

Potential Role & efficiency of Goods and services tax (GST) in managing public debt in India

Indranil Roy

Student, Dept of Economics
Arya Vidyapeeth College (A)

Dr. Mousumi Borah

Associate Professor & Head
Dept of Economics Arya Vidyapeeth College (A)

ABSTRACT-The study aims at observing and highlighting the potentiality of GST in managing public debt in India through a strict usage of secondary data as a measure of analysis sourced from trusted origins. Primarily, the deficit statistics and trends were observed via usage of appropriate graphical apparatuses to test the presence of any severe debt trap situations in the Indian economy, in which the outcome stood at not a critical stage but at a vulnerable one. Subsequently, the potentiality of GST as a managing mechanism was examined through a thorough examination of its trends for sustainability and stability via a similar approach. The outcome indicated towards a positive resolution with the presence of significant potentiality subjected to some modifications and tweaks to the current structure to sustain as a tackling mechanism. In the ending terms, the recommended refinements and manoeuvres were highlighted that could be opted for so as to enable the seamless blend of GST as a confronting measure into the currently operational strategies and approaches.

Keywords: GST, Public-Debt, India

INTRODUCTION-Among the various noteworthy aspects of a country's economy, its budget and status of public finance policies hold reputable significance. In the modern world, there is more importance for public finance and budget in every country's economic system (Sunkad, 2020). These elements are worthy enough to be regarded as reflectors of a country's economic health. Diving into specifics, a thorough analysis of the prevailing fiscal and primary deficits of a country may relay vital information in accordance to the prevailing requisites. Swinging the focus on public debt, it can be profoundly titled as a "double edged blade", as because it's possibly the most complete and convenient approach to finance budget deficits, but is no short of an utmost agony if it precipitously evolves into a "Debt- trap". Thus, its utilization and management in the safe limits is of utmost importance, for it may evolve from a blessing to curse in no time (Kur, Abugwu, Abbah, Anyanwu, 2021). Modern economies cannot be isolated from acquiring public debt, for it shall result in serious hinderances in the normal functioning and long term development. Thus, the attempt is not to completely eradicate it, but to keep it under the safe limits through executing regular checks. For this, observation of the key indicators, which are large-

impacted and influenced by public debt, is vital. The fiscal and primary deficits are perhaps the most efficient and accurate indicators. A larger difference between the Fiscal and primary deficit vividly implies a greater volume of interest payments and in turn implies a greater burden of public debt and vice-versa. Still, reckoning on a sole index and drawing conclusions may be deceiving and may convey erratic issues. Thus, cross checking the obtained results with an alternative indicator is crucial. In this specific case, analysing the Debt-GDP ratio shall further concretize the indications conveyed by the deficits. Subsequently, if the outcomes obtained convey any vulnerabilities, measures to eliminate it need to be thereafter be analysed and executed. Curtailing public debt may be accomplished following a diverse range of approaches. However, the approach that is to be highlighted is, opting to the taxation system as the tackling apparatus to curtail debts. Among all the diverse range of taxations, the focus lies upon the GST (Goods and Services Tax). With respect to India, the introduction of GST is regarded as a major tax reform. It is the foremost vital tax reform in India supported by the notion of "One nation, one market, one tax." (Vidya, Priya, 2020). This has led a revolution in the taxation system evolving the entire scenario of indirect tax regime. This can be regarded as a major augmentation towards taxation system as an instrument to tackle debt traps however, the scale of potentiality of improvement is to be statistically analysed. This can be efficiently substantiated by minding the changing tax base, indirect tax revenue collection and other applicable variables. Upon observation, suitable conclusions may be drawn highlighting the potentiality and role of GST in curtailing and eliminating debt traps and boosting the overall economic health.

LITERATURE REVIEW-Among the three forms of government budget classified on the basis of status of deficit, the balanced budget is perhaps the most exceptional one to find in the modern day economies. The modern day economies commonly features either surplus or deficit budgets, amongst which the deficit budget is the most prevailing one. The rationale behind this phenomenon is a diverse one. The most common ones may be attributed to the operation of inflationary pressures, inappropriate policies, political instability and

corruption. With limelight on Pakistan, Nauman , Ahmad (2024) opines that “inflation has become a major and harmful factor contributing to the budget deficit. Pakistan has experienced the problem of fiscal deficit over the last four decades the reasons behind it were poor governance, corruption, and political inability to properly utilize resources to its best use.” Owing to the wide prevalence of deficit budgets across global economies, the most conventional and standard tackling measures are worth observing. Conceivably, the most reputed measure is to resort to borrowing, and this is the measure that's utmost ordinarily settled for. Given that the cons of an unmanaged and uncontrolled public debt have already been stated, the subsequent transition would be to highlight upon the measures of managing the same, so as to decelerate or terminate the evolution of a simple borrowing into an ever menacing debt trap. Amongst the various instruments and strategies of settling public debt, the spotlight is concentrated upon operation of Taxation in dealing with public debt. Though a country's taxation may have its own unique fragmentation and structure, our consideration shall limit to direct and indirect taxes as the standard dispersion. Improvements in taxation system of a country implies incremented revenues, thus curtailing budget deficits and in turn finally relaxing the overall debt burden and eliminating the need of further borrowings or debt procurement. Study by (Osoro, Atambo, Abuga, 2016) concluded that various tax revenues on Single Business Permit, Land Rates, Property Rates, Liquor Rates were statistically significant and played influential role in deficit financing of Kisii County Government. Furthermore, the conclusion of the study executed by (Okafor , Maduka , Ike , Uzochina , Ohachosim, 2017) vividly state a three pointed notion; first, taxes plays a crucial role in financing the budget deficit , second, tax expenditures and disposable personal income are underlying factors that affected the effectiveness of deficit financing and finally, tax expenditures stimulates government revenue, making a substantial contribution to reducing the budget deficit. Accentuating to a more indirect approach, neglecting taxation may in turn worsen the debt burden. It has been witnessed that, lowering taxes on high incomes can increase importations which would then increase the debt ratio even more (Pucci ,Tinel, 2010). Apart from the negligence aspect, evasion of taxes may too have detrimental impact on the debt burden. With regards to Spain, tax evasion has on an average contributed to about 23% of public debt accumulation over the 1985-2015 period (Herranza , Turino, 2022). The various literatures convey that taxation play a potentially important and competent role as a measure of deficit

cut financing so as to relax the prevailing public debt burden. However, the literatures focused upon a much aggregative approach, focusing on the taxation system as a whole or in general as an instrument to tackle debts. The study of specific indirect tax and the scale of potentiality in curtailing debt burden, particularly in the Indian context was lacking. Thus, this gives rise to a potential research gap and a scope of extension, which is exactly what this study focuses and aims upon. The Indian economy with special regards to GST's potentiality to curtail and relax the public debt burden, if any, is the prime highlight and the addition to the research base longed for.

OBJECTIVE-To analyse the Potential Role & efficiency of Goods and services tax (GST) in managing public debt in India.

METHODOLOGY-The Research focuses on grilling the implicit impact and effectiveness of the Goods and Services Tax(GST) in handling public debt in India. For the purpose of study, majorly a quantitative approach was resorted to and the data was sourced from secondary sources of trusted origins and the same was presented via a tabular and graphical approach. Majorly, line graphs were utilised to observe the requisite trends. The graphs were either directly sourced as secondary data or were constructed of the obtained data via usage of MS Excel. Occasionally, case study analysis was also carried out to obtain requisite references regarding the aspect of focus. Through the usage of the above methods, analysis was carried out, leading to the achievement of appropriate conclusions.

ANALYSIS & INTERPRETATION

Fiscal health & debt status of India-The initiation of a combatting mechanism to tackle public debt with an aim to avoid a debt trap shall only be carried out subjected to the fact that the fiscal deficits are soaring high resulting in accumulation of heavy debts. In a nutshell, given that the fiscal health is quite grim, there arises a need to resort to anti-debt trap measures. Howbeit, prevalence of a flourishing and excellent fiscal health comprehensively eliminates the demand of discussion. Thus, the primary step is to determine the prevailing fiscal health of a country. The primary indicators as previously stated are the Fiscal deficits and Debt to GDP ratio. With respect to India, an overview of the consolidated fiscal balance (in terms of USD) may be observed as below:



FIG: 1.1 : Consolidated fiscal balance (in terms of

Source : <https://www.ceicdata.com/en/indicator/india/consolidated-fiscal->

The data from the last 10 years vividly convey that India has frequently faced deficit situations, the worst one being in 2019, where the value fell to -29.081 USD. The years following the same, i.e., 2020-2024, no severe (or any) deficit situation was being faced, although the deviations ensuring a surplus was indeed marginal and was vulnerable to drop to deficit by slightest of slips in frequent instances. The trend of the consolidated fiscal balance conveys that although the fiscal health isn't alarmingly detrimental, but is vulnerable to worsen subjected to the occurrence of unwanted shocks or instability. If the fiscal balance is to be evaluated as the percentage of total GDP, the following data may be observed.



FIG: 1.2 : Consolidated fiscal balance: % of GDP

Source : <https://www.ceicdata.com/en/indicator/india/consolidated-fiscal-balance-of-nominal-gdp>

The illustration conveys a steep detriment in fiscal balance as a % of GDP from 2019 onwards and the worst case being in 2021, in which the balance reached a record low of -9.2 in the last 10 years which may be attributed to the consequences of the epidemic. This is at par with the actual consolidated fiscal balance data in terms of USD evaluated previously. Subsequently, the years following observed significant increments, although the levels of increment failed to attain the pre- 2019 stratum. Thus, although the initial falls in the trend from 2019-20 onwards may be attributed to the pandemic as an external disturbance factor, but the Dwindling recovery rates and inability to reach the vintage benchmarks may carry some long term perils.

From the above indexes , the presence of a minor/major deficit as a customarily befalling phenomena is congruously established. This gives rise to a probability or to some extent a certainty, of a presence of a debt situation as an outcome to the deficit, as because financing deficits through procurement of debts is the most typical and conventional approach that is frequently settled for.

However, the severity of the debt situation cannot be precisely figured through a mere observation of the deficit situation only. This demands a separate and exclusive analysis of the appropriate indicators.

For this purpose, the general government gross debt percent of GDP is to be analysed primarily. This shall indicate the total debt of a country's general government (including federal, state, and local governments) relative to its gross domestic product (GDP). The trends can be observed from the following data:

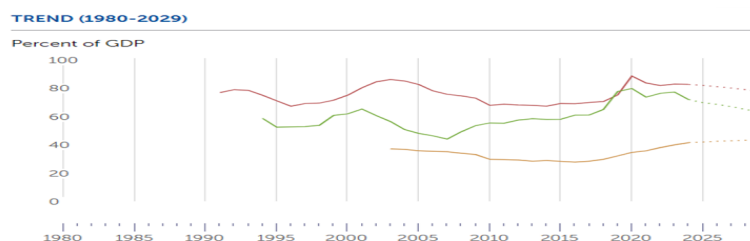


FIG: 1.3 : The general government gross debt percent of GDP of India, Bangladesh and Pakistan
Source : IMF DATABASE

The data comprises the general government gross debt percent of GDP from 1990 onwards till 2029 (Projected) for three countries; India, Pakistan , Bangladesh (In graph, from top to bottom respectively). India leads the data with a visibly higher levels of gross debt, trailed by Pakistan in the second position followed by Bangladesh. Thus, India seems to possess the highest scale of gross debt as per cent of GDP in a purely relative sense. However, other factors like size of GDP, political environment may influence the trends which gives rise to the essentiality of analysis of the data in an absolute sense. In an absolute sense, usually a rate from 60-80% is considered ideal as a manageable rate. The trend as from observation, usually persisted on the higher rung of the limit (80%) which may be vulnerable in the long run. Second, with regards to the Net lending/borrowing(also appertained as overall balance) of GDP, the following data is to be adhered to:

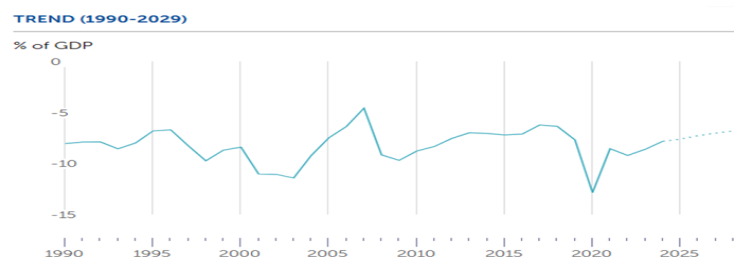


FIG: 1.4 : Net lending/borrowing % of GDP

Source : IMF DATABASE

The data conveys that the net borrowing/debt has been in negatives (indicating Borrowing) since 1990 conveying the uniform persistence of a situation of borrowings/procurement of public debt. However, the severity is to be observed. The best situation persisted in 2007 with the lowest borrowing levels of about 4.59% and the situation had never been better since then. The worst situation persisted in the more recent 2020, where the borrowing levels soared to 12.86%. Although there have been significant improvements since then and the projections indicate towards a more progressive future till 2029, the status still remains significantly vulnerable as subjected to the likelihood of happening of any mishaps, the situation may worsen, resulting in debt traps.

Thus, resorting to the discussion of an anti-debt trap measure remains a viable and beneficial step for the economy as a precautionary measure for the very uncertain future.

Evolution and status of potentiality of Indirect tax in India-The Indian Taxation structure can be broadly categorised into Direct and Indirect taxes. Though both the tax measures form an important constituent of the overall taxation layout, both have their individually distinctive features. One noteworthy feature that is deserving of attention is the overall coverage tenacity of taxes. Though direct taxes have its own bifurcation, its prominent subsection that is most commonly used, often exempts a significant proportion of the population from paying any amount of tax, thus reducing its overall coverage of the population. However, the indirect tax is rigidly conditional, i.e., with the purchase of any good or service, irrespective of income status, one has to pay the liable tax, thus allowing for a more tenacious coverage of the population. With respect to India, the indirect tax structure has been quite complex till 2017. The attempt of simplification was however initiated from early 2000s. It was then, when the development & execution of a unified tax regime was discussed upon. After a lengthy procedure, it was finally implemented in 2017, termed as Goods and Services Tax (GST). Focusing on its basic meaning and overall aggregative concept, it is a tax on goods and services, which will be levied at each point of sale or provision of service, in which at the time of sale of goods or providing the services, the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service (Vidya, Priya, 2020). The subsequent point that carries notable importance and demands thorough discussion, is the overall scale of increment in efficiency and enrichment of indirect tax collection, if any, relative to direct and total tax collections. This may be figured

from the observation of trend of tax collection. A table focusing the same is provided below:

TABLE: 1.1 : Tax collection data from 2014-22

Financial Year	Direct Taxes (Rs. crore)	Indirect Taxes (Rs. crore)	Total Taxes (Rs. crore)	Indirect Tax As % Of Total Taxes
2014-15	6,95,792	5,43,215	12,39,007	43.84%
2015-16	7,41,945	7,11,885	14,54,180	48.97%
2016-17	8,49,713	8,61,515	17,11,228	50.35%
2017-18	10,02,738	9,15,256	19,17,994	47.72%
2018-19	11,37,718	9,37,322	20,75,040	45.17%
2019-20	10,50,681	9,53,513	20,04,194	47.58%
2020-21	9,47,176	10,74,809	20,21,985	53.16%
2021-22	14,12,422	12,89,662	27,02,084	47.73%

Source : CENTRAL BOARD OF DIRECT TAXES

For further facilitation in observing and analysing the data, it is graphically presented as below:

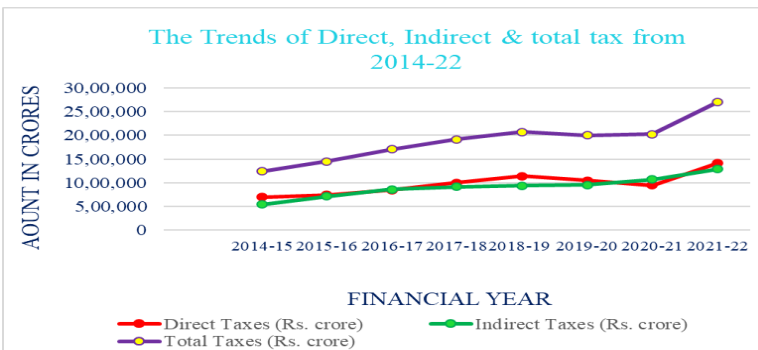


FIG: 1.5 : Direct, Indirect and Total Taxes trend from 2014-22

From the Graph, the following trends can be observed:
 (i). Total Taxes has been progressively increasing throughout the timeline. Although it may have faced temporary descends and stagnations from 2018-21, it is to be chiefly imputed to the direct taxes (as observable from the table). Subsequently from 2021 onwards, the total taxes have registered sharp hikes.
 (ii) The direct tax collection too has been progressively increasing throughout the timeline, with one exception, 2018-21. Also, this was the chief rationale behind the aggregate fall of total tax collection during the same time period. The falls, however is to be attributed to the occurrence of two main instances. In the early phase, attributable to the implementation of Taxation Laws (Amendment) Ordinance 2019 featuring rebates and

refunds, the tax collection had diminished, in accordance to the press version released by the Ministry of finance. In the closing half, the pandemic is a potential aspect that is to be considered. Since, the pandemic brought with it utter slowdowns, collapses and layoffs, they tend to cast significant detrimental impacts on the overall collection of direct taxes. The subsequent trends however seem to be quite promising with registration of sharp increments in the following year.

(iii).The indirect tax collection has been more or less incrementing at a much stable rate throughout the entire timeline with a few instances of minor stagnation and downfall. The highest collection being Rs. 12,89,662 crores in 2021-22, it is an about 137.31% hike from the initial collection in 2014-15, with an average increment of 17.04% per annum. This is quite a promising rate of growth indicating towards great potentiality. The implementation of Unified tax regime in 2017 may have attributed to a fall in increment rates in 2018-2020, but the impacts are very marginal and temporary.

From the individual trends of each of the taxation sub types, it can be vividly observed that direct tax is often much more elastic to any changes or disturbances in the system and the scale of resulting fluctuations is much more severe compared to indirect taxes. Just like reforms were introduced in the direct tax structure in 2019, indirect tax too witnessed a reform, which was rather much more rigorous and revolutionary, for it changed the entire system as a whole. However, the overall collection did not take any alarming hits; rather, it witnessed growth from the previous collections. The potentiality of the sustaining capacity of indirect tax can be observed from the following graph:

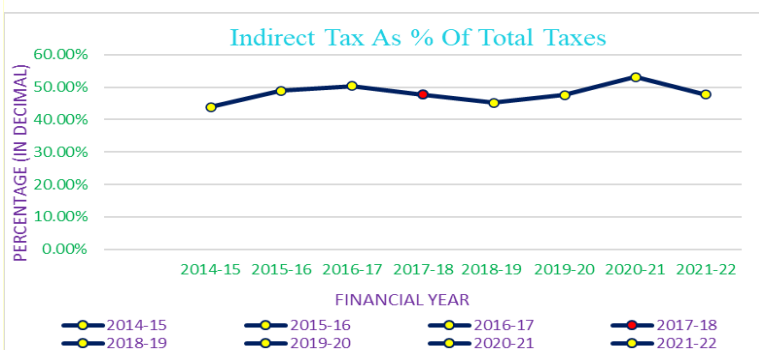


FIG: 1.6 : Indirect tax as percentage of total taxes from 2014-22

Owing to the implementation of Taxation Laws (Amendment) Ordinance in 2019 and the pandemic, the following years witnessed great falls in collection of direct taxes. However, simultaneously in the same time period, the total taxes testified only minor falls relative

to the fall in direct tax. The credit is to be attributed to the indirect tax. The same can be observed from the above graph. During the FY 2017-18, the indirect tax's share in total tax takes a fall owing to the very recent implementation of GST and the simultaneous hikes in direct tax collection. However, from 2018-21, direct taxes collections face heavy detriments due to the already stated reasons and during that time, we can vividly observe spikes in the indirect tax share in total taxes which acted as a sustaining force safeguarding total tax collections from taking severe hits. Subsequently, as the direct tax collection trends restored, the indirect tax share falls. Thus, it can be positively claimed that indirect taxes (here GST), has great sustaining and stabilizing trends which proves its greater potentiality to help to manage and handle mishaps

C. Amalgamation of GST's potentiality in tackling public debt : Policy endorsements

The Potentiality of GST in the field of sustainability and stability has been established in the previous instances. Utilizing the potentiality of tax revenue and policies in tackling budget deficits (ultimately public debt) is a phenomenon practiced globally. In Sri-Lanka, it was found that indirect tax had significant relationships with budget deficits (Anojan, 2014), i.e. harnessing indirect taxes to control and influence deficits was successful and negligence and misutilization of indirect taxes may threat to worsen the deficit situations, in turn worsening the debt. With respect to Kenya too, it was found that in the short run, public debt responds negatively to a change in tax revenue indicating towards the effectiveness of tax revenue in tackling debt. In the Indian context, it was positively established that the prevailing indirect tax regime has great potentials. This potential, if blended with the contemporary public debt tackling measures with minor modifications and tweaks, is expected to be of great benefit. A number of measures can be opted so as to seamlessly carry out this fusion:

- I. Tax Base broadening: For further boosting the potentiality, if attempts are made to further broaden the tax base by reducing exemptions and zero-rated items, it would enable higher tax collections. Subjected to this happening, a portion of the revenue may be diverted to settle debts
- II. Introducing technological advancements in the system may further boost efficiency of the system resulting in greater collection, further increasing the potentiality to settle debts.
- III. Linking Indirect Taxes to Debt Reduction Goals: Establishing clear targets on how revenue from indirect taxes can be used to pay down public debt,

creating accountability and transparency.

In accordance to the contemporary trends, since the current debt rates are not too alarming, pulling out resources from this augmenting indirect tax revenue treasures may be of great aid to further relax the overall debt burden, without impacting the other sectors.

LIMITATIONS

- The study chiefly focuses on the potentiality of GST in managing public debt and no major exclusive focus is laid upon other methods or the prevailing ones.
- The limited time frame hinders the overall scope of the study
- The study was strictly carried upon on the basis of secondary data. Inclusion of primary data could further enhance the overall quality, but the same couldn't be included owing to time and resource constraints.

CONCLUSION-In concluding terms, the management of a country's fiscal balance is very crucial for any economy for, if it goes unmanageable, it may bring with itself a vicious cycle of debt traps. With respect to India, it was found that, India is borrowing to finance deficits since a significant duration of time and a steady procurement of debts considerably threatens towards the arousal of a debt trap, although, the situation hasn't accelerated to those limits as of now. However, discussing precautionary and correction measures would be of significant importance, keeping the contemporary and predicted trends in mind. Among a diverse range of measures, the potentiality of GST (Indirect taxation) was chiefly focused upon. Upon thorough analysis it could be vividly observed that GST has significant potentials to serve as a supporting and tackling mechanism to public debt, subjected to the implementation of necessary and appropriate modifications and tweaks. Blending the GST system into the already existing measures would however require some careful ruminations to prevent any damage to other sectors if revenues are diverted. If done efficiently, GST as an indirect taxation system, has great potentialities to serve as a managing mechanism to tackle public debt.

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