

Goods and Services Tax in India Progress and Prospects

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Scheme of Presentation

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 - Harmonization of domestic trade taxes;
 - Removal of Impediments;
 - Reduced cascading;
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 - Use of Technology in Administration;
 - An institutional model for intergovernmental bargaining and conflict resolution;
- Impact on Revenues
- Second Generation Reforms and Strategy
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Introduction

- Most influential tax reform worldwide: 166 of 193 countries with UN membership have one form of VAT or another. A part of IMF reform package. However, examples of successful subnational VAT are only in Brazil, Canada, and the European Union.
- Most important domestic trade reform in India. Combines 11 indirect taxes of Centre, State, and local bodies.
- The reform has been accepted, but will take more time to firm roots;
- Stabilizing the tax takes a considerable period of time, particularly in countries with sub-national VAT. Even in Canada, although the tax was introduced in 1991, British Columbia decided to exit the VAT system and returned to the PST in 2013!
- Most countries adopted VAT for revenue reasons. It is considered a ‘money machine’; Some developing countries imposed VAT to compensate the loss of revenue from the reduction in tariffs.
- The time is opportune to refine and rationalize GST to minimize the three costs and to make it simple, comprehensive, efficient, and productive.

Unique Features of GST in India

- “No one size fits all”. Each country follows what is feasible and acceptable. But if some wrong features are included to get the reform accepted, it is difficult to remove them;
- Important to follow general principles:
 - Have standard numbering linked to income tax;
 - Global tax with very few exemptions; Zero –rating exports;
 - Not too many goals; High threshold; Avoid multiple rates;
 - Destination-based tax with invoice credit method;
 - Do not collect too much information which you can not use;
- Indian GST threshold is low; Limited coverage and large exemptions, Multiple rates but uniform across states.
- Different State Acts, but uniform across States. Different tribunals give different rulings.
- Joint levy and seamless transactions across states; clearing house mechanism to trace inter-state transaction;
- E-way bills and e-invoicing system.

Impact on Revenues

- In 2017-18, C&AG shows revenue collected was lower than the subsumed taxes in the previous year by 10%.
- Low Growth of revenues. Increase in absolute terms in successive years. The recent trend is encouraging (Fig 1).
- Highest revenue 1.67 Lakh Crore in April 2022.
- Since April 2022, the revenue has consistently exceeded 1.4 lakh Crore. Effective rate is virtually stagnant. Sharp decline during the pandemic. Improved collections in the last two quarters (2022-23) Highest effective rate 9.6% in the First Quarter of FY 23 (Fig. 2).
- With improved compliance, inflationary conditions and economic recovery, the revenues are set to increase.

Gains from Reform

- Unification, simplification, and harmonization of domestic consumption taxes. Uniform rate structure across states.
- Efficiency gains – reduced cascading and greater export competitiveness.
- Abolition of check-posts, efficient transportation (20%) of goods. Reduced compliance cost at check-posts.
- Better supply-chain management and efficiency gains due to the abolition of branch offices which were created for consignment transfers.
- Cross-verification with income tax returns and paper trail of transactions.
- A model institution for intergovernmental bargaining and conflict resolution.
- Digitization and fast refunds.
- Movement towards self-assessed tax. E-invoicing to track B2B transactions.

Figure 1

Month-wise Revenue Collections during 2017-22

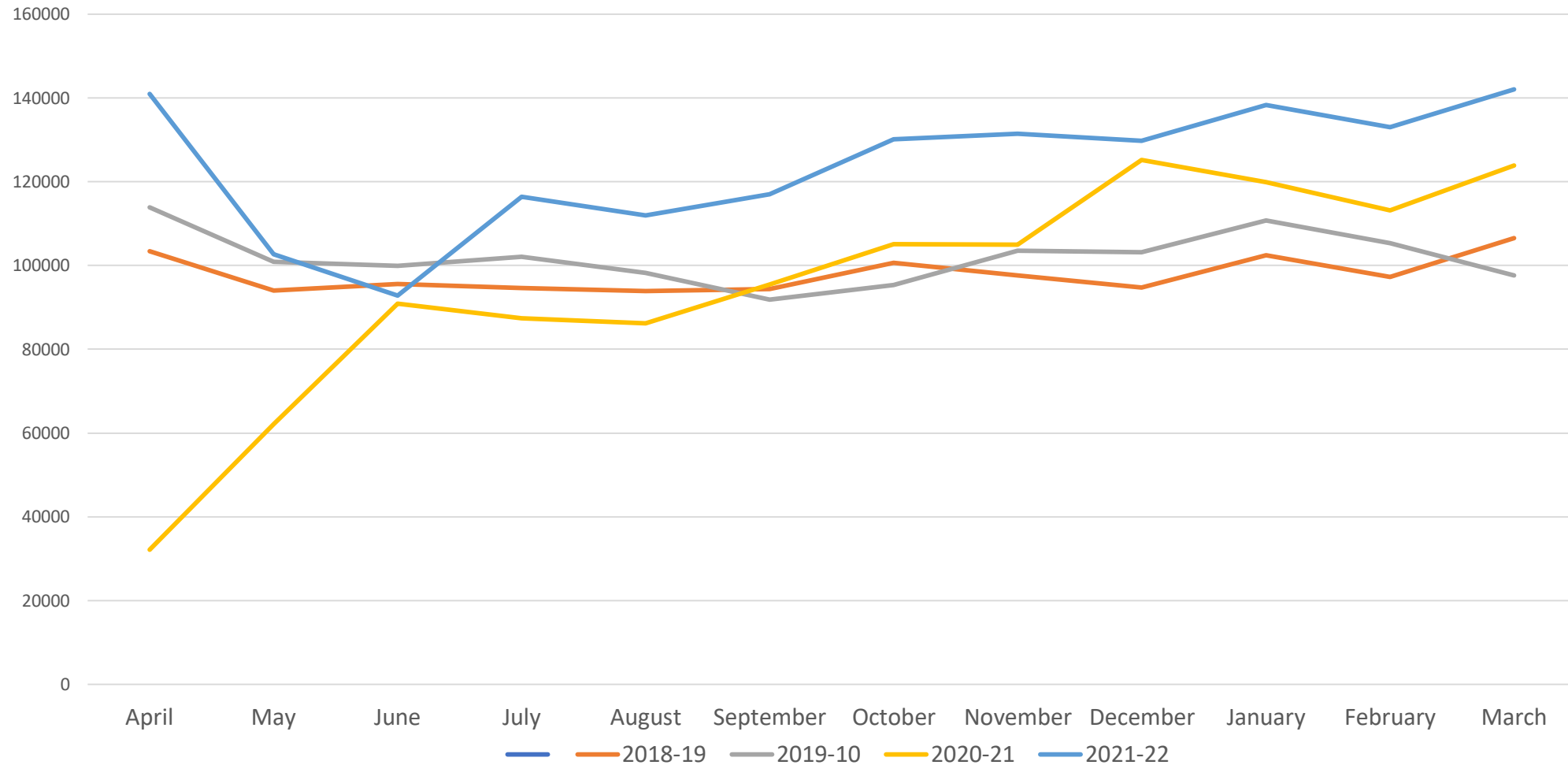
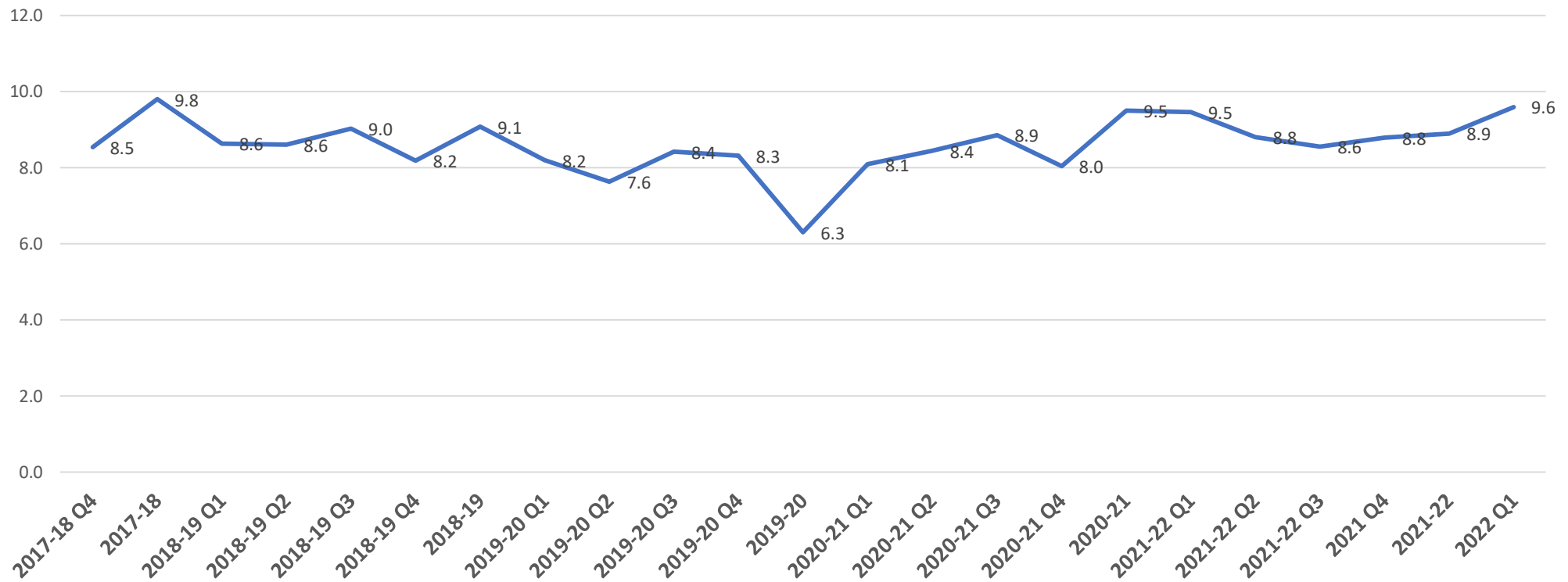


Figure 2

Quarterly Effective Tax Rate



Second Generation Reforms

- Broaden the base, and make the tax system more comprehensive by including petroleum products and electricity.
- Minimise Cascading: Revenue from excluded items constitute 40%. State-wise variation in excluded state taxes is from 36% to 61%
- Reduce the number of rates into two: merge 12% and 18% into 16%;– shift 28% category into the general category. Make 5% into 8%. To ensure revenue neutrality.
- Compensation for revenue loss as a strategy. Revisit the formula.
- Stabilise the technology platform.
- Revisit the registration limit to Rs. 50 lakh for both goods and services.
- Expand the scope of e-invoicing.
- Cross-verification of IT returns and GST returns.
- A competent technical team and sharing information for research.

Table 6:**Revenue From Cascading Taxes After GST Implementation in 2019-20**

| State | GST (Rs. Million) | Cascading Taxes (Rs. Million)* | Total (Rs. Million) | Share of cascading Taxes in Total (Per Cent) |
|-----------------------|------------------------------|---|--------------------------------|---|
| Andhra Pradesh | 20227 | 31656.3 | 51883.3 | 61.01 |
| Bihar | 15805 | 9278 | 25083 | 36.99 |
| Chattisgarh | 7894.8 | 12036.2 | 19931 | 60.39 |
| Goa | 2438.5 | 1832.5 | 4271 | 42.91 |
| Gujarat | 34106.7 | 34252.6 | 68359.3 | 50.11 |
| Haryana | 18873 | 17918 | 36791 | 48.70 |
| Jharkhand | 8417.7 | 7371.5 | 15789.2 | 46.69 |
| Karnataka | 42147.2 | 47563 | 89710.2 | 53.02 |
| Kerala | 20447 | 25733 | 46180 | 55.72 |
| Madhya Pradesh | 20447.8 | 28215.9 | 48663.7 | 57.98 |
| Maharashtra | 82601 | 134933.9 | 727807 | 46.8 |
| Odisha | 13203.5 | 16739.6 | 29943.1 | 55.90 |
| Punjab | 12751.2 | 14780.9 | 27532.1 | 53.69 |
| Rajasthan | 21954 | 32690.4 | 54644.4 | 59.82 |
| Tamil Nadu | 38376.2 | 58022.9 | 96399.1 | 60.19 |

Concluding Remarks

- GST is here to stay. It is important to make it a truly a Good And Simple tax.
- Second-generation reforms are important to make it a Good and Simple Tax.
- The recent revenue buoyancy provides confidence in undertaking reforms. In the medium and long term, the tax could turn out to be a money machine.
- The reforms are best done when the economy is in a recovery phase.
- A good example of Cooperative federalism. Need to find a mechanism to avoid irritations.

