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LEVERAGING DIGITAL GOVERNANCE FOR INCLUSIVE ECONOMIC GROWTH: GST REFORMS AND FISCAL FEDERALISM IN TAMIL NADU

Editors

Dr. A. Anandhiprabha

Dr. M. Jeeva

Ms. A. Gomathi

Dr. S. Mahalakshmi

Volume - II

A One Day National Seminar on

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Volume II

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STRENGTHENING INCLUSIVE GROWTH THROUGH DIGITAL GOVERNANCE: EVALUATING GST REFORMS AND FISCAL FEDERALISM IN TAMIL NADU



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Abstract

Digital governance has emerged as a critical instrument for promoting transparency, efficiency, and inclusiveness in public financial management. In India, the implementation of the Goods and Services Tax (GST) marked a transformative shift toward a unified indirect tax system supported by digital infrastructure. This article examines how GST reforms, enabled by technology-driven tax administration, contribute to strengthening inclusive economic growth while reshaping the dynamics of fiscal federalism, with a particular focus on the state of Tamil Nadu. The study evaluates the role of digital platforms such as the Goods and Services Tax Network (GSTN) in improving tax compliance, reducing leakages, and facilitating real-time monitoring of revenue flows. It further analyzes the implications of GST for intergovernmental fiscal relations, including revenue sharing, compensation mechanisms, and state-level fiscal autonomy. Using policy analysis, secondary data, and state-specific revenue trends, the article explores how GST has influenced Tamil Nadu's fiscal capacity, public expenditure priorities, and development outcomes. The findings suggest that while digitalized GST administration has enhanced transparency and broadened the tax base, challenges persist in balancing central coordination with state fiscal independence. The study argues that strengthening digital governance frameworks, improving cooperative federal mechanisms, and addressing revenue volatility are essential for ensuring that GST reforms effectively support inclusive and sustainable growth in Tamil Nadu and across India.

Keywords: Goods and Service Tax, Digital Governance, Network, Fiscal

Introduction

The rapid expansion of digital governance has significantly transformed public administration and fiscal management across developing economies. In India, the integration of digital technologies into government systems has improved transparency, accountability, and efficiency in service delivery and taxation. One of the most significant reforms in India's fiscal architecture was the introduction of the Goods and Services Tax (GST) in 2017, which replaced a complex structure of multiple indirect taxes with a unified, technology-driven tax regime. Supported by the digital infrastructure of the Goods and Services Tax Network (GSTN), GST represents a major step toward modernizing tax administration and strengthening fiscal governance in the country. The adoption of GST has had far-reaching implications not only for tax efficiency and compliance but also for the broader framework of fiscal federalism in India. Fiscal federalism defines the

distribution of financial powers and responsibilities between the central government and the states. On one hand, the digitalized tax system enhances transparency, broadens the tax base, and reduces cascading taxes that previously affected production and trade. On the other hand, concerns regarding revenue dependence, compensation mechanisms, and fiscal autonomy have raised important debates about the long-term implications of GST for state finances. Against this background, this article examines how digital governance mechanisms embedded in GST reforms influence inclusive growth and fiscal federalism, with a specific focus on Tamil Nadu. By analyzing policy developments, institutional frameworks, and state-level revenue trends, the study aims to evaluate the effectiveness of GST-driven digital tax administration in strengthening fiscal capacity while maintaining cooperative federal relations. The paper ultimately seeks to contribute to ongoing discussions on how digital fiscal reforms can support sustainable and inclusive economic development in India.

Problem of the Study

The introduction of the Goods and Services Tax (GST) marked a significant reform in India’s indirect tax system by integrating multiple central and state taxes into a unified digital tax framework. One of the major concerns arises from the changing dynamics of fiscal federalism in India. Under the GST regime, tax powers that were previously exercised independently by states are now shared within a cooperative framework governed by the GST Council. Additionally, while the digital infrastructure provided by the Goods and Services Tax Network (GSTN) has improved tax administration, issues such as technological adaptation, compliance burdens for small businesses and disparities in digital access remain concerns. Therefore, the central problem of this study is to examine how GST-driven digital governance affects fiscal federalism and inclusive growth in Tamil Nadu. The study seeks to evaluate whether the benefits of improved tax efficiency and transparency outweigh the challenges related to revenue stability, state autonomy, and digital adaptation within the GST framework.

Objectives of the Study

1. To examine the role of digital governance in improving tax administration and compliance under the Goods and Services Tax (GST) system in India through the digital platform of the Goods and Services Tax Network (GSTN).
2. To evaluate the impact of GST reforms on fiscal federalism, revenue generation, and inclusive economic growth in Tamil Nadu.

Digital Governance and GST Tax Administration

Through GSTN, taxpayers can register, file returns, and make tax payments electronically. The system also enables the government to monitor transactions and verify tax claims through digital invoice matching. This digitalization has significantly reduced manual processes, thereby minimizing administrative delays and opportunities for corruption. One of the major advantages of digital tax administration is improved

transparency. Since all transactions are recorded electronically, it becomes easier for authorities to track tax flows and detect irregularities. The system also encourages voluntary compliance by simplifying tax procedures and providing clear documentation. Small businesses and traders, particularly in developing regions, may face difficulties adapting to digital systems due to limited technological skills or inadequate internet infrastructure. Ensuring digital literacy and providing technical support are therefore essential for maximizing the benefits of GST-based digital governance.

GST Reforms and Fiscal Federalism

The implementation of the Goods and Services Tax (GST) has significantly reshaped fiscal federalism in India. Before GST, states had greater autonomy to levy and modify various indirect taxes such as value-added tax (VAT), entry tax, and entertainment tax. With the introduction of GST, many of these taxes were consolidated into a unified system that requires coordination between the central and state governments. Policy decisions regarding GST rates, exemptions, and structural changes are taken collectively by the GST Council, which includes representatives from both the central government and all state governments. This institutional arrangement promotes cooperative federalism by ensuring that states participate in fiscal decision-making processes. Since tax rate decisions are made collectively, individual states have limited flexibility in adjusting tax policies to meet their specific economic needs. In addition, fluctuations in GST revenue can affect the financial stability of states that previously relied on certain independent tax sources.

Impact of GST on Revenue Generation and Inclusive Growth in Tamil Nadu

The impact of GST reforms is particularly significant for Tamil Nadu due to its strong industrial base and diversified economy. The state is known for its manufacturing sectors such as automobiles, textiles, electronics, and engineering goods. These industries contribute substantially to tax revenues and economic growth. By reducing cascading taxes and streamlining supply chains, GST has enhanced business efficiency and encouraged formalization of economic activities. Increased revenue mobilization plays an important role in promoting inclusive growth. Public funds collected through taxation enable the government to invest in infrastructure, healthcare, education, and social welfare programs that benefit various sections of society. Therefore, improvements in tax administration under GST can indirectly contribute to reducing economic inequality and supporting balanced regional development. Nevertheless, Tamil Nadu has also experienced certain fiscal challenges under the GST regime. Concerns regarding revenue shortfalls and delays in compensation from the central government have created uncertainties in the state's financial planning.

Challenges in Implementing Digital GST Governance

Despite the advantages of digital governance in GST administration, several challenges remain. One major issue is the digital divide between large corporations and small businesses. While large firms generally have the resources and technological capacity to

comply with digital tax systems, smaller enterprises may struggle with compliance costs and technological adaptation. Another challenge is maintaining a balance between central coordination and state fiscal independence. While the GST framework promotes uniform taxation, states may require greater flexibility to address region-specific economic conditions. Improving digital infrastructure, providing training programs for small businesses, and strengthening institutional coordination between the central and state governments are important steps toward addressing these challenges.

Conclusion

The introduction of the Goods and Services Tax (GST) represents a major milestone in India’s journey toward digital governance and fiscal reform. Supported by the technological infrastructure of the Goods and Services Tax Network (GSTN), GST has modernized tax administration by enhancing transparency, efficiency, and compliance. At the same time, GST has significantly reshaped fiscal federalism by introducing a cooperative framework in which both the central and state governments participate in tax policy decisions through the GST Council. While this system promotes coordination and uniformity, it also raises important questions about state fiscal autonomy and revenue stability. For Tamil Nadu, GST reforms offer opportunities to strengthen revenue collection, improve economic efficiency, and support inclusive growth through better public expenditure. However, challenges such as revenue uncertainties, digital adaptation, and the need for stronger cooperative federal mechanisms must be addressed to ensure that GST fully achieves its intended objectives. Overall, strengthening digital governance, improving institutional coordination, and enhancing technological accessibility will be crucial for maximizing the benefits of GST reforms and promoting sustainable and inclusive economic development in Tamil Nadu and across India.

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