	Net GST Revenue collection (A-B)	294755.7	374003.9	795892.5	123416.9	1588069.0

Appendix Table 1: GST Revenue							
2023 -24	A. Collection	Domestic	375710.4	471195.0	543703.9	132639.2	1523248.5
		Imports	0.0	0.0	483086.1	11914.6	495000.7
		Gross Revenue	375710.4	471195.0	1026789.9	144553.8	2018249.2
	B. Refund	Domestic (RFD-05)	30305.8	37540.9	53406.3	2340.6	123593.7
		Export Refund	0.0	0.0	92035.0	1541.6	93576.6
		Total Refund	30305.8	37540.9	145441.3	3882.2	217170.3
	(A-B)	Net GST Revenue collection (A-B)	345404.6	433654.1	881348.6	140671.6	1801078.9
2024 -25 (upt o 31st Oct- 24)	A. Collection	Domestic	237372.7	294365.1	351963.4	81437.0	965138.3
		Imports	0.0	0.0	302524.1	6779.4	309303.5
		Gross Revenue	237372.7	294365.1	654487.4	88216.5	1274441.8
	B. Refund	Domestic (RFD-05)	19599.9	24342.1	31580.0	1917.7	77439.7
		Export Refund	0.0	0.0	68843.4	1086.3	69929.7
		Total Refund	19599.9	24342.1	100423.4	3003.9	147369.3
	(A-B)	Net GST Revenue collection (A-B)	217772.8	270023.1	554064.0	85212.5	1127072.4

Source: GST Portal

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