

Goods and Services Tax in India: A Study of Revenue Trends and Policy Challenges

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ABSTRACT

Goods and Services Tax (GST) is a unified tax structure that replaced the multiple central and state-level taxes in India. With its customer-centred approach, the new system is capable of reducing complexities, imparting uniformity, enhancing tax compliance and facilitating the free movement of goods and services throughout the country. The present research paper is mainly focused on highlighting the GST structure, revenue collection in the post-GST regime, interstate variations in tax collection and comparison of pre and post-GST contributions to GDP. Hurdles in the effective implementation of the system are also elaborated. Data revealed a continuous increase in revenue mobilisation through GST, but with significant interstate variations. The share of both the central and state governments from subsumed taxes reduced in post GST time period. The compliance burden faced by micro and small enterprises, revenue shortfall of states, problems associated with digital infrastructure and GST system complexities should be resolved to realise the full potential of the taxation reforms.

Keywords: GST, Revenue, GDP, Hurdles.

Introduction

Goods and Services Tax (GST) was implemented in India in July 2017. This is one of the major revolutionary fiscal reforms in independent India. This reform was introduced with the objective of creating a transparent, efficient, and uniform tax system in India. Before GST implementation, there was a coexistence of several indirect taxes collected by both the central and state governments. Major taxes levied by the central government included central excise duty, custom duty, service tax and many cesses and surcharges. Whereas the taxes levied by the state governments were value added tax, entry tax, central sales tax, octroi, entertainment tax, luxury tax, etc. Along with the multiplicity of taxes, substantial variations existed among the states in tax rates, tax exemptions and administrative procedures. The existence of these numerous state-specific levies caused interstate variations in prices, administrative complexity, compliance burden, tax cascading, resulting in higher costs, and barriers to interstate trade. GST was introduced to subsume most of these indirect taxes into a single tax framework, thereby promoting efficiency, transparency and opening the national market for all. GST Council was established as an apex decision-making authority for determining different GST-related aspects, with representatives from both central and state governments. The Union Finance Minister acts as the chairperson of the council, whereas the finance ministers of all the states act as members.

GST was implemented under the principle of the 'one-nation, one-tax' system. Four different tax slabs: 5%, 12%, 18% and 28% were introduced, and taxes on different goods and services were charged differently as per their nature of use. Some products and services, like healthcare and education, were kept outside the tax ambit. Necessities like tea, coffee, branded paneer, spices, skimmed milk, frozen

vegetables, rusk, kerosene, coal, life-saving medicines, stents, etc. were taxed at 5% and luxury items like dishwashers, washing machines, vacuum cleaners, automobiles, motorcycles, chocolates, pan masala, paints, deodorants, shaving creams, ceramic tiles etc. were charged at 28%. Apart from these slabs, there were some exceptions, like all precious metals such as gold, silver and platinum etc. were kept in a unique 3% slab, whereas petroleum products (like diesel, petrol and gas), electricity and liquor were kept outside the GST domain and are taxed as per the preexisting central and state laws. On these items central government charges excise duty while the state government charges value added tax (VAT).

However, the GST council has carried out many changes subsequently, keeping the basic structure the same. GST is based on several principles of taxation, including equity, certainty, convenience, economy, efficiency, neutrality, and transparency. Different tax slabs for different categories like necessity items, luxury items and sin goods are meant to promote equity. Digitalization through the online GST portal enhances transparency and certainty. The input tax credit mechanism minimizes the cascading effect of taxation and promotes neutrality.

The GST system was expected to enhance the taxpayer base, tax compliance, economic efficiency and ease of doing business. Data revealed that under the GST system, the number of taxpayers increased to 1,53,56,323 in comparison to just 40,75,501 taxpayers before GST implementation and a total of 164.43 crore returns were filed up to 30th June 2025 (Goods and Service Tax Network, 2025).

After a period of seven years of the implementation of GST system, major reforms were carried out in the system in September 2025 marked as 'GST 2.0'. The tax slabs were reduced to two i.e. 5% and 18% with another tax slab of 40% for sin goods like tobacco products and some luxury items. Most of the necessary items were exempted from tax and for others items taxes were reduced significantly. The objective of these reforms was to further reduce complexities, improve compliance, promote ease of doing business and reducing costs for benefiting the consumers.

This research paper is mainly focused on highlighting the structure of GST in India. In this paper, the GST revenue, and compensation cess have been calculated. The interstate variations in tax collection have been elaborated. The comparison of pre and post-GST contributions to GDP has been explained. Hurdles in the effective implementation of the system have also been expounded.

Implementation of GST

In India, the federal financial system prevails, where both the central and state governments have tax collection powers. Before GST implementation, states enjoyed autonomy over determining indirect tax rates, rendering elasticity to their revenue structure. Fearing the loss of revenue and taxation autonomy, most of the states were reluctant to accept GST proposal. Additionally, the destination-based nature of GST, caused apprehension among manufacturing states that were previously getting benefits due to origin-based taxation. GST negotiations for obtaining the consent of states was a crucial task and took around 16 years from the initial GST proposal of the year 2000. To build political consensus for passing the GST Act, certain compromises, including dual GST model, a multi-rate structure, the provision of revenue compensation, excluding some of the major items and the creation of the GST council, were made. To secure the support of all the states, the Government of India introduced the GST Compensation Act 2017. Under which the central government guaranteed to compensate the states for revenue losses arising due to GST along with promising a 14% annual growth in the state's protected tax earnings for a time period of five years up to the year 2022. The compensation arrangement aimed to provide states with sufficient time to adjust to the new tax regime and strengthen their revenue base. Some high-revenue-generating commodities, such as petroleum products and electricity, were kept outside the GST framework for the revenue flexibility of state governments. GST Council, with significant tax determination authority, included representatives from the central as well as state governments. It convinced states regarding their active involvement in policy matters and decision-making.

Structure of GST

Under India's federal governance system, revenue and expenditure-related authorities and responsibilities and revenue sharing mechanisms are shared between the centre and state governments. But the central government plays a dominant role and is given more tax collection powers, and the states remain dependent on the centre for their financial needs. The central government's tax revenue is divided between the central and state governments according to the

recommendations of the Finance Commission. Following this approach, the GST system operates through a dual model as shown in Fig. 1.



Fig. 1: Structure of GST in India

For transactions occurring within a state, the levied GST is equally divided between the Centre government and state government. The share of central government is termed as Central Goods and Services Tax (CGST), and the share of State government is termed as State Goods and Services Tax (SGST). For interstate transactions, the whole share of GST is levied by the central government and it is termed as Integrated Goods and Services Tax (IGST). The revenue generated through IGST is subsequently shared between the centre and the destination state, where the final consumption of the product takes place. In addition to these taxes, compensation cess is also collected by the central government on some of the luxury and demerit good. This fund is used to compensate the revenue deficit states. GST is a destination-based tax, whereas the earlier taxation system was origin-based. GST tax revenue is allocated to the state in which goods or services are ultimately consumed rather than to the state where these are produced, benefiting the consumption-oriented states.

Digitalisation and Input Tax Credit

GST is a major step toward the digitalisation of tax structure in India. The system is largely technology-based and operated through a GST portal. Firm's registration, return filing, tax payments, invoice matching, and compliance procedures are all conducted through online platforms. This digital framework has enhanced transparency, efficiency, tax compliance and reduced tax evasion. A main feature of GST is the Input Tax Credit (ITC) system that reduces the multiple layers of taxation and eliminates tax on taxes. It ensures that tax is levied only on the value added at each stage of the production chain. Through ITC, one can claim credit for taxes already paid on input materials used in the production process. It encourages businesses to purchase from registered suppliers and maintain proper invoices. However, ITC could be availed only after the proper transaction verification within the GST network, thereby encouraging digital record keeping, formalisation of the economy and tax compliance.

Revenue Through GST Collection

Table 1 shows the total GST collection for the years 2017 to 2025. Total tax collection includes CGST, SGST, IGST and compensation cess. The table reveals that the revenue from all components increased continuously except for the year 2020-2021, due to the impact of the COVID-19 pandemic. Total GST revenue was 7,40,648 crores in 2017-18, which increased to 22,08,861 crores in 2024-25. There is almost a threefold increase in all these components of GST over a period of eight years.

Table 1: GST collection in India for the period July 2017 to March 2025 (in crore)

Year	CGST	SGST	IGST	Compensation Cess	Total
2017-2018	1,18,876	1,71,803	3,87,355	62,614	7,40,648
2018-2019	2,02,444	2,78,817	5,98,739	97,369	11,77,369
2019-2020	2,27,442	3,09,231	5,86,698	98,745	12,22,116
2020-2021	2,09,916	2,72,827	5,65,720	88,338	11,36,801
2021-2022	2,70,701	3,46,186	7,63,632	1,07,708	14,88,227
2022-2023	3,23,923	4,10,251	9,45,220	1,28,286	18,07,680
2023-2024	3,75,710	4,71,195	10,26,789	1,44,555	20,18,249
2024-2025	4,13,776	5,16,448	11,25,335	1,53,303	22,08,861

Source: Goods and Service Tax Network, 2025

The GST collection of different states and union territories also increased but with significant variations. Table 2 shows the GST collection of all states and union territories for the period 2020-21 to 2024-25. Data reveals that Maharashtra, Karnataka, Gujarat and Tamil Nadu are the top four states in terms of GST collection for all five years. Uttar Pradesh and Haryana states secured fifth and sixth ranks, respectively, up to the year 2022-23, but Haryana surpassed UP and got the fifth position in the years 2023-24 and 2024-25. Delhi secured seventh rank and first among the UTs with 77,002 crores of GST collection for the year 2024-25. Rajasthan, Punjab and Himachal Pradesh states secured eleventh, seventeenth and twenty-first ranks respectively in the year 2024-25. The revenue collection of north eastern states and UTs is relatively lower. Studies like Dash & Kakarlapudi(2022) and Dash & Joseph (2022) have also highlighted regional differences in GST revenue collection.

Table 2: GST collection in States and UTs for the period 2021-2025 (in crores)

Rank (2024-25)	State	20-21	21-22	22-23	23-24	24-25
1	Maharashtra	165,308	217,993	270,346	320,117	359,855
2	Karnataka	75,660	95,926	122,822	145,266	159,564
3	Gujarat	74,346	97,155	114,221	125,168	136,748
4	Tamil Nadu	69,121	85,492	104,377	121,329	131,115
5	Haryana	54,890	68,142	86,668	102,914	119,362
6	Uttar Pradesh	59,721	73,865	87,970	101,693	112,212
7	Delhi	36,568	46,253	55,843	66,445	77,002
8	West Bengal	39,694	47,898	58,060	62,613	66,892
9	Telangana	36,346	45,081	51,831	59,942	62,987
10	Odisha	29,844	44,335	49,442	54,748	60,928
11	Rajasthan	31,797	38,480	45,458	50,174	54,785
12	Madhya Pradesh	27,005	31,255	36,232	42,174	45,072
13	Andhra Pradesh	26,163	32,710	40,232	44,298	44,825
14	Chhattisgarh	24,419	29,571	31,968	34,874	37,183
15	Jharkhand	20,482	27,854	32,019	34,738	36,841
16	Kerala	17,349	22,264	27,371	30,677	33,109
17	Punjab	13,913	18,406	20,949	24,061	26,721
18	Uttarakhand	12,339	13,680	16,845	19,231	20,670
19	Bihar	11,638	13,534	16,548	18,021	20,208
20	Assam	10,030	12,007	13,710	15,602	17,415
21	Himachal Pradesh	7,055	8,023	8,778	9,956	10,352
22	Jammu Kashmir	3,647	4,692	5,246	6,704	7,175
23	Goa	3,270	4,364	5,520	6,475	7,146
24	Dadra and Daman	2,654	3,146	3,774	4,333	4,410
25	Sikkim	2,266	2,811	3,156	3,707	4,063
26	Chandigarh	1,651	1,979	2,365	2,771	2,915
27	Puducherry	1,646	1,824	2,373	2,636	2,865
28	Meghalaya	1,337	1,764	2,076	2,260	2,192
29	Arunachal Pradesh	651	710	1,023	1,308	1,201
30	Tripura	732	777	884	1,053	1,193
31	Manipur	392	551	615	670	699
32	Nagaland	389	420	566	711	682
33	Ladakh	114	207	333	481	546
34	Mizoram	257	316	419	500	512
35	Andaman	255	332	373	428	482
36	Lakshadweep	13	18	21	45	21

Source: Author's own compilation from the Goods and Services Tax portal

Comparison of Tax Collection in pre and post-GST

Different central and state government taxes were merged under GST. The GST-to-GDP ratio is an important indicator of the extent of government control over the economy's resources (Asian

Development Bank, 2021). The revenue generated from subsumed taxes as a percentage of GDP in the pre and post-GST periods is shown in Table 3.

Table 3 shows that the SGST and CGST in 2015-16 were 2.9% and 3.6% of GDP, respectively, but both collections reduced significantly in all the years in the post-GST period. GST total tax collection was 6.5% and 6.6% of GDP in 2015-16 and 2016-17, respectively, but it reduced to 5.5% of GDP in 2024-2025. In 2020-21, the 15th Finance Commission predicted a GST-to-GDP ratio of 7% that could not be realised in any of the following years. Significant variations have also been found across states. In some North-Eastern states like Nagaland, Mizoram, Manipur, Meghalaya and Sikkim, the ratios of subsumed taxes to GSDP were high in the post-GST period compared to the pre-GST period. The reason was the destination-based principle of GST taxation, benefiting the consuming states. In comparison, states like Punjab, Haryana, Goa, Karnataka, Uttarakhand, Chhattisgarh, Odisha, and Madhya Pradesh faced a relatively sharp decline in revenue in the post-GST period (Singh, 2025).

Table 3: Revenue generated from the subsumed taxes from 2015-16 to 2024-25

Revenue (% of GDP)	Pre GST		Post GST						
	2015-16	2016-17	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
State Revenue	2.9%	2.5%	2.7%	2.5%	2.3%	2.6%	2.7%	2.8%	2.8%
Central Revenue	3.6%	4.1%	2.5%	2.5%	2.3%	2.5%	2.7%	2.7%	2.7%
Total	6.5%	6.6%	5.2%	5.0%	4.6%	5.1%	5.4%	5.5%	5.5%

Source: Singh (2025)

Table 3 reveals that GST collections were lower than the actual expectations of high revenue growth. To achieve the target of a 7% GST-to-GDP ratio, the 15th Finance Commission recommended restructuring the existing GST system through major reforms (State of State Finances 2025). Following these recommendations, the GST system was majorly restructured in September 2025. A large number of essential items were exempted from GST. Mass consumption goods were taxed at 5%. These reforms further reduced the tax burden. As a result of these changes, some of the reports predicted a revenue loss of 48,000 crores in the first year, which could hopefully be compensated for with increased consumption expenditure (Shivasundar, 2025).

Hurdles in Effective Implementation of GST

GST emerged as a major taxation reform with the objective of uniformity, simplicity, transparency and improved compliance. In the implementation phase, the system encountered certain obstacles that need to be addressed.

- A large number of tax slabs for different items made the system complex and imposed classification difficulties.
- The whole system is digitalised, where taxpayers are required to file returns, pay taxes, generate invoices and get tax credits and refunds through the online portal. This creates difficulties for micro and small enterprises due to a shortage of digital infrastructure and professional expertise.
- Small firms face proportionately higher compliance costs affecting their competitiveness.
- A large number of excluded items from the GST ambit restrain the actual objective of unifying the whole country.
- A large number of states faced revenue shortfalls after GST implementation, and they are dependent on the central government for the compensation fund. States complain of delays in compensation payments by the central government, adding to their fiscal pressures and widening fiscal deficits.

These obstacles should be effectively addressed to achieve the full benefits of taxation reforms.

Conclusions and Policy Implications

The introduction of GST represents a landmark reform in the indirect taxation system of India. By merging multiple taxes into a single framework, GST has improved transparency, reduced cascading taxation, promoted digitalisation and led to market integration. Data revealed that the revenue from GST was 7,40,648 crores in 2017-18, which increased to 22,08,861 crores in 2024-25. There is almost a threefold increase in tax collection over a period of eight years. Maharashtra, Karnataka, Gujarat, Tamil

Nadu, Haryana and Uttar Pradesh are the top six states in terms of GST collection. However, large interstate variations existed with relatively lower tax revenue of north eastern states and most of the UTs. Revenue generated through GST as a percentage of GDP fell short in the post-GST time period as compared to the pre-GST tax collections. GST total tax collection was 6.5% and 6.6% of GDP in 2015-16 and 2016-17, respectively, but it reduced to 5.5% of GDP in 2024-2025. A large number of tax slabs made the system complex and imposed classification difficulties for different items. Micro and small enterprises faced compliance burden due to lack of digital infrastructure and professional expertise. The government should simplify the GST structure, plug loopholes to eliminate tax evasion, and address rising compliance costs. Delays in compensation payments by the centre to state governments should be effectively addressed to achieve the full benefits of taxation reforms. To overcome these problems, 'GST2.0' reforms were implemented in September 2025 with the hope of further improving the GST system. However, it would be interesting to see the effect of these reforms.

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