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Global Perspectives on GST: Economic Impact and Revenue Efficiency in Developed and Developing Nations

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Abstract

Goods and Services Tax (GST) has emerged as a crucial indirect tax system across various economies, aiming to streamline taxation and enhance revenue efficiency. This thesis provides a comparative analysis of GST implementation in both developed and developing nations, focusing on its economic impact and revenue generation efficiency. The study examines case studies from countries such as India, Canada, Australia, Malaysia, and the European Union, highlighting differences in policy frameworks, compliance mechanisms, and economic outcomes. The research explores key aspects such as GDP growth, inflation, tax compliance, and business competitiveness post-GST implementation. It evaluates how developed economies have leveraged GST for economic stability and how developing nations have faced challenges in transitioning from traditional tax structures. Additionally, the thesis analyzes the role of GST in reducing tax evasion, broadening the tax base, and improving government revenue. Findings suggest that while GST has improved revenue collection and transparency, its success depends on factors such as tax rate structures, administrative efficiency, and public acceptance. Developed nations with mature financial systems have witnessed smoother transitions, whereas developing countries have struggled with compliance burdens and economic disruptions. The study concludes by offering policy recommendations to optimize GST implementation for maximizing economic benefits and ensuring long-term fiscal sustainability.

Keywords: GST, economic impact, revenue efficiency, tax reform, developed nations, developing nations, compliance, tax policy.

1.Introduction

Taxation plays a critical role in a country's economic framework, influencing revenue generation, business operations, and consumer behavior. The Goods and Services Tax (GST) is a consumption-based indirect tax system designed to replace multiple cascading taxes and simplify tax administration. Since its introduction in various economies, GST has transformed the way governments collect revenue and regulate trade. While developed nations like Canada, Australia, and the European Union have had long-standing experience with GST, developing countries such as India, Malaysia, and Brazil have only recently adopted or reformed their GST systems. Understanding the economic impact and revenue efficiency of GST across different economic contexts is crucial for policymakers and businesses alike.

The Goods and Services Tax (GST) is a comprehensive indirect tax system designed to replace multiple cascading taxes, creating a unified tax structure within an economy. Since its inception in various countries, GST has been lauded for its ability to simplify taxation, improve compliance, and enhance revenue efficiency. However, the implementation and impact of GST vary significantly between developed and developing nations due to differences in economic structures, administrative capacities, and compliance cultures.

One of the primary objectives of this research is to assess how GST influences key economic indicators, including inflation, consumption, business competitiveness, and government revenue. Developed nations, with their robust tax infrastructures and digital compliance systems, tend to experience smoother GST implementation and higher revenue efficiency. In contrast, developing countries often grapple with issues such as tax evasion, inadequate administrative frameworks, and a larger informal economy, which can hinder the full potential of GST. By analyzing empirical data, case studies, and policy evaluations, this research aims to provide insights into the advantages and challenges of GST across different economic contexts. The study will also explore best practices from successful implementations and offer policy recommendations to enhance GST's effectiveness, particularly in emerging economies.

2. Research Problem & Objectives

2.1 Research Problem

Despite its global adoption, the effectiveness of GST varies significantly between developed and developing nations. Developed countries generally experience smoother implementation due to better tax infrastructure, higher compliance rates, and mature financial systems. In contrast, developing economies often face challenges such as administrative inefficiencies, a large informal sector, and resistance from businesses and consumers. This study seeks to investigate whether GST has achieved its intended goals of improving tax efficiency, boosting economic growth, and enhancing revenue collection across diverse economic landscapes.

2.2 Research Objectives

This research aims to analyze the economic impact and revenue efficiency of Goods and Services Tax (GST) across developed and developing nations. The study will focus on assessing its effectiveness in improving tax compliance, economic growth, and fiscal sustainability. The specific research objectives are:

- To evaluate the economic impact of GST on GDP growth, inflation, and consumer spending in developed and developing economies.
- To analyze the efficiency of GST in revenue collection and tax compliance across different economic structures.
- To compare GST implementation strategies in developed nations (such as Canada, Australia, and the EU) and developing nations (such as India, Malaysia, and Brazil).
- To identify the key challenges faced by developing countries in implementing and managing GST, including administrative inefficiencies, informal sector integration, and business adaptation.
- To assess the impact of GST on businesses and consumers, including its effect on pricing, tax burden, and competitiveness in local and global markets.
- To examine the role of GST in reducing tax evasion and broadening the tax base in different economic environments.
- To provide policy recommendations for optimizing GST systems to enhance economic performance, revenue generation, and fiscal stability.

3. Research Methodology

3.1 Research Design

This study employs a **comparative analysis approach** to evaluate the economic impact and revenue efficiency of GST in developed and developing nations. A **mixed-methods methodology** is adopted, incorporating both **quantitative data analysis** (economic indicators, tax revenues, compliance rates) and **qualitative insights** (policy reviews, expert opinions, case studies).

3.2 Data Collection Methods

1. **Secondary Data Sources**:
    - Government reports and tax revenue data from sources such as the **IMF, World Bank, and national tax authorities**.
    - Case studies from countries with well-established GST (e.g., Australia, Canada) and newly implemented systems (e.g., India, Malaysia).
    - Peer-reviewed journals and economic policy papers on GST impact.
2. **Quantitative Analysis**:
    - Statistical data on GDP growth, inflation, revenue collection, tax compliance, and business performance before and after GST implementation.
    - Time-series data comparing tax efficiency and economic stability across different economies.
3. **Qualitative Analysis**:
    - Comparative evaluation of GST structures (e.g., single-rate vs. multi-rate GST).
    - Examination of government policies, compliance mechanisms, and administrative challenges.
    - Expert interviews with economists, tax professionals, and policymakers.

3.3 Data Analysis Techniques

- **Descriptive Statistics**: Used to summarize trends in GST revenue, compliance, and economic performance.
- **Comparative Analysis**: Identifying similarities and differences in GST effectiveness between developed and developing nations.
- **Regression Analysis**: To examine the relationship between GST implementation and economic indicators such as GDP growth and tax compliance rates.

4. Findings and Discussion

4.1 Economic Impact of GST

- **GDP Growth**:
    - Developed nations like **Canada and Australia** showed a stable or positive GDP impact post-GST implementation.
    - Developing nations like **India and Malaysia** initially experienced short-term economic disruptions before gradual stabilization.
- **Inflation and Consumer Prices**:
    - Short-term inflationary pressures observed post-GST introduction, especially in **developing nations** due to tax rate adjustments.
    - Long-term effects varied based on tax policy design and exemptions for essential goods.
- **Business Competitiveness**:
    - GST reduced tax complexities in many nations, promoting a **more transparent tax system**.
    - However, **small businesses in developing economies** faced challenges in compliance and adaptation to digital tax systems.

4.2 Revenue Efficiency and Tax Compliance

- **Increased Tax Revenue**:
    - Countries with **strong digital tax infrastructure** (e.g., Australia, Singapore) saw **higher revenue efficiency**.
    - **India** witnessed increased revenue post-GST due to the **reduction of tax evasion** and **broader tax base**.
- **Compliance Challenges**:
    - Developed countries generally had **smoother transitions** due to **strong institutional frameworks**.

- Developing nations faced **resistance from businesses**, **delays in refunds**, and **administrative bottlenecks**.

4.3 Comparative Analysis of GST in Developed vs. Developing Nations

Factors	Developed Nations (e.g., Canada, Australia, EU)	Developing Nations (e.g., India, Malaysia, Brazil)
Implementation Challenges	Minimal due to existing tax infrastructure	Higher due to resistance from businesses and lack of awareness
Revenue Collection	Higher efficiency with digital systems	Initial fluctuations, later improvement
Tax Compliance	High compliance due to digitalization	Struggles with informal sector compliance
Economic Impact	Stable, moderate growth impact	Short-term inflation, long-term gains
Effect on Businesses	Simplified taxation	Compliance burden on small businesses
Government Support	Strong administrative mechanisms	Initial administrative challenges

4.4 GST Rates Comparison by Country

Country	Standard GST/VAT Rate	Notes
Australia	10%	Some essential items (e.g., fresh food, education, healthcare) are exempt.
Canada	5% (GST) + Provincial Taxes (varies)	Some provinces charge additional PST or HST (total tax can be 15%).
India	5%, 12%, 18%, 28%	Multi-tiered system based on product type.
New Zealand	15%	Basic items are taxed at a standard rate.
Singapore	9% (from 2024)	Previously 7%, increased gradually.
UK	20%	Essential items (food, children's clothing, public transport) are at 0%.
USA	No federal GST	Sales tax ranges from 0% to 10% depending on the state.
Germany	19%	Reduced rate for food, books, and public transport.
France	20%	Essential goods and services have lower rates.
Japan	10%	Reduced rate for food and non-alcoholic beverages.
China	13%	Varies by industry and product type.

4.5 GST Revenue and GDP Growth Rates in 2023

Country	GST/VAT Implementation Year	2023 GDP Growth Rate (%)
India	2017	8.15%
Democratic Republic of the Congo	2012	8.56%
Libya	2010	10.16%
Guyana	2007	33.80%
Rwanda	2001	8.24%
Macau	1999	75.06%
Samoa	1994	8.58%
Tajikistan	1992	8.30%
Armenia	1992	8.30%
Fiji	1992	7.52%

4.5 The standard GST/VAT rates are as of 2025

Country	Standard GST/VAT Rate	GST/VAT Revenue as % of GDP
Hungary	27%	16.2%
New Zealand	15%	9.8%
Chile	19%	10.7%
Denmark	25%	9.4%
Sweden	25%	9.1%

These figures indicate that Hungary has the highest VAT revenue relative to its GDP among OECD countries, with a standard VAT rate of 27%. New Zealand, despite a lower standard rate of 15%, also generates a significant portion of its GDP from GST revenue. It's important to note that high VAT/GST revenue as a percentage of GDP can result from a combination of high tax rates and broad tax bases with fewer exemptions.

4.6 Comparative table summarizing the impact of GST in Australia and Canada:

Category	Australia (GST)	Canada (GST)
Implementation Year	**2000**	**1991**
GST Rate	**10%**	**5% (Federal GST) + Provincial Taxes (varies by province)**
Tax System	Single nationwide GST	Federal GST + Provincial Sales Tax (PST) or Harmonized Sales Tax (HST) in some provinces
Collected By	Australian Taxation Office (ATO)	Canada Revenue Agency (CRA)
Revenue Contribution	~14-16% of total tax revenue	~11-12% of total federal revenue
Exemptions	Basic food, healthcare, education, exports	Basic groceries, healthcare, rent, financial services
Who Pays GST?	Consumers at point of sale	Consumers at point of sale
Who Collects GST?	Registered businesses	Registered businesses
Business Registration Threshold	$75,000 AUD annual turnover	$30,000 CAD annual turnover (except for small suppliers)
Impact on Businesses	Businesses collect GST and claim input tax credits	Businesses collect GST and claim input tax credits
Economic Impact	Simplified tax system, steady revenue for public services	Revenue shared between federal and provincial governments
Public Services Funded	Healthcare, education, infrastructure, welfare	Healthcare, education, social programs, infrastructure
Effect on Consumers	Increased cost of goods/services, but GST-free essentials help lower costs	Varies by province (higher tax in HST regions)

- Australia: Has a simpler tax system with a flat 10% GST, fully managed by the federal government.
- Canada: Has a dual-layered tax system with 5% GST federally, but provinces add their own PST/HST, leading to varying total tax rates.

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4.7 Comparative table summarizing the impact of GST in India and Malaysia:

Category	India (GST)	Malaysia (GST)
Implementation Year	2017	2015 (Abolished in 2018, replaced with SST)
GST Rate	4-tier: 5%, 12%, 18%, 28%	6% (Standard Rate) until 2018
Tax System	Dual GST (Central & State GST)	Single nationwide GST
Collected By	Central & State Governments	Royal Malaysian Customs Department
Revenue Contribution	~12-15% of total tax revenue	~18% of total government revenue before abolition
Exemptions	Basic food, healthcare, education, petroleum, alcohol	Basic food, education, healthcare, financial services
Who Pays GST?	Consumers at point of sale	Consumers at point of sale
Who Collects GST?	Businesses registered for GST	Businesses registered for GST
Business Registration Threshold	₹40 lakh (₹10 lakh for special category states)	RM 500,000 annual turnover
Impact on Businesses	Simplified indirect tax system, but compliance challenges	Initial benefits, but later concerns over inflation and burden on middle class
Economic Impact	Reduced tax evasion, improved revenue collection	Public opposition led to removal, reinstated SST (Sales and Service Tax)
Public Services Funded	Infrastructure, healthcare, education, defence	Infrastructure, healthcare, education
Effect on Consumers	Mixed impact—lowered costs on essentials, but higher tax on luxury items	Higher consumer prices led to backlash, causing GST removal

India: GST simplified a complex indirect tax system but is multi-tiered, leading to compliance challenges for businesses.

Malaysia: GST was introduced in 2015 but was abolished in 2018 due to public dissatisfaction and concerns about rising living costs. It was replaced by Sales and Service Tax (SST).

4.8 GST revenue collections for select Indian states during the fiscal year 2023-2024:

State/UT	GST Revenue (₹ Crore)	Growth (%)
Maharashtra	2,76,880	22%
Karnataka	1,30,140	26%
Gujarat	1,13,800	15%
Tamil Nadu	1,10,170	19%
Haryana	94,540	23%
Uttar Pradesh	89,870	19%
Delhi	58,200	20%
West Bengal	54,730	7%
Telangana	53,990	12%
Odisha	50,110	8%

An analysis of GST revenue by business type reveals the following contributions:

Business Type - India	Percentage Contribution
Public Limited Companies	34.83%
Private Limited Companies	27.94%
Proprietorships	13.28%

Note: These figures are based on data available up to December 2024.

GST Collections and GDP Growth Rates in India

Fiscal Year	GST Collections (₹ Lakh Crore)	Annual GDP Growth Rate (%)
2017-2018	7.41	6.8
2018-2019	11.77	6.5
2019-2020	12.22	3.7
2020-2021	11.36	-5.8
2021-2022	14.83	9.7
2022-2023	16.61	7.0
2023-2024	20.18	8.2

2017-2018: GST was introduced in July 2017, leading to collections of ₹7.41 lakh crore in its inaugural year.

2019-2020: A decline in GDP growth to 3.7% was observed, possibly due to economic slowdown factors.

2020-2021: The COVID-19 pandemic led to a contraction in GDP by 5.8% and a dip in GST collections.

2021-2022: Post-pandemic recovery saw GDP growth rebound to 9.7%, with GST collections increasing accordingly.

2023-2024: GST collections reached a record high of ₹20.18 lakh crore, with GDP growth at 8.2%.

4.9. Policy Recommendations

1. Developing Nations Should Strengthen Digital Tax Systems –Countries should invest in real-time invoicing systems, digital monitoring and e-filing platforms to minimize tax evasion. Governments should mandate electronic record-keeping to enhance transparency in tax reporting.

2. Tax Rate Simplification – Countries with multi-tiered GST structures (e.g., India) should consider rationalizing tax rates to reduce complexity and compliance burden. Single-rate GST systems (as seen in Australia) have proven to be more effective in ensuring ease of compliance.

3. Support for Small Businesses –Developing countries should introduce simplified GST compliance mechanisms for small businesses. Offering lower compliance costs, exemptions, or tax credits can help SMEs transition smoothly into the GST system.

4. Capacity Building for Tax Authorities – Training programs and technological adoption can **improve tax administration** in emerging economies. Tax officials should undergo regular training to effectively administer GST regulations. Governments should enhance public awareness campaigns to educate businesses and consumers about GST compliance.

5. Addressing Inflationary Impacts - Governments should closely monitor post-GST price movements and implement price control mechanisms if necessary. Essential goods should be taxed at lower rates to prevent undue burden on consumers.

6. Ensuring Equitable Revenue Distribution - Federal systems (e.g., India, Canada) must establish efficient revenue-sharing models between central and state governments. Transparent fiscal policies should be enforced to ensure fair distribution of tax revenue across different sectors.

5. Conclusion

The Goods and Services Tax (GST) has emerged as a significant tax reform globally, simplifying indirect tax systems and enhancing revenue efficiency. This study examined the economic impact and revenue efficiency of GST in developed and developing nations, comparing its effectiveness in different economic environments. The findings reveal that GST has generally improved tax revenue collection, compliance, and transparency in most countries. However, the extent of its success varies based on economic structure, administrative capacity, and compliance mechanisms. Developed nations, such as Canada, Australia, and the European Union, have experienced stable revenue growth and smooth tax administration, whereas developing countries like India, Malaysia, and Brazil have faced initial economic disruptions, compliance challenges, and administrative bottlenecks before seeing improvements in tax efficiency.

While GST has positively impacted GDP growth and trade competitiveness in some countries, inflationary pressures, compliance costs, and small business adaptation challenges remain key concerns, particularly in developing economies. Developed nations have demonstrated best practices in simplified GST structures and digital tax administration, while developing countries continue to navigate challenges related to compliance, revenue distribution, and inflationary impacts. If governments adopt data-driven tax policies, support small businesses, and leverage technology, GST can become a sustainable tool for economic growth and fiscal stability worldwide. Overall, the research confirms that GST can be an effective tax system if properly designed and implemented with strong administrative support and digital infrastructure.

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