GST: Heading to Good and Simple Tax

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INDIRECT TAXES COMMITTEE OF PHD CHAMBER

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1. Introduction

Implementation of Goods and Service Tax Law ("GST") has made the Indian Markets attractive across the world and has also created a common market for around 140 crores people of India. GST was implemented in July 2017, with tax slabs of 0%, 0.25%, 3%, 5%, 12%, 18% and 28% and compensation cess for specified goods or services. Around 17 indirect taxes and 23 Cesses were merged into a single tax on supply of goods and services, right from manufacturer to consumer. Implementation of GST was a historic move and it complemented India's move towards the fastest growing economy in the world. Implementation of GST rusted in increase in the government revenue vis-a-vis better tax compliance and reduced tax evasion, enabling greater control and facilitating efficient monitoring than the traditional taxation system.

From the consumer point of view, the biggest advantages are in the terms of reduction in the overall tax burden on goods and services, free movement of goods from one state to another without waiting at state borders for hours for payment of local taxes or entry tax and reduction in paperwork to a large extent.

At the time of implementation of GST, significant number of goods and some services were put under highest tax slab of 28%. However, following the recommendations of GST Council, over the time span of last four and half years, many goods have been shifted under 18%, 12% and 5% tax slab from the highest tax slab of 28%.

Further, IGST is levied on all inter-state supply of goods and services along with provisions for chargeability of IGST on consignment or stock transfer of goods and services. Centre levies and collect IGST and the same is shared between centre and state. Inter-state dealer pays IGST after adjusting available input tax credit of IGST, CGST and SGST paid on its purchases. The IGST model was implemented to provide multiple benefits to the dealers in the form of uninterrupted ITC chain on inter-state transactions, absence of payment of tax or substantial blockage of funds for the interstate seller or buyer, reduction in inter-state transaction costs, competitive pricing, overall ease and efficiency in the system, among others.

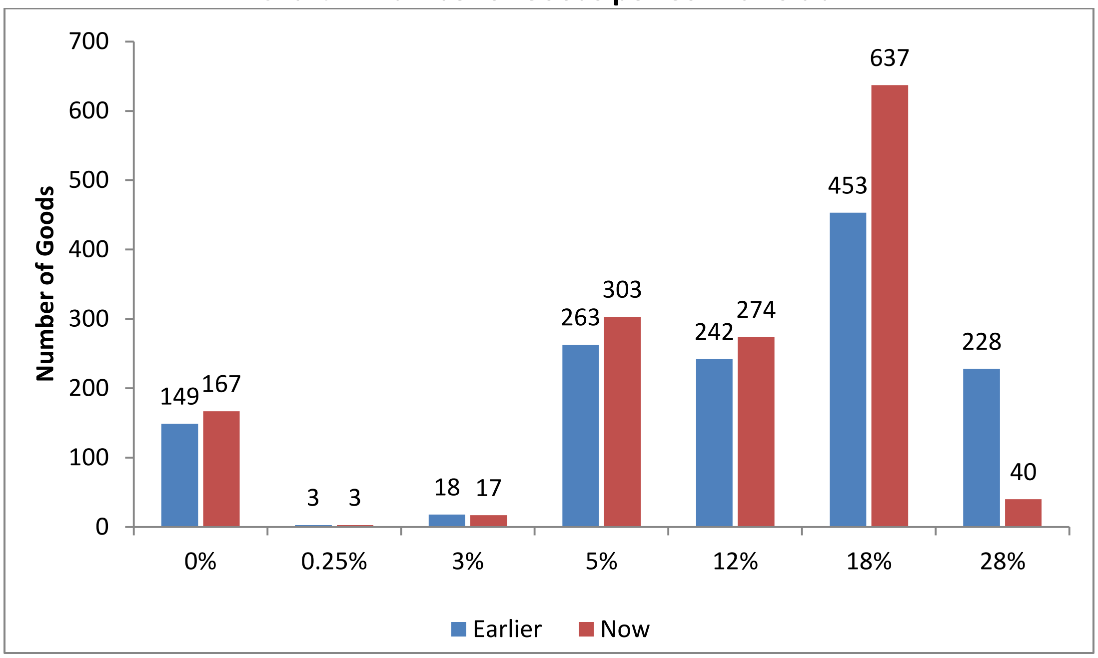
2. Analysis of the Impact on Chargeability of GST on Goods

Goods under GST are categorized according to the specified GST tax slabs. At the time of implementation of GST, i.e. July 2017, maximum number of goods i.e. 453 were put under the slab of 18% and the same are now increased to 637 number of goods by January 2022.

However, the drastic change can be seen in the category of highest tax slab of 28%. The number of goods in this tax slab decreased from 228 at the time of implementation to only 40 by January 2022, resulting in big relief for the end consumers.

The other tax slabs recorded an increase in the number of goods over the time span of around 5 years. Under the tax slab of 0%, 0.25%, 3%, 5% and 12%, the number of goods has changed (mostly increased) from 149, 3, 18, 263 and 242 in July 2017 to 167, 3, 17, 303 and 274 respectively by January 2022.

Chart 1: Number of Goods per GST Tax Slab[1]

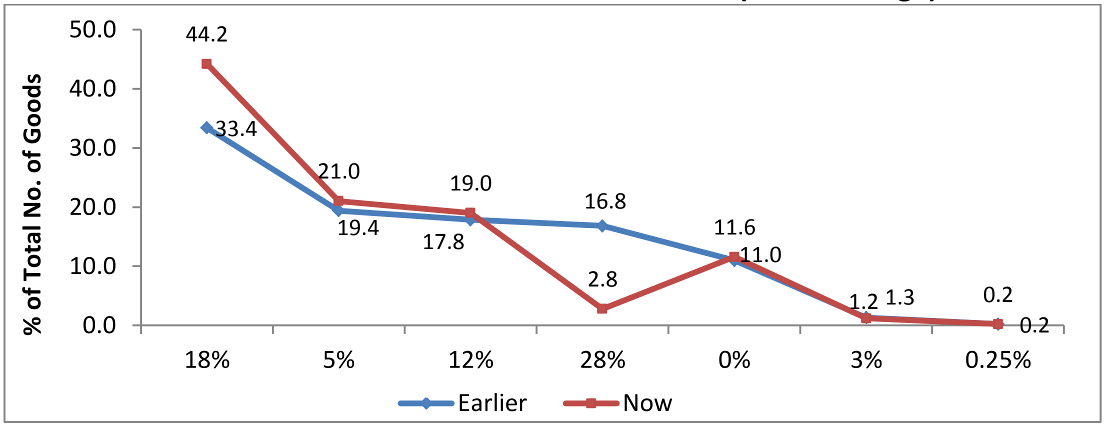


Source: PHD Research Bureau, PHD Chamber, compiled from CBIC.
(Note: Approximate number of goods, 'earlier' data pertains to July 2017 and 'now' data refers to the January 2022)

GST tax slab of 18% accounts for more than 44% of goods under its ambit as of now as compared to around 33% at the time of implementation of GST. The second highest share of goods falls under the category of 5% tax slab, whose share has increased from around 19% in July 2017 to 21% in January 2022. Category of 0%, 0.25%, 3% and 12% recorded minute changes in their share of goods over the same period. The maximum change has been made in the tax slab of 28%. The share of goods under this slab has come down to only 2.8% as on January 2022 from 17% at the time of implementation. The following graph of 'GST reform curve' reflects the change in the GST tax structure over the time span of around 5 years.

[1] This does not a complete or exhaustive list of items under exemptions or attracting concessional rates under GST.

Chart 2: GST Reform Curve[2] (in Percentage)



Source: PHD Research Bureau, PHD Chamber, compiled from various sources
(Note: 'earlier' data pertains to July 2017 and 'now' data refers to the January 2022)

Incidence of GST[3] has reduced from around 14% at the time of implementation (July 2017) to 12% as on January 2022. The incidence of GST has decreased due to shifting of goods in lower tax slabs following the recommendations of GST Council meetings.

Table 1: Incidence of Goods and Service Tax[4]

X (Tax Rates)	W1 (Earlier No. of goods)	W2 (Now No. of goods)	X.W1	X.W2
0%	149	167	0.0	0.0
0.25%	3	3	0.01	0.01
3%	18	17	0.5	0.5
5%	263	303	13.2	15.2
12%	242	274	29.0	32.9
18%	453	637	81.5	114.7
28%	228	40	63.8	11.2
Weighted Average			**13.9%**	**12.1%**

Source: PHD Research Bureau, PHD Chamber, calculations
(Note: Approximate number of goods, 'earlier' data pertains to July 2017 and 'now' data refers to the January 2022)

3. Conclusions

GST is the biggest game changing indirect tax reform for India as it has removed the cascading effect of tax on the cost of goods and services and supported India to become one of the fastest growing economy of the world. GST supports in enhancement of production possibility frontiers; creating millions of employment opportunities for young population; and pushing

[2] IBID
[3] Concept of weighted average has been used to reach at the incidence of GST. In this process, each quantity (tax slab) averaged is assigned a weight (number of goods) that determined the relative importance or dominance of each quantity (tax slab).
[4] This does not a complete or exhaustive list of items under exemptions or attracting concessional rates under GST.

India's growth towards higher trajectory. Since the implementation of GST in July 2017, significant changes have been made in the composition of GST framework on the basis of various recommendations of GST Council. This has resulted in the decrease in the incidence of GST to 12% as on January 2022 from 14% in July 2017. Further, continuous effort are being made by the government to make sure 99% of items attract 18% or lower GST and leaving only sin or luxury items in the highest tax bracket of 28%.

Implementation of GST has also resulted in the significant reduction in the inter-state transaction costs. Traders and manufacturers in India are hugely benefitted from IGST model with respect to reduced transaction cost, reduced cost of raw material, improvement in sales, increase in labour efficiency and overall increase in profitability. At this juncture, there must be improvement in logistics and infrastructure scenario to further reduce the transaction costs.

Going ahead, the petroleum products must brought under the ambit of GST to remove the cascading of taxes such as excise duty, central sales tax including value added tax. It is also suggested to bring the Aviation Turbine Fuel (ATF) & Piped Natural Gas (PNG) under the GST to enable these companies avail the benefit of Input Tax Credit.

GST has been one of the landmark tax reforms in the country and though it has stabilized to a large extent, the business entities are still grappling with some issues and compliances required to be carried out, which are blocking the way for GST to become a Good and Simple Tax. Issues such as blockage of GST credit on certain inputs and input services, complicated process of availing credit for all businesses, among others, are affecting the ease of doing business in the country. At this juncture, such issues must be resolved at the earliest for making GST a Good and Simple Tax, facilitating the business and providing a thrust to the growth trajectory of Indian economy.

Further, it is suggested to rationalize the GST rates into three major slabs of 5%, 10% & 15% along with a few sin goods in the slab of 28%. The items in category of 12% rate should be reduced to 10% and items in the category of 18% rate should be reduced to 15% and the items in 0% and 5% category should be kept as it is. There should be minimum items in the category of Sin Goods which is rated at 28%.

The rationalization of the tax slabs would create tremendous demand in the economy, subside the inflationary pressures and enhance the sentiments of producers for production and create employment opportunities for the growing workforce in the country.

Moving forward, the Government's efforts towards further liberalization of the GST norms, ease in procedures, shift of goods into the lower tax slabs, among others will result in further promotion of ease of doing businesses, boost in manufacturing, increase in price-cost margins of manufacturers and generation of employment opportunities in the economy.

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