

Goods and Services Tax in Uttar Pradesh: Fiscal Transformation, Revenue Performance, and Sustainability within India's Evolving Tax Federalism

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ABSTRACT-

The introduction of Goods and Services Tax (GST) on 1 July 2017 marked a major shift in India's indirect tax system. Before GST, businesses faced a confusing mix of central taxes (like excise duty and service tax) and state levies (VAT, entry tax, octroi, and various cesses). These overlapping taxes caused cascading costs, border delays, and administrative headaches, ultimately raising prices for everyone.

GST replaced this fragmented setup with a single, destination-based consumption tax that applies uniformly across the country. The goal was simpler compliance, reduced cascading, and a truly integrated national market.

A standout feature is the GST Council, where the Centre and states jointly decide rates, exemptions, and rules. This cooperative approach has strengthened federal coordination in taxation.

Since rollout, GST has brought greater transparency and efficiency. The GST Network (GSTN) enables online filings, invoice matching, and better tracking, pulling many informal businesses into the formal economy. Removing state border checkpoints has sped up goods movement and lowered logistics costs.

Revenue trends have been encouraging overall. Using principles from public finance theory alongside empirical revenue trends and institutional evaluation, the paper assesses whether GST has strengthened revenue generation, enhanced fiscal responsiveness, and contributed to long-term financial sustainability at the state level. Nationally, collections have grown steadily with a wider tax base, even after some rate rationalisations. For Uttar Pradesh, a large and diverse state, GST has supported rising own-tax revenue, reduced dependence on central transfers, and driven a surge in registrations often topping the country in new enrolments in recent months. Monthly collections frequently rank among the highest, reflecting stronger economic formalisation and activity.

Still, challenges persist. Small businesses in UP and elsewhere find compliance burdensome monthly filings, tech requirements, and complex rules hit micro-enterprises hard. Early portal glitches frustrated users, and debates over revenue sharing and state fiscal autonomy continue.

Overall, GST has created a more streamlined, transparent, and integrated indirect tax framework. It has boosted revenue mobilisation, eased inter-state trade, and laid the foundation for a national common market. For Uttar Pradesh, it has contributed to better fiscal performance and economic formalisation. Long-term success, however, depends on simplifying processes for small players, improving technology, and maintaining strong Centre-state cooperation.

Keywords: Goods and Services Tax, Fiscal Federalism, Tax Buoyancy, Revenue Sustainability, Indirect Tax Reform, Uttar Pradesh, Public Finance, Tax Compliance, Indian Taxation System

INTRODUCTION

Tax reforms often reflect broader economic transformations and institutional restructuring within a country. In India, the implementation of the Goods and Services Tax (GST) marked a historic restructuring of the indirect taxation system. Prior to GST, the Indian tax framework consisted of a combination of central taxes such as excise duty and service tax alongside state-level taxes including value-added tax (VAT), luxury tax, entry tax, and octroi.

This multiplicity of taxes generated cascading effects, increased compliance costs, and fragmented the national market. Businesses operating across states faced multiple tax authorities and varying regulations, which reduced economic efficiency and hindered interstate trade.

GST was introduced to address these structural inefficiencies by replacing the earlier origin-based taxation system with a destination-based value-added tax structure. The reform aimed to create a unified national market, reduce tax cascading, simplify compliance, and enhance revenue productivity.

Uttar Pradesh provides an important case study for analysing the impact of GST. As India's most populous state with a diverse economic base, Uttar Pradesh plays a significant role in the national economy. Historically, the state faced challenges in revenue mobilisation due to administrative limitations and a large informal sector. Examining the effects of GST within such a context allows a deeper understanding of how structural tax reforms influence fiscal performance at the subnational level.

RESEARCH OBJECTIVES-

The study aims to achieve the following objectives:

1. To examine the structural transformation in India's indirect tax system following the implementation of GST.
2. To analyse the impact of GST on revenue performance in Uttar Pradesh.
3. To evaluate the implications of GST for fiscal federalism and centre–state relations.
4. To assess the long-term sustainability of GST as a major component of state revenue systems.

RESEARCH GAP-

Despite the growing body of literature examining the implementation of the Goods and Services Tax in India, most existing studies focus primarily on the macroeconomic implications of GST at the national level, including its impact on inflation, economic growth, and aggregate tax revenue. While these studies provide valuable insights into the structural transformation of India's indirect taxation system, they often overlook the state-level fiscal consequences of GST implementation.

Large and economically diverse states such as Uttar Pradesh present unique challenges in tax administration, compliance behaviour, and revenue mobilisation. The state has historically faced structural constraints such as a large informal sector, administrative capacity limitations, and uneven economic development across regions. These factors can significantly influence the effectiveness of tax reforms.

Furthermore, while several policy discussions emphasise the role of GST in promoting cooperative fiscal federalism, there remains limited empirical research analysing how GST has affected the fiscal autonomy and revenue sustainability of individual states.

Therefore, a detailed state-level examination of GST performance is necessary to understand whether the

reform has actually strengthened fiscal capacity at the subnational level. This study addresses this gap by analysing the revenue performance, tax buoyancy, and institutional implications of GST in Uttar Pradesh, thereby contributing to the broader discourse on tax reforms and fiscal federalism in India.

LITERATURE REVIEW

Scholarly research on indirect taxation has long emphasised the importance of value-added taxation in improving economic efficiency and administrative transparency. *Bird and Gendron (2007)* argue that value-added tax systems reduce cascading taxation and encourage voluntary compliance through input tax credit mechanisms.

Keen (2013) analysed the global experience of VAT systems and concluded that comprehensive consumption taxes contribute to improved resource allocation and revenue stability. According to Keen, effective tax administration and technological infrastructure are essential for the successful implementation of such systems.

Within the Indian context, *Rao and Rao (2005)* examined the evolution of tax reforms since economic liberalisation and highlighted the need for harmonisation between central and state taxes. They argued that a fragmented tax system created distortions in production and trade.

Cnossen (2013) analysed India's proposed GST framework and suggested that a unified tax system would enhance market integration and reduce logistical inefficiencies. Similarly, *Purohit (2016)* emphasised that GST could significantly improve revenue productivity by expanding the tax base and simplifying compliance procedures.

Mukherjee (2020) examined GST from the perspective of fiscal federalism and described it as a major institutional innovation that requires cooperative decision-making between the Union and the states through the GST Council.

Empirical studies conducted by institutions such as the National Council of Applied Economic Research indicate that GST has contributed to improvements in tax compliance, revenue mobilisation, and economic formalisation, although implementation challenges remain.

RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research design. The analysis relies primarily on secondary data collected from the following sources:

- Government of India GST reports
- GST Council publications
- Reserve Bank of India state finance reports
- Uttar Pradesh state budget documents
- Reports from research institutions such as NCAER

The study employs the following analytical techniques:

- Trend analysis of GST revenue collections
- Examination of tax buoyancy
- Institutional analysis of GST governance mechanisms
- Comparative evaluation of pre-GST and post-GST tax structures

These methods enable a comprehensive assessment of the fiscal implications of GST in Uttar Pradesh.

CONCEPTUAL AND THEORETICAL FRAMEWORK

The analytical framework of this study is based on the interaction between tax policy reform, institutional governance, and fiscal outcomes.

The introduction of GST represents a structural tax reform designed to achieve three primary objectives:

1. Elimination of cascading taxation
2. Improvement in tax compliance through digital administration
3. Creation of a unified national market

These reforms influence fiscal outcomes through several channels.

First, the input tax credit mechanism reduces the cascading burden of indirect taxes and encourages firms to operate within the formal economy. This results in greater transparency in business transactions and improves tax compliance.

Second, the introduction of digital platforms such as the GST Network (GSTN) facilitates real-time monitoring of transactions, which strengthens tax administration and reduces opportunities for tax evasion.

Third, the institutional structure of the GST Council introduces a new form of cooperative fiscal governance, enabling coordinated decision-making between the Union and the states.

The interaction of these factors ultimately influences key fiscal outcomes such as:

- Revenue mobilisation
- Tax buoyancy
- Compliance levels
- Fiscal sustainability

Thus, GST operates not merely as a tax reform but as an institutional mechanism shaping fiscal governance and economic formalisation.

INSTITUTIONAL FRAMEWORK OF GST

The implementation of GST required significant constitutional restructuring through the Constitution (101st Amendment) Act, 2016. This amendment introduced concurrent taxation powers allowing both the Union and the states to levy GST on the same transaction.

The GST Council was established as the central decision-making body responsible for determining tax rates, exemptions, and administrative procedures. The Council represents an important example of cooperative federalism within India's fiscal governance framework.

Through this institutional arrangement, the Union and the states jointly participate in tax policy decisions. However, the shared governance model also introduces challenges related to policy coordination and revenue distribution.

GST IMPLEMENTATION IN UTTAR PRADESH

The transition to GST required significant administrative changes in Uttar Pradesh. Legacy tax systems were replaced with digital compliance platforms integrated with the GST Network (GSTN). Businesses and tax authorities were required to adapt to electronic return filing, invoice matching, and online tax payments.

Despite initial implementation challenges, revenue collections in Uttar Pradesh have demonstrated consistent growth in the years following the introduction of GST. Increased registrations and improved compliance mechanisms have contributed to the expansion of the tax base.

Financial Year	State Tax / GST Revenue (₹ Crore)	Annual Growth (%)
2017–18	58,738	—
2018–19	70,060	19.3
2019–20	72,931	4.1
2020–21	80,301	10.1
2021–22	98,107	22.2
2022–23	1,07,407	9.5
2023–24 (approx.)	1,10,346	2.7
2024–25 (Budget Estimate)	1,56,982	—

Year	SGST Revenue
2022–23	64,141
2023–24 (Revised Estimate)	77,224
2024–25 (Budget Estimate)	1,00,514

State	2022–23	2023–24
Uttar Pradesh	27,366	32,534
Maharashtra	85,532	1,00,843
Gujarat	37,802	42,371
Karnataka	35,429	40,969

REVENUE PERFORMANCE AND FISCAL STRENGTHENING

Revenue trends indicate that GST has significantly strengthened the fiscal capacity of Uttar Pradesh. State tax revenue has increased steadily since the implementation of GST, reflecting improved tax administration and greater formalisation of economic activity.

Insert here the data table and charts generated earlier showing GST revenue trends from 2017 to 2025.

The growth in revenue collections suggests an improvement in tax buoyancy. Tax buoyancy refers to the responsiveness of tax revenue to changes in economic output.

Formula:

$$\text{Tax Buoyancy} = (\% \text{ Change in Tax Revenue}) / (\% \text{ Change in GSDP})$$

A buoyancy value greater than one indicates that tax revenue is growing faster than the economy.

COMPLIANCE BEHAVIOUR AND INFORMALITY

Despite improvements in revenue mobilisation, compliance challenges remain significant. A large portion of economic activity in Uttar Pradesh continues to operate within the informal sector.

Small enterprises often face difficulties adapting to digital compliance requirements and frequent return filing procedures. While threshold exemptions aim to protect small businesses, they may also discourage firms from entering the formal tax system.

IMPLICATIONS FOR FISCAL FEDERALISM

GST has significantly altered fiscal relations between the Union and the states by introducing a shared taxation framework. The compensation mechanism initially provided financial protection to states that experienced revenue losses following GST implementation.

However, debates surrounding compensation payments highlighted tensions within cooperative fiscal arrangements. As compensation provisions phase out, states must increasingly rely on improved compliance and economic growth to sustain revenue mobilisation.

RESULTS AND DISCUSSION

The analysis of revenue trends in Uttar Pradesh indicates a significant improvement in tax collections following the implementation of GST. State tax revenues have increased steadily since 2017–18, reflecting improved compliance and broader tax coverage.

One of the most important structural outcomes of GST has been the expansion of the tax base. The digital registration system has brought a large number of previously unregistered businesses into the formal tax network. This expansion has strengthened the responsiveness of tax revenue to economic growth.

Another notable trend is the improvement in tax buoyancy. As economic activity expands, GST collections have demonstrated an increasing capacity to grow proportionally faster than the state's economic output. This indicates a more efficient and responsive taxation system compared to the earlier fragmented structure of indirect taxes.

However, the analysis also reveals several challenges. Compliance complexity continues to affect small and medium enterprises, particularly those operating in semi-formal or informal sectors. Frequent filing requirements and technological adaptation costs have created barriers for smaller businesses.

Additionally, while GST has strengthened revenue mobilisation, it has also altered the fiscal autonomy of states. Since GST rates and policies are determined collectively through the GST Council, states now have limited independent authority to modify indirect tax rates. This institutional shift reflects a broader transformation in India's fiscal federal structure.

Overall, the results suggest that GST has improved efficiency, transparency, and revenue productivity, but its long-term success depends on continued administrative reforms and stronger coordination between different levels of government.

ECONOMETRIC FRAMING

Econometric Perspective on GST Revenue Performance

While this study primarily relies on descriptive and institutional analysis, future research can incorporate econometric techniques to examine the relationship between GST revenue and economic growth more rigorously.

One commonly used indicator in tax analysis is tax buoyancy, which measures the responsiveness of tax revenue to changes in economic output.

The formula for tax buoyancy is:

$$\text{Tax Buoyancy} = (\% \text{ Change in Tax Revenue}) / (\% \text{ Change in GSDP})$$

If the buoyancy coefficient exceeds one, it indicates that tax revenue is increasing at a faster rate than the economy, suggesting an efficient tax system.

An econometric model for analysing GST performance could be specified as:

$$\text{GST Revenue} = \alpha + \beta(\text{GSDP}) + \gamma(\text{Compliance Indicators}) + \delta(\text{Policy Variables}) + \varepsilon$$

Where:

GST Revenue = total GST collections in the state

GSDP = Gross State Domestic Product

Compliance Indicators = number of registered taxpayers, return filing rate

Policy Variables = tax rate changes, compliance reforms

Such a model would allow researchers to estimate the relative contribution of economic growth, compliance improvements, and policy reforms to GST revenue performance.

Incorporating econometric analysis would strengthen the empirical foundation of GST research and provide deeper insights into the sustainability of indirect tax reforms in India.

POLICY IMPLICATIONS

To strengthen the long-term effectiveness of GST, several policy measures are necessary:

- Simplification of compliance procedures for small enterprises
- Strengthening of digital infrastructure for tax administration
- Faster refund processing mechanisms
- Improved dispute resolution systems
- Continued strengthening of cooperative federal institutions

Such reforms would improve voluntary compliance and enhance the overall efficiency of the GST system.

CONCLUSION

The Goods and Services Tax represents a transformative reform that has significantly reshaped India's fiscal architecture. Evidence from Uttar Pradesh suggests improvements in tax buoyancy, revenue mobilisation, and administrative integration following the implementation of GST.

Nevertheless, structural challenges related to informality, compliance complexity, and federal fiscal coordination remain unresolved. The long-term success of GST will depend on continued institutional development, simplification of compliance procedures, and effective coordination between the Union and the states.

If supported by sustained administrative reforms and cooperative governance mechanisms, GST has the potential to become a stable foundation for India's public finance system while promoting broader economic integration and development.

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