

# **A Decade of GST: Revenue Performance, Compliance Behaviour, and the Consumption Tax Debate in India**

## **Abstract**

The Goods and Services Tax (GST), introduced in India on 1 July 2017, was one of the country's most important tax reforms. It replaced several central and state indirect taxes with a common tax framework intended to reduce tax complexity, improve compliance and create a more integrated national market. As GST approaches its tenth year, there is enough evidence to examine how far it has achieved these objectives. This paper looks at three important aspects of the reform: GST revenue performance, changes in tax compliance, and the continuing debate over rates and the distributional impact of a consumption-based tax. The evidence suggests that GST has become an increasingly important source of government revenue and has expanded the formal tax base through digital compliance. At the same time, issues such as rate complexity, compliance costs for smaller businesses and concerns about fiscal relations between the Centre and states remain relevant. GST can therefore be viewed as a major reform that has delivered significant benefits while still requiring further improvements.

## **1. Introduction**

Before GST, India's indirect tax system consisted of several different taxes imposed by the central and state governments. Businesses often had to deal with excise duty, service tax, state VAT and other levies. The system could be complicated, particularly for businesses operating in more than one state. Differences between taxes could also lead to cascading, where one tax was effectively charged on a value that already included another tax.

GST was introduced to address many of these problems. It created a common framework for taxing the supply of goods and services and was designed as a destination-based consumption tax. The reform also aimed to improve tax compliance and encourage businesses to operate within the formal economy.

The implementation was not completely smooth. Businesses initially faced difficulties with the new digital systems, return filing and understanding the changing rules. The COVID-19 pandemic created another major disruption soon after GST was introduced. However, the system gradually developed, and its revenue and compliance performance improved considerably over time.

## **2. GST Revenue Performance**

Revenue collection is one of the clearest ways to examine the development of GST. In its early years, GST revenue was relatively volatile and did not always meet expectations. The Fifteenth Finance Commission noted that the assumption of 14% annual growth in protected state GST revenue created significant pressure because actual revenue growth was lower in several years.

The situation has changed considerably in recent years. According to government figures, gross GST collections increased from around ₹7.4 lakh crore in 2017–18 to approximately ₹13.76 lakh crore in 2021–22 and around ₹22.27 lakh crore in 2025–26. This represents a substantial increase in the amount of revenue being collected through the GST system.

However, rising GST collections should not automatically be considered proof that the tax system itself has become more efficient. Revenue can increase because of economic growth, inflation, higher consumption, changes in tax rates and better compliance. Therefore, GST revenue should be examined alongside indicators such as tax buoyancy and the number of registered taxpayers.

The overall trend nevertheless suggests that GST has developed into an important and relatively stable source of government revenue. Its performance today is significantly stronger than during its initial years.

### **3. Compliance and Formalisation**

One of the most important changes introduced by GST has been the digitalisation of tax administration. Businesses increasingly interact with the tax system through online registration, return filing, e-way bills and e-invoicing.

The number of registered GST taxpayers has expanded substantially. Government data indicates that the taxpayer base increased from approximately 66.5 lakh in 2017 to around 1.65 crore by May 2026. This expansion suggests that a larger number of businesses are now connected to the formal tax system.

E-way bills and e-invoicing have also changed the way transactions are recorded. E-way bills create digital records related to the movement of goods, while e-invoicing allows information from eligible business invoices to enter the GST system. These mechanisms give tax authorities more information and make it harder for transactions to remain completely outside the tax system.

There are also benefits for honest businesses. When companies require proper invoices from their suppliers to claim input tax credit, businesses within the same supply chain have greater incentives to report transactions accurately. This can create a chain effect that encourages formalisation.

However, digital compliance can also create difficulties for smaller businesses that may not have specialised accounting staff or technical resources. Therefore, improving compliance should not simply mean adding more requirements. Tax administration also needs to make the system easier for small businesses to understand and use.

### **4. The GST Rate Structure Debate**

GST was introduced with several major tax slabs, including 5%, 12%, 18% and 28%, along with exemptions and special rates. The different rates were intended to distinguish between essential goods, ordinary goods and luxury or demerit products.

However, multiple rates have also created complexity. Businesses sometimes have to determine which tax category a particular product or service belongs to, and disagreements over classification can lead to additional compliance costs.

This has led to repeated discussions about rate rationalisation. The 56th GST Council meeting in 2025 recommended a simpler structure centred around 5% and 18% rates, along with a higher rate for selected luxury and demerit goods. The changes represented an attempt to make GST easier to administer while maintaining revenue from products considered less essential.

Rate simplification could benefit businesses and consumers by reducing uncertainty. However, reducing tax rates can also affect government revenue. The challenge for policymakers is therefore to find a balance between simplicity, revenue requirements and fairness.

## **5. GST and Centre–State Relations**

GST also changed India's fiscal federal structure. Before GST, states had greater control over certain indirect taxes, particularly VAT. Under the GST system, major decisions are made through the GST Council, which includes representatives of both the Union and state governments.

To address concerns about potential revenue losses after GST implementation, the government introduced a compensation mechanism that guaranteed states a 14% annual growth rate in protected revenue for a limited period. This arrangement helped states adjust to the new system but also created significant financial pressure when actual GST revenue growth was lower than expected.

The compensation period ended in June 2022, but the broader issue of state fiscal autonomy remains important. GST provides the advantage of a common national tax framework, but states have less freedom to independently change important consumption-tax rates.

This creates a continuing policy challenge: India needs a tax system that provides national consistency while also respecting the financial responsibilities and needs of its states.

## **6. GST and the Consumption Tax Debate**

GST is fundamentally a tax on consumption. This creates an important distributional question because lower-income households generally spend a larger share of their income on everyday consumption than higher-income households.

For example, two households purchasing the same taxed product pay the same amount of GST on that product, even if their incomes are very different. This is one reason why the design of GST rates matters.

Lower rates or exemptions for essential goods can reduce the burden on poorer households. At the same time, the government also relies on direct taxes and welfare programmes to address income inequality.

The broader question is therefore not whether GST is inherently fair or unfair. Instead, it is whether GST, together with India's income-tax system and social policies, creates a reasonable overall distribution of the tax burden.

This debate is particularly relevant because taxes on goods and services make up a substantial part of India's overall tax revenue. A balanced tax system therefore needs to consider both revenue efficiency and the ability of different income groups to bear the tax burden.

## **7. Conclusion**

After almost a decade, GST has become an established part of India's economic and fiscal system. Its revenue performance has improved substantially since the early years, while the number of registered taxpayers and the use of digital compliance tools have expanded rapidly.

The reform has also helped create a more integrated tax framework and has encouraged greater documentation of economic transactions. However, the experience of GST also shows that large-scale tax reform involves trade-offs. Multiple rates created complexity, digital compliance can be difficult for smaller businesses, and the reduction of state-level taxation powers has created continuing questions about fiscal federalism.

The recent movement towards rate rationalisation suggests that GST is still evolving. The next phase of reform should focus on making the system simpler, predictable and easier for smaller businesses to comply with while maintaining adequate government revenue.

Overall, GST should not be viewed as either a complete success or a failure. Its first decade shows that it has achieved several of its major objectives, particularly in revenue mobilisation, digitalisation and tax formalisation, but important challenges remain. The effectiveness of GST in its second decade will depend on how successfully India balances revenue needs, simplicity, compliance and fairness.

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