United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 | Impact Factor: 6.934 (SJIF)
Volume 3, Special Issue -IX, 2026; Website: www.uijmr.in

A Comparative Study on Centre–State GST Distributional Impact with Recent GST Reforms in India

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DOI:10.37854/UIJMR.2026.3.3.9.356

Abstract

This study examines the distributional impact of Goods and Services Tax (GST) between the Centre and States in India, with a specific focus on recent reforms. Utilizing secondary data and trend analysis, the research analyzes revenue flows, IGST settlement mechanisms, and state-level performance. The findings indicate that while GST has enhanced overall revenue buoyancy and tax compliance, it has also led to increased fiscal centralization and regional disparities, particularly following the discontinuation of the compensation scheme. The study concludes that addressing these imbalances through transparent settlement systems and enhanced state fiscal autonomy is essential for maintaining cooperative federalism and long-term fiscal stability.

Keywords: GST, Fiscal Federalism, CGST, SGST, IGST, Revenue Distribution, GST Reforms, State Finances, India

1. Introduction

The implementation of GST has transformed India's indirect tax system and significantly altered the fiscal relationship between the Centre and States. Unlike the pre-GST regime, where States had independent taxation authority, GST introduced a shared tax framework requiring coordinated revenue sharing. This paper focuses specifically on the distributional consequences of GST, particularly examining how revenue flows between the Centre and States have evolved in the context of recent reforms.

2. Review of Literature

1. Existing academic and policy literature extensively highlights both the structural benefits and the administrative challenges associated with the implementation of GST in India, providing a foundational understanding of its

impact on the national economy.

2. Numerous studies indicate that the transition to a unified tax regime has significantly improved tax compliance through digital tracking while broadening the tax base by formalizing previously unorganized sectors of the economy.
3. Contemporary research on fiscal federalism suggests a trend toward increased centralization, as states have surrendered significant autonomy over indirect taxation to the collective decision-making of the GST Council.
4. Detailed empirical analyses reveal stark disparities in state-level revenue performance, highlighting that manufacturing-heavy and high-consumption states often experience different growth trajectories compared to agrarian-focused regions.
5. Recent policy reports emphasize that the efficiency of the IGST settlement mechanism is paramount in balancing revenues between origin and destination states, serving as a critical pillar for the system's overall fiscal equity.

However, limited studies provide a comparative pre- and post-reform analysis, which this paper attempts to address.

1. Objectives of the Study

1. To analyze GST revenue distribution between the Centre and States by examining the proportional shares of CGST, SGST, and IGST to understand the current fiscal balance.
2. To compare pre- and post-reform revenue trends to identify the direct impact of policy changes on overall revenue buoyancy and tax compliance rates.
3. To evaluate the efficiency and transparency of IGST settlement mechanisms, which serve as the primary conduit for redistributing tax collected on interstate trade.
4. To assess the fiscal implications for States following the discontinuation of the compensation scheme to determine their level of budgetary vulnerability.
5. To suggest actionable policy measures that address regional disparities and enhance state fiscal autonomy while maintaining the integrity of the unified tax structure.

3. Research Methodology

The study is based on secondary data collected from:

1. Ministry of Finance reports
2. GST portal statistics
3. Budget documents
4. Tools Used:
5. Growth rate analysis

6. Comparative analysis
7. Trend analysis
8. Tabular and graphical representation

4. GST Revenue Trends: Pre and Post Reforms

Table 1: GST Revenue Trend (₹ Lakh Crore)

YEAR	REVENUE	GROWTH (%)
2017-18	7.40	-
2019-20	12.22	3.8
2021-22	14.83	30.5
2022-23	18.07	21.9
2023-24	2018	11.6
2024-25	22.08	9.4

Detailed Analysis of GST Revenue Trends:

The revenue data from 2017 to 2025 illustrates a dynamic fiscal journey for the GST regime. Initially, the 2019-20 period showed a relatively slow growth rate of 3.8%, reflecting early structural adjustments and administrative teething issues inherent in a new tax system. However, the subsequent years (2021-22 and 2022-23) witnessed a sharp post-reform recovery with growth rates surging to 30.5% and 21.9% respectively. This dramatic spike was primarily driven by the implementation of rigorous digital compliance measures—such as
e-invoicing and e-way bills—alongside a robust post-pandemic economic rebound that brought previously informal sectors into the tax net.

Following this period of rapid expansion, the growth rates have begun to stabilize, settling at 11.6% in 2023-24 and 9.4% in 2024-25. This transition from volatile recovery to steady growth indicates that the GST ecosystem has reached a level of maturity. The consistent upward trajectory, culminating in an estimated collection of ₹22.08 lakh crore, underscores the long-term success of the reforms in creating a more resilient, compliant, and buoyant revenue stream for the Indian economy.

4.0. Centre–State GST Distribution

4.1 Components of GST

1. CGST – Central share

2. SGST – State share
3. IGST – Shared between Centre and States

4.2 IGST Settlement Mechanism

Table 2: IGST Settlement (Illustrative)

Component	Amount (Rs. Crore)
IGST to CGST	50,307
IGST to SGST	41,600
Final CGST	94,153
Final SGST	95,138

Detailed Analysis of IGST Settlement:

The illustrative data in Table 2 highlights the critical role of the Integrated GST (IGST) settlement mechanism in India's fiscal architecture. The transfer of ₹50,307 crore to CGST and ₹41,600 crore to SGST demonstrates how revenue collected on interstate trade is apportioned to ensure both the Central and State governments receive their designated shares. This settlement process is essential because IGST acts as an interim pool; without these transfers, the consuming states and the Centre would face significant liquidity gaps in their respective budgets.

The final revenue positions—₹94,153 crore for Final CGST and ₹95,138 crore for Final SGST—reveal a near-equitable distribution of tax revenue between the two tiers of government. This parity is a cornerstone of cooperative federalism, ensuring that states remain financially viable despite the surrender of their independent taxation powers. Furthermore, the substantial reliance on IGST settlements, as shown by these figures, underscores the inter-dependency of the Centre and States. Any administrative delay or technical discrepancy in this settlement system can directly impact the States' ability to fund essential public services and infrastructure projects.

4. Comparative State-Levl Performance Analysis

Table 3: State-wise GST Growth

State	Revenue	Growth (%)
Maharashtra	2.89	14.2%
Karnataka	1.32	11.7%
Bihar	0.18	11.4%

Detailed Narrative Analysis:

The data presented in Table 3 underscores a significant dominance by industrialized and high-consumption states in GST collections. For instance, Maharashtra, with a collection of 2.89 lakh crore, vastly outpaces agrarian economies like Bihar. This concentration of revenue is primarily driven by the destination-based nature of GST, which benefits states with high per capita consumption and robust manufacturing hubs. Developed states possess a denser network of formalized businesses and superior logistics infrastructure, enabling them to capture a larger share of the national tax pool.

Furthermore, the growth disparities—ranging from Maharashtra's 14.2% to Bihar's 11.4%—have profound implications for fiscal federalism. While the growth rates seem nominally close, the absolute difference in revenue creates a widening fiscal gap. States with lower collections face severe fiscal stability risks, as they have limited independent avenues to raise revenue following the surrendering of local tax powers. This leads to a heightened dependence on central devolution and IGST settlements, potentially undermining their budgetary autonomy and making them more vulnerable to shifts in central government policy or economic downturns.

5. Impact of Recent GST Reforms

5.1 Rate Rationalization

The ongoing process of rate rationalization has been a cornerstone of recent reforms, aimed at reducing the multi-tiered complexity of the original GST structure. By merging overlapping tax brackets and moving essential goods into lower slabs, the GST Council has significantly simplified the classification process for businesses, thereby reducing litigation and compliance costs. However, this transition poses a challenge to revenue neutrality; as rates are lowered to stimulate consumption, the total tax collection must be balanced by a broader tax base or higher rates on luxury items to ensure that the government's fiscal requirements are met without increasing the national deficit.

5.2 End of Compensation Scheme

The discontinuation of the GST compensation scheme in June 2022 marked a pivotal shift in India's fiscal federalism, placing unprecedented fiscal pressure on state governments. During the initial five years of GST, states were guaranteed a 14% annual revenue growth, with the Centre filling any shortfall. With this safety net removed, states are now fully exposed to market-driven revenue fluctuations. This has led to an increased dependence on the Integrated GST (IGST) settlement mechanism. As states lose their guaranteed revenue streams, the timely and accurate distribution of IGST collected on interstate trade has become the primary lifeline for maintaining state-level budgetary

stability and funding critical infrastructure projects.

13.3 Digital Compliance

The digital transformation of the tax administration, characterized by the mandatory adoption of e-invoicing and e-way bills, has fundamentally improved the efficiency of the GST ecosystem. These technological interventions provide a real-time audit trail of transactions, making it increasingly difficult for businesses to engage in tax evasion or claim fraudulent Input Tax Credits (ITC). The seamless integration of data between the GST portal and logistics tracking has reduced physical checkpoints and administrative bottlenecks. Consequently, this enhanced compliance has led to a noticeable increase in revenue buoyancy, where tax collections grow at a faster rate than the nominal GDP, reflecting a more formalized and transparent national economy.

6.Statistical Analysis

6.1 Revenue Share Pattern

1. IGST share increasing: The Integrated GST component has seen a steady rise as a percentage of total collections, now accounting for nearly 50% of gross revenue, reflecting robust interstate trade.
2. SGST varies by state: Significant variations exist in State GST contributions, with industrialized states like Maharashtra and Gujarat contributing disproportionately higher shares compared to agrarian economies.
3. CGST relatively stable: The Central GST share has maintained a consistent trajectory, providing a reliable fiscal cushion for central government expenditure and devolution commitments.

6.2 Trend Findings

- Rising centralization: Data indicates a shift in fiscal control toward the Centre, as states have limited independent power to modify rates or introduce new levies outside the GST Council's purview.
- Uneven regional distribution: The gap between high-performing and low-performing states has widened, with the top five states accounting for over 55% of the total GST pool.
- Increased volatility post-reforms: Following the end of the guaranteed compensation, monthly revenue fluctuations have become more pronounced, creating budgeting challenges for smaller states.

6. Discussion

The findings indicate that GST has improved revenue generation but altered fiscal balance. The increasing importance of IGST highlights the growing role of the

Centre in redistributing tax revenues. The discontinuation of compensation has exposed States to fiscal risks, particularly those with weaker tax bases.

7. Policy Implications and Strategic Recommendations

- **Strengthen IGST settlement transparency:** Establishing a real-time, automated clearinghouse for IGST settlements can reduce the time lag in revenue transfers to states and minimize accounting discrepancies.
- **Reintroduce a modified compensation mechanism:** A targeted fiscal safety net for states facing revenue shortfalls below a certain threshold would help maintain essential social sector spending during economic downturns.
- **Enhance State fiscal autonomy:** Allowing states more flexibility in setting rates for certain demerit goods or local levies within the GST framework could restore some lost fiscal sovereignty without breaking the "one nation, one tax" principle.
- **Improve tax data sharing systems:** Developing integrated data dashboards between the GSTN and state treasury departments would enable better revenue forecasting and more effective audits.
- **Address regional disparities:** Special grants or technical assistance should be provided to consuming states and those with lower manufacturing bases to help them leverage GST for economic growth.

8. Conclusion

GST has significantly enhanced India's tax system but has also redefined fiscal federalism. While overall revenue growth is encouraging, distributional imbalances and increased centralization require policy attention.

Ensuring equitable revenue sharing and strengthening cooperative federalism will be crucial for sustaining long-term fiscal stability.

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