
INPUT TAX CREDIT & UNIFIED TAX: THE TWIN PILLARS OF INDIA'S GST SUCCESS

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ABSTRACT

In this article, I propose that Input Tax Credit & Unified Tax regime are the backbone of GST regime in India. It is now, a new normal to say that GST has benefitted both the taxpayers as well as country as a whole. It is with the onset of GST; taxpayers are now relieved to an extent. This revolution of indirect taxation system in India is possible due to the provisions of Input Tax Credit and the vision of Unified Taxation System in the form of “One Nation, One Tax” policy. Firstly, claiming Input Tax Credits has reduced the burden of the taxpayers (mainly businesses) along with an ease of doing business. This has resulted into the removal of cascading effect (tax on tax) of tax. Secondly, a comparison with the previous tax system reveals how GST has dismantled inter-state trade barriers and significantly expanded the taxpayer base. It has replaced a tangled web of indirect taxes such as, excise duty, VAT, service tax, octroi and entry taxes with a single, destination-based tax. That is, under the newly introduced regime, Central (CGST), State (SGST) and Integrated (IGST) taxes work together. This further led to a unified tax structure among states. Thirdly, an improved revenue for government as tax is one of the main sources for government to generate revenue, which is further utilised by the government for welfare of the public. The article analyses available statistics along with suitable illustrations in an attempt to prove how the onset of Input Tax Credit and Unified tax system have proved to be a gamechanger in India’s journey towards its policy for taxation. To substantiate the analysis, revenue collection trends before and after the implementation of GST have also been graphically represented.

Keywords: GST, tax rate, cascading effect, VAT, Excise duty, ITC

I. INTRODUCTION

The article discusses GST, examining how it has delivered relief to taxpayers, fostered uniformity across all the states, and reshaped the revenue collection. The Goods and Services Tax (GST) Act came into effect on 1st July 2017, following the enactment of the 101st Constitutional Amendment Act.¹ This landmark reform was aimed at replacing the indirect tax system that had persisted since the British era. The implementation of GST was largely based on the recommendations of the Kelkar Task Force, which had proposed a unified tax structure. This led to the creation of key statutes such as the Central Goods and Services Tax (CGST) Act, State Goods and Services Tax (SGST) Act, and the Integrated Goods and Services Tax (IGST) Act, which collectively form the legal framework of the GST regime.

Under the pre-GST regime, the Value Added Tax (VAT) system was a key component of indirect taxation which was levied by state governments, often resulting in overlapping taxes. This resulted into inconsistent tax rates and collection across states. To address the complications, India adopted “One Nation, One Tax” policy. The vision behind the policy was to replace a complex multi-tax system with a simple one.² GST removed inter-state tax barriers and cascading effects, contributing to a unified national market and improved logistics. The reform has been recognized as a catalyst for economic growth and ease of doing business, especially for sectors like retail and e-commerce.³

II. INPUT TAX CREDIT: A STRUCTURAL SHIFT IN INDIRECT TAXATION

To explain this with an example: Suppose, trader purchases goods worth ₹100 and pays 18% VAT, making the total cost ₹118. If the trader then adds value to the goods, say ₹50, the new price becomes ₹168 (i.e., ₹100 original cost + ₹18 tax + ₹50 value addition). If tax is imposed on the entire ₹168, it effectively amounts to taxing the already taxed component, inflating the final cost.

¹ *The Central Goods and Services Tax Act, 2017*, No. 12 of 2017, § 1 (India) (enacted Apr. 12, 2017)

² Press Information Bureau, *GST: One Nation, One Tax* (1 July 2017) <https://pib.gov.in/PressReleasePage.aspx?PRID=1498792> accessed 26 May 2025.

³ World Bank, *India's Goods and Services Tax: A Catalyst for Economic Growth* (2018) <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/312321528719528615/> accessed 26 May 2025.

To address this issue, the Goods and Services Tax (GST) introduced the concept of Input Tax Credit (ITC). Under ITC, registered businesses holding a valid GSTIN (Goods and Services Tax Identification Number) is allowed to claim credit for the tax already paid on inputs. Thus, instead of paying 18% on the entire ₹168, the trader only pays tax on the value added (i.e., the difference between 18% on ₹150 and 18% on ₹100). This ensures that tax is levied only on the incremental value created at each stage, eliminating the cascading effect and enabling a more transparent and efficient taxation system.

III. UNIFORMITY AMONG STATES

Earlier, each state followed its own set of VAT rates and tax policies, resulting in a scattered system. One of the most significant reforms brought by the Goods and Services Tax (GST) was the uniformity in the indirect tax structure across all the states. GST, by subsuming various state and central taxes into a single, unified framework, addressed these inconsistencies and promoted a more streamlined and equitable environment. The figures i.e., Figure 1, Figure 2 and Figure 3 depicts visual comparison of VAT rates across five Indian states for three items before GST, alongside the uniform GST rate introduced post-2017.

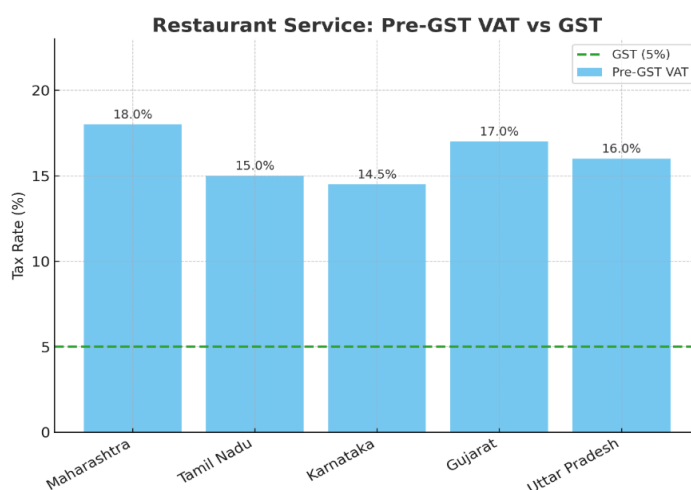


Figure 1. Comparison of Pre-GST VAT and GST Rates on Restaurant services across selected states. The graph depicts the pre-GST tax regime on restaurant services. It was marked by a combination of VAT and service tax, leading to an effective tax burden ranging between 14.5% and 18%, depending on the state. This

dual-tax structure often caused confusion and discrepancies in pricing. With the introduction of GST, restaurant services were categorized under two slabs: 5% without the benefit of input tax credit, and 18% with input tax credit. This shift not only simplified the tax structure but making pricing more transparent.⁴

⁴ Central Board of Indirect Taxes and Customs, *FAQs on GST and Tax Rates* (CBIC) <https://www.cbic.gov.in> accessed 26 May 2025.

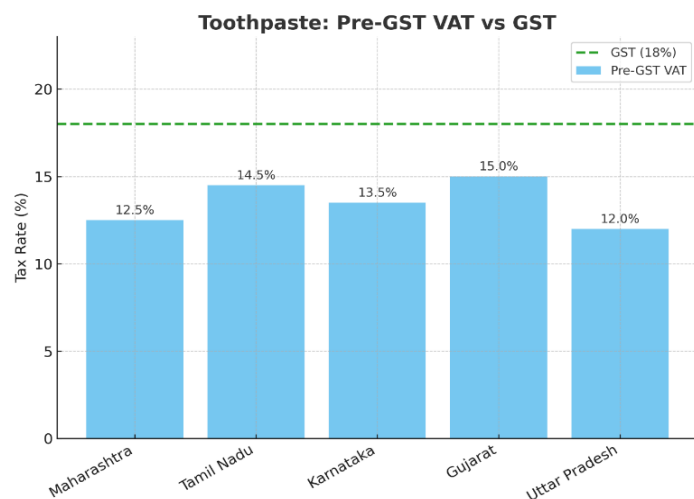


Figure 2. Comparison of Pre-GST VAT and GST rates on Toothpaste across selected states. The pre-GST tax structure in the graph depicts varying VAT rates for toothpaste across different states ranging from 12% to 15% in states such as Uttar Pradesh and Gujarat. These state-level taxes, when combined with central excise duties, led to

significant price disparities and complicated tax structure. Post GST implementation, however, the graph reflects a notable shift to a uniform 18% tax rate across the country. This standardization brought much-needed uniformity to the indirect tax system and simplified compliance for businesses operating in multiple states.⁵

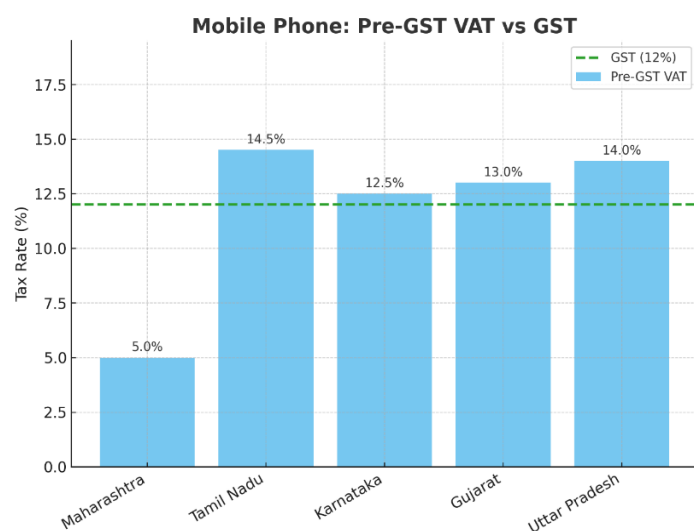


Figure 3. Comparison of Pre-GST VAT and GST rates on Mobile phones across selected states. The graph depicts taxation on mobile phone; the pre-GST regime imposed a fragmented structure comprising approximately 1% excise duty coupled with state-specific VAT rates ranging from 5% to 15%. This variation led to significant differences in consumer prices

across states. The implementation of GST streamlined this structure by introducing a uniform 12% tax rate nationwide. This uniformity has benefited manufacturers and consumers through consistent pricing.⁶

⁵ GST Council, *GST Rate Schedule for Goods & Services* (17 May 2017) <https://gstcouncil.gov.in/sites/default/files/gst-rates-booklet/goods-rate-17.05.2017.pdf> accessed 26 May 2025.

⁶ Ministry of Finance, *Economic Survey 2017–18* (Government of India 2018) <https://www.indiabudget.gov.in/economicsurvey/> accessed 26 May 2025.

IV. REVENUE COLLECTION TRENDS (PRE-GST VS. POST-GST)

During the erstwhile tax regime, the Government of India collected indirect taxes under multiple heads, primarily Customs Duty, Union Excise Duty, and Service Tax. In the financial year 2014-15, the total collection from these sources stood at ₹5.44 lakh crore. This figure increased to ₹7.09 lakh crore in 2015-16 and further to ₹8.61 lakh crore in 2016-17, indicating a steady growth in indirect tax revenue.⁷

Following July 2017, indirect tax collection was streamlined under consolidated heads such as Central GST (CGST), Integrated GST (IGST), State GST (SGST), and Compensation Cess. In 2017-18, the first fiscal year after the rollout of GST, the total indirect tax revenue rose to ₹9.11 lakh crore. This positive trend continued in the subsequent years, with collections amounting to ₹9.37 lakh crore in 2018-19 and ₹9.53 lakh crore in 2019-20.⁸

These figures demonstrate that the transition to GST did not disrupt the revenue flow; rather, it provided a more robust and efficient framework for tax administration. The increasing collections post-GST suggest improved tax compliance, a broader tax base, and enhanced transparency in the system. It also reflects the success of GST in achieving one of its key objectives-ensuring a stable and buoyant source of revenue for the government.

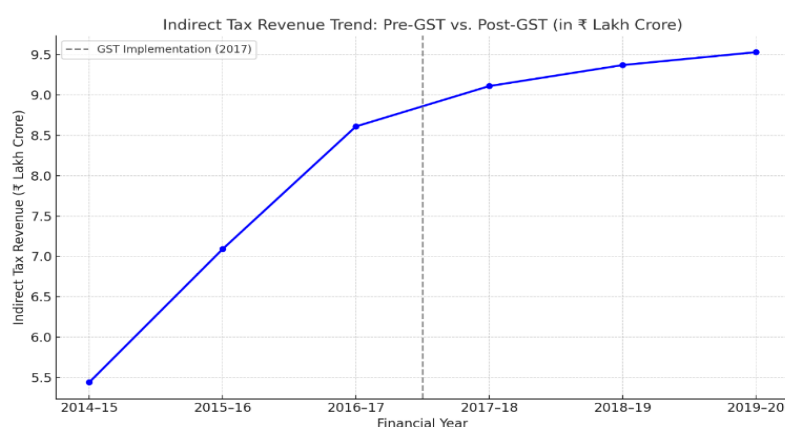


Figure 4. The line graph illustrates the data sourced from Department of Revenue, providing a visual representation of the trend in indirect tax revenue before and after the implementation of GST in India:

As illustrated in the graph, the grey dashed line indicates the year 2017, the point of transition to the Goods and Services Tax (GST) regime. The data clearly reflects an upward

⁷ Department of Revenue, *Details of Revenue Collection from Indirect Taxes: 1995-96 Onwards*, <https://dor.gov.in/details-revenue-collection-indirect-taxes-1995-96-onwards> (last visited May 26, 2025).

⁸ Department of Revenue, *Details of Revenue Collection from Indirect Taxes: 1995-96 Onwards*, <https://dor.gov.in/details-revenue-collection-indirect-taxes-1995-96-onwards> accessed 26 May 2025.

trend in indirect tax revenue, rising from ₹5.44 lakh crore in 2014-15 to ₹9.53 lakh crore in 2019-20. The visual presentation highlights how revenue collection continued to grow steadily post-GST implementation.

V. CONCLUSION

While ITC addresses tax on tax system, India's Unified Indirect Tax Landscape has eased down the burden of taxpayers. Furthermore, an analysis of indirect tax revenue before and after the implementation of the Goods and Services Tax (GST) reveals a noteworthy upward trend. This shows a major shift towards a transparent tax structure proving to be a success. However, technical hiccups on the GST network and delays in refunding input credits have strained working capital and to realise its full promise of "One Nation, One Tax," we need continued efforts on rate rationalisation, proper implementation, and adequacy of resources.