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Good and Services Tax: Filling or Emptying the Coffers?

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Abstract. Taxation is a phenomenal device available to the government to reduce the gap between rich and poor and to establish vertical equity through income redistribution. It is the most important source of revenue for conducting the developmental activities of the government. The sales tax system has been constantly undergoing reforms with the latest being the introduction of Goods and Services Tax in 2017. The Goods and Services tax reform was introduced with a major intent to improve the revenue collections of the state. Five years have now passed since the introduction of the reform. The study aims at finding out the impact of this reform on the government revenue of the state of Kerala.

Keywords: Goods and Services Tax, GST, Reform, Revenue.

1. INTRODUCTION

On 1st July 2017, a much debated and deliberated reform in taxation was introduced in India. Titled as Goods and Services Tax, this reform ushered in a complete transformation of the way in which taxes were levied in our country. The main agenda behind the initiation of this reform was to bring about an era of 'one nation, one market and one tax' and also to gel in with the international style of collecting taxes. The complexities and inefficiencies of previous tax regimes in India (Roychowdhury, 2012) compelled the authorities to convert the decade-long discussion into reality (Arun et al.,2022).

The erstwhile system of taxation was overladen with a number of defects. The shortcomings were primarily characterized by cascading turnover taxes between the center and states in the federal structure, making the regime less comprehensive (Rao & Chakraborty, 2010). The major central taxes levied included central value added tax, service tax, central sales tax and the countervailing duties while the major state taxes were the state value added tax, entertainment tax and the luxury taxes. At each point of sale, additional taxes were applied to the tax value of the particular good and service (Leemput & Wiencek,2017). The existence of countless exemptions, multiple rates and the disallowance of tax credit added to the mounting issues of administrative complexities and economic distortions (Kir,2021).

Designing and implementing a major taxation reform like the goods and services tax in countries with federal constitutional structures is a daunting task (Due,1990). In developing country federations like India the problems get even more complicated (Bird and Gendron,2007). India had to wait for nearly 17 years of deliberations to roll out this reform primarily due to apprehensions from state governments as regards loss of autonomy with respect to levying taxes. While the union government was expected to compromise 35 percent of its gross tax revenue, the states had to lose 44 per cent. In order to quell the uncertainty and concern of the state governments, after much deliberations an "Indianized" dual GST was introduced from 2017. It is an internationally proven revenue productive and growth accelerating indirect tax system that prevails in 160 countries (Kumar and Remya 2017). GST is conceived as a destination- based consumption taxation with the Centre and the States simultaneously levying it on a common base.

After having undergone liberalisation in 1991, the enactment of Goods and Service tax was a significant taxation turn around by the Indian Government (Jha,2019). Govinda Rao stated "There is no unique GST and there are different models covering a variety of activities in different countries depending on what is politically acceptable" (Rao 2011). The goods and services tax system seeks to eliminate the anomalies of the multilayered tax system and endeavours to establish cooperation and create a common and undivided Indian market (World Bank Group,2018). It has also ventured to make business processes more efficient by simplifying the tax structure and reducing the number of state and central levies (Nutman et al.,2021).

The rates in GST were fixed on the basis of the revenue neutrality principle. There are "four tax rates namely 5%, 12%, 18% and 28%. Rate for precious metals is an exception to four-tax slab-rule and the same has been fixed at 3%. For any revenue loss on account of implementation of GST, a cess over the peak rate of 28% on certain specified luxury and demerit goods, like tobacco and tobacco products, pan masala, aerated waters, motor vehicles, is imposed to compensate States for a period of five years".

"Barely four months after the introduction of GST, the central government, on the recommendation of the GST council lowered the tax rates of around 200 items of goods from 28% to 18%" (as per notification No.41/2017). "This in turn reduced the tax collection of many states and turned out to be against the revenue neutrality concept that was adhered to the initial rate fixation by considering the revenue protection from subsumed revenue of states". As a result, at present only 32 commodities have 28% tax rate as compared to 229 commodities when GST was initiated (Joseph and Kumary 2021). Tax effort of the states haven't shown any improvement indicating that GST has not been helpful in improving the revenue position of the states (Joseph

and Kumary,2023). The pandemic period had pushed all the states to the brink of severe financial stress (Paul,2022). The economic slowdown consequent to COVID-19 brought about a significant reduction in the state's tax revenue.

The revenue from taxes is a major source for both central government and state government to conduct their developmental activities. The method of revenue mobilization adopted by the Government is of utmost significance as it can substantially affect economic efficiency of a country. The consensus reached at the UN Financing Development Summit in Monterrey in 2002 and restated in Doha in 2008, require developing countries to mend their overall mobilisation of public revenue in return for higher flow of international development assistance (Nair and Sensarma,2017).

In comparison to the Central Government, the state governments have very less taxing power. The State Governments are responsible for providing essential social and economic services like education, health, agriculture, irrigation and transport. A crucial issue pointed out by most state governments have been the inefficiency of their revenue systems to generate automatically the required funds to conduct these activities. This insufficiency of funds has pushed many states to the brink of a fiscal crisis.

The state of Kerala, too have been going through a fiscal crisis. In fact, it has become one of the most indebted states in India in the recent years (George et.al,2023). The state is also engulfed in severe debt sustainability issues. Two main reasons for this crisis are failure to control expenditure and poor resource mobilisation. Unsound fiscal policy, poor fiscal management and inefficiency in tax administration also added fire to the worsening crisis (Prakash,2019). To tide over this crisis, the government has been trying to control its revenue expenditure and enhance tax revenues. Taxes on Sales is the single largest source of revenue for the Government of Kerala. "It occupies a predominant place in State's own tax revenue, indirect taxes revenue and total taxes revenue (Garg, Goyal et al., 2014)."

It is a widely known that the goods and services tax was a half-baked cake introduced without considering all aspects associated with it (Joseph and Kumary 2021). Substantial changes have been made to it with over 650 notifications made till date. Frequent changes in the law and procedures have hampered the smooth functioning of the system. Technical snags and glitches in the goods and services tax network have added to the heap of problems faced by stakeholders.

Six years have passed since the introduction of GST in India. A recent report by National Institute of Public Finance and Policy (NIPFP), pointed out that "the revenue attributable to the Union government appeared to be regularly higher than the revenue from State GST, including IGST settlement". The report also highlighted that the "State's own tax revenue and revenues from taxes on goods and services before the implementation of GST was higher than that in the years after". Additionally, there were significant regional differences in the average growth of State revenue from taxes on goods and services (Mukherjee, 2022). It is therefore imperative to know whether the introduction of this reform has caused any change in the revenue of the Government of Kerala, which is struggling to keep its treasury intact. The study is targeted in discerning out the impact of GST implementation on Government revenue in Kerala.

2. LITERATURE REVIEW

Chelliah (1994) in his study opined that the developing countries had relied on several forms of taxation to earn more revenue. The most significant of these were taxes on sales and excise duties. Individual and corporate income taxes showed above average elasticity while taxes on sales displayed the highest income elasticity. Osoro (2003) studied the revenue impact of VAT reforms in Tanzania and found that the tax reform had not augmented the tax revenues of the country. He further stated that an inefficient administration and the grant of innumerable exemptions had paved the way for the insufficient revenue generation. Bird (2005) commented that VAT is invariably the most important source of government revenue. He added that when the system of VAT was administered efficiently, it would raise enough revenues for carrying out the fiscal and developmental functions of the government.

Saeed, Ahmad and Zaman (2012) analysed the revenue effect of the value added tax in the SAARC region. The study revealed that most of the SAARC countries that had adopted VAT had gained an effective tax instrument to upgrade their GDP to revenue ratio. Sury (2017) stated that GST would mitigate the ill effects of cascading and pave the way for a common national market. He said that the common base and common rates across goods and services and across states would facilitate administration and improve compliance and also improve revenue of the governments. Dash and Kakarlapudi (2022) found that there was considerable variations in GST revenue collections across states. Though the share of GST-GSDP revenue was relatively high in developed states like Maharashtra, Goa, Delhi, Karnataka, Kerala and Tamil Nadu, the growth of GST revenue collection was higher in less developed states like Bihar, Jharkhand, Odisha and Madhya Pradesh.

The review of literature shows the fact that after the introduction of GST, no concrete attempt has been made to assess its revenue effect in the state of Kerala. Therefore, this study is carried out to bridge this gap and shed light on the revenue impact of this momentous reform to the Government of Kerala.

2.1. Objectives of the Study

- To study the trend in sales tax revenue during the Pre GST and the post GST period.
- To study the contribution of GST revenue to the total revenue receipts of Government of Kerala.
- To study the contribution of GST revenue to own tax revenue receipts of Government of Kerala.

2.2. Hypothesis of the Study

- There is no significant difference in the sales tax revenue during the pre-GST and the post GST period.
- There is no significant difference in the contribution of sales tax revenue to the total revenue receipts of Government of Kerala during the pre-GST and the post GST period.
- There is no significant difference in the contribution of sales tax revenue to own tax revenue receipts of Government of Kerala during the pre-GST and the post GST period.

2.3. Methodology of the Study

The study was conducted using secondary data. The time period taken was 12 years ie 2011-2023. 2011-12 to 2016-2017 is taken as Pre-GST period and 2017-18 to 2022-2023 is taken as Post-GST period. The data pertaining to sales tax revenue, total revenue and own tax revenue receipts were collected from the website of State Goods and Services Tax Department, Kerala and reports of the Comptroller and Auditor General of India.

2.4. Analysis and Interpretation

Objective 1: To study the trend in sales tax revenue during the Pre GST and the post GST period.

The table below presents the sales tax revenue in absolute figures and the growth rate during the pre-GST and the Post GST period.

Table 1: Trends of Sales Tax Revenue in Kerala During the Pre-GST and Post-GST Period.

Year	Sales Tax Revenue (Rs. in crore)	Growth Rate
Pre-GST		
2011-12	9803	
2012-13	12616.95	25.47
2013-14	13860.96	9.86
2014-15	15075.49	8.76
2015-16	16229.15	7.65
2016-17	17854.36	10.01
Post-GST		
2017-18	14302.11	19.89
2018-19	24650.91	72.36
2019-20	27474.57	11.45
2020-21	18595.05	-32.32
2021-22	31486.51	69.32
2022-23	32329.52	2.67

Source: Reports of Comptroller and Auditor General of India and records maintained at the Office of the Commissioner of State Goods and Services Tax Department, Kerala.

The period from 2011-12 to 2022-23 showed that even though sales tax revenue was increasing in absolute terms during the pre-GST and the post-GST period, the rate of growth showed an inconsistent trend. During the pre-GST period, the average growth rate was 12.35 per cent while in the post-GST period it was 23.89 per cent.

2.5. Testing of Hypothesis

H0: There is no significant difference in the sales tax revenue during the pre-GST and the post GST period.

A one sample t-test was run to determine whether there was any significant difference in the sales tax revenue during the pre-GST and the post-GST period. The test gave the following result $t(11)=8.934, p=.000$. Therefore, the null hypothesis is rejected and it can be concluded that there is significant difference in the sales tax revenue during the Pre-GST and the post-GST period. The sales tax revenue in the post GST period was found to be higher when compared to the pre GST period.

Objective 2: To study the contribution of GST revenue to the total revenue receipts of Government of Kerala.

The contribution of sales tax revenue to total revenue receipts of Government of Kerala is presented in Table 2.

Table 2: Contribution of Sales Tax Revenue to Total Revenue Receipts of Kerala.

Year	Sales Tax Revenue (Rs. in crore)	Total Revenue Receipts (Rs. in crore)	% of Sales Tax Revenue to Total Revenue Receipts
		Pre-GST	
2011-12	9803	38010	25.79
2012-13	12616.95	44137	28.59
2013-14	13860.96	49177	28.19
2014-15	15075.49	57950	26.01
2015-16	16229.15	69032	23.51
2016-17	17854.36	75612	23.61
		Post-GST	
2017-18	14302.11	83020	17.23
2018-19	24650.91	92854	26.55
2019-20	27474.57	90225	30.45
2020-21	18595.05	97616	19.05
2021-22	31486.51	116640	26.99
2022-23	32329.52	129268	25.00

Source: Reports of Comptroller and Auditor General of India and records maintained at the Office of the Commissioner of State Goods and Services Tax Department, Kerala.

During the pre-GST period, the average contribution of sales tax revenue to total revenue receipts of Kerala was 25.95 per cent while it was 24.21 per cent during the post-GST period.

2.6. Testing of Hypothesis

Ho: There is no significant difference in the contribution of sales tax revenue to the total revenue receipts of Government of Kerala during the pre-GST and the post GST period.

A one sample t-test was run to determine whether there was any significant difference in the contribution of sales tax revenue to total revenue receipts. The test gave the following result t(11)=0607,p=05 59. Hence the null hypothesis is not rejected and it can be concluded that there is no significant difference in the contribution of sales tax revenue to the total revenue receipts of Government of Kerala during the pre-GST and the post GST period.

Objective 3: To study the contribution of GST revenue to own tax revenue receipts of Government of Kerala.

The contribution of sales tax revenue to own tax revenue receipts of Government of Kerala is presented below.

Table 3: Contribution of Sales Tax Revenue in Own Tax Revenue Receipts of Kerala.

Year	Sales Tax Revenue (Rs. in crore)	Own Tax Revenue Receipts (Rs. in crore)	% of Sales Tax Revenue to Own Tax Revenue Receipts
Pre-GST			
2011-12	9803	25719	38.11
2012-13	12616.95	30077	41.95
2013-14	13860.96	31995	43.32
2014-15	15075.49	35232	42.79
2015-16	16229.15	38995	41.62
2016-17	17854.36	42176	42.33
Post-GST			
2017-18	14302.11	46460	30.78
2018-19	24650.91	50644	48.67
2019-20	27474.57	50323	54.60
2020-21	18595.05	47660	39.02
2021-22	31486.51	58340	53.97
2022-23	32329.52	70188	46.06

Source: Reports of Comptroller and Auditor General of India and records maintained at the Office of the Commissioner of State Goods and Services Tax Department, Kerala.

During the pre-GST period, the contribution of sales tax revenue to own tax revenue was at an average of 41.68 percent while during the post-GST period it was 45.51 per cent.

A one sample t-test was run to determine whether there was any significant difference in the contribution of GST revenue to own tax revenue receipts. The test gave the following result t(11)=0.751,p=0.472 Hence the null hypothesis is not rejected and it can be concluded that there is no significant difference in the contribution of sales tax revenue to the own tax revenue receipts of Government of Kerala during the pre-GST and the post GST period.

3. CONCLUSION

The Goods and Services tax reform was introduced with an intent to remove the defects in the indirect taxation structure which included tax evasion and leakage of revenues and to enhance the revenue collections of

the government. However, the findings from the study point to the fact that even after six years of introduction of GST, there has not been any significant change to the total revenue receipts and own tax revenue receipts of Government of Kerala. The revenue collections of the Government have not improved despite tall claims from the proponents of GST. In order to plug the leakage in tax collection and check tax evasion, more stringent measures need to be introduced. The Goods and services tax network needs to be made more robust and technical snags should be sorted out as quickly as possible. Also, the proper officers should cross verify and confirm whether the returns filed by dealers reflect the true situation or not. This will ensure that the revenue of the government is not compromised and that GST will indeed enhance the revenue coffers of the government.

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