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Institutional Evolution and Performance of India's GST System: Evidence from Revenue Trends, Digital Compliance Frameworks, and Reform Initiatives

Bishowa Raj Adhikari, Rajeev Prabhakar

Deen Dayal Upadhyaya Gorakhpur University, Gorakhpur, India
Email: adhikaribishowa@gmail.com, bishworaj.adhikari@balkumaricollege.edu.np, Rajeev.comm@ddugu.ac.in, rajiv_capricorn2002@rediffmail.com

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Abstract

The Goods and Services Tax (GST) system brought together seventeen types of indirect taxes imposed on purchase or sale of goods and services, and came into effect on July 1, 2017. The objective of the GST is to establish uniformity in the tax system for the supply of goods and services across India. Initially, GST was introduced in 2014 as the 122nd Amendment Bill. The legislation proceeded through extensive parliamentary scrutiny and formal approval by both Houses. After that, it was followed by ratification by over fifteen states of India, and then it culminated in the President's assent in September 2016. The 101st Constitutional Amendment Act, 2016 established the GST Council and conferred concurrent legislative authority upon Parliament and the State Legislatures to enact and administer GST laws. This paper reviews GST's progress and achievement through policy and performance. To achieve the effective outcome of the study, it adopts a descriptive and analytical research methodology. To analyze the situation, the secondary data were collected from official reports, institutional disclosures, and working papers to evaluate GST's policy performance and outcomes. In the present context, GST revenues have slowly increased alongside a broader taxpayer base. As the findings of the paper show, the GST system relies mostly on digital compliance tools such as e-way bills and e-invoicing, which have improved transparency and strengthened enforcement. The paper also examines the role of the GST Council and recent reform measures aimed at simplifying tax structures and easing compliance for businesses and consumers. Finally, the paper highlights continuing challenges—classification disputes, input-tax-credit frictions, and uneven State GST performance after the end of compensation—and offers a focused agenda for strengthening GST outcomes in the coming years.

Keywords

GST, Tax Buoyancy, Digital Compliance, E-Way Bill, E-Invoicing, Cooperative Federalism, GST Council

1. Introduction

Goods and Services Tax in India represents one of the most significant fiscal reforms in the post-independence period. By consolidating a wide range of central and state-level indirect taxes into a single tax on the supply of goods and services, GST was designed to remove tax-on-tax effects, simplify the tax structure, and make compliance more predictable for businesses of all sizes. Beyond its legal and administrative redesign, GST also signaled a shift towards greater fiscal coordination between the Union and the States through a formal mechanism of cooperative federalism. The creation of the GST Council, with shared decision-making between Centre and States, is at the heart of this institutional transformation.

The conceptual foundation for GST in India can be traced back to the Kelkar Committee recommendations in 2204, which advocated for a comprehensive goods and services tax to replace the existing indirect tax structure. Considering the consolidation of multiple indirect taxes levied on the production, supply, purchase, or sale of goods and services, the Goods and Services Tax (GST) system at the central and state levels is proposed to be implemented from 1st July 2017. Its objective is to apply a uniform system of taxation on the supply of goods and services across the country, eliminate the cascading effect of taxes, and establish a common national market for goods and services. For this purpose, the constitution was amended through the constitution (101st Amendment) Act, 2016. According to the provisions of Article 246A(1) of the constitution, both the parliament and the State Legislatures, including Union Territories with legislatures, have concurrent powers to make laws for levying Goods and Services Tax on every transaction involving the supply of goods or services or both.

The system's core mechanism involves Central GST (CGST), State GST (SGST), and Integrated GST (IGST), administered through the GST Council for cooperative federalism. Drawing from secondary data like official reports, this descriptive-analytical study assesses GST's evolution, revenue impacts, digital tools, and hurdles.

1.1. Statement of the Problem

1) What trends in revenue collections and taxpayer coverage have accompanied the seven years of GST implementation, and how do these trends compare with pre-GST indirect-tax performance?

2) How have the principal digital compliance tools (e-way bills, e-invoicing, the

GSTN platform) been deployed, and what observable indicators of administrative performance are associated with their rollout?

3) How has the GST Council discharged its coordinative and rate-setting functions, and what institutional reforms have shaped the post-2022 federal fiscal compact?

4) What implementation constraints persist after the end of the compensation period, and what reform priorities arise from the evidence reviewed?

1.2. Objectives of the Study

This study aims to evaluate the institutional evolution and performance of India's GST system through the following specific objectives:

1) To analyze the revenue performance and tax buoyancy of the GST system since its implementation.

2) To examine the role of digital compliance frameworks in enhancing tax administration.

3) To assess the effectiveness of the GST Council in coordinating federal tax policy.

4) To identify key challenges and reform priorities for strengthening GST outcomes.

2. Literature Review

The academic literature on GST implementation in India spans multiple dimensions, including theoretical foundations, comparative analyses, and empirical assessments of outcomes. This section synthesizes key contributions to understanding GST's institutional evolution and performance. It focused on the theoretical benefits and potential challenges related to the adoption of GST.

Kumar and Rai (2020) stated that "They thought it would have a beneficial effect on growth of 1.5% to 2% since it would make it easier for people to pay their taxes and cut the costs of doing business." Their analysis highlighted GST's potential to enhance economic efficiency by eliminating tax cascading effects.

Garg (2020) conducted "A comprehensive analysis of the challenges related to GST implementation, including issues with technology infrastructure and the compliance burden on small businesses, and the collaboration between the Centre and the States." The study emphasized the imperative for continuous reforms and simplification efforts to realize the complete potential of GST. Recent scholarly research has increasingly emphasized the digital transformation aspects of GST.

Sharma and Jindal (2021) examined the "Application of technology is used in GST administration, focusing on the GSTN (Goods and Services Tax Network) platform." Their investigation demonstrated the significance of digital infrastructure in facilitating the seamless operation of GST processes across several jurisdictions. The COVID-19 pandemic has initiated innovative research directions in GST investigations.

Mathur and Singh (2022) examined the "Fluctuations in GST income during the epidemic. They demonstrated the strengths and weaknesses of the digital tax system amid significant economic volatility." International comparative study has significantly enriched the GST literature.

Bird and Gendron (2020) analyzed "India's GST model in comparison to implementations in other federal countries," including Canada and Australia, emphasizing both similarities and unique features of the Indian system.

3. Research Methodology

Research methodology is necessary for each research work. Research methodology is a way to solve the research problem systematically. The research methodology considers the logic behind the methods used in the context of research study and explains why particular technique or method is used.

Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variants. The study uses a descriptive and analytical methodology. The study draws on a structured secondary dataset covering FY 2018-2019 through FY 2024-2025. Revenue figures come from the monthly press releases of the Central Board of Indirect Taxes and Customs, consolidated in GST Revenue Statistics (Central Board of Indirect taxes and Customs, 2024a) and cross-verified against the Union Budget Receipts statements. Legislative and institutional facts are taken from the Constitution (101st Amendment) Act, 2016 and from the GST Council's official meeting records. Compliance and digital-platform indicators are drawn from Ministry of Finance/PIB releases on compliance improvements in FY 2022-2023 and from progress updates on e-invoicing Policy-reform material, including the 55th GST Council Meeting decisions.

3.1. Analytical Framework

The analysis is structured around three key dimensions:

Revenue Performance Analysis: This involves examining GST revenue trends, growth patterns, and comparison with pre-GST indirect tax collections. The analysis includes assessment of revenue buoyancy and the impact of rate changes on collections.

Digital Compliance Framework Evaluation: This component analyzes the implementation and effectiveness of digital tools such as e-way bills, e-invoicing, and the GSTN platform. The evaluation includes metrics on compliance rates, system performance, and user feedback.

Institutional Reform Assessment: This dimension examines the role and effectiveness of the GST Council, policy reforms undertaken since implementation, and the evolution of Centre-State coordination mechanisms.

3.2. Definition

- **Tax buoyancy.** In this paper, *tax buoyancy* is defined as the ratio of the percentage change in GST revenue to the percentage change in nominal GDP

(Buoyancy = $\Delta R\%/\Delta Y\%$) over the period FY 2018-2019 to FY 2024-2025. A value greater than 1 indicates revenue growing faster than the economy (elastic growth).

- **Digital compliance.** *Digital compliance* refers to the use of GSTN-hosted electronic systems, e-way bills, e-invoicing with Invoice Reference Numbers, and auto-populated GSTR-1/3B returns—to verify, validate, and reconcile taxpayer-reported transactions in real or near-real time.
- **Policy performance.** *Policy performance* is operationalized in this paper as the joint evaluation of 1) revenue trend stability across phases, 2) taxpayer coverage indicators, and 3) the institutional responsiveness of the GST Council to emerging implementation constraints.

4. Evolution and Governance of GST

4.1. Constitutional and Institutional Framework

Cooperative federalism and constitutional formation are the building blocks of GST's institutional framework. The Constitution (One Hundred and First Amendment) Act, 2016, added Article 246A, which gave both the Parliament and the State Legislatures the power to make laws about GST. It additionally provided Parliament the only power to make laws about interstate supply chains. The change also led to the creation of Article 279A. This article says that the President must set up a Goods and Services Tax Council and explains how it should be made up, what it should do, and how it should vote (Government of India, 2016).

4.2. GST Council: Decision-Making and Governance

The GST Council has made all of the important choices about GST rates, exemptions, processes, and ways to make sure people follow the rules. The states get two-thirds of the vote, and the center gets one-third. The Indian government says this is done to keep the peace amongst the states and the country as a whole (Government of India, 2016). The Council has talked a lot about transition problems like pay, making returns easier, and explanations that are specific to certain sectors. The GST Council has made a number of important changes to institutions to make the GST system work better. These include changes to the rules, like changes to Section 17(5)(d) that make it clearer what the limits are on claiming Input Tax Credit (ITC). The Council has also changed tax rates in a planned way. For instance, the GST rate on profits made by used car dealers has gone up from 12% to 18%. It has also helped some industries by lowering taxes, like lowering the GST on Fortified Rice Kernel (FRK) from 18% to 5% (55th GST Council Meeting record).

The Council is also still working to improve compliance by making it easier for taxpayers to follow GST rules by making it easier to file returns.

4.3. Recent Institutional Developments: GSTAT

The GST Appellate Tribunal (GSTAT) was a big breakthrough for the settlement of GST disputes. For years, companies with GST issues had no choice but to approach High Courts. This resulted in long delays and cost of resolving issues for companies. The governments' decision to finally establish GSTAT offices is a significant step forward toward making dispute resolution easier and more accessible.

5. GST Revenue and Tax Buoyancy Performance Analysis

5.1. Revenue and Buoyancy Trends

When we examine the total GST collections year by year, we can see clear periods where the tax system grew strong, faced tough times, and bounced back (Table 1).

Table 1. GST revenue and tax buoyancy trends in India (FY2018-2019 to FY2024-2025).

Financial year	Gross GST in crores	GST Revenue Growth(percent)	Nominal GDP Growth (Percent)	Buoyancy (R%/Y%)
2018-2019	11.77	58.9	10.5	5.6
2019-2020	12.22	3.8	6.4	0.59
2020-2021	11.37	−7	−1.4 to −3.0	distorted
2021-2022	14.83	30.4	18.4 to 19.5	1.56
2022-2023	18.08	22	16.1	1.36
2023-2024	20.18	11.5	9.6	1.19
2024-2025	22.09	9.4	10.1	0.93

5.2. Revenue and Tax Buoyancy Analysis

We conclude that, divided into different stages. They are as below:

Initial stage (2017-2019): Despite structural changes and some confusion, it managed to stay strong and generated about INR11.77 lakh crores in revenue by 2018-2019. Dividing a full 12-month collection figure by a 9-month baseline creates a high growth rate (58.9%). While the introduction of the nationwide E-Way Bill system in April 2018 significantly improved compliance, the high buoyancy figure is primarily an artifact of the base conversion.

Getting Used to It (2019-2020): Before the pandemic, growth was slow but steady (3.8%), pushing collections to INR12.22 lakh crores as the economy and taxpayers gradually adjusted to the new system. A drop below 1.0 resulted from a combination of macro factors: Broad manufacturing and auto-sector slowdowns. Multiple rate cuts enacted by the GST Council to provide consumer relief. Key compliance tools (like automated invoice matching and e-invoicing) were not yet mandatory.

The COVID Impact (2020-2021): The pandemic caused a major disruption, and revenue fell by 7% to INR11.37 lakh crores. However, the digital GST system helped maintain operations during this difficult time. However, standard tax buoyancy assumes positive economic growth. In a period of severe mobility restriction, this metric loses standard interpretive value and is treated as an anomaly.

Strong Recovery (2021-2022): After the pandemic, GST revenue rebounded sharply, increasing by 30.5% to INR14.83 lakh crores, supported by economic recovery and better digital monitoring that reduced tax evasion. This Period represents the most effective administrative phase in GST history such as e-invoicing expansion, automated credit matching and data integration.

Stable Growth (2022-2025): Since then, GST collections have remained strong, crossing INR18 lakh crores with steady growth between 9% and 22%, showing that the GST system has matured and stabilized. A tax buoyancy just below 1.0 suggests that the one-off big jump in tax collections from bringing unregistered businesses into the system is largely done.

In the initial years, tight digital tools (such as e-invoicing and digital tracking) were introduced, which compelled many informal businesses to pay taxes. Tax collections thus grew much faster than the overall economy.

Now, that initial wave is over. The tax system has matured, and tax revenues will now simply grow at the same normal speed as the economy.

6. Digital Compliance and Framework

6.1. Evolution of Digital Infrastructure

India's shift to digital tax collection through GST is honestly impressive—it's one of the most advanced tech-based tax systems anywhere in the world. It handles millions of transactions every day without a hitch—over 5 billion transactions every year. The system manages tax information for more than 1.3 crore businesses (Central Board of Indirect Taxes and Customs, 2024b).

6.2. E-Way Bill System

As of April 1, 2018, businesses must make an electronic document when they move goods worth more than INR 50,000 across state lines. This system helps the government keep an eye on the movement of goods and cut down on fraud and tax evasion. Starting in April 2025, two-factor authentication (2FA) will be required to make security even better.

6.3. E-Invoicing System

Since 2020, businesses have had to make standard digital invoices and get an official tracking code i.e. Invoice Reference Number (IRN) from the government website. Starting in August 2023, all businesses that make more than INR 5 crore must use this system (Press Information Bureau (PIB), 2023a). It automatically checks data against GST returns, finds fake bills, and keeps records very accurate. The integration of e-way bills and e-invoicing has created a comprehensive digital monitoring ecosystem that has contributed to improved timely filing rates for GSTR-1 and GSTR-3B returns in FY2022-2023, (Press Information Bureau (PIB), 2023b) enhanced data quality through automated validation checks, reduced scope for tax evasion through cross-verification.

7. Transition Mechanism and Fiscal Adjustments

7.1. Compensation Framework

The GST reform included a complete compensation system to ease states' worries about possible revenue shortfalls. Section 18 of the Constitution (101st Amendment) Act, 2016, promised states a 14 percent annual revenue growth rate based on 2015-2016 levels during the transition period. This was done through the GST (Compensation to States) Act, 2017.

This system was very important during the COVID-19 pandemic because it kept states' finances stable even as GST collections fell. The payments helped keep important public services and infrastructure investments going during the economic crisis.

7.2. Post-2022 Fiscal Dynamics

The conclusion of the guaranteed compensation period in June 2022 marked a significant transition in GST's federal dynamics. Without compensation backstop, state-level GST and IGST performance became more transparent, requiring states to strengthen tax administration capabilities, improve compliance enforcement mechanisms, enhance cash flow management systems, and develop independent revenue forecasting and planning capabilities.

This transition has contributed to improved state-level tax administration and increased focus on broadening the tax base rather than relying on rate increases.

8. Challenges and Constraints

The GST system still has a lot of legal and practical issues. The complicated rate structure is a big problem because it often leads to arguments about how to classify goods and services. Businesses also have trouble getting an Input Tax Credit (ITC) because the process is slow and the rules can be hard to understand. Also, not all states do well. Some states have been able to handle GST implementation well after the end of the compensation period, but smaller states often have trouble because they don't have enough staff to do the job.

The technological infrastructure also has problems. GST is mostly digital, but sometimes things don't go as smoothly because the system isn't scalable and there are technical problems. The digital divide makes things even harder, especially for small businesses that may not have.

9. Recommendation and Way Forward

9.1. Rate Rationalization Initiatives

The most critical reform priority involves systematic rate rationalization to reduce complexity and classification disputes. The Group of Ministers (GoM) on Rate Rationalization is currently working on merging the 12 percent and 18 percent tax slabs to create a simplified structure, developing clear criteria for classification to minimize disputes, reviewing exemptions and special rates to improve revenue efficiency, and creating sector-specific guidelines for complex industries.

The proposed three-rate structure (5 percent, 12 - 18 percent merged, and 28 percent) could significantly reduce compliance burden while maintaining revenue adequacy.

9.2. Digital Infrastructure Enhancement

GSTN modernization requires investment in scalable cloud infrastructure and advanced analytics capabilities to handle increasing transaction volumes and provide better user experience. Integration improvement involves seamless integration between all GST-related digital platforms to create a unified ecosystem for taxpayers. A mobile-first approach includes development of mobile applications and simplified interfaces for small businesses and individual taxpayers.

9.3. Federal Coordination Strengthening

Enhanced GST Council functioning requires regular review mechanisms for assessing policy impacts and making data-driven decisions. Joint enforcement programs involve coordinated audit and enforcement initiatives between Central and State agencies. Capacity building includes systematic training programs for tax officials and taxpayers to improve understanding and compliance.

9.4. Structural Reforms

Systematic business registration involves proactive identification and registration of businesses operating in the informal economy. Sectoral integration includes gradual inclusion of excluded sectors like petroleum products and real estate into GST framework. Learning from international best practices involves continuously improving India's system based on global GST implementations.

10. Conclusion

The Goods and Services Tax system represents a landmark achievement in India's fiscal federalism and economic governance. Over seven years of implementation, GST has demonstrated its capacity to unify India's indirect tax structure, enhance compliance through digital transformation, and adapt to economic challenges including the COVID-19 pandemic.

The revenue performance, with collections growing from Rs.7.41 lakh crores in the initial period to Rs.22.09 lakh crores in FY2024-2025, demonstrates the system's fundamental soundness. The digital compliance frameworks, particularly e-way bills and e-invoicing, have created unprecedented transparency and monitoring capabilities in India's tax system.

The institutional innovation represented by the GST Council has proven effective in maintaining federal harmony while enabling decisive policy-making. Recent developments, particularly the establishment of GSTAT, address key gaps in the dispute resolution framework and represent continued institutional evolution.

However, challenges remain in areas of rate rationalization, technology infrastructure, and small business adaptation. The ongoing efforts by the Group of Ministers on Rate Rationalization and continuous technology improvements suggest that the system continues to evolve and mature. GST's impact extends beyond revenue collection to broader economic formalization, improved business efficiency, and enhanced tax transparency. The system has created a foundation for India's digital economy while providing a model for other developing countries considering comprehensive tax reforms.

The success of GST ultimately depends on continued commitment to addressing identified challenges through coordinated reforms, technological advancement, and institutional strengthening. The evidence suggests that India's GST system, while not perfect, has created a more equitable, transparent, and efficient indirect tax framework that serves the country's long-term economic development objectives.

Future research should focus on sector-specific impacts, regional variations in implementation effectiveness, and comparative analysis with other federal GST systems to further refine and optimize India's approach to goods and services taxation.

Author Contributions

Conceptualization, B.R.A. and R.P.; methodology, B.R.A. and R.P.; software, B.R.A.; validation, B.R.A. and R.P.; formal analysis, B.R.A.; investigation, B.R.A.; resources, B.R.A. and R.P.; data curation, B.R.A.; writing—original draft preparation, B.R.A.; writing—review and editing, B.R.A. and R.P.; visualization, B.R.A.; supervision, R.P.; project administration, B.R.A. and R.P. All authors have read and agreed to the published version of the manuscript.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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