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Role of Tax Administration in GST Revenue Collection

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Abstract

Goods and Services Tax (GST) plays very dynamic role in improving the economic growth and development of the country. The effectiveness of the tax administration has a major influence on the collection of GST income. Therefore, by capturing the conceptual framework related to tax administration and intending to analyze the role of tax administration in Karnataka State's GST revenue generation, the researcher goals to identify the variables that influence the efficiency and effectiveness of tax administration. Additionally, the researcher attempts to identify the factors that influence tax administration inefficiency. In order to explore the effectiveness of tax administration in Commercial Taxes Department in Karnataka, the researcher deeply looked into the revenue collection perception. An overview of the Karnataka Commercial Taxes Department's administration is given in this study. Further, the gaps in literature are explored with the objective of identifying the factors affecting the tax administration and understanding the role of tax administration for easier and huge GST revenue collection.

Keywords: Effectiveness, Revenue Generation, Tax Administration, Commercial Taxes Department, GST (Goods and Services Tax).

1. Introduction

GST in India is a levy imposed on locally produced and imported goods and services, playing a vital role in boosting the country's GDP. There are some exclusions under the commercial tax. Also recognized as consumer tax, it does not apply to zero-rated items, such as food and specific medications or goods that are exported. The GST in India varies from state to state as it is determined and imposed at the discretion of individual state governments.

Commercial Taxes Department in Karnataka

The history of indirect taxes in India dates back to 1944, when they were introduced to

protect British products in the domestic market. After independence, the Indian government implemented new indirect taxes. The Karnataka Commercial Taxes Department administers the Karnataka Sales Tax Act, which was originally enacted by the Mysore State Parliament in 1957. The introduction of VAT system in 2005 replaced the Sales Tax system in Karnataka. Various acts such as the Central Excise Act, Karnataka Goods Entry Tax Act, and Karnataka Entertainment Tax Act allowed taxation on goods and services in Karnataka.

GST Act, which came into effect in 2017, aimed to facilitate and streamline the taxation system in the country. The Karnataka Profession, Trade, Callings, and Employments Act of 1976 allowed taxation on salaried and self-employed individuals. The Karnataka Commercial Taxes Department believes in utilizing Information and Communication Technology tools for e-governance to enhance transparency and efficiency for taxpayers.

A new body called GST Council was established to administer GST in India, with members including the Union Finance Minister as well as state finance ministers. GST Council advises Union along with State Governments on GST implementation. IT infrastructure is crucial for effective tax administration. The GST Network (GSTN) was established in 2013 to provide IT services for stakeholders. Seamless transfer of input tax credit between states is enabled by IT integration. This minimizes taxpayer burden and improves tax legislation.

2. Review of Literature

According to Chen Liuhong's (2022) research, effective tax administration and tax economic efficiency result in the reduction of tax barriers to economic growth and the attainment of the highest possible tax revenue at the lowest possible cost. The researcher studied the mode of tax collection and administration, examined inefficient investments made through tax evasion, and talked about some significant legal concerns with the revision of tax collection and administration laws and related concepts.¹

Ms. Devika Agrawal (2021) this study measured the effectiveness of tax administration after introduction of GST. This investigation tried to shed light on the fact that the collection of indirect taxes can

also be increased by increasing the number of companies and taxpayers that directly affect the nation-building and economic development of the country.²

Amtul Wahab (2021) this study investigates the impact of change management at the Commercial Tax Department. It makes use of secondary data and the study will run for a year and analyse the data collected from the Commercial Tax Department and propose that insufficient training and inadequate computer skill maintenance are detrimental to both the department and the individual.³

Anna Wolak-Tuzimek & Weronika Tuzimek (2021) this paper highlights the significant fiscal impact of indirect taxes on the state revenue budget, revealing a strong correlation matrix between VAT, excise duty and tax on a game, and the state budget revenue.⁴

The purpose of this investigation is to investigate the variables that affect Yemen's tax administration, as stated by Saliza Abdul Aziz and Abobakr Ramadhan Salem Al Harethi (2018). The aim of this investigation is to determine the variables that impact tax administration in Yemen, which are autonomy, accountability, transparency, along with motivation.⁵

Nur Azhari Mutahar & Nadiah Abd Hamid (2018) this study examine Malaysia's indirect tax administration efficiency over a seven-year period using cost-revenue ratio data. Result of the study shows that administration costs impact efficiency and total tax revenue collection, but lack evidence supporting their overall impact.⁶

This investigation, conducted by Emmanuel Stephen N (2018), examines the influence of tax administration on revenue generation in Gombe state. This research determined that the state's tax administration is inefficient

and ineffective, resulting in low revenue generation as a result of low tax enlightenment and incidents of tax evasion and avoidance. This investigation proposes the implementation of system automation, enhanced tax worker quality and efficiency, and increased citizen awareness regarding tax payment.⁷

Dr R. Venkataraman & Ms Seeboli Ghosh Kundu (2016) this article showed how tax authorities can change from a post-audit reactive mode to a proactive mode to zero in on likely risk traders in indirect taxation to maximize impact on revenue and collection through statistical and scientific knowledge-based decision model.⁸

Research Gap

From the analysis of previous studies, it is found that majority of the studies focus on the impact of GST on economic development, but no studies were focused on the role of tax administration on GST revenue collection in Karnataka State, India. So, present study is intended to identify the factors that affect the efficacy and efficiency of tax administration and to pinpoint factors that impact the inefficiency of tax administration and also to analyze the role of tax administration in commercial taxes department for easier and huge GST revenue collection.

3. Research Methodology

To achieve the objectives of the study, secondary data has been collected from working officers/officials and taxpayers of the Commercial Taxes Department, Karnataka State, India and data gathered from secondary sources like newspapers, journals, books, government reports and websites.

4. Statement of the Problem

The commercial taxes department of Karnataka occupies a predominant position in GST revenue collection. Hence the efficient administration of the commercial taxes department is extremely crucial; efficient tax administration in the commercial taxes department is significant for both its performance and the automation of the state exchequer. Poor tax administration practices are the main reason for lower GST revenue generation. Hence, the study has taken to explore the factors lead to lower GST revenue generation and analyze the effective tax administration mechanisms.

5. Objectives of the study

1. To study the role of tax administration with respect to GST revenue generation.
2. To explore the factors that lead to lower revenue generation in Karnataka's GST administration.
3. To analyze effective tax administration mechanisms for a huge accumulation of GST revenue.
4. To analyze the GST revenue collection and GST growth rate of Karnataka State during the period from 2017-18 to 2024-25.

Research Question

The following research question is set for the study, Does tax administration impact the GST revenue collection?

Tax Administration

The tax administration is responsible for imposing and overseeing state taxes, as well as managing various tasks unrelated to taxes. This includes governance, management, implementation, and leadership of internal revenue laws and tax treaties, as well as the

development of tax policy. The tax administration Programme assists countries in improving tax revenue collection by utilizing customs administration frameworks and promoting good governance in tax system reform. This involves addressing management and governance structures, as well as operational efficiency. Medium-term Revenue Strategies may be used to coordinate governance and technical elements of tax system improvements.

Role of Tax Administration in GST Revenue Generation

Effective tax administration is crucial for GST revenue generation. When administrators and citizens understand their roles and obligations, revenue grows; otherwise, it is negatively impacted.

1. Tax administration plays a crucial role in GST revenue collection through the examination of management and governance arrangements for controlling operational returns and implementing Tax reform programs, along with risk management, organizational issues and information technology and data management.
2. In order to effectively fulfill their mandates, tax administrations must perform the following essential functions or operational tasks: taxpayer filing, refunds, audit, registration, payment, services, as well as dispute resolution.
3. Customs clearance, facilitation of trade, division control and cargo management, post-clearing audit, anti-smuggling initiatives, and customs enforcement are the core functions of customs administration; these operational activities are implemented to ensure that customs administrations fulfil their obligations efficiently.

4. To counter the social and economic adverse effects, tax administrations act swiftly and efficiently to recoup GST revenue collection losses as an urgent priority, to ensure the continued provision of services to the taxpayer community, in addition to ensuring business continuity.
5. Digitalization in tax administration improves service delivery, compliance measures, and operational efficiency. Collections, as well as operational efficacy, have been improved by tax administrations that have implemented technology. Technological developments present both benefits and challenges for every area of tax administration.
6. Tax administration assists countries to face challenges handling international tax risks, especially in the digital economy era, with ensuring required and enhanced tax administrative capacity.
7. It plays a vital role in the administration of Green and Carbon Taxes, along with other climate change-related fiscal programs, with required preparedness from tax administrations.
8. Tax authorities are assessing and analyzing tax systems by using tools like RA-GAP (Revenue Administration Gap Analysis Program), ISORA (International Survey on Revenue Administration) Tax Expenditure Assessment Tool, and TADAT (Tax Administration Diagnostic Assessment Tool) in order to enhance the nation's revenue growth.

Inefficient GST Administration Practices

The following are the inefficient GST administration practices:

1. The inadequate motivation of tax officials as well as taxpayers.
2. Failure to maintain accountability and transparency.
3. Inadequate fiscal autonomy, the intricacy of tax legislation, and other associated tax regulations.
4. The efficacy of tax administration is influenced by the dishonesty of tax administration staff.
5. Inadequate infrastructure, motivation, incentives, and personnel may compromise the efficiency of tax administration.

Effective Tax Administration Mechanisms for a huge accumulation of GST Revenue

Effective tax administration mechanisms for huge accumulation of GST revenue are as follows:

1. Clear administrative methods, accountability, transparency in decision-making, resolute tax authorities, and incentives for taxpayers are all necessary for the tax administration to operate efficiently.
2. It is also essential to have competent human resources and a sufficient timeframe to manage the optimization process and achieve positive results.

3. In numerous emerging economies, efficient tax administration is impacted by numerous elements, such as transparency, accountability, a robust code of conduct, strong internal control, and external over right and duty segregation.
4. The effectiveness of tax administration is greatly impacted by the autonomy of tax administration, motivation, transparency, and the training of personnel.
5. In addition, the efficiency of tax administration is determined by training, autonomy, motivation, as well as leadership style.
6. Implementing an adequate legal framework, guaranteeing fair and transparent communication at all organizational levels, training staff, and effectively allocating resources are all ways to increase the effectiveness of tax administration. Therefore, the tax administration needs to have skilled staff, make professional use of its resources, and follow tax laws, rules, and regulations in order to be efficient.

6. Analysis of GST Revenue Collection of Karnataka State

As per GST Club news and updates, GST revenue collection details of Karnataka State for the years 2017-18 to 2024-25 is as follows:

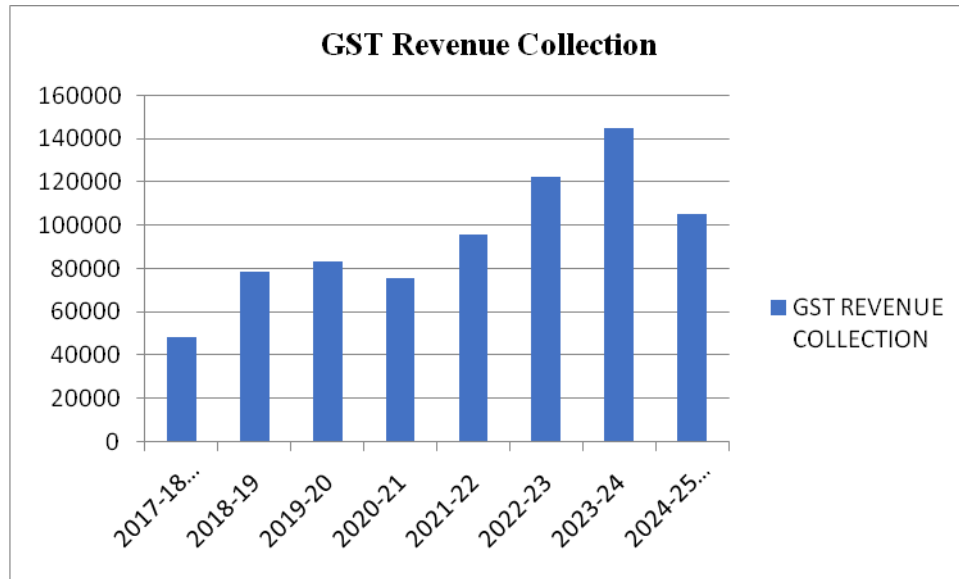
Table 1: Year-wise GST revenue collection of Karnataka State

Year	GST Revenue Collection (Rs. in Crores)	Annual Growth Rate
2017-18 (July 2017 to March 2018)	48,138	-
2018-19	78,763	-
2019-20	83,408	6%
2020-21	75,660	-9.3%

2021-22	95,926	27%
2022-23	1,22,822	28%
2023-24	1,45,266	18%
2024-25 (Till November 2024)	1,05,070	-

Source: GST Club

Graph 1: Year-wise GST revenue collection of Karnataka State (Rs. in Crores)



Graph2: Year-wise GST revenue collection Growth Rate of Karnataka State

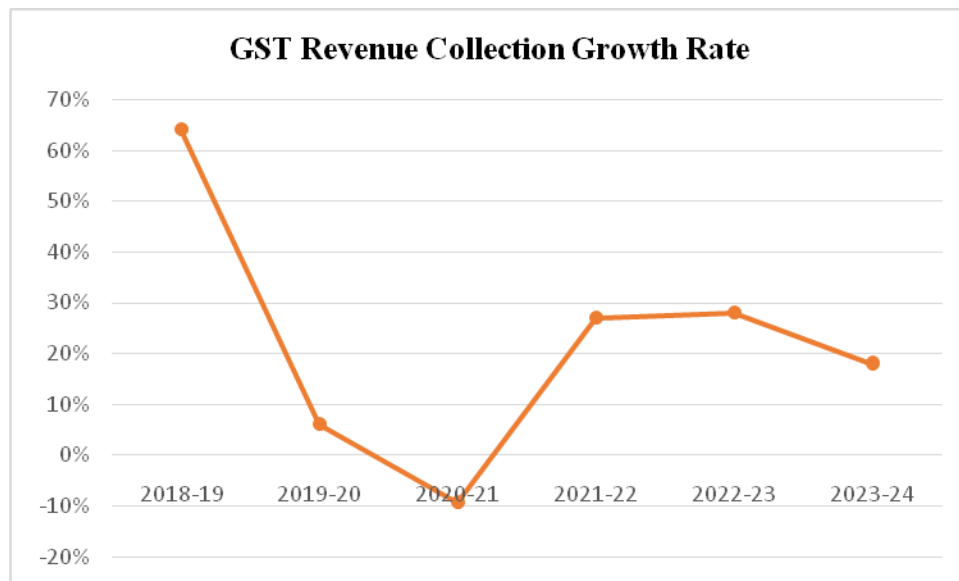


Table 1 and Graph 1 reveal the GST revenue collection of Karnataka state from the years

2017-18 to 2024-25. The trends of GST revenue collection have volatility in nature

except for the financial year 2020-21. GST revenue collection has registered a decline in the fiscal year 2020-21; the reasons behind the decline in GST revenue collection were inefficient tax administration, the COVID-19 pandemic, a decline in consumption level, economic slowdown or structural changes in the Indian economy, drought and GST issues etc.

Graph 2 shows that overall GST revenue collection has been increasing, but growth rate of GST revenue collection is having volatility. During the financial year 2020-21, growth rate in collection of GST revenue decreased due to inefficient tax administration, low transparency and complexity of the tax system, significantly influencing tax avoidance and evasion and leading to GST revenue loss for the government.

7. Findings

- ❖ Poor tax administration practices lead to lower GST revenue generation; hence effective tax administration procedures between central and state governments are essential to mitigate the problems with GST revenue generation.
- ❖ It is necessary to establish a reliable and efficient information system that will allow tax authorities to network and detain taxpayers who evade or avoid taxes.
- ❖ It is necessary to address or to avoid technical issues that are extremely complex, and need to quick adoption of technological advancement in order to avoid unnecessary loss of GST revenue.
- ❖ There is an ambiguity in collection of GST.

8. Suggestions

1. To improve taxpayer compliance level by reducing tax compliance procedure

with lower costs to collect tax in order to make GST system more effective.

2. To adoption of advanced IT-based administration mechanisms to tackle tax evasion.
3. It is suggested for proper monitoring and controlling of tax system by information system mechanisms with strong political commitment to improve tax administration.
4. To provide proper training and development to the employees of commercial taxes department of Karnataka.
5. It is suggested to identification of tax sources.

9. Conclusion

The GST revenue collection is the key source of revenue for the government. Consequently, the tax authority must consider the factors that influence the efficacy of GST administration. The government must implement measures to enhance the GST administration system mechanisms from all angles. The analysis of the data with respect to GST revenue collection of Karnataka State reveals that annual growth rate of GST revenue collection for the period 2020-21 was lower than the annual growth rate of GST revenue collection for the period 2021-22 to 2023-24, this result shows that economic structure of the Karnataka State influenced the GST revenue collection, given the level of tax administration effort and tax compliance and it can be concluded that the present study answers the research question that the Karnataka commercial tax administration has major impact on the GST revenue collection.

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