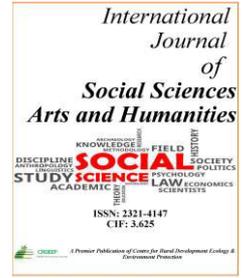


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Full Length Research Paper

# GST and State Tax Revenue: A Case Study of Uttar Pradesh India

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ABSTRACT

A federal set up is considered to be an optimal form of government as it combines the strength of a unitary as well as a decentralized form of government. Indian Constitution lays down distinct responsibilities to be performed by the Centre and the States. The existing system of taxation of goods and services suffers from various problems mainly the multiplicity of Centre and state taxes. Thus, there was a need for a comprehensive taxation regime which was proposed under the title of the Goods and Services Tax (GST). After GST implementation in India on 1<sup>st</sup> July 2017, the basic structure of taxation changed from a production-based tax system to a destination-based tax system. So, there was a need to study the effects that GST will have on revenues of respective states. Thus, from tax-GDP ratio, one needs to shift the focus of study to tax-GSDP ratio. So, the present study focusses on the GSDP of Uttar Pradesh and tax revenue collection under the GST regime. An analysis has been made as to how far U.P. has fared in achieving its revenue targets for the last three years, analysing transitional changes after GST implementation. This paper is based on secondary data and it is descriptive and analytical. The results of the study suggest, that in Uttar Pradesh, the target revenue of GST has been achieved by July 2019. The paper concludes that although the performance of U.P. has been commendable, yet, U.P. has not been able to achieve its potential.

Introduction

The introduction of GST in India was a very ambitious and important tax reform in indirect tax structure. A large number of Central and State taxes prevalent have been amalgamated into a single tax GST. GST is supposed to bring transparency in the tax system and its compliance. For consumers, GST is likely to reduce the burden caused by cascading of multiple taxation. If such cascading can be completely eradicated it may reduce the burden on consumers by more than 10% (expected). Moreover, this may reduce the cost of production of final goods which may help Indian exporters and producers in becoming more competitive. But the greatest advantage of GST would be for the government as its implementation and compliance would be easier and smooth. Moreover, tax evaders would be brought in tax net hence enhancing Tax: GDP ratio without adding tax or increasing tax rates. GST is a destination-based tax on consumption of goods and services. It is levied at all stages right from the manufacture up to the final consumption with credit of taxes paid at previous stages (input tax credit) available as a set off. Only value addition will be taxed and the total burden will be on the final consumer. GST supposedly would integrate different taxes and tax rates of various central and state governments in to one nation one tax with five common slabs applicable. The highest tax slab would be 28% for ultra-luxuries, demerit and sin goods. Tobacco and aerated drinks will attract a cess of 5% on top of 28% of GST for five years after which GST rates will be reviewed. The

collection of cesses from tobacco and aerated drinks and clean energy cess would create a revenue pool which would be used for compensating states. For most goods GST is 12% and 18%. Services except for some e.g. train tickets are being taxed at a rate of 18%. Most of the FMCG are in 18% brackets while others except those items of common use are in 12% bracket. Essential commodities like staple food and many more are exempted from tax (tax bracket of 0%).

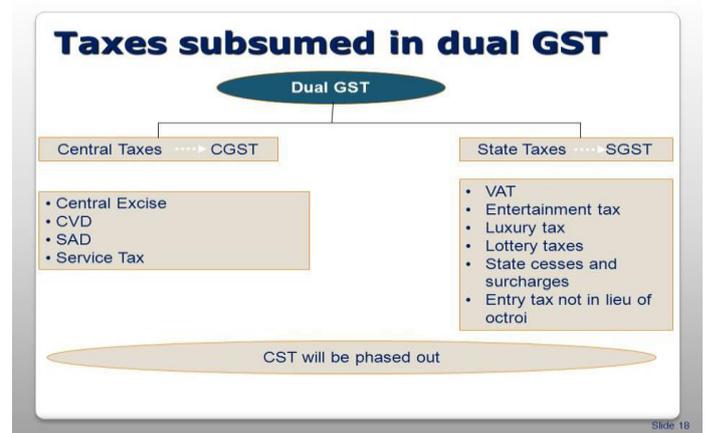


Fig 1: Subsumed taxes by Centre and States under GST, Source: maximaaits.com

GST not only subsumes many of State and Central taxes but also subsumes multiple cesses such as Swacch Bharat Cess, Krishi Kalyan Cess, Education Cess. However, the clean environment cess is retained.

India has opted for a dual GST keeping the constitutional requirement of fiscal federalism where the central and the state governments have to perform various duties. Under the constitutional amendment, central government will levy and administer CGST and IGST while respective state governments will levy and administer SGST. Union territories will levy and monitor UGST. The CGST and SGST or IGST/UGST would be levied simultaneously on every transaction (supply of goods and services). A GST council has been constituted comprising of the Union Finance Minister as ex-officio chairman of the council and the Minister of State (Revenue) and State Finance Minister to make recommendation on continuance/change/modification of tax slabs, exemptions, threshold limit or any other matter related to functioning and monitoring of GST.

All exports will be treated as zero rated supplies based on the principle that 'taxes and duties are not to be exported'. Thus, exporters will not pay any GST. Moreover, input tax credit would be made available to them and refunded in a period of three months. For imports, GST is treated as IGST. The incidence of tax will follow the destination principle and revenue of tax will accrue to State or Union Territory where the commodity is finally consumed.

As GST procedure applies to every producer and consumer, a provision of Composition Scheme has been created to help the MSMEs and Start-up programmes for those who would face difficulty in compliance of GST, as small businesses do not have required resources and expertise so they can get registered (optional and voluntary) in GST Composition Scheme provided they have an annual turnover of less than Rs 1 crores (large states and Metros) or Rs 75 lakhs. Small states will have benefits in terms of reduced tax liability of only 1% in case of manufacture and 5% in case of liquor products, of course with certain restrictions. Moreover, these vendors will also receive benefit in filing returns also.

For hassle free, unperturbed functioning, Goods and Services Tax Network (GSTN) has been created. The GSTN will provide a shared IT infrastructure and services to governments (Centre and State) and all stakeholders for easier registration, forwarding of returns, computation and settlement etc. GSTN is also developing back end modules like assessment, audit, fund, appeals etc. which will help both the governments and other stakeholders to reduce trust deficit.

GST system also provides a dispute settlement mechanism between different stakeholders via penalty rules. GST regime has identified 21 kind of offenses and issued penalty rules subject to a minimum of Rs. 10000/-. Penalties may be on higher side if violation is of serious type. Moreover, if the offenses are deliberate/intentional then criminal proceedings can be held against defaulters. Of course, there is also a system of appeal against penalties. An appellate tribunal has also been created for those who think that the 'Adjudicating Officer' the first appellate authority has not given the applicant, full justice. As always Supreme Court of India is the highest appellate authority. GST system also has an Anti-profiteering Clause which forces each business to pass the benefits of lower taxes

compulsorily to consumers and if they fail to do it, they will attract penalties. Overall GST proposes a momentous transformation that directly or indirectly will impact the business and trade of such a large and diverse country like India. The GST is umbrella systems where consumers have only one interface i.e. the governments both of State and Centre together thus promoting a strong federal structure of economic and political governance.

This study is being done to analyse and study the following objectives:

- 1) *To analyse whether GST as by nature a destination-based tax could help Uttar Pradesh in achieving higher growth rate and reach near national per capita average.*
- 2) *Whether GST once fully implemented can bring a feel-good factor among the producers and consumers and can bring a sustainable, stable growth of India in general and U.P. in particular.*

Numerous studies have been done on the tax structure of Uttar Pradesh in context of revenue collection and GSDP. But this study aims to evaluate U.P. in light of the changed tax structure i.e. GST which is a destination-based tax as opposed to the older VAT system which was an origin-based tax. The present study tries to evaluate as to how far GST tax system has been able to increase then revenue of U.P. and how far the targets have been achieved.

#### **Review of literature**

**D.T. Lakdawala** in his book "Union State Financial Relations", Lalwani Publishing House, Bombay (1967), has very critically analysed the working of federal finance in India and has also reviewed the recommendations of various Finance Commissions.

In an Article published in Economic and Political Weekly, December 5, 1992, "Does the Indian Tax Policy Have a Rationale",

**K.B.K. Rao** (1972) has observed that in spite of the numerous changes the Indian tax structure could not acquire the requisite stability with revenue stability.

**M.M.Sury (2008)** in his book "Centre-State Financial Relations in India" (2008), New Century Publications, New Delhi, has examined the evolution and development of Centre-State financial relations in India for a period of 140 years in light of the recommendations made by various Finance Commissions. The authority has also discussed various issues between Centre-State in context of financial relations in India.

**Dr. Indira Rangrajan (2011)** in lecture notes, "Centre State Financial Relations in India" Indian Statistical Institute, New Delhi (19 September 2011), Australian National University, Canberra, mainly discusses the issues with the introduction of destination based dual levy GST. She also discusses structural incentives for fiscal discipline and centre state financial flows.

**Aseema Sinha** in her writing published in Forbes India, February 2, 2012 issue has discussed some solutions to improve Centre-State relations like reducing imbalance between revenue and expenditure in regional states, promoting innovations and inventions across states, creating linkage institutions between centre and states etc. The article further explains the role of multi-party system in developing a healthy

centre state relationship and it also states India's model of Centre State Relation as an asymmetric one i.e. different states different relationship with the constitution and centre.

**Pravakar Sahoo** and **Amrita Sarkar** in their article, "Changing Dynamics of Centre-State Financial Relations", *Yojana* (June 2013), discuss about India's federal structure from early 19<sup>th</sup> century to independence and later years especially the 73<sup>rd</sup> and 74<sup>th</sup> amendments of Constitution. This article also analyses the report of 13<sup>th</sup> and 14<sup>th</sup> finance commission and recommends that the 'gap filling approach' will not help in reducing disparities among states.

In his article, "The revolution begins: With Finance Commission recommendations, Centre-State relations set to undergo dramatic change", by **Arvind Panagariya**, published in February 25, 2015, *Times of India*, he has tried to unfold the story of cooperative federalism in India. The article points out some difficulties faced by the States in the execution of their financial powers and throws light on the shift of Centre's strategy from a narrow perspective to a broader one providing greater autonomy to the states. The article further discusses the implications of such a shift in the financial scenario of India and presents an analytical view of the entire picture.

In an article "GST: Good for Business, snag for Federalism", by **G. Sampath** published in *The Hindu*, June 4, 2015, the writer has explained in brief the concept of GST, differentiating it with the existing tax structure. The article throws light on the challenges and problems to be faced by the states with the introduction of GST quoting Ms. Kavita Rao that when one moves to a GST regime in a federal set up, some curtailment of the State's freedom is inevitable. The article further discusses not only the economic but also the social dimension of GST imposition.

The article "An unfinished agenda on federalism", by **N. K. Singh** published in *The Indian Express*, November 4, 2015 issue, states that the efforts at Centre-State cooperation are visible, they need to be strengthened. The article tries to clarify the true meaning of federalism as explained in the Constitution of India. Tracking the trend since 1950, the article explains the shrinking State list and expanding Union and Concurrent list. Praising the recommendations of 14<sup>th</sup> Finance Commission, this article enumerates some more steps necessary for a proper centre state financial set up.

**Shreya Jain**, in her paper "The Goods and Services Tax Regime through the Lens of Fiscal Federalism in India" *Indian Law Institute, Law Review, Summer Issue (2016)*, seeks to examine the proposed reform from the standpoint of fiscal relations prevailing in India owing to a federalist, rather than a unique quasi-federalist set up.

Presenting the detail of 15<sup>th</sup> Finance Commission formation, in the article, "15<sup>th</sup> Finance Commission: A challenge and an opportunity", by **Anil Padmanabhan** published on November 29, 2017 in *Mint* the writer tries to explain that this finance commission comes about at a very interesting cusp in the evolution of India. Bringing together GST and Finance Commission, the writer has tried to discuss the importance and challenges of 15<sup>th</sup> Finance Commission in presence of a new tax structure. Discussing the varied scenario in presence of GST, the article stresses upon the need of a new model to fit in the new set up by means of this finance commission.

**Sacchidananda Mukherjee** in his paper, "Inter-Governmental Fiscal Transfers in the presence of Revenue Uncertainty: The Case of Goods and Services Tax (GST) in India", NIPFP Working Paper No.255, February 2019, discusses a serious yet emerging issue of shortfall in revenue collections under GST and a need for a modified fiscal management in context of inter-governmental fiscal transfers. The paper tries to explore the various possible reasons for this shortfall like the design and structure of GST system, or the compliance and tax administration related issues. It also attempts to assess the possible impacts of revenue shortfall on Union and State finances. Recognising the need of time for stabilisation of the GST system, this paper has not tried to evaluate the success or failure of GST system.

Comparing the GST revenue collection with earlier system of taxation, the paper discusses the problems associated with estimation of revenue under protection from GST. Various reasons of GST revenue shortfall have been discussed in some detail to analyse the level of revenue uncertainty. In absence of any recent estimate of revenue under consideration from GST, for the purpose of revenue projections under GST regime, the 'Report on the Revenue Neutral Rate and Structure of Rates for the Goods and Services Tax (GST)' has been considered. Data wise analysis has been done of the impact of this revenue shortfall and uncertainty on Union and State finances.

A separate section of the paper analyses the GST collections of the States and the GST compensation received from the Centre and tries to make a trend analysis of the monthly SGST collection.

#### **Methodology**

The information and data for the present work has been collected based on secondary data. The study is descriptive and analytical. The secondary data sources considered for the purpose of study are released by Department of Commercial Taxes, Uttar Pradesh, Central Board of Indirect Taxes and Customs (CBIC) website, GST Council (GSTC) website, GST network (GSTN) etc.

#### *Statistical Tools*

For the purpose of testing the hypothesis, revenue target and achieved data of Uttar Pradesh is considered, given in table 1. For extrapolating the missing achieved revenue data of some months, the data series which was found to be non-stationary was made stationary taking the first difference of the series. Chi-Square test was then applied to this data series to check the significance of difference between the target and achieved revenue of U.P. for the period under study.

#### *Limitations of the Study*

This study basically deals with GST and GSDP of U.P. As only three years have elapsed since GST implementation, the data available, on which the analysis has been made, may not reflect the complete effects of GST that may occur in the long-run. So, the study may reflect the trends that the revenue collections may follow for some time, but may not assure that similar trends will continue in the long-run.

#### **Hypothesis formation**

Following hypothesis have been formed for the purpose of the study:

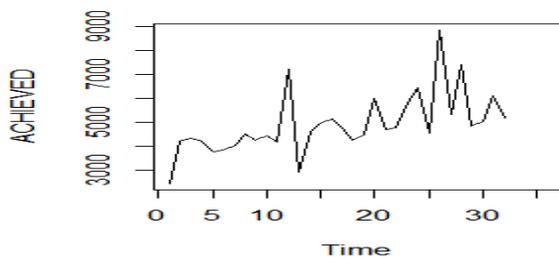
**Null Hypothesis:** In Uttar Pradesh, the target revenue of GST has not been achieved by July 2019.

**Alternate Hypothesis:** In Uttar Pradesh, the target revenue of GST has been achieved by July 2019. **Data analysis** with the help of excel and r studio

**Table 1:** Target and Achieved Revenue of U.P. (Figures in Crores of rupees)

Year	Month	Target	Achieved	Achievement(in%)
2016-17	April	2667.92	2437.9	91.38
	May	4504.23	4197.64	93.19
	June	4979.83	4324.34	86.84
	July	4905.1	4197.67	85.58
	Aug	4324.81	3744.8	86.59
	Sep	4211.12	3849.98	91.42
	Oct	4813.57	4013.82	83.39
	Nov	4894.68	4507.6	92.09
	Dec	4979.46	4252.92	85.41
	Jan	5072.84	4427	87.27
	Feb	4704.98	4152.88	88.27
	March	7881.46	7223.36	91.65
2017-18	April	2943.33	2903.56	98.65
	May	5090.16	4579.5	89.97
	June	5229.37	4951.93	94.69
	July	5081.28	5126.49	100.89
	Aug	4834.44	4757.92	98.42
	Sep	4972.22	4237.07	85.21
	Oct	5203.21	4485.84	86.21
	Nov	5815.16	6005.09	103.27
	Dec	5481.59	4705.08	85.83
	Jan	5729.57	4751.68	82.93
	Feb	5375.53	5797.79	107.86
	March	9244.13	6424.27	69.5
2018-19	April	4175.75	4530.72	108.5
	May	6358.11	8843.62	139.09
	June	5542.37	5315.68	95.91
	July	6814.17	7390.37	108.46
	Aug	5133.26	4845.81	94.4
	Sep	5609.39	5020.29	89.5
	Oct	6950.93	6108.06	87.87
	Nov	5950.8	5166.58	86.82
	Dec	6994.31		
	Jan	6061.58		
	Feb	6996.66		
	March	9912.67		

Source: Department of Commercial Taxes, Uttar Pradesh.



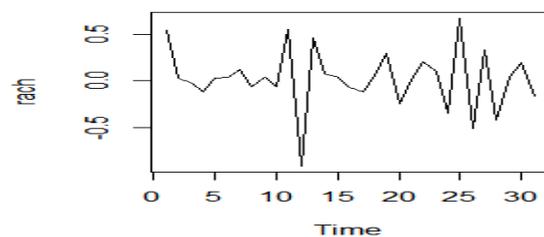
**Fig 2:** Trend Line of Achieved Revenue of U.P.

Augmented Dickey-Fuller Test

data: ACHIEVED  
Dickey-Fuller = -2.4564, Lag order = 3, p-value = 0.3968  
alternative hypothesis: stationary

**Since Null accepted, series has unit root value. (Non-stationary series)**

After Differencing:



**Fig 3:** Trend Plotting of Stationarized Achieved Revenue Data

data: rach  
Dickey-Fuller = -4.8137, Lag order = 3, p-value = 0.01  
alternative hypothesis: stationary

Since 0.01 < 0.05, Null hypothesis is rejected.

H1= Series is stationary.

ARIMA

ARIMA(3,0,0) with zero mean

Coefficients:

ar1 ar2 ar3  
 -1.0913 -0.7472 -0.3575  
 s.e. 0.1854 0.2433 0.1786

Jun 6886.300  
 July 6973.837  
 AUG 7061.374  
 Sep 7148.911

sigma^2 estimated as 0.04791: log likelihood=4  
 AIC=0 AICc=1.54 BIC=5.74

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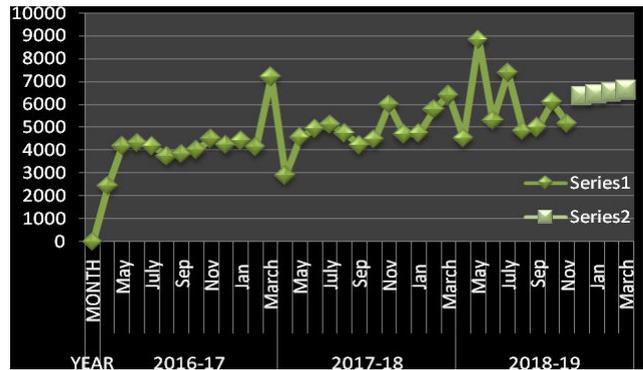
**Box-Ljung test**

**data: resid\_model1**  
**X-squared = 2.7836, df = 5, p-value = 0.7333**

Forecast:

Forecast (ACHIEVED,h=10)

Point Forecast  
 2018 Dec 6361.078  
 2019 Jan 6448.615  
 FEB 6536.152  
 Mar 6623.689  
 APR 6711.226  
 MAY 6798.763



**Fig 4 : Extrapolated Series Trend Plotting**

**Table 2 : Chi-Square Analysis to evaluate performance of U.P. in revenue collection**

Year	Month	Observed (achieved)	Expected (target) 1.2%	(o-e)	(o-e) <sup>2</sup>	(o-e)/e
2016-17	April	2437.9	2667.92	-230.02	52909.2	19.83163
	May	4197.64	2699.93504	1497.705	2243120	830.8052
	June	4324.34	2732.33426	1592.006	2534482	927.5887
	July	4197.67	2765.122272	1432.548	2052193	742.1708
	Aug	3744.8	2798.303739	946.4963	895855.2	320.1422
	Sep	3849.98	2831.883384	1018.097	1036521	366.0182
	Oct	4013.82	2865.865984	1147.954	1317798	459.8256
	Nov	4507.6	2900.256376	1607.344	2583554	890.8018
	Dec	4252.92	2935.059453	1317.861	1736756	591.7279
	Jan	4427	2970.280166	1456.72	2122033	714.4217
	Feb	4152.88	3005.923528	1146.956	1315509	437.6389
	March	7223.36	3041.99461	4181.365	17483817	5747.484
2017-18	April	2903.56	3078.498546	-174.939	30603.49	9.941046
	May	4579.5	3115.440528	1464.059	2143470	688.0151
	June	4951.93	3152.825815	1799.104	3236776	1026.627
	July	5126.49	3190.659724	1935.83	3747439	1174.503
	Aug	4757.92	3228.947641	1528.972	2337756	723.9995
	Sep	4237.07	3267.695013	969.375	939687.9	287.569
	Oct	4485.84	3306.907353	1178.933	1389882	420.2967
	Nov	6005.09	3346.590241	2658.5	7067621	2111.887
	Dec	4705.08	3386.749324	1318.331	1737996	513.1752
	Jan	4751.68	3427.390316	1324.29	1753743	511.6847
	Feb	5797.79	3468.519	2329.271	5425503	1564.213
	March	6424.27	3510.141228	2914.129	8492147	2419.318
2018-19	April	4530.72	3552.262922	978.4571	957378.3	269.5122
	May	8843.62	3594.890078	5248.73	27549166	7663.424
	June	5315.68	3638.028758	1677.651	2814514	773.637
	July	7390.37	3681.685104	3708.685	13754344	3735.883
	Aug	4845.81	3725.865325	1119.945	1254276	336.6402
	Sep	5020.29	3770.575709	1249.714	1561786	414.2035
	Oct	6108.06	3815.822617	2292.237	5254352	1376.991
	Nov	5166.58	3861.612489	1304.968	1702940	440.992
	Dec	6361.08	3907.951839	2453.128	6017838	1539.896
	Jan	6448.62	3954.847261	2493.773	6218902	1572.476

<b>Feb</b>	6536.15	4002.305428	2533.845	6420368	1604.168
<b>March</b>	6623.69	4050.333093	2573.357	6622166	1634.968
			<b>SUM</b>		
		<b>Chi-Square Calculated</b>	44862.48		
		<b>Chi-Square Tabulated</b>	55.8		
		<b>at 40 d.f. and 5%</b>			
		<b>I.s.</b>			
		<b>Cal&gt;Tab</b>		<b>Reject H<sub>0</sub></b>	

Source: Author's own calculation based on Table 1. Note: Achieved Figures from Dec 18 – March 19 have been extrapolated.

**Hypothesis testing**

In the context of this hypothesis of U.P. the null hypothesis is rejected (Table 2) and the alternate hypothesis is accepted i.e. the projected targets for GST revenue have been achieved in a small period of two years mainly because of following reasons: The first and foremost reason is that the GST is different from the taxes that were prevailing in India. It's a destination-based tax on consumption. It is quite evident that U.P. is the largest consumer state of India not only because of its population and size but also because of its developed agriculture and service sector. Therefore, any consumption-based tax naturally shall help a state which has a large number of consumers.

Another important reason for achieving targets is the growth of GSDP in Uttar Pradesh which is quite high in the period 2017-19 if one compares it with other states during the same period. The overall growth of GSDP in Uttar Pradesh has been more than 10% for two years while for the rest of India is below 7%. The reason for this is that there has been a declining growth of those states who are industrially developed because after demonetisation big, micro, small and medium industries have slowed down. The manufacturing growth of the nation as a whole is hardly 1% to 2% but growth in services is hovering around 8% to 9%. Although in Uttar Pradesh also the leather industry, the textile industry and the MSME growth is less than 2% but fortunately agriculture growth has over compensated the growth of industry. Both 2017-18 and 2018-19, the average rainfall in U.P. has been quite better than average. Moreover, the service sector growth in some districts of Noida and greater Noida has been quite substantial and the government of Uttar Pradesh has formulated certain policies like ODOP, creating software and hardware technology parks incorporating Digital India Programme has enhanced the consumption of the state thus generating higher GST revenue. Another reason for achieving the target of GST is better compliance, with an increased number of registered business houses that has led to less evasion. Therefore, it is but obvious that the structure of GST tax was more beneficial to Uttar Pradesh and there is every likelihood that GST targets will be over achieved in Uttar Pradesh.

**Interpretation**

*Performance evaluation of gst*

GST was implemented in July 2017 and so by July 2019 (24 months) are too small a period to evaluate the performance of such a huge change in tax structure more so because the initial glitches in terms of IT requirements, awareness, implementation and returns have not been overcome, yet some very important economic signals can be perceived through which its performance need to be evaluated. First of all, one needs to look at the perception from layman's angle and this perception clearly says that GST has not been able to perform as per expectations. The reasons are obvious, GST has not been

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able to achieve its targets in terms of revenue received in last 20 months except for two months. More over there have been problem of GST refunds which are delayed and have been impacting exports and exporters adversely. There is some policy uncertainty as the rules have been revised many times during this period regarding the threshold level, the rate structure as well as the filing forms.

But if one looks from a purely economic angle GST cannot be termed as failure. In fact, the targets kept by the planners were very ambitious and not based on reality especially if GST was supposed to be revenue neutral, then the GST revenue should not have been targeted at a rate higher than the nominal GDP growth rate. Probably ambitious targets were fixed against an imaginary view that all tax evaders would be brought in to net from the first day. But if one analyses the performance of GST on the basis of nominal GDP growth of 2017-18, one finds that after one year of implementation of GST (July 2018), revenues for the whole of India grew by 11.9% and the tax buoyancy is estimated at 1.2%. A buoyancy of greater than 1% simply suggests rising Tax GDP ratio. This buoyancy could be because of two reasons. The first is the design of GST under which entire producer/suppliers (value chain) of raw materials to producers to retail dealers are included for the purpose of taxation. This leads to compliance in downstream producers because now everyone in the chain will have to register to get the benefit of input tax credit. Secondly, the rise in GST revenue is caused by increase in rate of taxation of services from 16% to 18%. The full potential has not been achieved because of transitional credits.

There are two ways of looking at the performance, one is looking to compare it with targets (potentiality) and the other is actual achievements against performance. Thus, if one compares the performance of GST against targets (it was expected to grow at a rate of 14% per annum) the achievements are quite low but if one compares it with past performance (2014-17) then the success achieved shall be called satisfactory. But as the period of evaluation is too less, one cannot look at the GST performance in a holistic manner. Moreover, GST had changed the basis of taxation from production to consumption. GST is a destination-based tax and so the areas (states) with higher consumption should perform better than those who specialise in production. In this context U.P. with the largest population and largest disposable income should perform better than all other states and poor states like Orrisa must be losers. Bihar, Jharkhand and mineral rich states are bound to be losers. Hence the performance of individual states is of great importance. In this particular study U.P. (supposedly largest gainer) is being evaluated by comparing its performance against targets and also against past achievement. Few important points to note about its achievement are (based on Table 1 and Figure 3).

- U.P.'s average GST revenue growth for the first year has been 13.8% which is far better than the national average of 10.2%.
- U.P.'s shortfall which was considerable for first few months, 17.5% in August 2017 has gone down to 7.6% in May 2018. State total revenue in the first month after GST was levied was 3124.04 crore against a target of 3612.77 crore, a deficit of 488.73 crore compensated by central pool, 13.8%.
- This gap increased to 27.1% by September 2017 reduced to 17.2% in October 2017 went further down to 15.6% in November 2017, fluctuated regularly between December to February. In March it went down to 12.5% and in April to 7.8% while it continued at 7.6% in May.

It is true that in all states except for Punjab, Gujarat and Haryana, U.P.'s performance is better in both revenue collection and the enrolment of new dealers. 82% of total eligible tax payers have filed their returns by July 2018.

### **Problems with GST**

An important factor in GST filing, auditing, monitoring and refund in IT glitches and skilled personnel. Union government has cleared the proposal of converting GSTN in to a government entity. But IT network is in private hands and it is not being run by officials of Central or State governments. Thus, there is no direct linkage between systems and policy.

Another important reason of malfunction in GST compliance is due to various disputes that result in litigation. There is no dispute settlement system. Every state has an authority to deal with disputes but there is no dispute settlement system to look at interstate disputes or centre-state disputes. The central government along with state must create a unified dispute settlement body consisting of judiciary and finance members who can settle disputes at the earliest and the matter may not go to courts where the cases are over delayed for a variety of reasons. The unified body would also be helpful in clarifying the conflicting orders given by state authorities. Its systems, organisations, officials etc. could be finalised. It is not necessary to have many branch offices of the centralised body, four branches in North, South, East and West along with a central body in New Delhi could be established or a branch in every state could be located with head quarter at New Delhi. One must remember that in pre-GST era the large number of litigations were the main cause of tax compliance. In GST this shall not be repeated.

Policy uncertainty over tax rate is the most important administrative problem of any economic policy especially in the case of reforms in tax structure. As many as fifty changes have been made since the implementation of GST. Naturally, the traders are waiting for more. This leads to delays in making decisions by producers and suppliers which ultimately effects GDP growth. If some decisions are to be taken in furtherance of GST administration they shall be made only when the budget is announced. This will make traders and suppliers confident that there will be no change during the financial year and they can plan accordingly.

In fact, implementation of GST and statements of government, opposition, planners and discussants have made GST more a villain than a hero. Nobody is feeling satisfied. In economic theory right from the days of Hamilton, an important stance of

policy making is known as 'Feel Good' factor. In this field GST lacks all feel good factor. There is an Anti-Profiteering Clause which uses such words as arrest and criminal proceedings. It has not been used once yet there are statements by government probably to install confidence in customers that they now cannot be cheated. Yet the customers are not only being cheated in such places as Service Tax in hotels, consumable items and GST is said to be the culprit. Any bill hike by traders is done by the name of GST. GST officials are also not able to convince the society and the producers that GST is revenue neutral despite several meetings with shopkeepers, entrepreneurs. So, till GST is finally settled (everywhere in the world GST finally got settled only after three or four years of implementation) government should avoid warning clauses and officials shall be more customer friendly to silence the nerves.

### **Results**

The main finding of GST implementation, compliance and revenue generation with respect to U.P. is that the targeted revenue has been achieved only for five months out of a total available data of thirty-two months. In the year 2016-17, generally the achievement in revenue has been between 88% to 93% of the target. In 2017-18, it has been between 93% and 107% but in 2018-19, generally the target has been achieved in alternate months. If one glances at the table, one finds that the targets which have been set up for different months are mere an extrapolation of previous months by adding a fixed value of 14%, but achievements have been fluctuating e.g. the first month in which GST was implemented in U.P. i.e. in July 2017, the target set was nearly 17 thousand crores and the achievement was nearly 15 thousand crores which is 88% of the target. While the target rose by 14% per month, the achievements also were nearly 14% per month. In the month of March 2018, the target set was around 58 thousand crores while the achievement was around 51 thousand crores which comes to nearly 88% again. What one finds is, the targets were set up keeping in mind a very important fact that there is a likelihood of increase in revenue because of two reasons, firstly, growth of gross state domestic product and secondly, rise in the number of enrolments in GST. During this period GSDP of state rose by 8% higher than the national average and enrolments in GST also increased by nearly 11%. The same story continues for the year 2017-18 and 2018-19. What one finds is, that in 2018-19, in most periods the achievements in revenue have been more than 100 percent. To explain this phenomenon, one must remember, that the nature of GST is different from the original VAT which was a production-based tax. The GST is a consumption-based destination tax and U.P. is having the largest population and high GSDP growth was expected to achieve its targets sooner than later. It was expected that by 2018-19, the central government will not have to compensate for any kind of revenue deficit but U.P. did not do as well as was expected. Some other states like Maharashtra, Haryana have done much better than Uttar Pradesh. This finding confirms two important facts related to Uttar Pradesh:

- 1) That any consumption-based destination tax will be helpful in Uttar Pradesh in comparison to those who have greater production potential like Andhra Pradesh, Telangana, Maharashtra, Gujarat etc.
- 2) In Uttar Pradesh industrial development is quite low and so also is the development of service industry. A lack of industrial infrastructure may give greater tax revenues through GST which may be translated into the industrial recovery of Uttar Pradesh.

Pradesh but once after five years a review is made to include petroleum products and narcotic drugs to be subsumed in GST, Uttar Pradesh will be the largest loser as most of the state's GST is coming from these two sources.

Once petrol and diesel prices start rising in international arena from around 60\$ per barrel (crude oil) to say 90\$ per barrel, then the government of U.P. would be forced to lower taxes and will suffer a great set back. As per promise, the central government is likely to compensate all losses for first five years but the main problem is that central GST itself has not been able to collect the target revenues and to compensate each state from central pool a higher fiscal deficit will become necessary. If one goes by the example of these thirty-two months, one finds that although the gap between the targeted revenue and achieved revenue in U.P. is lower in May, June 2019, if compared to August 2017, but the central planners had thought that at least in four states Punjab, Haryana, Uttar Pradesh and Maharashtra, deficits will turn into surpluses soon and the money could be transferred to such states where the shortfall was to increase like Karnataka, Tamil Nadu, Rajasthan, Madhya Pradesh, Jharkhand and Uttarakhand, but this is not happening.

The reason for this shortfall may be many. But the most important is, the non-performance of government officials in handling GST. This non-performance can be explained by the statistics that has been provided by the U.P. government that the GST refunds of the financial year 2017-18 have also not been completed till May 2019. Moreover, the internet glitches are maximum in Uttar Pradesh which is hampering compliance from the business person. Although most of the small and medium entrepreneurs are exempted from monthly filing but even the bigger clients fail to comply the due dates due to lengthy forms and large enquiries which may not be relevant. Moreover, the input tax credit is also not being put up at the right data entry points and therefore the disputes before final settlement crops up. As mentioned earlier the U.P. businessmen are apprehensive of GST and hence delay the process which also hampers the compliance. There is no doubt that GST helps U.P. more than other states because of its very nature. So, once the technical glitches, the governance and policy certainty take over, U.P. may be one of the states in which state government's revenues will certainly have greater buoyancy than other states.

### Conclusion

Three years have elapsed since GST was implemented in India. Various interpretations were made about the proposed effects that GST will have on the Centre and the States. GST being implemented as a destination-based tax, subsuming all indirect taxes under one head, was considered to increase revenue collections of both the Centre and the States in the long-run. For the first five years, centre took the responsibility of compensating the respective states of any losses arising out of changed tax structure.

Although GST has for now completed just three years of implementation, a period not sufficient enough to form a very reliable interpretation, one can, interpreting the data from various sources, analyse the trends GST revenue collection is following and how far it has been, from achieving its targets. In this study, specific analysis of U.P. state has been made and its performance has been comparatively evaluated with national level achievements. During the period July 2017 to

July 2019, since GST implementation, U.P. has been one of the best performers in terms of both revenue collection and filing of returns by dealers. As far as the first i.e. revenue collection is considered, U.P.'s GST revenue growth for last 24 months is around 13.5% which is far better than the national average of 10%. This can also be proved from another angle, that dependence of U.P. on centre for compensation has been reducing regularly constantly. In August 2017, the shortfall was 13.5% which went down to 7.6% in April 2018 and is hovering around 7%. The shortfall although had come down to 7.6% in August 2018 but there have been large fluctuations, for e.g., the shortfall went up to 27% in September 2017 and was as high as 13.1% in January 2018 went up again up to 18.7% in February but it narrowed down since then up to 7.6% in August 2018 but it once again rose in the month of October to December 2018. What one finds is, the shortfall is having a declining trend but with great fluctuations. Sooner or later U.P. would not have to depend on Centre's compensation.

Similarly, enrolment in GST has also increased. It has increased all over the country but in U.P., out of the total registered dealers 82.93% dealers are filing their returns in March which is only lower to Punjab (88.20%), Gujarat (84.45%) and Haryana (83.26%) respectively. Although, the performance of U.P. has been commendable, but U.P. has not been able to achieve its potential. U.P. is the largest consumer state and GST is a destination-based tax which benefits those states where the products are finally consumed.

### Suggestions/Recommendations

Following suggestions may be presented based on the study:

- ❖ In order to perform well at the level of achievement of revenue targets, the problems relating to technical glitches, lack of skilled employees, unawareness about the procedure of e-filing etc. needs to be smoothened up.
- ❖ A link between the system of tax collection and filing and the related policies needs to be established so that policies give effective results.
- ❖ A dispute settlement system needs to be developed to deal with interstate or centre-state disputes.
- ❖ Clarity over tax rate is required for a tax reform to succeed. Frequent changing of tax rates, and the commodities under respective tax slabs leads to policy uncertainty and confusion in the minds of tax payers leading to difficulty in paying taxes and filing of tax returns.

So, although it can be said that U.P. has fared well after GST implementation as compared to other states or the national level average, there is yet a long way to go to achieve its own potential.

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