

## **Slip between the cup and the lips: Payment of GST by the consumers and receipt by the Government**

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### **Abstract**

*This article investigates the Goods and Services Tax (GST), a crucial reform in India's tax system. It explores the significance of GST in boosting national revenue and explores the potential for GST leakage, where tax collected may not reach the government exchequer. The article dissects the mechanisms designed to ensure seamless GST flow to the government's treasury. It then delves into potential areas where leakages occur, jeopardizing revenue collection. Further, it explores the initiatives undertaken by the Indian government to mitigate these leakages and strengthen tax collection. Finally, the article contrasts the ideal scenario of GST collection and payment with the practical realities encountered. This analysis provides valuable insights into whether consumers' hard-earned GST translates into robust government finances.*

### **Introduction**

The Goods and Services Tax (GST) represents a transformative paradigm shift in India's tax system, aiming to streamline and rationalize indirect taxation. Introduced on July 1, 2017, the GST replaced a complex web of cascading indirect taxes levied by both the Central and State Governments (e.g., excise duty, VAT, service tax) with a unified, destination-based tax on the supply of goods and services. GST creates a single national market, eliminating tax

barriers between states and simplifying compliance for businesses operating across India and minimises the cascading effect of taxes levied at each stage of production and distribution, leading to lower prices for consumers and improved competitiveness for businesses. The online GST portal and e-way bill system ensure greater transparency and traceability in transactions, reducing tax evasion and corruption. Unlike its predecessor, which included a cascade of taxes at various stages of the supply chain, GST operates on a value-added tax principle, ensuring that tax is levied only on the value added at each stage of the production and distribution process.<sup>1</sup> This shift not only simplifies the tax structure but also reduces tax cascading, fostering efficiency and competitiveness within the economy.

### **Importance of GST in India's tax system**

The introduction of GST marked a significant departure from the erstwhile complex and fragmented tax system. India's tax landscape underwent a substantial overhaul with the unification of multiple indirect taxes, such as Central Excise Duty, Service Tax, Value Added Tax (VAT), and others, under the GST umbrella.<sup>2</sup> This harmonization not only simplified tax compliance for businesses but also created a common market, promoting ease of doing business and facilitating interstate trade.

The GST structure is bifurcated into Central GST (CGST) and State GST (SGST), levied by the central and state governments, respectively. Additionally, an Integrated GST (IGST) is applicable on interstate transactions, ensuring a seamless flow of credit between states and promoting a unified market across the country.<sup>2</sup> One of the notable features of GST is its tiered tax rate structure, with multiple slabs ranging from 5% to 28%. This tiered approach allows for a nuanced taxation strategy, catering to the diverse economic activities and income levels prevalent in the country. Essential commodities are generally taxed at lower rates, while luxury items attract higher rates.<sup>3</sup> GST not only addresses the challenges of the pre-existing tax structure but also aligns with global best practices, enhancing India's position in the international business landscape. The unified tax system encourages transparency,

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<sup>1</sup> Welcome Kit for New Businesses [https://tutorial.gst.gov.in/downloads/news/welcome\\_kit\\_for\\_new\\_taxpayers.pdf](https://tutorial.gst.gov.in/downloads/news/welcome_kit_for_new_taxpayers.pdf)

<sup>2</sup> Understanding Goods and Services Tax <https://cbic-gst.gov.in/hindi/pdf/ovw-short.pdf>

<sup>3</sup> <https://cbic-gst.gov.in/gst-goods-services-rates.html>.

reduces corruption, and fosters a business-friendly environment, attracting foreign investments and contributing to economic growth.<sup>4</sup>

### Sectorial contribution of GST

**Table1.** Contribution to GST Revenue from Different Constitutions of Business\* (Status as on 30th June 2020 & 2023; Return period accounted up to March 2020 & 2023) (Amount in crores)

| Constitution of business | No. of Tax Payers who has entry in cash ledger against R3B/R4 up to |                    | % age of Tax Payers up to |               | Collection up to |                  | %Age of collection up to |               |
|--------------------------|---|--------------------|---------------------------|---------------|------------------|------------------|--------------------------|---------------|
|                          | June 2020   | June 2023          | June 2020                 | June 2023     | June 2020        | June 2023        | June 2020                | June 2023     |
| Public Limited Company   | 71,151  | 84,513             | 0.62%                     | 0.52%         | 8,35,298         | 19,37,533        | 35.29 %                  | 34.40%        |
| Private Limited Company  | 6,75,875  | 10,00,266          | 5.87%                     | 6.11%         | 6,51,141         | 15,89,707        | 27.51 %                  | 28.23%        |
| Proprietorship           | 92,38,097   | 1,31,72,419        | 80.18%                    | 80.41%        | 3,15,948         | 7,50,373         | 13.35 %                  | 13.32%        |
| Partnership              | 12,41,540   | 16,93,314          | 10.78 %                   | 10.34%        | 1,74,032         | 4,09,578         | 7.35 %                   | 7.27%         |
| Others                   | 2,95,524  | 4,30,958           | 2.56%                     | 2.62%         | 3,90,275         | 944,355          | 16.50%                   | 16.78%        |
| <b>Total</b>             | <b>1,15,22,187</b>  | <b>1,63,81,470</b> | <b>100.00%</b>            | <b>100.00</b> | <b>23,66,694</b> | <b>56,31,547</b> | <b>100.00</b>            | <b>100.00</b> |

\*Figures doesn't include IGST on imports

Source: GSTIN site

This table 1 shows the contribution of different sectors to India's Goods and Services Tax (GST) collection between the period June 2020 and June 2023. The Sector wise contributions shows that Public Ltd companies consistently the largest contributor, responsible for around 35% of total GST collection throughout the period representing only 0.62% of the total tax payers. The Private Ltd companies are the second largest contributor, averaging around 27% of the total representing only 5.87% of the total tax payers. Third largest contributor, averaging about 13% of the total is the Proprietorship concerns representing majority of tax payers, ie 80.18 % of the total tax payers and the Partnership firms representing only 10.78% of the total tax payers contributed around 7% of the total GST collection. The Other sectors which comprised 16.5% of the total, is contributed by the rest of the Tax Payer community, namely Public Sector Undertakings, Govt. Depts., Local Authorities, Societies & clubs etc. representing only 2.56% of the total tax payers.

<sup>4</sup> GST: Indian system among the most complex globally, says World Bank report [https://www.business-standard.com/article/economy-policy/gst-indian-system-among-the-most-complex-globally-says-world-bank-report-118031600472\\_1.html](https://www.business-standard.com/article/economy-policy/gst-indian-system-among-the-most-complex-globally-says-world-bank-report-118031600472_1.html)

During 2022-23, the Sector wise contributions shows that Public Ltd companies consistently the largest contributor, responsible for around 34 % of total GST collection throughout the period representing only 0.52% of the total tax payers. The Private Ltd companies are the second largest contributor, averaging around 28 % of the total representing only 6.11% of the total tax payers. Third largest contributor, averaging about 13% of the total is the Proprietorship concerns representing majority of tax payers, ie 80.41 % of the total tax payers and the Partnership firms representing only 10.34 % of the total tax payers contributed around 7% of the total GST collection. The Other sectors which comprised 16.72 % of the total collection, is contributed by the rest of the Tax Payer community, namely Public Sector Undertakings, Govt. Depts., Local Authorities, Societies & clubs etc. representing only 2.62 % of the total tax payers. The Growth trends show that most sectors showed increasing GST contributions over the years.

The analysis of above tables reveals that large companies play a significant role in India's GST revenue, with public and private limited companies collectively contributing over 60% of the total. Proprietorship and partnership firms are also important contributors, highlighting the presence of smaller businesses in the Indian economy representing more than 90% of the tax payers though their contribution is around 20% of the total collection. The impact of the pandemic on different sectors is evident in the decline of GST contributions in 2020-21.

### **The potential concerns about GST leakage and its impact on revenue collection.**

GST leakage refers to situations where the tax that should be collected does not make its way into the government coffers, leading to potential revenue shortfalls. One major concern is the intricate nature of the GST structure, which comprises multiple tax slabs and exemptions. This complexity can create loopholes and opportunities for evasion, as businesses may exploit ambiguities in the system to underreport sales or overstate input tax credits.<sup>5</sup> Such practices contribute to GST leakage, directly affecting the amount of revenue collected by the government.

The input tax credit mechanism, designed to prevent tax cascading, introduces another layer of complexity and vulnerability. If not diligently monitored, businesses might manipulate or fraudulently claim input tax credits, leading to a reduction in the overall tax liabilities they

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<sup>5</sup> Challenges In The Current GST Structure: A Way Forward <https://www.outlookmoney.com/finance/challenges-in-the-current-gst-structure-a-way-forward-3870>

owe to the government. This potential misuse poses a direct threat to the revenue collection objectives of the GST framework. Additionally, the sheer scale and diversity of businesses in India make effective enforcement challenging. Smaller businesses, in particular, may lack the resources or understanding to comply fully with GST regulations, creating opportunities for leakage at various stages of the supply chain.<sup>6</sup>

### **Mechanisms for ensuring GST Flow to the exchequer in India**

The GST collection process involves intricate coordination between businesses and consumers. Businesses act as intermediaries, collecting GST from consumers during transactions and subsequently remitting it to the government. Consumers, on the other hand, assume that the tax they pay is duly transferred to the national treasury. The complexity of the GST structure, with multiple tax slabs and input tax credits, adds a layer of intricacy to this process.

One crucial aspect of safeguarding the flow of GST to the exchequer is ensuring compliance among businesses. The government has implemented various measures to curb tax evasion and non-compliance. Technology-driven tools, such as the Goods and Services Tax Network (GSTN), play a pivotal role in real-time monitoring of transactions, reducing the scope for evasion. Moreover, stringent penalties and enforcement actions against non-compliant businesses act as deterrents, fostering adherence to GST regulations.<sup>7</sup>

To strengthen the GST collection mechanism, it is imperative to enhance consumer awareness. Many consumers may lack a comprehensive understanding of the GST structure and their role in the tax-paying process. Government initiatives and awareness campaigns can bridge this knowledge gap, empowering consumers to make informed decisions and ensuring that the taxes they pay are directed towards the exchequer. The complexity of GST return filing can contribute to delays in the transfer of GST to the government. Streamlining this process through digital platforms and simplified documentation can expedite the flow of funds to the exchequer. The government's continuous efforts to refine and simplify return

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<sup>6</sup> Impact of GST on Supply Chain Management: Meaning and Reduction of Transport costs  
<https://cleartax.in/s/gst-on-supply-chain>

<sup>7</sup> A Study on Consumer Awareness and Perception about GST  
[https://www.researchgate.net/publication/362337076\\_A\\_Study\\_on\\_Consumer\\_Awareness\\_and\\_Perception\\_about\\_GST](https://www.researchgate.net/publication/362337076_A_Study_on_Consumer_Awareness_and_Perception_about_GST)

filing procedures aim to enhance efficiency and reduce bottlenecks in the GST collection process.

### **Potential areas of GST leakage in India**

Other significant area of concern for potential GST leakage lies within the informal sectors and unorganized businesses. These entities may operate outside the formal tax structure, making it challenging for authorities to track and enforce compliance. As a result, transactions within the informal sector may go unrecorded, leading to revenue leakage for the government. Cash transactions present another potential avenue for GST leakage. Businesses engaged in substantial cash transactions may be tempted to underreport sales to minimize their tax liabilities. The anonymity associated with cash transactions makes it difficult for tax authorities to verify the accuracy of reported sales, creating opportunities for businesses to manipulate their financial records.

The intricate nature of the GST structure, comprising multiple tax slabs and input tax credits, creates room for sophisticated tax evasion practices. Some businesses may engage in activities such as invoice manipulation, fictitious transactions, and claiming illegitimate input tax credits.<sup>8</sup> These practices not only result in revenue loss for the government but also undermine the integrity of the entire tax system. In the context of GST, interstate trade introduces complexities in tax collection. Smuggling of goods across state borders without proper documentation can lead to revenue leakage.<sup>9</sup> The lack of a seamless and fool proof mechanism for monitoring interstate trade poses challenges in ensuring that the correct amount of GST is collected and remitted.

### **Government initiatives to mitigate GST leakage and enhance tax collection**

Addressing GST leakage requires a multifaceted approach. To tackle GST leakage, the government has intensified efforts to strengthen compliance measures. Stringent penalties for non-compliance and the introduction of advanced technology-driven tools, such as the Goods and Services Tax Network (GSTN), enable real-time monitoring of transactions. These measures act as deterrents, compelling businesses to adhere to GST regulations and mitigate the risk of revenue leakage.

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<sup>8</sup> Use tech to plug loopholes, improve taxpayer services. [https://www.business-standard.com/india-news/use-tech-to-plug-loopholes-improve-taxpayer-services-fm-to-gst-officials-124030401051\\_1.html](https://www.business-standard.com/india-news/use-tech-to-plug-loopholes-improve-taxpayer-services-fm-to-gst-officials-124030401051_1.html)

<sup>9</sup> Customs Act | "Reason To Believe" For Confiscation Of Goods Must Be Based On Credible Material

The government has leveraged technology to create a more transparent and accountable GST ecosystem. Initiatives such as e-invoicing, data analytics, and artificial intelligence have been introduced to identify patterns of tax evasion and irregularities in transactions.<sup>10</sup> This technological integration aids tax authorities in promptly addressing potential areas of leakage and ensuring that businesses comply with GST norms. Recognizing the complexities within the GST structure as a potential source of leakage, the government has taken steps to simplify the tax system. Rationalization of tax slabs, reducing unnecessary complexities, and streamlining the input tax credit mechanism aim to create a more straightforward and efficient system. A simplified structure not only enhances compliance but also minimizes opportunities for businesses to exploit ambiguities.

To combat GST leakage, the government has recognized the importance of consumer awareness. Initiatives such as awareness campaigns and educational programs aim to inform consumers about their role in the tax-paying process. Informed consumers are more likely to demand proper invoices, reducing the scope for businesses to engage in underreporting or other evasion practices. A collaborative approach involving the government and businesses is integral to addressing GST leakage. The government has engaged in dialogues with businesses to understand their challenges and concerns. Such collaborative efforts foster a sense of responsibility among businesses to comply with GST regulations, reducing the likelihood of leakage.

To curb GST evasion practices, the government has increased its focus on enforcement actions and audits. Regular audits of businesses, particularly those with a higher risk of non-compliance, help in identifying and rectifying instances of tax evasion.<sup>11</sup> This proactive approach reinforces the government's commitment to maintaining the integrity of the GST system.

### **Whether the consumer-paid GST reaches to the government exchequer?**

"Whether the GST paid by consumers actually reaches the government exchequer?" This query underscores the need to investigate the efficacy of the GST collection system in

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<sup>10</sup> <https://www.livelaw.in/high-court/allahabad-high-court/allahabad-high-court-ruling-presumption-of-smuggling-natural-products-grown-in-india-252229>

<sup>11</sup> 4 ways to use indirect tax data for better tax performance and reporting, <https://tax.thomsonreuters.com/en/insights/articles/4-ways-to-use-indirect-tax-data-for-better-tax-performance-and-reporting>

ensuring that the taxes levied on consumers find their way to the national treasury. The GST collection process involves both businesses and consumers playing pivotal roles. Businesses are responsible for collecting GST from consumers and remitting it to the government. Consumers, in turn, pay GST on their purchases, assuming that the funds are duly transferred to the government exchequer. However, the complexity of the GST structure and the input tax credit system introduces challenges in accurately tracking the flow of consumer-paid GST to the government coffers.<sup>12</sup>

Several challenges contribute to uncertainties regarding whether the GST paid by consumers indeed reaches the government exchequer such as lack of awareness among consumers about the GST mechanism, complexities in the tax structure, compliance issues among businesses, and the potential for tax evasion and fraud are critical factors.<sup>13</sup> These challenges collectively pose a risk to the seamless transfer of consumer-paid GST to the government. Addressing the fundamental question of whether the GST paid by consumers reaches the government exchequer is imperative for maintaining the integrity of the tax system. As India continues to navigate the nuances of GST implementation, collaborative efforts between the government, businesses, and consumers are essential to ensure the seamless flow of consumer-paid GST to the national treasury.

### **GST collection and payment: Actual practice in an ideal situation**

In order to explore the collection and payment of GST system, the actual practice in terms of billing pattern followed in different channels of distribution in traditional as well as direct selling models needs to be examined.

In an ideal scenario, GST collection and payment entail a seamless, transparent, and efficient process. It involves meticulous record-keeping, timely submission of returns, and compliance with regulatory requirements. However, achieving this ideal state necessitates not only robust infrastructure and technological support but also comprehensive understanding and adherence to GST taxation laws in terms of billing pattern and distribution channels prevailing and practiced by the businesses community. Here we portray how GST collection and payment works practically in an ideal situation (Table -2).

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<sup>12</sup> Brief History of GST, <https://gstcouncil.gov.in/brief-history-gst>

<sup>13</sup> GST: The Game-Changer," <https://www.thehindubusinessline.com/opinion/gst-has-been-a-game-changer/article66889846.ece>



| Point of Sale                             | Distribution Channel      | Billing Price<br>(Assuming the product MRP is 100) |    | Tax Collection @ 10% | Tax payment to Exchequer (after input Tax credit) |
|---|---------------------------|--|----|----------------------|---|
| 1st point                                 | Factory to Distributor    | DP   | 50 | 5                    | 5   |
| 2nd point                                 | Distributor to Wholesaler | DP   | 60 | 6                    | 1   |
| 3rd point                                 | Wholesaler to Retailer    | DP   | 70 | 7                    | 1   |
| 4th point                                 | Retailer to Consumer      | DP   | 90 | 9                    | 2   |
| Tax Remitted to Govt by Dealers after ITC |                           |  |    |                      | 9   |
| DP means Dealer Price                     |                           |  |    |                      |   |

The table 2 shows the flow of goods and taxes at each stage of the supply chain in an ideal situation, from the factory to the consumer. At each point of sale, the seller collects tax from the buyer and pays it to the government, after deducting input tax credit (ITC) on taxes paid at previous stages. The total tax collected at each point of sale is equal to the tax paid by the buyer, except for the final sale to the consumer where the retailer keeps the additional tax collected. The total tax remitted to the government by all dealers is 9 which matches the tax collected at the final point of sale. However, this 9 rupee collection and 9 rupee payment to Exchequer can be ensured only if the dealers at all sale points billed without under-invoicing the dealer price. If the dealer at any stage makes any under-invoicing, then to that extent the tax collection and tax payment will be reduced. Therefore, in order to safeguard the revenue of the State, the billing price at each levels of sale point needs to be examined in compared to the MRP of such product. This can be explored only through the effective implementation of the Audit System (Table-3).

**Table 3.** Distribution Channel (Traditional Model without under billing -Situation -1)

| Factory   | Distribution Channel      | Sales outlet/Shops | Point of sale | Billing price | Tax collection @ 10% | Tax payment to Exchequer (after IPT) | Customer status | Tax paid by consumer |
|---|---------------------------|--------------------|---------------|---------------|----------------------|--------------------------------------|-----------------|----------------------|
|   | Factory to Distributor    | Yes                | 1st point     | 50            | 5                    | 5                                    | Dealer          | NA                   |
|   | Distributor to Wholesaler | Yes                | 2nd point     | 60            | 6                    | 1                                    | Dealer          | NA                   |
|   | Wholesaler to Retailer    | Yes                | 3rd point     | 70            | 7                    | 1                                    | Dealer          | NA                   |
|   | Retailer to Consumer      | Yes                | 4th point     | 90            | 9                    | 2                                    | End Consumer    | Yes                  |
| Tax remitted to Govt by dealers at multi points |                           |                    |               |               |                      | 9                                    |                 |                      |

The table 4 shows the flow of goods and taxes through the traditional distribution channel, from the factory to the end consumer in an ideal situation. At each stage (except the last one), the goods are sold to a dealer who then resells them to the next stage in the chain. The final

sale is made to the end consumer, who pays the tax. The total tax remitted to the government by dealers is 9, which is the tax collected at the final point of sale. The above table reveals that GST is a front-end tax collected by the dealers among themselves which will be collected from the consumers only at the last point of sale in the distribution channel, ie around 80% of tax will be collected and paid to the Exchequer by the dealers before reaching the goods to the final consumer. Therefore, GST is a dealer paid tax rather than consumer paid tax (Table - 4).

**Table 4.** Distribution Channel (Traditional Model with under billing -Situation -2)

| Factory   | Distribution Channel      | Sales outlet/Shops | Point of sale | Biling price | Tax collection @ 10% | Tax payment to Exchequer (after IPT) | Customer status | Tax paid by consumer |
|---|---------------------------|--------------------|---------------|--------------|----------------------|--------------------------------------|-----------------|----------------------|
|   | Factory to Distributor    | Yes                | 1st point     | 30           | 3                    | 3                                    | Dealer          | NA                   |
|   | Distributor to Wholesaler | Yes                | 2nd point     | 40           | 4                    | 1                                    | Dealer          | NA                   |
|   | Wholesaler to Retailer    | Yes                | 3rd point     | 50           | 5                    | 1                                    | Dealer          | NA                   |
|   | Retailer to Consumer      | Yes                | 4th point     | 60           | 6                    | 1                                    | End Consumer    | Yes                  |
| Tax remitted to Govt by dealers at multi points |                           |                    |               |              |                      | 6                                    |                 |                      |

The table 5 shows the flow of goods and taxes through the traditional distribution channel, from the factory to the end consumer in an under- Invoicing situation. At each stage (except the last one), the goods are sold to a dealer who then resells them to the next stage in the chain. The final sale is made to the end consumer, who pays the tax. The total tax remitted to the government by dealers is 6, which is the tax collected at the final point of sale. The above table also reveals that GST is a front-end tax collected by the dealers among themselves which will be collected from the consumers only at the last point of sale in the distribution channel, ie around 80% of tax will be collected and paid to the Exchequer by the dealers before reaching the goods to the final consumer. Therefore, GST is a dealer paid tax rather than consumer paid tax.

The main limitation in the present GST System is that there is no system that verifies the actual market price with billing price since MRP of a particular commodity is nowhere reflected in the GSTIN system. ie MRP is not reflected in Invoice or GSTR -1 or GSTR -2 or GSTR -3B or any of the supporting statements uploaded along with these returns. What is

reflected in the system is the billing price declared by the dealer at each stages of billing even for the purpose of Input Tax credit. Since MRP or market price is not captured in the system, this type of under invoicing is possible at all levels of billing which will lead to major factor of tax evasion / erosion which is very difficult to detect in normal tax governance system (Table -5).

**Table 5.** Distribution Channel (Direct Selling Model)

| Factory | Distribution Channel                      | Sales outlet/Shops | Go downs/Stock- Points | Point of sale | Biling price | Customer status | Tax collection & Tax payment                            |
|---------|---|--------------------|------------------------|---------------|--------------|-----------------|---|
|         | Own Retail/Factory outlet                 | Yes                | Yes                    | 1st point     | 60           | End consumer    | 10% of 1st and last billing point i.e. Rs. 60x10% =Rs.6 |
|         | Direct selling (Single/Multi level)       | NA                 | Yes                    | 1st point     | 60           | End consumer    |   |
|         | E-Commerce (Market place/Inventory model) | NA                 | Yes                    | 1st point     | 60           | End consumer    |   |
|         | Social Media Market place                 | NA                 | Yes                    | 1st point     | 60           | End consumer    |   |
|         | Contribution of other Sectors (16.50%)    |                    |                        |               |              |                 |   |

The first model, Own Retail/Factory Outlet, the sales channel is the physical store owned by the factory and the factory collects and pays 10% tax (Rs. 6) on the final selling price (Rs. 60) to the consumer. The advantage of this model is it has full control over brand image and customer experience but the disadvantage is the higher costs associated with operating physical stores. However, the Model 2, the Direct Selling (Single/Multi Level), the sales channel is the independent representatives who promote and sell directly to consumers, potentially building their own sales teams. The tax collection method is the companies directly collect and pay tax based on individual sales to representatives. The advantage of this model is that it has a wider reach and lower infrastructure costs compared to physical stores but it holds potential challenges in maintaining brand consistency and quality control.

In Model 3, E-Commerce (Market place/Inventory model), the sales channel is online platforms like marketplaces or the factory's own website and the tax collection depends on the platform's structure. If it works in Marketplace, that platform might collect and remit tax on behalf of the factory and in inventory model; factory might be responsible for tax collection and remittance. In this model convenient access for customers and potentially lower operational costs is its advantage and the increased competition and reliance on

platform policies and visibility are the disadvantages. Finally, in Model 4, Social Media Market place, the sales channel is utilising social media platforms like Facebook or Instagram for promotion and sales and the tax collection is similar to E-Commerce, depending on the platform and sales structure. The advantage is the highly targeted marketing and potential for viral reach and uncertainties in platform regulations and limited control over customer experience are the disadvantages. The ideal model depends on various factors like product type, target audience, budget, and desired level of control.

This Table 5 above compares three direct selling models where the goods moving from factory to the end consumer, eliminating all intermediaries. Therefore, under direct selling mode, dealer to dealer sales is totally absent in the supply chain and therefore value addition between first selling point and MRP will be escaped from the levy of taxation. Here the goods purchased from first point are all end consumers who can re-sell these products even at MRP without collecting tax as they are not registered dealers to collect and remit tax. Since volume of turnover under this sector is very huge, the tax due on escaped turnover on account of the billing to the end consumer at the first point of sale itself, this segment warrants immediate attention under tax governance.

### **Measures to ensure GST reaches the exchequer**

One key measure implemented to enhance GST revenue flow involves strengthening compliance and enforcement mechanisms. Stricter penalties for non-compliance and the utilization of advanced technologies, such as the Goods and Services Tax Network (GSTN), contribute to real-time monitoring of transactions, minimizing the risk of leakage.<sup>14</sup> However, the effectiveness of enforcement measures depends on their implementation and the ability to adapt to evolving business practices. The government's efforts to integrate technology into the GST framework, including e-invoicing, data analytics, and artificial intelligence, aim to enhance transparency and accountability. These technological advancements assist tax authorities in identifying irregularities and potential instances of tax evasion. However, ongoing developments in technology and the need for continuous updates may impact the sustained effectiveness of these measures.

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<sup>14</sup> KPMG, "Transforming the Indirect Tax Function Through Data Analytics," <https://home.kpmg/in/en/home/insights/2021/03/transforming-the-indirect-tax-function-through-data-analytics.html>.

Simplifying the GST structure has been pursued as a strategy to reduce complexities and loopholes that could lead to revenue leakage. Rationalizing tax slabs and streamlining the input tax credit mechanism contribute to a more straightforward system. While simplification is a positive step, the challenge lies in balancing the need for simplicity with the intricacies of diverse business operations. Government initiatives aimed at enhancing consumer awareness and education play a crucial role in ensuring that consumers understand their role in the tax-paying process.<sup>15</sup> Informed consumers are more likely to demand proper invoices, reducing the likelihood of businesses engaging in tax evasion practices. However, the long-term impact of awareness campaigns may require sustained efforts and periodic reinforcement.

Collaborative efforts involving the government and businesses have been initiated to foster a sense of responsibility among businesses to comply with GST regulations. Engaging in a dialogue with businesses helps identify challenges and concerns, contributing to a more cooperative tax compliance environment. The success of this approach depends on effective communication and mutual understanding. Regular audits and enforcement actions are integral components of the strategy to combat GST evasion practices. These measures contribute to identifying and rectifying instances of tax evasion, reinforcing the government's commitment to maintaining the integrity of the GST system. However, the resource-intensive nature of audits necessitates a balance between thorough examination and efficiency.

### **Challenges in ensuring GST reaches the exchequer**

GST collection involves a complex interplay between businesses and consumers. Businesses act as intermediaries, collecting GST from consumers during transactions and subsequently remitting it to the government. The input tax credit system and multiple tax slabs add intricacies to this process, influencing the seamless flow of GST revenue to the exchequer. Several challenges impede the seamless transfer of GST revenue to the government. Lack of awareness among consumers, complexities in the GST structure, compliance issues among businesses, and the potential for tax evasion and fraud are critical challenges that contribute to uncertainties about the effective reach of GST revenue to the exchequer.<sup>16</sup>

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<sup>15</sup> Center is Planning to Rationalisation GST Slab Rate After Put on Hold for a While  
<https://blog.saginofotech.com/center-planning-rationalisation-gst-slab-rate-put-hold-while>

<sup>16</sup> Government seeks industry views on GST provisions [https://www.business-standard.com/article/news-ians/government-seeks-industry-views-on-gst-provisions-115101800488\\_1.html](https://www.business-standard.com/article/news-ians/government-seeks-industry-views-on-gst-provisions-115101800488_1.html)

To address these challenges, the government has implemented a series of measures. Strengthening compliance and enforcement mechanisms, leveraging technology for real-time monitoring, simplifying the GST structure, and conducting awareness campaigns for consumers are among the initiatives undertaken to enhance the transparency and efficiency of GST collection. Collaborative efforts with businesses and enforcement actions, such as regular audits, aim to curb tax evasion practices.<sup>17</sup>

## **Conclusion**

The mechanisms for GST collection involve a dynamic interplay between businesses and consumers, navigating through the complexities of the GST structure. Challenges such as lack of awareness, compliance issues, and the potential for tax evasion necessitate targeted measures to ensure the effective transfer of GST revenue to the government. Government initiatives encompass technological integration, compliance strengthening, and simplification of the tax structure to address these challenges and enhance the reliability of GST collection.<sup>18</sup>

In conclusion, the effective functioning of the GST system is crucial for fair and reliable revenue collection. While strides have been made to address challenges, a call for continued efforts is imperative. Ongoing investments in technology, consumer education, and collaborative approaches with businesses are essential to fortify the GST system. Sustained vigilance against emerging challenges discussed above especially the billing pattern in traditional and direct selling models and the possibility of under-billing at each stages of billing before it reaches to the end consumer, tax escapism in direct selling mode etc. The periodic reviews, and adaptive policy measures will contribute to the resilience and fairness of the GST framework, ensuring that revenue collection aligns with the intended objectives.

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<sup>17</sup> Impact of the GST on Corporate Tax Evasion: Evidence from Indian Tax Records, [https://www.isid.ac.in/~epu/acegd2022/papers/Shiv\\_Dixit.pdf](https://www.isid.ac.in/~epu/acegd2022/papers/Shiv_Dixit.pdf)

<sup>18</sup> How Has GST Data Been Used to Detect and Prevent Tax Evasion?. <https://www.captainbiz.com/blogs/how-has-gst-data-been-used-to-detect-and-prevent-tax-evasion/>

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