

**RESEARCH PAPER****Impact of Goods and Services Tax (GST) on Tax Compliance and Tax Evasion in India: A Pre-GST and Post-GST Analysis****Rahul Khirwar**Department of Economics,  
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Email: [rahulkhirwarsjc@gmail.com](mailto:rahulkhirwarsjc@gmail.com)Received: 18<sup>th</sup> Feb. 2024, Revised: 14<sup>th</sup> March 2024, Accepted: 23<sup>rd</sup> March 2024**ABSTRACT**

*The introduction of the Goods and Services Tax (GST) in India marked a significant reform aimed at simplifying the complex indirect tax structure and enhancing tax compliance. This paper evaluates the impact of GST on tax compliance and evasion, analyzing pre- and post-GST implementation phases. By examining government reports, empirical studies, and secondary data on tax collections and compliance rates, this study highlights the strengths and limitations of GST in curbing evasion and improving compliance. The findings suggest that GST has had a mixed impact, with notable improvements in compliance but persistent challenges in addressing evasion in certain sectors.*

**Keywords:** Goods and Services Tax, tax evasion, tax compliance, indirect tax

**INTRODUCTION**

India's indirect taxation system has historically been a labyrinth of multiple taxes, cascading effects, and bureaucratic complexities. The introduction of the Goods and Services Tax (GST) was heralded as a transformative reform intended to consolidate these taxes into a unified system. GST was introduced to enhance efficiency, reduce corruption, and increase tax compliance. This paper delves into the interplay between GST and two pivotal aspects of taxation: compliance and evasion. Tax compliance refers to the adherence of taxpayers to tax laws, including timely filing of returns and accurate declaration of liabilities. Conversely, tax evasion encompasses deliberate acts to reduce or avoid tax liabilities, often exploiting systemic loopholes. The study investigates whether GST, with its inherent features like input tax credit (ITC), digital filing, and anti-evasion mechanisms, has fulfilled its promises of improving compliance and reducing evasion.

**LITERATURE REVIEW****PRE-GST TAX LANDSCAPE:**

Before the introduction of the Goods and Services Tax (GST) in India, the country had a complex and fragmented indirect tax system involving multiple taxes levied by both the central and state governments. These included excise duty, service tax, value-added tax (VAT), central sales tax (CST), entry tax, and octroi. A study by Agarwal and Bhatia (2015) found that this tax structure resulted in a cascading tax effect, inefficiencies in tax administration, and widespread tax evasion due to loopholes in compliance and enforcement mechanisms. Kumar (2016) stated that the multiplicity of tax rates and lack of a unified system led to significant compliance burdens for businesses and encouraged the informal economy. Scholars observed that under-reporting of income and transaction values was common, and the enforcement of compliance varied greatly across states, making national-level coordination difficult.

**TRANSITION TO GST AND ITS IMMEDIATE EFFECTS:**

Studies by Gupta and Joshi (2018) demonstrated that GST's input tax credit mechanism incentivized businesses to declare their sales and purchases accurately, thereby reducing evasion.

However, the initial implementation of GST was not without challenges. Kapoor and Kumar (2020) highlighted that compliance costs increased temporarily due to businesses' unfamiliarity with the new system and frequent changes in GST rates. Furthermore, small and medium enterprises (SMEs) struggled to adapt to digital filing requirements, which led to discrepancies and unintentional non-compliance.

#### **POST-GST IMPLEMENTATION AND TAX EVASION:**

Post-GST, there has been a gradual improvement in compliance rates. The introduction of e-invoicing and reconciliation mechanisms has enhanced transparency and traceability in the supply chain. Patel, A. (2019) indicated that GST has reduced the scope for evasion by bringing more taxpayers into the formal system. Furthermore, the input tax credit mechanism under GST incentivizes businesses to demand tax-compliant invoices from suppliers, indirectly promoting compliance throughout the supply chain. Study by Singh and Srivastava (2021) suggest that these reforms significantly reduced tax evasion by curbing fraudulent practices like fake invoicing and circular trading. Moreover, the simplified return filing system implemented in 2020 further eased compliance for taxpayers.

Despite these advancements, challenges in tax evasion remain. Chaurasia et al. (2022) argue that tax evasion persists in certain sectors, especially in unorganized and cash-driven industries, due to enforcement gaps. Additionally, high GST rates on specific goods have incentivized smuggling and underreporting. The study also highlights the need for strengthening audit mechanisms and inter-agency coordination to address these issues comprehensively.

#### **COMPARATIVE ANALYSIS OF PRE- GST AND POST-GST SCENARIOS:**

Comparative analyses reveal a notable decline in tax evasion post-GST implementation. For instance, data from the Central Board of Indirect Taxes and Customs (CBIC) shows a consistent increase in GST collections, reflecting improved compliance. Studies also emphasize the role of technology and digitalization in this transformation. In contrast, the pre-GST era lacked these technological interventions, resulting in systemic inefficiencies.

#### **OBJECTIVES OF THE STUDY**

1. To evaluate the complexities and inefficiencies in India's pre-GST tax regime.
2. To assess improvements or challenges in tax compliance after GST's implementation.
3. To examine how GST has addressed tax evasion and identify remaining loopholes.
4. To provide policy recommendations for enhancing GST compliance and reducing tax evasion.

#### **RESEARCH METHODOLOGY**

This paper adopts a descriptive and analytical approach based on secondary data. Sources include government reports (e.g., CBIC, GST Council), publications by NITI Aayog, research papers, and journal articles. Pre-GST and post-GST tax collection trends were compared to evaluate the effectiveness of GST. Comparative analysis is used to assess trends and patterns in tax compliance and tax evasion before and after the implementation of GST.

#### **RESULTS AND DISCUSSIONS**

##### **1. COMPLEX STRUCTURE AND INEFFICIENCIES IN THE PRE-GST REGIME:**

The analysis revealed that India's indirect tax system before the implementation of GST was highly fragmented and lacked uniformity across states. Multiple overlapping taxes like VAT, excise duty, service tax, and central sales tax created procedural redundancies and administrative burdens. Businesses often faced difficulties with compliance due to varying tax rates, multiple filing requirements, and inconsistent definitions of goods and services across jurisdictions. This complexity fostered inefficiency, increased the cost of doing business, and encouraged non-compliance, particularly in the unorganized sector. Interstate trade was especially affected, with cumbersome documentation and tax-on-tax cascading effects discouraging expansion and transparency.

## **2. POST-GST CHANGES IN TAX COMPLIANCE:**

GST introduced a centralized and technologically integrated system that streamlined compliance. The introduction of GST was intended to simplify tax compliance by creating a single tax regime, reducing the multiplicity of taxes, and minimizing the cascading effect of indirect taxes. The findings of the study reveal mixed results regarding its success.

### **Improved Compliance:**

Post-GST, there has been an increase in the number of tax filers, especially among small and medium enterprises (SMEs). According to data from the GSTN, the number of registered taxpayers grew significantly after GST was implemented, indicating better compliance. The digital nature of GST filings also facilitated real-time monitoring of tax liabilities, making it harder for businesses to evade taxes. Mandatory e-filing of returns reduced manual intervention and opportunities for corruption. Improved monitoring of goods movement reduced underreporting. The uniform tax system and digital filing processes have led to increased participation in the tax net, especially among small and medium enterprises that were previously unregistered. GST's structure, particularly the input tax credit mechanism, incentivized invoice matching and record-keeping. Tax revenue trends post-GST showed an upward trajectory, indicating improved compliance. However, despite the positive shift, compliance remains a challenge for micro-enterprises due to digital illiteracy and high procedural expectations.

### **Role of Technology in improving compliance:**

The integration of technology into the tax administration system under GST has enhanced compliance. E-filing, e-way bills, and automated reporting systems have helped to streamline the process, reduce human errors, and prevent evasion. However, technical glitches and issues with the GST portal have hindered smooth implementation in some cases, especially during the early stages. However, initial implementation challenges included complexities in GST return filing (e.g., GSTR-1, GSTR-2A reconciliation) and delays in refund processing.

### **Digital and Structural Challenges in Compliance:**

The shift to a digital platform through the GST Network (GSTN) has brought greater transparency but also revealed several structural and infrastructural limitations. Many taxpayers reported difficulties in navigating the GST portal, particularly during early implementation phases and filing deadlines. Inadequate digital infrastructure in rural areas and low IT literacy among small traders created barriers to effective compliance. Frequent changes in rules and filing formats added to confusion and non-compliance risks. Additionally, while automation improved tax administration, the lack of interoperability between systems used by businesses and those of GSTN led to technical discrepancies and mismatches.

## **3. IMPACT OF GST ON TAX EVASION:**

The design of GST was aimed at reducing tax evasion by ensuring that businesses could claim input tax credits only if their suppliers had paid taxes. This was expected to create a self-policing mechanism and reduce opportunities for under-reporting or evading taxes.

### **Reduction in Evasion:**

GST's impact on tax evasion has been somewhat positive. The ability to track transactions across the supply chain has made it more difficult for businesses to evade taxes. Businesses that under-report sales or purchases are now flagged through the automated matching of invoices. This has increased the detection of evasion tactics, especially in the form of fake invoicing and under-reporting of turnover.

Despite these improvements, tax evasion is still prevalent in certain sectors, especially in informal and unorganized sectors. A large number of small businesses still attempt to evade taxes by under-reporting sales or failing to file returns altogether. The complexity of GST procedures, frequent changes in tax rates, and lack of awareness about tax laws continue to foster an environment where tax evasion remains a problem. GST has been effective in curbing certain evasion techniques

but has also faced new challenges. The ITC mechanism ensured better traceability of transactions. Fraudulent ITC claims and shell companies emerged as evasion strategies in the post-GST era.

#### **4. IDENTIFIED LOOPHOLES AND SECTORAL DISPARITIES:**

The research highlights that tax compliance and evasion trends vary significantly across sectors. Organized sectors such as manufacturing and large-scale services have shown better compliance due to internal systems and auditing. In contrast, sectors like construction, retail trade, and local transport still exhibit high evasion risks. Loopholes like bogus billing, circular trading, and fake registrations persist due to gaps in field-level verification and monitoring. Additionally, businesses with operations across multiple states face difficulties in reconciling supply chains with compliance obligations, creating further opportunities for manipulation. These disparities point toward the need for targeted enforcement strategies and sector-specific reforms.

#### **CHALLENGES IN GST IMPLEMENTATION**

Despite its advantages, GST has faced significant implementation challenges which are as follows-

##### **TECHNICAL AND INFRASTRUCTURAL ISSUES:**

The GSTN portal faced numerous technical glitches in the initial months, disrupting return filings. Many small traders lacked digital literacy, which created hurdles in adapting to the electronic system. The mandatory e-way bill system, though intended to curb tax evasion, has led to logistical delays due to technical failures. Additionally, frequent changes in GST laws and lack of coordination between state and central tax authorities create confusion and implementation hurdles.

##### **TAX EVASION THROUGH FAKE INVOICES:**

Fraudsters generate fake bills to claim fraudulent Input Tax Credit (ITC) without actual supply of goods or services. This has led to revenue losses for the government and increased scrutiny on genuine businesses. Authorities have conducted numerous raids and implemented stricter invoice-matching systems (like GSTR-2A and GSTR-3B reconciliation) to curb this issue. However, fake invoicing remains a persistent problem, undermining the credibility of the GST system.

##### **COMPLIANCE BURDEN:**

Despite the aim of simplification, the frequency and complexity of return filings (GSTR-1, GSTR-3B, etc.) have overwhelmed many businesses. The compliance cost increased, especially for MSMEs. The GST regime requires frequent filings, including monthly and annual returns, which are time-consuming and costly, especially for small businesses. The portal has faced technical glitches, making it difficult for taxpayers to file returns on time. Strict penalties for late filings or errors further add to the compliance burden, discouraging small traders and startups.

##### **TRANSITIONAL AND LEGAL DISPUTES:**

The shift from the old tax regime to GST caused transitional challenges, including lost tax credits and stock valuation issues. Legal disputes arise due to ambiguous provisions, differing interpretations by states and the Centre, and anti-profiteering measures, leading to prolonged litigation.

#### **POLICY RECOMMENDATIONS AND FUTURE PROSPECTS**

##### **SIMPLIFY GST STRUCTURE AND PROCEDURES:**

The current GST system includes multiple tax slabs and frequent procedural changes, which create confusion and compliance burdens. Policymakers should consider rationalizing the tax slabs to create a simpler, more uniform rate structure. Simplified filing procedures, reduced return frequency for small taxpayers, and automatic reconciliation systems can reduce errors and discourage evasion. A more intuitive and streamlined compliance framework would encourage voluntary adherence and lower the compliance cost for businesses, especially MSMEs. More efforts

should be made to educate businesses about the intricacies of GST, particularly through workshops and awareness campaigns.

#### **IMPROVE REFUND AND CREDIT MECHANISMS:**

Delays and complexities in processing Input Tax Credit (ITC) and refunds undermine the credibility of the GST system and strain business finances. The refund process must be expedited through automation and stricter timelines for disbursement. At the same time, clear and consistent guidelines must be issued to prevent fraudulent ITC claims without harming genuine taxpayers. Streamlining these mechanisms will not only improve liquidity for compliant businesses but also reduce incentives for evasion through invoice manipulation.

#### **ENHANCE DIGITAL INFRASTRUCTURE AND TAXPAYER SUPPORT:**

Despite the introduction of a robust digital filing system through the GST Network (GSTN), technical glitches and system downtimes have adversely affected user experience. Strengthening the backend IT infrastructure and ensuring a more responsive grievance redressal mechanism are crucial for improving taxpayer trust and compliance. Special emphasis should be placed on assisting small businesses and those in remote regions through digital literacy programs and support centers.

#### **PROMOTE INCENTIVES FOR VOLUNTARY COMPLIANCE:**

To encourage honest tax behavior, the government should consider introducing incentive schemes for timely and accurate tax compliance. These could include tax credits, recognition awards, or fast-track processing for consistently compliant taxpayers. Publicizing success stories and compliance rankings can motivate businesses to follow suit. At the same time, a transparent and fair penal system must be maintained to deter willful evasion without discouraging genuine taxpayers.

#### **CONCLUSION**

The GST regime has significantly improved tax compliance in India by simplifying the tax structure and leveraging digital technologies. It has also reduced tax evasion to some extent, though challenges such as fraudulent practices and high compliance costs for SMEs remain. More focused efforts on educating taxpayers, simplifying the compliance process, and enhancing enforcement mechanisms are required to further improve tax compliance and reduce evasion. Future reforms should focus on strengthening enforcement mechanisms and addressing technical challenges to maximize the potential of GST.

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