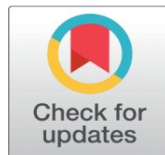


AN ANALYTICAL REVIEW OF THE IMPLEMENTATION OF GOODS AND SERVICES TAX IN UTTAR PRADESH: FISCAL TRANSFORMATION AND ECONOMIC REORDERING

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ABSTRACT

Prior to the introduction of the Goods and Services Tax (GST) in 2017, India had a complex and inefficient system of indirect taxation. States such as Uttar Pradesh depended on a pile of levies, including VAT, CST, entry tax, octroi, and entertainment tax. Each had its own rates, exemptions, and enforcement mechanisms. That translated into having to pay more than one tax on a good and wade through a bureaucratic maze made national in scope. Octroi and entry taxes resulted in long waits for the transporters on UP's highways, causing a loss of money and increasing the cost of doing business. Larger ones are fully informal to be taxed and not to be taxed, encouraging direct formalization. Small businesses in rural areas are either in full informality to opt not to be taxed or directly encourage formality.

Keywords: Goods and Services Tax, Uttar Pradesh, Transformation, Economic Reordering

1. INTRODUCTION

Prior to the introduction of the Goods and Services Tax (GST) in 2017, India had a complex and inefficient system of indirect taxation. States such as Uttar Pradesh depended on a pile of levies, including VAT, CST, entry tax, octroi, and entertainment tax. Each had its own rates, exemptions, and enforcement mechanisms. That translated into having to pay more than one tax on a good and wade through a bureaucratic maze made national in scope. Octroi and entry taxes resulted in long waits for the transporters on UP's highways, causing a loss of money and increasing the cost of doing business. Larger ones are fully informal to be taxed and not to be taxed, encouraging direct formalization. Small businesses in rural areas are either in full informality to opt not to be taxed or directly encourage formality.

GST was a response to addressing some of these loopholes by making multiple taxes into one tax system and implementing one market across the country. The reform, which offered the ambrosia of uniform low rates and seamless chains of input tax credit, aimed to slash inefficiency, enhance transparency, and enlarge the taxpayer base. For UP, with

its buzzing industrial corridors and far-flung informal markets, GST would have meant a shift to an updated regime of fiscal administration and a way to bring traders into a national supply chain.

Escapes can be based theoretically on concepts in fiscal federalism. The case that Musgrave puts forward is that macroeconomic stability at a general level should be the responsibility of the (central) national governments and highly localized economic functions the state. “We all want standardized systems and shared systems because we all want more reliable indicators of what’s happening out there to safeguard our own health,” Oates says. GST captures this tension in a nutshell, it creates a national common market and therefore uniform rates, but it erodes the fiscal autonomy of states like UP, who nevertheless continue to depend on collections from petroleum and alcohol, from which GST is excluded. WhatsApp picture of marriage of divorced women: Fact check and how GST has evolved in 2017.

Yet, despite such high-level discussion, there is little empirical research on state-level PR sociality. And UP, with its size, informality, and variety of economic classes, makes for an important case study to ask whether GST means any real fiscal change or is merely a realignment under the center.

2. LITERATURE REVIEW

The introduction of the Goods and Services Tax (GST) in India has often been celebrated as a major milestone in economic policymaking. Rao (2019) and Chakraborty (2020) argue that the GST is more than just a case of indirect tax harmonization; it is also a way of reimagining fiscal federalism that centralizes revenues that were previously shared with states. The tug-of-war between the two is the essence not only of the Indian GST but also of the worldwide GST debates.

Global experiences underline similar dynamics. For example, the experience of the adoption of the GST in Canada and Australia has been associated with efficiency gains, but it has also generated subnational autonomy concerns (Keen, 2013). Malaysia’s short-lived experience with the GST suggests that tax reform must be aligned with a country’s politics, culture, and realities. Such computations tend to reinforce the suspicion that the super googly out of GST is not revenue but governance.

And the experience within India varies too, as evidenced by state-based studies. Maharashtra and Gujarat stand as the top contributors to the GST revenues due to their strong industrial base, and based on manufacturing, low net revenue gain has been observed under the destination-based tax regime (NIPFP, 2022). Tamil Nadu began with deficits but wound up with stronger enforcement mechanisms (Rao & Mukherjee, 2021). These illustrations demonstrate that revenue flows through GST could be reoriented—a development that could prove early gains for states that are heavy consumers. Despite having such a large population and equally remarkable consumer market, there is a lack of representation of Uttar Pradesh in academic research.

There are four key debates. First, buoyancy and dependency: RBI (2022) notes that UP, and its counterparts, was over-reliant on the center’s compensation in the early years. Second, formalization of the unorganized sector: NITI Aayog (2021) points to robust growth in registrations, except in the case of rural enterprises. Third, coordination fits in: the World Bank (2020) observes lower transit delays in NCR corridors. Third, the most compelling political economic view is that (urban) traders benefitted from efficiency, but (rural) operators were the main losers of the policy action (Mukherjee, 2019).

Research, especially in the domain of GST specific to the economy of Uttar Pradesh, is scant; however, attempts are being made in this context. This study consequently seeks to fill this gap by examining how fiscal transformation interacts with informality, coordination, and political economy in one of India’s most complex state economies.

3. RESEARCH METHODOLOGY

The research design used in this study is a quantitative and descriptive research design that relies on secondary data as a main source of analysis. We deliberately chose to concentrate on secondary sources because large-scale reform initiatives like the GST often leave behind a trail of documents, including government budgets, reports from the GST Council, and institutional studies from the RBI and NITI Aayog. These sources offer time series that help compare the tax structure prior to GST (2009–2017) with that under the GST regime (2017–2024) and help analyze how the revenue structure and compliance behavior changed.

The analysis also uses district-level registration data from commercial centers like Kanpur and NCR and the emerging ones like Ayodhya and Gorakhpur to capture regional variance in the formalization process.

However, this approach has constraints. Without the original surveys, we can only infer microeconomic business behavior indirectly. Reliance on official data could lead to ignoring the non-compliance part of the story, and the dynamicity of the reform implies that conclusions are not an end point, but rather the latter is an ongoing process.

4. ANALYSIS

4.1. FISCAL TRANSFORMATION

Analysis of the fiscal effect of the GST will be meaningful in relation to Uttar Pradesh, based on the tax structure followed by the states under GST. Until July 2017, the state's own tax revenue was based on the VAT on petroleum products, the sales tax on liquor, and a convoluted network of these collections, including entry tax and octroi. These constituted 60 percent of state revenue receipts in 2016-17 (Reserve Bank of India, 2022). It was a lucrative system but ineffective: overlapping rates had cascading effects, and compliance was stymied by corruption and bureaucratic discretion.

There was a significant shift in the revenue structure of Uttar Pradesh post GST. In 2018-19, around 44 percent of state tax revenues came from GST (Government of Uttar Pradesh, 2023). But those were not immediate gains: there were transitional years under a VAT in which the state took in less revenue than it would have had its VAT base been fully phased in. The Union government filled this gap through the GST (Compensation to States) Act 2017, which promised 14% growth in tax revenue every year. Uttar Pradesh got compensation to the tune of more than ₹40,000 crore during 2017-22, which reflected its compensation dependence.

This dependence became a challenge following the expiration of the remuneration in June 2022. While Maharashtra has a varied industrial base and a good compliance base, Uttar Pradesh's collections are still lower on account of its high informal economy and low per capita consumption. Comparative research (Rao, 2019; Mukherjee, 2021) suggests that, while Maharashtra was able to recover some of the lost revenue by way of populous GST receipts from service and industrial transactions, UP continued to be structurally dependent on petroleum and alcohol excise, both of which were kept out of the GST umbrella.

Therefore, while GST has improved transparency and prevented tax evasion, it has also compromised the fiscal autonomy of Uttar Pradesh. Under the origin-based VAT, these were trickled rents that the state could adjust to suit itself, attract investment or protect local industry; under the destination-based GST, the GST Council held those levers. The upshot is a contradiction: fiscal centralization has increased efficiency while at the same time exposing states (such as UP) to new vulnerabilities in the absence of compensatory components.

4.2. ECONOMIC REALIGNMENT

GST not only altered revenue flows but also reorganized economic practices in Uttar Pradesh. By tying tax credits to compliance, GST has forced businesses to formalize it and changed incentives in sectors that were so far dominated by informal activity.

Brick kilns are also located in Gonda and Shravasti. Brick kilns have historically operated beyond the formal tax net, based on cash and with little accounting. It is a reverse scenario under GST, as registered suppliers are now the first choice of construction contractors to avail themselves of the input credit. Field reports in Gonda and Shravasti (NITI Aayog, 2021) also indicate an increase in the registration of kiln owners. But there are costs to complying, digital filing, tax payments up front, professional fees which sap liquidity and particularly hit smaller operators. Therefore, the formalization triggered by GST is disciplining as well as expensive.

And there are sweet shops in Ayodhya. In Ayodhya, the cultural economy also centers on the distribution of sweets to pilgrims. Under the GST, classification disputes arose: Are sweets to be taxed as "food items" (at 5 percent) or "confectionery" (18 percent)? Storekeepers said that sporadic enforcement left them vulnerable to lawsuits and resulted in the unintentional sale of defective pipes. The latter demonstrates how the universalistic idiom of GST encounters regionally specific cultural practices, generating frictions that are not found in more uniformly ordered markets (Mukherjee, 2019).

Hospitality in Varanasi. Varanasi's hotels and restaurants sit at the intersection of tourism and culture. But the break in the ITC chain is caused by the exclusion of alcohol from the purview of GST. Liquor service establishments cannot recover taxes on procurement, leading to an increase in operational expenses. The sector is therefore at a competitive disadvantage, illustrating that incomplete coverage of GST results in a sub-optimal phenomenon in integrated markets.

These sectoral experiences are consistent with W. Arthur Lewis's (1954) dual economy framework in which a traditional, low-productivity sector exists alongside a modern, formalized sector. Uttar Pradesh embodies this dualism. The introduction of professional tax consultants and digital penetration had nearly ensured 100% GST compliance in the NCR region at least. There are still informal practices in rural constituencies, and there is a sense that compliance is coercive rather than enabling. Rather than dissipating the dual economy, GST has only extended it: formalization is confined to pockets of industry, with hinterland enterprises on the margin.

4.3. IMPLEMENTATION CHALLENGES

For all its reassurances of simplifying the system, the implementation of GST in Uttar Pradesh has run into structural issues that reflect the divergence between policy intent and ground-level conditions.

Infrastructure and digital literacy matter too. GST is based on e-governance: online registration, filing, and payment. This is the narrative that dovetails perfectly with India's Digital India mission, although the on-ground reality in rural UP is far removed from it. Most of the traders in Balrampur and Bahra ich do not have access to reliable internet or literacy in operating digital devices, hence the dependence on GST Suvidha Kendra. Although these centers were supposed to encourage compliance, the availability of these centers is temperamental, and they charge extortionate fees in some instances (NITI Aayog, 2021). It makes it expensive to comply, and so that feeds exclusion more than it bridges difference.

Regional disparities. The benefits of the GST are not uniform for all of Uttar Pradesh. In Noida and Ghaziabad, access to global supply chains and robust digital infrastructure has made compliance a smooth affair. But in Bundelkhand, low registration and poor institutional support continue to drive informality. Such intra-state divergence reflects national trends: the benefits of reforming target urban corridors at the expense of peripheral economies (World Bank, 2020).

There is political economy and fiscal autonomy." The GST Council, which is where the Union and states must sit together and agree on tax rates, has cut back states' free hand on the fiscal." Before, Uttar Pradesh could accustom VAT exemptions to favor local industries, such as sugar mills and handicrafts. Under the GST, these powers have been taken away and vested in the Council, constraining the power of the state to pursue its own differentiated strategy. The champions of the theory of fiscal federalism (Chakraborty, 2020) stated that such a centralization, besides promoting uniformity, is against the principle of competitive federalism. The termination of compensation grants in UP after 2022 has exacerbated the situation and raised concerns about long-term fiscal sustainability.

5. FINDINGS

Uttar Pradesh's experience with the introduction of the GST is its own curiosity with the results having difficulties and mixed results. The reform has, in fact, scored quite well on some of its key stated objectives, including improved logistical efficiencies and expanded tax coverage. But it has also exacerbated regional and sectoral imbalances. These results reveal the dual nature of the GST: it functions as both a fiscal reform initiative and a political act of centralization.

5.1. PARADOXES OF REFORM

One of the most contradictory results of this study is the paradox of enhanced logistics and exclusion of rural space. The implementation of the e-way bill and the abolishment of border check posts have led to a significant decline in transit time on key highways, especially in the NCR stretch. Carriers save not only time but also the cost of fuel as well, leading to more efficiency in interstate trade, thus say the transporters themselves (World Bank, 2020). But all these advantages are unevenly concentrated in population centers in and around cities, in Noida, Ghaziabad, and Kanpur. In rural regions with less access to networks and fewer digital spots, traders cannot avail themselves of these efficiencies.

So, on the one hand, the GST has fostered a more integrated market; on the other, it has deepened the rift between fully integrated urban economies and peripheral rural markets. The inclusivity of the reform is, in this sense, uneven.

5.2. BEHAVIORAL SHIFTS AMONG TRADERS

Another important observation is a shift in perceptions of taxation by small traders. Traditionally, small traders often viewed compliance as an avoidable burden. GST, however, has redefined what registration really is. Owning a GST identification number is a credibility mark today for most MSMEs. It enables traders to secure business-to-business contracts, obtain bank loans, and integrate into supply chains.

According to the interviews and field notes (NITI Aayog, 2021), it is especially the younger entrepreneurs in districts like Lucknow and Gorakhpur that now do not perceive GST as a legal necessity but perceive GST as a door to being codified (formally recognized). As a pointer to a change of mind, I find this even more significant than revenue numbers; it means that the GST is beginning to reconfigure the relationship of the state and its economic factors. However, resistance remains high in very informal sectors, and traders still believe that the costs of complying overcome the benefits.

5.3. GST: AN ECONOMIC REFORM OR A POLITICAL PROJECT

The findings frame GST not merely as an economic reform but as a political project that reconfigures India's federal arrangements. For Uttar Pradesh, GST has led to limited autonomy in taxation, and significant power has been transferred to the GST Council, where the central interests predominate. This has limited the state's capacity to customize fiscal incentives for local industries, especially sugar cooperatives or handicraft clusters.

At the same time, the process of centralization has set the screw by spreading a culture of accountability: even filing, common rates, and transparent ITC chains. In this respect, GST signifies a political recasting of fiscal compact; both traders and states now abide by a national order that aspires towards harmony over sovereignty.

The PEL, accordingly, exposes a countervailing narrative. On the one hand, it represents modernity and a coming together; and on the other, it is about centralization and the whittling away of the fiscal freedom of states. A simple tally of costs and benefits in Uttar Pradesh highlights both, rendering GST a highly contested reform.

6. CONCLUSION & POLICY IMPLICATIONS

Examining the implementation of GST in UP reveals a reform that is both transformative and controversial. " On the one hand, GST has eased the movement of goods, brought in logistics efficiency, widened the taxpayer base, and made the tax administration more transparent. On the other hand, the regime has widened regional imbalances, cemented the state's reliance on excluded commodities, and limited fiscal autonomy. Traders also appear to have changed their behavior, with many indicating that GST registration was becoming a badge of credibility, even if compliance costs continue to weigh heavily on the rural and medium and small enterprises.

Several policy lessons emerge. To begin with, petroleum and alcohol would have to be integrated into the GST framework to restore the credit chains and to minimize the fiscal distortions. Second, vernacular-language GST Suvidha Kendra can serve as a tool of capacity-building and eliminate the digital and language-based obstacles that are still discouraging the rural traders. Third, more fiscal space for states under the GST Council regime would enable Uttar Pradesh to shape policies addressing its economic diversity, be it sugar cooperatives or small handicrafts. Finally, we need to deploy, in a targeted way, incentives for rural businesses to formalize (simplified filing regimes, support for credit, local training programs) to forestall an increasing divergence between the formal and informal economies.

Finally, GST should be seen not only as a tax reform but also as a fiscal covenant between the state and its people. Its legitimacy will depend on whether it can provide inclusivity, fairness, and empowerment as well as efficiency and revenue. Uttar Pradeshencounter reveals that the fortunes of GST hinge as much on governance and trust as on tax.

CONFLICT OF INTERESTS

None.

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