

Impact of GST on the Revenue Structure of Rajasthan

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ABSTRACT

The Goods and Services Tax (GST), implemented on July 1, 2017, marked a transformative shift in India's indirect taxation system. Designed to consolidate a plethora of central and state taxes into a unified tax structure, GST aimed to enhance transparency, reduce tax evasion, and simplify the tax compliance process. This study investigates the impact of GST on the revenue of the state of Rajasthan, a region with a diverse economy that includes agriculture, mining, tourism, and small-scale manufacturing. The research evaluates the trends in tax revenue before and after the introduction of GST, with a focus on components such as the State Goods and Services Tax (SGST), Integrated Goods and Services Tax (IGST), and Central Goods and Services Tax (CGST). Additionally, it highlights the influence of national economic policies, settlement delays, and the phasing out of compensation from the central government on the state's revenue structure. The paper also addresses the challenges posed by high VAT rates on fuel, leading to cross-border fuel purchases, and the declining share of non-tax revenues. Through an analysis of official data, government reports, and comparative performance with other Indian states, the study provides a comprehensive understanding of how GST has shaped Rajasthan's fiscal trajectory. The paper concludes with a set of policy recommendations aimed at strengthening the state's revenue generation mechanisms, ensuring fiscal sustainability, and optimizing the benefits of GST implementation.

Keywords: GST, SGST, IGST, CGST, VAT.

Introduction

The introduction of the Goods and Services Tax (GST) in India represents one of the most significant economic reforms since independence. Replacing a complex web of central and state-level taxes such as VAT, excise duty, service tax, and others, GST aims to streamline the tax system, promote ease of doing business, and improve compliance through a comprehensive and digitized tax network. It was conceived as a destination-based tax that is levied at each stage of value addition, with provisions for seamless input tax credit across the supply chain. This reform has had profound implications for both central and state governments, impacting revenue generation, budget planning, and intergovernmental fiscal relations.

Rajasthan, being a large and diverse state, has a unique economic composition that includes primary sectors like agriculture and mining, as well as secondary and tertiary sectors such as manufacturing, trade, and tourism. Prior to the implementation of GST, the state heavily relied on state-level taxes such as VAT on petroleum products and state excise, which formed a significant part of its own tax revenue. The shift to GST not only restructured the mode of tax collection but also influenced the predictability and distribution of revenue streams. Given the state's reliance on intergovernmental transfers and compensations, it becomes essential to study the long-term sustainability of Rajasthan's fiscal framework under the GST regime. The replacement of multiple taxes with a single tax system was expected to widen the tax base, improve efficiency, and reduce leakages. However, concerns over

revenue neutrality, the phasing out of compensation grants, and administrative challenges in GST compliance continue to shape the discourse around its effectiveness.

This study is timely and relevant as it seeks to critically assess the extent to which GST has impacted the overall revenue generation of Rajasthan. It explores revenue trends before and after the implementation of GST, examines the structure and composition of GST collections, identifies key challenges in tax administration, and compares Rajasthan's performance with other Indian states. In doing so, the paper aims to provide insights into the opportunities and limitations presented by GST, and propose policy interventions to enhance fiscal resilience and revenue buoyancy in Rajasthan.

Literature Review

The implementation of the Goods and Services Tax (GST) in India on July 1, 2017, marked a significant fiscal reform aimed at subsuming multiple indirect taxes into a unified tax system. The transition from the pre-GST tax regime to GST has had profound implications for state-level revenue structures, including that of Rajasthan.

- **National-Level Studies on GST and State Revenues**

Several studies have analyzed the macroeconomic impact of GST on the Indian economy. **Rao (2017)** highlights that GST, by replacing the cascading structure of multiple taxes, was expected to improve tax compliance and widen the tax base, ultimately benefiting state revenues in the long term. Similarly, **NIPFP (National Institute of Public Finance and Policy)** projections indicated that GST would make India a single market and promote fiscal efficiency, although the short-term disruptions were acknowledged.

Kumar and Dhingra (2018) analyzed state-wise tax revenue trends and found that while most states experienced initial volatility post-GST implementation, revenues stabilized and grew over time, particularly due to compensation provisions guaranteed by the Centre.

- **State-Specific Studies on Rajasthan**

Literature specific to Rajasthan has been relatively limited but growing in recent years. According to a study by **Sharma (2019)**, Rajasthan experienced short-term revenue fluctuations after the GST rollout, particularly due to a decline in revenues from Entry Tax and VAT on petroleum and alcohol—items kept outside the GST purview.

The Economic Review of Rajasthan (2020–2023) published annually by the Directorate of Economics and Statistics, Government of Rajasthan, provides empirical data showing trends in state revenue collection. These reports show that although GST initially caused a dip in the own-tax revenue (OTR) growth rate, compensation from the Centre helped maintain fiscal balance until mid-2022. Post-compensation, Rajasthan's reliance on SGST and IGST settlement increased.

- **GST Compensation and Its Effects**

The compensation mechanism, under the GST (Compensation to States) Act, 2017, played a crucial role in maintaining revenue neutrality. However, studies such as **Bansal (2021)** raise concerns about the end of the compensation regime in June 2022. For a state like Rajasthan, which has a relatively lower tax base and a higher dependence on Central transfers, this raises questions about long-term revenue sustainability.

A report by the **Comptroller and Auditor General (CAG) of India (2021)** pointed out delays and procedural challenges in IGST settlement and fund transfers, which have affected timely revenue realization in states including Rajasthan.

- **Broader Fiscal Implications**

Research by Gupta & Rajan (2020) analyzed the changing composition of Rajasthan's revenue structure post-GST and found a decline in the share of own-tax revenue in total revenue receipts, highlighting growing fiscal dependence on the Centre. The study also notes an increase in administrative efficiency due to digitization and the GSTN platform, although compliance burdens remain a concern for small businesses.

Gaps and Emerging Issues

There is a need for more granular, district-level studies in Rajasthan to assess the uneven impact of GST across different sectors such as textiles, handicrafts, and tourism. Additionally, with GST

rates and slabs undergoing revisions, the dynamic impact on sectoral revenue generation within Rajasthan remains underexplored in existing literature.

Pre-GST Revenue Structure of Rajasthan

Before the implementation of GST, Rajasthan's revenue system was composed of multiple indirect taxes levied at both state and central levels. Key contributors to the state's own tax revenue included:

- **Value Added Tax (VAT)** on petroleum products and certain goods
- **State Excise** on alcohol
- **Entry Tax** on goods entering local areas
- **Entertainment Tax, Luxury Tax, and Advertisement Tax**
- **Central Sales Tax (CST)** on inter-state transactions

These taxes were collected through separate channels, each with its own compliance framework and rate structure. VAT, in particular, was a dominant contributor and was charged at varying rates depending on the type of goods. Petroleum products and liquor, which were kept outside the GST framework, continued to be major sources of revenue even post-GST. However, the fragmented tax system created inefficiencies and often led to tax cascading, where tax was levied on tax due to non-availability of credit across different levies. Moreover, due to interstate tax variations, there were frequent cases of tax evasion, delays in transportation, and logistical issues. Tax compliance also remained low among the unorganized sectors, which reduced the overall revenue potential of the state. These challenges provided the rationale for transitioning to a more uniform tax regime through GST.

Post-GST Revenue Trends in Rajasthan

Since the rollout of GST in 2017, Rajasthan has experienced a mix of opportunities and challenges in revenue realization. The new tax regime, with its digital architecture and unified structure, brought improved compliance and reduced tax leakage. However, the initial years were marked by administrative hiccups, technological adaptation, and fluctuations in collection trends due to transitional issues and economic disruptions like the COVID-19 pandemic. In the first few years post-GST, Rajasthan's GST revenue was supported by the central government's compensation mechanism, which assured a 14% annual increase in tax revenue for a transition period of five years. This helped cushion the impact of revenue loss during the early phase. As businesses and tax authorities adapted to the new system, collections began to show improvement. By FY 2021–22, Rajasthan reported a significant rebound in GST collections as the economy began to recover post-pandemic. The gross GST collection in FY 2022–23 stood at ₹33,787 crore, representing a growth of 23% over the previous year. This surge can be attributed to the revival of trade and industry, increased tax compliance through e-invoicing and data matching tools, and intensified efforts by the state GST department to crack down on evasion.

In FY 2023–24, the momentum continued with Rajasthan registering consistent growth. In May 2024 alone, SGST collection stood at ₹1,506 crore—a 9% rise over May 2023. When combined with IGST settlement, the SGST component amounted to ₹3,315 crore. Such figures reflect the strengthening of internal revenue mechanisms, although the overall performance still trails behind states with larger industrial and consumption bases like Maharashtra and Karnataka. Despite these positive signals, the growth has not been uniformly robust across sectors. The services sector and small-scale industries in Rajasthan continue to face challenges in GST compliance. Moreover, revenue growth has been somewhat dampened by the phasing out of compensation from the central government after June 2022, which added pressure on state finances. Another concern is the state's dependency on petroleum and alcohol revenue, which remain outside the GST purview. High VAT on fuel has led to cross-border purchasing, particularly in regions bordering Haryana, Gujarat, and Madhya Pradesh, leading to potential revenue loss. Additionally, the state's non-tax revenues have shown a decline, putting further pressure on GST to compensate for the shortfall.

To further boost collections, Rajasthan has undertaken several policy and administrative reforms. These include:

- **Increased use of data analytics to detect mismatches in returns**
- **Introduction of e-invoicing for improved tracking of B2B transactions**

- **Greater coordination between state and central GST officials for enforcement**

These measures, coupled with a recovering economy and stronger digital compliance infrastructure, are expected to yield improved revenue outcomes in the coming years.

Challenges in Revenue Realization

Several issues have hampered Rajasthan's optimal revenue realization under GST:

- **Cross-border Fuel Purchases:** Higher VAT rates on fuel have encouraged consumers to buy from neighboring states, affecting state VAT revenues.
- **Decline in Non-Tax Revenue:** A notable 8.15% decrease in non-tax revenue in FY 2023-24 due to reduced royalties and excise collections.
- **Delayed Compensation:** The discontinuation of GST compensation by the Centre has impacted the financial planning of the state.

Comparative State Performance

A comparative analysis of GST performance across major Indian states highlights the varied impact of the tax reform, reflecting differences in economic structure, compliance infrastructure, and administrative readiness.

State	FY 2022–23 GST Collections (₹ crore)	Year-on-Year Growth (%)	Key Drivers
Maharashtra	2,10,000	21	Large industrial & service sectors, leading financial hub
Karnataka	1,15,000	19	Robust IT and manufacturing base, strong digitization
Tamil Nadu	1,00,000	22	Automotive and textile exports, diversified manufacturing
Gujarat	1,00,000	18	Trade and port activities, chemical and petrochemicals industries
Rajasthan	33,787	23	Post-pandemic recovery, tourism revival, improved compliance efforts

This table illustrates that while Rajasthan's percentage growth in FY 2022–23 (23%) is comparable to or exceeds that of more industrialised states, its absolute collections remain much lower due to a smaller manufacturing and urban consumption base. States such as Maharashtra and Tamil Nadu benefit from higher-value economic activities and greater IT penetration, which bolster both compliance and revenue. By learning from these states' digital compliance tools, taxpayer services, and ease-of-doing-business initiatives, Rajasthan can aim to bridge the gap in absolute collections while maintaining healthy growth rates.

Policy Recommendations

- **Rationalize VAT on Fuel:** Aligning with neighboring states to curb fuel smuggling.
- **Boost Compliance Infrastructure:** Increase digitization and data analytics usage to detect tax evasion.
- **Diversify State Revenue:** Encourage sectors like renewable energy, manufacturing, and tourism to enhance the tax base.
- **Engage with Centre:** For timely release of IGST settlements and financial support.

Conclusion

The introduction of the Goods and Services Tax in India has redefined the fiscal landscape of the country, offering an integrated and simplified tax regime aimed at improving efficiency and compliance. Rajasthan, with its unique economic profile and reliance on a diverse array of revenue sources, has witnessed both opportunities and challenges under the GST framework. On the positive side, the state has benefitted from enhanced digital tracking, improved taxpayer compliance, and a broadened tax base, particularly in the manufacturing and trade sectors. However, the transition has not been without friction. Non-tax revenues have also declined, putting more pressure on the GST system to generate sufficient funds for state development. Comparative performance with other Indian states reveals that while Rajasthan is achieving commendable growth in percentage terms, its overall GST revenue still lags behind more industrialized and urbanized states like Maharashtra, Karnataka, and Tamil Nadu. This indicates the need for strategic economic planning and infrastructure investment to boost high-value industrial activities. Looking ahead, the long-term success of GST in Rajasthan will depend on a multi-pronged approach. Strengthening institutional capacity, enhancing tax enforcement,

rationalizing VAT on excluded items, and diversifying the state's economic base will be critical. Continuous collaboration between state and central authorities, coupled with timely data-driven interventions, can help optimize GST outcomes. With sustained efforts and policy foresight, Rajasthan can harness the full potential of GST to secure a stable and progressive fiscal future.

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