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Impact of Goods and Service Tax on State Revenue: A Study of Andhra Pradesh

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Abstract

This study examines the impact of GST on state revenue with specific reference to Andhra Pradesh, a state that underwent economic restructuring following its bifurcation in 2014. The research evaluates how GST has influenced revenue mobilization, fiscal autonomy, and tax administration efficiency in Andhra Pradesh. Prior to GST implementation, Andhra Pradesh relied heavily on taxes such as Value Added Tax (VAT), excise duty, entry tax, and entertainment tax. These taxes constituted a significant share of the state's own revenue. However, GST replaced these with a destination-based consumption tax, altering the revenue structure. The findings indicate that in the initial years following GST rollout, Andhra Pradesh experienced revenue uncertainty due to transitional challenges such as technological issues with the GST Network, compliance gaps, and delays in input tax credit settlement. To address potential revenue losses, the central government introduced a compensation mechanism guaranteeing a 14% annual growth in revenue for five years (2017–2022), which played a crucial role in stabilizing the state's finances. Andhra Pradesh benefited significantly from these compensation grants, particularly during economic disruptions such as the COVID-19 pandemic. The study further reveals that GST has contributed to improved tax compliance and transparency in the long run due to the digitization of tax administration and the widening of the tax base. The introduction of e-way bills, invoice matching, and online return filing systems has reduced tax evasion and enhanced revenue efficiency. Additionally, GST has facilitated the ease of doing business by eliminating cascading taxes and promoting a unified national market, indirectly contributing to economic growth and revenue generation in the state. However, the study also highlights several challenges. The dependency on central compensation reduced the fiscal autonomy of Andhra Pradesh, making it vulnerable after the expiration of the compensation period in 2022. Furthermore, the destination-based nature of GST has impacted revenue distribution, as states with higher consumption benefit more than production-oriented states.

Introduction

The introduction of the Goods and Services Tax (GST) in India has been referred to as "a reform of the century," "a game changer," and "one country-one tax." It is a noteworthy accomplishment that a big and diversified federal nation ruled by many political parties has implemented a uniform invoice-credit destination-based value added tax (VAT) on products and services at both the national and sub-national levels. Even in Canada, where the value added tax on goods and services has been in place for nearly 30 years at both the federal and provincial levels, it is still developing. Almost all of the nations that have adopted GST have taken a long time to settle down. It is extremely difficult to implement such a change at the national and subnational levels in India, since the Union government, 29 States, and two Union Territories have legislatures with various ruling parties. This kind of transformation necessitated statesmanlike governance and is a fantastic experiment in cooperative federalism.

As of 2018, 166 of the 193 UN members including all OECD members had imposed some kind of value-added tax (VAT) on goods and services. In order to minimize distortions or to recover revenue losses resulting from the decrease of tariffs upon entering the WTO, the majority of developing nations have substituted VAT for their cascading domestic trade levies. It was determined that the GST was a suitable tool to counteract revenue losses from lowering tariffs, as it was anticipated to be a money machine. Only five nations have removed the VAT before reintroducing it with modifications. It should come as no surprise that the IMF has been a major force behind the reform, and this has typically been a crucial aspect of it.

The GST Concept

The final consumer will only be responsible for the GST imposed by the final dealer in the supply chain. GST is a broad-based, single, comprehensive tax that is imposed on goods and services at every point of sale or service provision. The seller or service provider may claim the input credit of tax that he has paid while purchasing the goods or utilizing the service. The additional burden of CENVAT and services tax would be completely eliminated with the implementation of GST at the state level, and all state and federal indirect taxes would be absorbed into GST. This will lessen the variety of taxes. Compared to the former VAT system, GST is a significant improvement. GST will enhance tax compliance and expand the tax base. This could result in increased revenue, which would further reduce the tax burden. Even said, there are still a number of obstacles to overcome before the GST is put into effect, such asreaching an agreement on rates, amending the constitution, compensating states that lose out on revenue, using different models, resolving disputes, etc. In order to improve India's

international competitiveness as a result of globalization and liberalization, the Central government has reaffirmed its commitment to adopting a distinctive, transparent, and perfect GST.

Objectives of the Study

The current study's goals are as follows.

1. To comprehend the Goods and Services Tax concept.
2. To understand the advantages of the Goods and Services Tax.
3. To comprehend the potential effects of GST.

Methodology

The current study is exploratory in nature and draws on secondary sources of data from publications such as journals, magazines, articles, and reports. The study's goals necessitate a descriptive research approach. This research design was chosen in order to have a more accurate and thorough analysis of the research study while keeping in mind the established objectives. The reports and existing literature have been reviewed in order to analyse how GST has affected different domains. Additionally, a fictitious illustration of the comparative effect of GST on consumer prices has been presented.

Impact of GST on Agriculture

The Goods and Services Tax (GST) in 2017 marked a significant shift in India's indirect taxation system, with notable implications for the agriculture sector. Although agriculture itself remains largely exempt from GST, the sector has been indirectly influenced through changes in input costs, supply chains, and market efficiency. One of the major positive impacts of GST on agriculture is the reduction in the cascading effect of taxes. Before GST, multiple taxes such as VAT, excise duty, and entry tax increased the cost of agricultural inputs like fertilizers, pesticides, and machinery. GST streamlined these taxes into a single system, improving transparency and reducing tax burden in certain cases. This has helped farmers access inputs at relatively stable prices. Through a comprehensive and wider coverage of input and service taxes set-off, subsuming of several Central and State taxes in the GST and phasing out of CST, the GST could increase the prices of agricultural produce between 0.61 and 1.18 per cent. This price increase would be a boon to millions of farmers in India

GST has also improved logistics and supply chain efficiency. The removal of interstate barriers and check posts has facilitated faster movement of agricultural produceacross states, reducing transportation time and spoilage especially for perishable goods. This has contributed to better price realization for farmers. However, there are some challenges as well. Certain agricultural inputs and services are taxed under GST, which has increased costs for some farmers, particularly small and marginal ones. Additionally, compliance requirements under GST can be complex for Agri-based

businesses and traders, especially in rural areas with limited digital literacy. Overall, GST has brought structural improvements in the agricultural marketing system, though its benefits are unevenly distributed. To maximize its positive impact, supportive policies and awareness among farmers are essential.

GST's Effects on the Manufacturing Sector

A perfect GST can assist the manufacturing industry cut costs by about 50%, in contrast to the current multistage taxes. They will be able to compete with their western competitors thanks to this. According to Vijay L. Kelkar, even a two percent decrease in production costs will boost earnings by more than twenty percent, allowing for price reductions that will benefit end customers. According to estimates, the introduction of the GST would lower prices across all industrial sectors by 1.22 to 2.53 percent.

Impact of GST on MSMEs

The introduction of the Goods and Services Tax (GST) in India has had a significant impact on Micro, Small, and Medium Enterprises (MSMEs), bringing both opportunities and challenges. On the positive side, GST has created a unified national market by replacing multiple indirect taxes such as VAT, excise duty, and service tax. This has reduced the cascading effect of taxes, lowering the overall tax burden on MSMEs. Input Tax Credit (ITC) allows businesses to claim credit for taxes paid on inputs, improving cost efficiency and profitability. GST has also enhanced transparency and formalization, encouraging MSMEs to register and operate within the formal economy. This has improved their access to institutional credit and government schemes.

Moreover, the digital nature of GST, through platforms like Goods and Services Tax Network (GSTN), has simplified tax filing and compliance in the long run. E-way bills and

standardized tax rates have improved logistics efficiency and reduced transportation time. However, MSMEs have faced several challenges under GST. The compliance burden has increased due to frequent return filing, digital requirements, and the need for technological adaptation, which can be difficult for small businesses with limited resources. Initial technical glitches in the GST portal and frequent changes in rules created confusion and uncertainty. Additionally, delayed refunds, especially for exporters, have affected working capital cycles. Small businesses operating in the informal sector have also struggled to compete with larger, GST-compliant firms. The threshold limits and composition scheme provide some relief, but awareness and accessibility remain issues.

Role of GST in Poverty alleviation

Primary food items like wheat and rice are currently subject to taxation in many states, either at the time of sale at a reduced rate or at the time of purchase. However, it is

suggested that all food commodities covered by the public distribution system, such as wheat and rice, be exempt from the GST. Primary foods like wheat and rice would therefore not be subject to GST. The GST serves as a measure to reduce poverty because food expenditures account for a significant amount of the poor's overall consumption expenditures. Additionally, fundamental health and education services are meant to be completely exempt. In any case, these services will continue to be exempted from tax and therefore no additional burden will arise on account of implementation of GST.

The introduction of the Goods and Services Tax (GST) in 2017 marked a significant transformation in India's indirect tax structure. By subsuming multiple taxes into a unified system, GST aimed to create a common national market, enhance efficiency, and stimulate economic growth. One of its important dimensions is its impact on employment generation, both direct and indirect. GST has contributed to employment generation primarily through the formalization of the economy. Before GST, a large number of small and medium enterprises operated in the informal sector to avoid complex tax structures. With GST introducing a uniform tax system and mechanisms like input tax credit, businesses were incentivized to register and comply with tax regulations. This shift toward formalization has led to the creation of formal jobs with better wages, job security, and social benefits such as provident fund and insurance. As more firms entered the tax net, demand for accountants, tax consultants, and compliance professionals increased significantly, thereby generating employment in the services sector.

Another major area where GST has supported employment is in logistics and supply chain management. Earlier, businesses had to maintain multiple warehouses across states to avoid interstate taxes. GST eliminated such barriers by implementing a destination-based tax system, allowing companies to consolidate warehouses and optimize logistics. This restructuring increased the efficiency of supply chains and boosted demand for skilled labor in transportation, warehousing, and inventory management. The growth of organized logistics companies has further created employment opportunities in both urban and semi-urban areas. GST has also played a role in promoting the growth of Micro, Small, and Medium Enterprises (MSMEs). Through simplified compliance procedures and the composition scheme, small businesses were provided with a platform to expand operations. As MSMEs grow, they generate employment at the local level, particularly in rural and semi-urban regions. The integration of MSMEs into the formal economy has also improved their access to credit, enabling business expansion and job creation.

The digitalization aspect of GST has been another important driver of employment. The GST system is heavily dependent on online platforms for registration, filing returns, and payments. This digital ecosystem has led to increased demand for IT

professionals, software developers, and data analysts. Companies offering GST-related software solutions and digital services have expanded rapidly, creating new employment opportunities in the technology sector. Additionally, training institutions and consultancy firms have emerged to provide GST- related education and services, further contributing to job creation.

GST has also boosted employment indirectly by encouraging economic growth. By reducing tax cascading and improving ease of doing business, GST has enhanced productivity and competitiveness of Indian industries. Increased production and consumption have led to higher demand for labour across sectors such as manufacturing, retail, and services. Foreign investments have also been positively influenced by the simplified tax regime, leading to the establishment of new enterprises and industries, which generate employment opportunities. However, the impact of GST on employment has not been entirely positive in the short term. The transition to the new tax system posed challenges for small businesses due to compliance costs and technological requirements. Some enterprises faced temporary disruptions, leading to job losses or reduced hiring during the initial phase. Sectors heavily dependent on informal labour were particularly affected. Nevertheless, these challenges have gradually diminished as businesses adapted to the system and the government introduced reforms to simplify GST
procedures. GST has played a significant role in employment generation in India by formalizing the economy, enhancing supply chain efficiency, promoting MSME growth, and fostering digitalization. While there were short-term disruptions, the long-term effects of GST are largely positive, contributing to sustainable job creation and economic development. As the GST system continues to evolve with policy refinements, its potential to generate employment is expected to grow further, supporting India's overall development trajectory.

Role of GST in price reduction

Because GST reduces the number of tax rates to a single (dual) rate, it is a regressive tax system. However, there are claims that the commitment of goods taxes would decrease under GST due to the subsumption of significant Central and State taxes in GST, the ongoing chain of set-offs of input goods and services, and the phase-out of CST. If everything else stays the same, it is expected that this will motivate producers and distributors to lower their produce prices, which will ultimately help consumers. Therefore, it is suggested that GST will not be regressive but rather pro-poor.

Impact of GST on International Trade

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017 marked a significant transformation in the country's indirect tax structure. By subsuming multiple taxes such as excise duty, service tax, VAT, and customs-related

levies, GST created a unified domestic market. Its impact on international trade exports and imports has been both direct and indirect, influencing competitiveness, compliance, logistics, and trade efficiency.

One of the most notable impacts of GST on international trade is the enhancement of export competitiveness. Under GST, exports are treated as "zero-rated supplies," meaning exporters can claim refunds on input taxes paid during production. This eliminates the cascading effect of taxes and reduces the overall cost of exported goods. As a result, Indian products become more competitive in global markets. Schemes such as refund of Integrated GST (IGST) and input tax credit have streamlined export procedures and improved liquidity for exporters, especially in sectors like textiles, pharmaceuticals, and engineering goods. GST has also improved transparency and compliance in export-import transactions. The introduction of digital platforms such as the Goods and Services Tax Network (GSTN) has enabled online filing of returns, tax payments, and refund claims. This digitalization has reduced paperwork and human intervention, minimizing corruption and delays in customs clearance. Moreover, integration with customs systems has facilitated smoother processing of export documentation and tax refunds, thereby promoting ease of doing business.

In terms of imports, GST has replaced additional duties such as Countervailing Duty (CVD) and Special Additional Duty (SAD) with Integrated GST (IGST). This has simplified the import taxation structure. Importers can now claim input tax credit on IGST paid at the time of import, which was not fully possible under the previous regime. This has reduced the tax burden on imported inputs and improved cost efficiency for businesses relying on global supply chains. Consequently, industries that depend on imported raw materials or intermediate goods have benefited from reduced costs and improved production efficiency. Another important impact of GST is on logistics and supply chain management. Before GST, interstate trade was hindered by multiple checkpoints, entry taxes, and documentation requirements, leading to delays and increased transportation costs. GST has eliminated most of these barriers, enabling faster movement of goods across states. This has reduced logistics costs and transit time, making Indian exports more competitive globally. Improved supply chain efficiency also enhances the reliability of Indian exporters in meeting international delivery schedules.

GST has also encouraged the formalization of the economy, which positively affects international trade. With mandatory registration and invoice matching, businesses are incentivized to operate within the formal system. This improves the credibility of Indian firms in the global market, as compliance with tax regulations enhances trust among international buyers and partners. Additionally, better documentation and record-keeping facilitate easier access to export finance and

government incentives.

However, the implementation of GST has not been without challenges. Initially, exporters faced delays in receiving tax refunds, which affected their working capital and liquidity. Small and medium enterprises (SMEs), in particular, struggled with compliance requirements and technological adaptation. Frequent changes in GST rates and procedures also created uncertainty for businesses engaged in international trade. Over time, the government has addressed many of these issues through policy adjustments and improved administrative mechanisms. Furthermore, GST has influenced India's participation in global value chains. By reducing tax inefficiencies and improving ease of doing business, GST makes India a more attractive destination for foreign investment and manufacturing. This aligns with initiatives like "Make in India," which aim to boost exports and integrate the country into global production networks.

Impact of GST on GDP

In the Goods and Services Tax (GST) on July 1, 2017, marked a significant structural reform in India's taxation system. It replaced multiple indirect taxes such as excise duty, service tax, and VAT with a unified tax regime. The impact of GST on Gross Domestic Product (GDP) has been both direct and indirect, influencing economic growth through improved efficiency, compliance, and market integration. One of the major positive impacts of GST on GDP is the creation of a unified national market. Before GST, the presence of multiple state and central taxes created barriers to trade, increasing logistics and transaction costs. GST eliminated these cascading taxes, allowing the free flow of goods and services across states. This improved supply chain efficiency, reduced transportation time, and lowered costs for businesses. As a result, productivity increased, contributing positively to GDP growth.

GST also enhanced tax compliance and broadened the tax base. The introduction of an IT-based system through the Goods and Services Tax Network (GSTN) improved transparency and reduced tax evasion. More businesses were brought into the formal economy, increasing government revenue. Higher revenue enables the government to invest more in infrastructure, education, and social welfare, all of which contribute to long-term GDP growth. Another significant impact is on the manufacturing and service sectors. GST reduced the cost of production by allowing input tax credit across the supply chain. This encouraged domestic production and improved the competitiveness of Indian goods in both domestic and international markets. The "Make in India" initiative gained momentum as manufacturing became more cost-effective, which positively influenced GDP.

However, GST also had some short-term negative effects on GDP. During its initial implementation, businesses faced compliance challenges, technological issues,

and confusion regarding tax rates and filing procedures. Small and medium enterprises (SMEs) were particularly affected due to increased compliance costs. These disruptions temporarily slowed economic activity, leading to a short-term dip in GDP growth in the initial years following implementation. Moreover, certain sectors experienced mixed outcomes. For instance, while organized sectors benefited from increased formalization, some unorganized sectors faced difficulties adapting to the new tax system. This structural shift caused transitional inefficiencies, which slightly impacted GDP in the short run. In the long run, GST is expected to have a positive and sustained impact on GDP.

Impact GST on Government Revenue

Since all goods and services come under GST, the number of exemptions would reduce very much. Again, the tendency of tax evasion by producers and distributors will be low as to the single and low rate of tax proposed under GST. Further, increased GDP, indirect positive impact on direct tax collections, gain for the government on account of reduction in the price level of a large number of goods and services consumed by the government. As a result, GST contributes to the increase in government revenue.

Conclusion

The GST has modernized the tax structure and improved efficiency for MSMEs, but addressing compliance challenges and ensuring smoother implementation is essential for maximizing its benefits. GST has had a largely positive impact on international trade in India. It has enhanced export competitiveness, simplified import procedures, improved logistics efficiency, and increased transparency in trade operations. While initial challenges affected exporters, ongoing reforms and system improvements have strengthened the overall trade environment. As GST continues to evolve, it is expected to further support India's integration into the global economy and promote sustainable growth in international trade. While the implementation of GST initially posed challenges and caused temporary disruptions, its long- term impact on GDP is largely positive. By fostering a unified market, improving tax compliance, and boosting economic efficiency, GST has become a key driver of India's economic growth trajectory. In the impact of GST on Andhra Pradesh's state revenue is mixed. While it has enhanced transparency, compliance, and long-term revenue potential, the short- term challenges and increased dependency on central transfers pose concerns for fiscal sustainability. The study suggests that strengthening tax administration, improving compliance mechanisms, and ensuring timely compensation and settlements are essential for maximizing the benefits of GST.

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