Rationalising GST Rates

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1. Abstract:

At midnight on 1st July 2017, India transitioned to a newer and simpler taxation regime, a system more befitting of a nation on the cusp of being developed. Gone were the days of complex and cascading tax laws, tax evasion would be tales of yesteryears and absolute compliance would be the norm. In reality, **GST** achieved most of these goals but people often forget that GST was never supposed to be the end goal of our country. The goal was always to **simplify** the taxation system to the fullest extent and to achieve this goal GST still has a long way to go. This is why there has recently been a call to accomplish this goal through the means of **rationalization** of GST rates, i.e. to narrow down the tax brackets of the current GST system to ensure compliance and to increase the government's revenue all while simplifying the taxation system so that everyone from the biggest businesses to local mom and pop stores can follow the regulations with ease. The following paper does a deep dive into this call for rationalization. Firstly, the paper will briefly introduce GST, how it is currently being implemented, what tax slabs currently exist, some items in each slab, and the various problems in the current system. Next, the paper delves into the alternative that has been suggested, viz. Rationalization. It'll look into the different meanings of rationalizations, the history of rationalization of GST, and the current **need for rationalization**. Next, the paper looks into the **benefits rationalization** will have on the various aspects of our country, viz. The economy and government revenue, the healthcare sectors, the multiple companies in India, and the country's judiciary system. Next, the paper examines the potential **problems** that can arise in implementing the new regime followed by a brief look into how other countries have implemented their version of GST so that India can draw some inspiration from them. Finally, the paper concludes with some **recommendations** on how the GST rationalization can be implemented and on the various aspects it has to keep in mind while being implemented.

Keywords: GST, rationalization, tax rates, economy, government revenue.

2. Introduction:

a. What is GST:

Goods and Services Tax is an **indirect tax** imposed in India to enhance and support the country's economic growth. It is a successor to the **Value Added Tax (VAT)** and is applied to both Goods and Services produced in the country. GST is a tax structure that has been successfully established in many countries all over the world and now it is a part of the Indian Economy. In India, the job of introducing GST was started in 1999 by then Prime Minister Shri. Atal Bihari Vajpayee. He set up the **Asim Dasgupta committee**, under the leadership of the then-finance minister of West Bengal Asim Dasgupta, to design the model of GST. The work was continued in the 2000s and the 2010s but its implementation got delayed due to politics between the ruling party and the opposition party. Finally, GST came into effect at midnight on **1 July 2017** through the implementation of the 101st constitutional amendment.

One of the defining features of GST in India is the establishment of the **GST Council** in which the Union Government as well as all State Governments and Union Territories with legislatures are represented. The Council has full decision-making powers concerning GST by majority voting. Hence, the Council is an important milestone in fiscal federalism in the country.

India is currently the fifth largest economy in the world according to IMF. India is also one of the world's fastest-growing economies. GST was introduced to enhance India's level in both domestic and international markets. This is because GST replaced all the multiple taxes that were taken by central and state governments. That is why it was launched under the slogan of **"One Nation One Tax One Market"** which means there is no need to pay any other tax all over the country.

b. Tax Rates under GST throughout the years and their rationale:

Under the present GST system, both the Union and the States have concurrent powers to levy tax at the same rate. States levy and collect State GST (SGST) and the Union levies and collect the Central GST (CGST). For any particular good or service, the SGST and CGST rates are equal

Goods and services are divided into 5 different tax slabs for tax collection: **0%, 5%, 12%, 18% and 28%**. The type of items under each tax slab are as follows:-

1. 0%- **Essential commodities** such as food grains, milk, fresh fruits and vegetables, education, and transportation services.

2. 5%- **Household necessities** like edible oils, sugar, tea, coffee, spices and coal.
3. 12%- Processed food items, frozen meat products, butter, cheese, ghee, and mobile phones.
4. 18%- Most goods and services fall under this slab, including clothing, footwear, electronics, restaurant services, and financial services.
5. 28%- **Luxury items** such as automobiles, high-end electronics, tobacco products, and aerated drinks. Additionally, some services like five-star hotel accommodations and movie tickets also fall under this category.

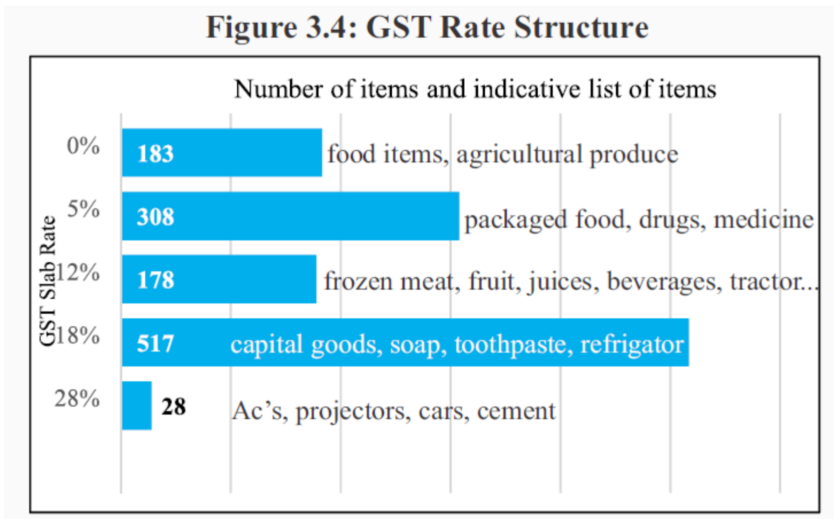

Image Source-[Fifteenth Finance Commission Report]

However, petroleum products, alcoholic beverages, and electricity are not taxed under GST but separately by the individual state governments, as per the previous tax system. There is a special rate of 0.25% on precious and semi-precious stones and 3% on gold. In addition, a cess of 22% is applied on top of 28% GST on several items like aerated drinks, luxury cars, and tobacco products. It has been seen that pre-GST, the average tax rate for most goods was about 26.5% but post-GST this number has decreased and now most goods are seen to be in the 18% tax range.

c. Current problems with GST:

The Fifteenth Finance Commission analyzed the GST collection and implementation pattern till 2021 and in their report[1] found the following shortcomings in the current GST regime:-

[1] XVFC report

- **The multiplicity of tax slabs:** GST is a consumption-based value-added tax on goods and services with dual levy by both the Union and the States. In a significant move, the multiplicity of taxes levied at differential rates by the Union and State Governments on goods and services pre-2017 were subsumed under GST. Ironically, one of the persistent challenges with the GST regime is the multiplicity of tax slabs. The initial vision was to create a simplified tax structure, but the presence of multiple slabs has led to confusion and complexity. This diversity in tax rates not only complicates compliance for businesses but also blurs the intended clarity of a unified tax system.
- **Inefficiency in tax collection:** GST was envisaged to bring considerable efficiency gains in the economy with its one-nation- one-tax-one-market paradigm and it was expected to improve the overall tax-GDP ratio. However, unique challenges have emerged in the implementation of GST which has resulted in less increase in revenue than expected. This problem has affected both the Union's and the States' finances. According to the commission, these lower-than-expected GST revenues could be attributed to several changes in rates, returns, shifting timelines for filing of returns, delayed introduction of anti-evasion measures, technical glitches, and cumbersome compliance processes.
- **Volatility in state revenue through GST:** According to the commission, a shortfall in GST revenues has remained a cause of worry. States have witnessed high volatility in GST collections with impacts on their finances. The scheme of compensating states for the losses they incurred due to the implementation of GST has eased the process of transition for States. However, according to the commission, states need to rapidly improve implementation, and reduce tax evasion and under-invoicing. On top of this, the States that are lagging in harnessing the potential of GST will need some structural change over the medium term to increase their revenue.

On top of these issues, the following problems have also been noticed in the current GST regime recently:-

- **Tax invasion:** While one of the main aims of the GST reform was to curb the ramp tax invasion that was going on in the country a study by IIM Calcutta[2] says that even though the government's revenue has increased post-GST, "Tax authorities have detected GST evasion of ₹40,000 crore across 5,700 evasion cases in just over a year (2020-21), mostly on account of fake invoices and fraud input tax credit claims."
- **Increasing inequity:** The current rate system is an inefficient way of targeting benefits for the poor. When food ingredients like ghee and butter which are used in every Indian home are taxed at 12% the gap between the rich and the poor will never close down.

[2] GST and Governance: Unintended Implications on the Poor and MSMEs

- **Increasing complexity:** Over the last few years, the GST law has seen many amendments. During this time, all these revisions often confused the taxpayer and as well the tax administrators which created misunderstandings and misconceptions.
- **Trouble with technology:** Small and medium businesses are still grappling to adapt to the tech-enabled regime. The fundamental principles on which the GST law was built viz. seamless flow of input credits and ease of compliance have been impaired by IT glitches.
- Many businesses are genuinely not able to monitor their vendor behavior and feel that they should not be penalized for the tax compliance deficiencies of their vendors once they have paid the GST amounts to their vendors.

3. Rationalization of Rates:

As mentioned previously revenue mobilization from the GST is falling short of its targets and it is thought that this is due to the reduction of tax rates as well as the lack of tax compliance under the current GST regime. This is hurting the tax revenue of the Union government as well as the States. Like every tax reform, it was also envisaged that GST would be revenue-neutral, i.e. the expected revenue from GST will match the revenue from taxes that are subsumed into GST. Reports in recent years have indicated that the **effective tax rate under GST** has gone down from the original revenue-neutral rate of 15- 15.5% in December 2015 to **11.6 percent** during July-September 2019 on account of multiple rate cuts since the introduction of GST in July 2017. To correct this gap the GST council formed a **7-member Group of Ministers (GoM)** on rate rationalization which is expected to come up with recommendations on rate rationalization that will correct this gap through rate changes in several product categories.

a. What does GST rate rationalization mean:

Rationalization can have many meanings from a more complex and progressive definition which says that India like most developed countries should have just **one single tax bracket** for its goods and services for simplicity and better revenue generation, to a more simple definition which includes even the smallest change in the tax system such as **shifting of a good from one tax bracket to another** as a part of governments plan to rationalize the GST rate. Simply put when one says GST rationalization they are talking about any change in the current taxation regime for revenue generation and to simplify the system. As seen in the below graph the plan to rationalize our tax system is not new at all with the government already moving items away from the 28% rate slowly and steadily to the other brackets.

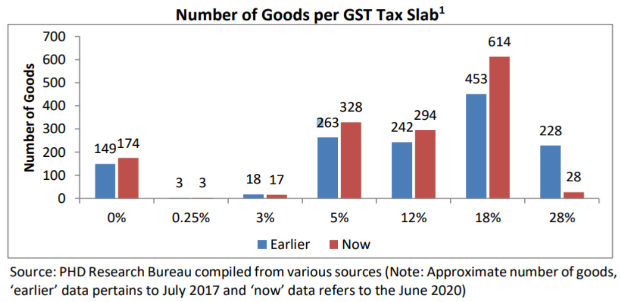

Image Source-[Impact of GST on Economy and Businesses]

However, the recent call for GST rationalization has not been for a small change. It has been to completely revolutionize the tax system in India so that it can be on par with other developed countries. For this, economists have been calling for a single tax rate that is applicable throughout the country with exemptions only for essential and necessary commodities.

b. History of GST rationalization:

The GST rate structure has undergone many changes since the introduction of GST in India. Calls for rationalization date as far as 3rd August 2017 just one month after the implementation of GST, when the then finance minister, Shri Arun Jaitley, said "I do concede that as it (GST) moves forward, there will be scope for rationalizing the rates. There, probably, will be the scope that the two standard rates of 12% and 18 percent, after some time, could be clubbed into one. That is a fair possibility and a suggestion".[3] He also replied to criticisms about multiple slabs by saying that if the two rates, 12%, and 18% had been merged into one its inflationary effect would have been high and therefore they did not get into this exercise.

As for the change in the items in each slab, this was first done in the 23rd GST council meeting, on 1st November 2017 when 178 items were brought down from the 28% slab to the 18% slab on top of other changes. As for the current scenario over **1200 items** are subject to the GST. The four primary GST rates are 5, 12,18, and 28 percent. Besides these, there are some special rates are 0.25 percent, 1.5, and 3 percent. The rest of the items are in NIL rates. The Twenty-eight percent slab of GST contributes 16 percent to the gross GST revenue, while the major chunk of 65 percent comes from the 18 percent slab. As for the other two, the slabs of 5 percent and 12 percent contribute 10 percent and 8 percent of the total gross GST revenue, respectively.

[3] Arun Jaitley indicates scope for rationalisation of rates under GST

c. Need for Rationalisation:

There are plenty of reasons for the rationalization of GST rates other than the ones that have been already mentioned. Some of these reasons are:-

- **Simplification:** Rationalization can help in simplifying the Tax Structure of India. No doubt GST has simplified a very complicated system of taxation but the various slabs that GST has are still a source of confusion. Reducing the number of slabs, i.e. rationalization, can simplify the tax system making it easier for businesses to comply and thus prevent tax evasion.
- **Inverted Duty Structure:** As it currently stands, several industries have to face an inverted duty structure where the input they buy is taxed higher than the output they produce. Hospitals are the best example of such anomalies. Rationalization can correct these anomalies thus making it more lucrative to run a business and increase the profit of existing companies.
- **Easier compliance:** A simplified GST structure would ease the compliance burden on businesses. This means that the business doesn't have to spend time and money figuring out its input and output GST and the amount it can get back from the government through input tax credit. This will ultimately not only lead to more GST-paid businesses to the government and less tax evasion but it will also boost the overall productivity of the firms.
- **Equity:** As things currently stand there is a very open debate going on about whether GST is performing the primary function of any tax, Equitable Tax Distribution. While the answer to that is not clear, what is quite clear is the fact that Rationalization will ensure a fairer distribution of tax burden and efficient use of revenue. This is because, with the addition of new tax brackets such as a 40% bracket for luxury and sin goods instead of 28% and the addition of more essential goods in the 0% or 5% slab, the government can ensure a progressive taxation system and an efficient redistribution of wealth system.

4. Impact of rationalization:

a. Economy and government's revenue:

GST collection is closely related to the overall economic performance, particularly the nominal GDP and inflation rates. For example, after the Pandemic, consumer expenditure increased in India, and so did the revenue India got from GST, and consequently the GDP rose. As with the implementation of any economic policy, it takes time for the efficiency of collection to be at the optimum point, and after 7 years of GST, India is at that point. This means that any future gain in GST revenue for the government depends on **expanding the tax base**, moving towards a single tax rate, and formalizing the economy. While GST has cut down **tax evasion** amongst businesses significantly it still hasn't weeded out the problem in the informal sector. While this problem is unlikely to be eliminated through rationalization, it will help in lowering the tax rate in the informal sectors which ultimately might help to formalize the sector and bring in even more businesses into the economy. A well-structured GST also has the potential to address issues relating to the **distribution of tax revenues** to local governments, thereby enhancing governance in urban areas, which are the primary consumption hubs thus creating more revenue from GST in turn.

b. Healthcare:

The healthcare sector has been a source of irony for post-GST India. The government has put healthcare in the **0% slab** meaning that patients don't have to pay any GST on the service they receive at the hospital. The thought process behind the decision was quite simple. As Healthcare is one of the essential services in any country, the government wanted to make it as cheap as possible for its citizens. But the on-ground reality paints a different story. A report published by EY found that under the current GST regime hospitals had to pay an average GST rate of **12%** (refer to table below) on their inputs like diagnostic kits, medical instruments, medicines, and even land lease renewal.

Figure 4: Average GST rate incurred by Hospitals: GST paid/Expenditure bearing GST

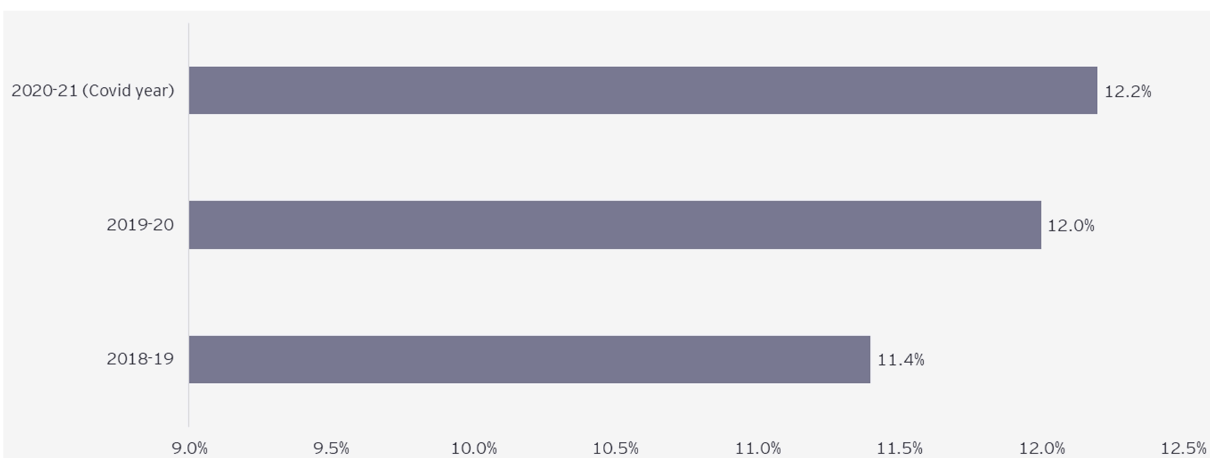

Image Source- [EY Report]

As the hospitals couldn't charge the patients with GST for their services, they ended up hiking up their prices to cover the increased input costs. The solution to this problem is rationalization. It can be of two forms. Firstly the inputs can be brought down in the GST slabs. For example, diagnostic kits whose importance the country saw during the pandemic are currently taxed at 12%. Bringing it down to 5% will bring the cost down for the patients. Another way to go about it is to charge a suitable rate of GST on the service itself so that the hospital cost goes down.

c. Companies:

On top of the aforementioned high costs of running private hospitals, other businesses suffer too due to the multi-slab structure of GST. The **restaurant industry** for example faces a tough choice. While the government has been incentivizing the use of the cleaner **PNG** through subsidies, it has also kept it out of the GST bracket leaving the states to levy VAT which can be less or very high like in the case of U.P. which charges 10%, and this VAT is not creditable. This drives up the operational cost for the restaurants which can be especially harmful to small family restaurants. A similar problem is seen in the energy sector and the petroleum industry where firms are finding it harder and harder to make a profit without offsetting the cost of their inputs. which are now under GST, to the customers. The **petroleum industry** in particular has seen recent calls for it to be brought under GST as it still faces the cascading impact of taxes such as excise duty, and central sales tax including value-added tax. Even the **steel industry** hasn't been impervious to this problem. The Indian Steel Association in 2023 called for GST rates on raw materials such as slag and fly ash to be brought down from 18% as they found that higher costs for the manufacturer have ultimately led to a higher rate of tax evasion which ultimately brings down the government's revenue. Time and time again with the help of surveys it has been clear that industries have become more and more sympathetic to rate rationalization as it will not only eliminate the cascading effects of taxation but also reduce the tax burden and help in making firms revenue-neutral.

d. Legal Cases Related to GST:

When the minister of state for finance, Shri. Pankaj Chaudhary was asked about a query in the Lok Sabha he revealed that as of 30th June 2023, more than **14 thousand cases** related to central GST alone were pending in the courts(refer to the table below).

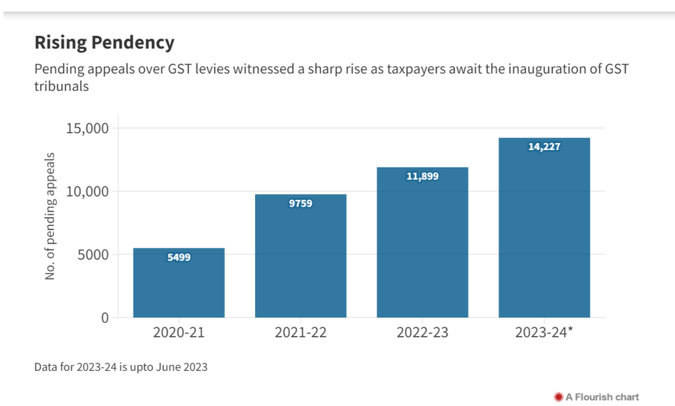

Image source-The Hindu

Such a high number of cases was one of the primary reasons for the introduction of the **GST Appellate Tribunal** and without a shadow of a doubt these tribunals will ease the burden of GST cases on the judiciary system when they begin their functioning but the underlying cause of the problem remains unsolved. The majority of these cases are due to the complex structure of the GST. One such example can be the **Dharmendra M. Jani v. Union of India(2023)**[4] case. In this case, a marketing firm was sued by the government for the non-payment of GST. The firm acted as an intermediary between the Indian importers and foreign exporters. Once the foreign exporters received the payment for the goods they would pay the firm their commission in foreign currencies. The firm's interpretation of the GST law was that the government incentivized exports and since their services were being exported and they were bringing foreign currency into the country they were entitled to a tax write but this was against section 13(8)(b) and section (8)(2) of the IGST act. The case was so complicated that even a 2 judge bench could not agree amongst themselves on the validity of these provisions and it was eventually settled by a third judge. This case by no means is unique. Our judicial system is filled with cases each dealing with its unique interpretation of the law. For the sake of the **conservation of time and resources**, it is important to simplify our indirect tax law, and rationalization is the answer to this.

5. Potential Problems with Rationalisation and its Implementation:

Even though it is very evident that GST rationalization is the next step for India which is on the verge of being a developed country, the implementation of this reform will not be easy nor will it come anytime soon. Just like GST which took about two decades to be implemented, one can expect GST rationalization to take similar albeit a shorter time to be introduced especially because the Group of Ministers(GoM) which was founded by the GST council in its 45th meeting back in 2021, has not still submitted its report on rationalization.

Notwithstanding the above issue, the following concerns have also been mentioned by the economists, which the GST council has to keep in mind while rationalizing the GST rates:-

- **Essential goods:** One of the biggest problems the GST council will face while making the rationalized tax structure is choosing which items to consider essential and which will be taxable. This becomes even more important because tampering with the exempt list of essential items of daily consumption used by the economically backward will be far from ideal at a time when the less privileged section is yet to recover from the impact of the pandemic.

[4] Dharmendra M. Jani v. Union of India

- **Industrial Lobbying:** Another problem that will definitely arise while implementing any change to GST rates will be the pushback from different industries. This is because they will feel the opposing impact of such rate changes on the sales of their product. In fact, this concern is not hypothetical and was seen when the GST council in 2021 proposed to reform the textile sector by removing its inverted duty structure i.e. the duty paid by the **textile producers** for their input was more than the duty they got for their final product. This problem led to the government having to refund an amount that exceeds ₹4,000 crore in the form of **input tax credit(ITC)** to the textile sector annually. To correct this inverted duty structure and to prevent the government from hemorrhaging more money the council intended to increase the GST rate on footwear and garment goods from 5% to 12%. However, this change was met by fiercely opposed by the textile industry workers who felt that their jobs would be in danger if the firms didn't get ITC from the government. Considering the fact that the workers from Gujrat were at the forefront of this protest and that there was going to be an election in the state in 2022 the idea to roll back the inverted duty structure was shelved and hasn't been revisited since. In fact, in 2024, an MP from Odisha asked the government to exempt textiles and handlooms from GST as they are an indigenous industry and hence they need to be protected from foreign manufactured goods.
- **Inflation:** As previously mentioned the GST rate is closely tied to the rate of inflation in the country. With India always juggling to meet its inflationary targets the Council has to be careful while rationalizing the rates so that they do not add any inflationary burden on the economy. This becomes especially important at a time when crude oil and other commodity prices are hitting the roof and a poorly planned out tax structure would end up hampering both the economy and the common man.
- **Loss of revenue:** Lastly, there exists the fear of revenue loss for the government after the rationalization of tax brackets. For example, Merging slabs like 12% and 18% could lead to revenue loss if the items aren't carefully chosen. Thus the job of rationalization is an extremely complex one and it necessitates careful consideration.

6. International examples of GST:

The concept of GST is not new to the world as nearly **160 countrie**s have opted for this mode to bring individual tax rates into a single tax. In most countries value added tax (VAT) is taken as a substitute for GST. Presently, countries like **Australia, Canada, Singapore, New Zealand, Malaysia, Indonesia, and Pakistan** have a GST system while remaining follow a VAT system. In comparison with emerging market economies (EMEs), **India has the highest rate of GST at 18%** - with major commodities falling under this rate. EMEs like China and Brazil have their most of commodities falling under the tax rate of 17%, and 10% respectively.

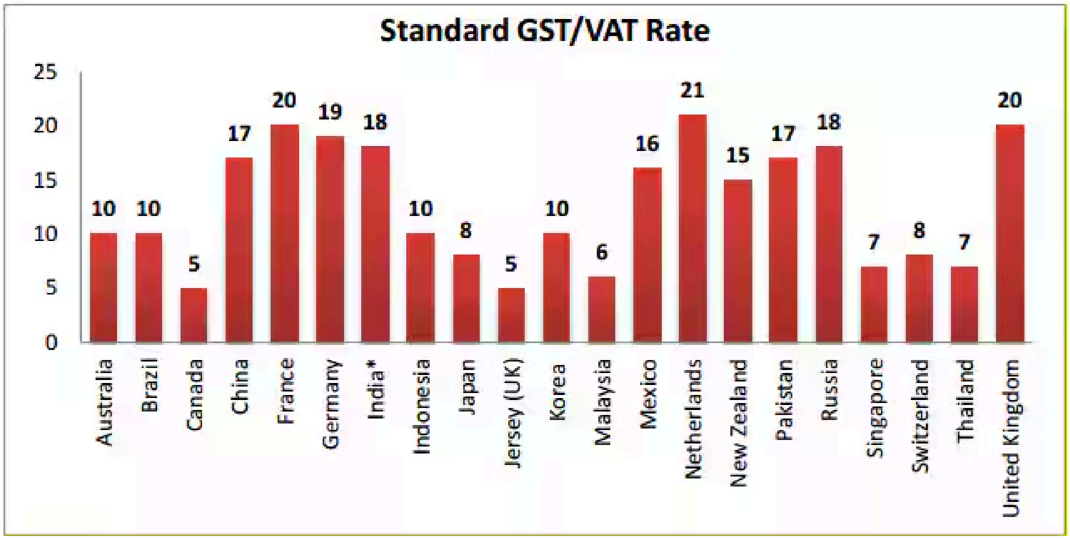

Image Source- OECD(2016)

a. New Zealand:

GST in New Zealand was introduced in 1986 at a rate of 10%. However, the rates were changed twice – first 12.5% in the year 1989 and then **15%** in 2010 in a move to mobilize higher revenue. The minimum threshold for businesses to pay GST is $60,000, this means that any person or entity with annual revenue less than $60,000 does not have to register for GST. GST in New Zealand is designed to be a **broad-based system** with few exemptions, such as for rents collected on residential rental properties, donations, and precious metals, all of which are exempt from GST. Because it is broad-based, it comprises **31.4%**[5] **of the total taxation** of New Zealand. Such a tax system has broadened the base of the tax net and has also reduced both compliance and administrative costs. At present, the country is the highest tax-productive nation among OECD countries.

b. Australia:

Goods and services tax (GST) applies to most goods and services sold in Australia. In Australia, the GST is a federal tax collected by the Australian Tax Office and distributed among states. Many domestically consumed items such as **fresh food, health services, and education are zero-rated**, among others. All Australian businesses whose turnover is above the minimum threshold (currently $75,000 per annum) are required to register for GST. Businesses whose turnover is below the threshold may register if they wish to. The most important feature of

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[5] Tax Working Group Information Release

Australia's GST is that it is not in tax slabs it has a u**niform tax rate of 10%.** The economic impact of this uniform tax rate is visible in the graph below.

Goods and services tax revenues in Australia since 2000(in $ millions)

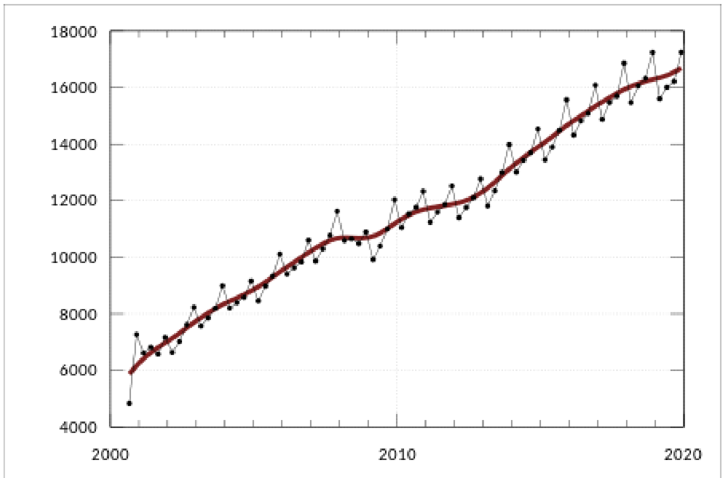

Image Source: [Wikimedia Commons]

In the months before GST was implemented, the country saw a spike in consumption as consumers rushed to purchase goods that they perceived would be substantially more expensive with the GST. Once the tax came into effect, consumer consumption and economic growth declined initially but the consumption soon returned to normal. There was even a study by a university in Perth that the introduction of GST would negatively affect the demand for real estate as it would drive up the price by 8 %. However, the real estate market boomed between 2002 and 2004 when property prices and demand increased dramatically, particularly in Sydney and Melbourne. However, the 10% tax rate led to low GST revenue productivity from a tax collection standpoint. Hence some Australian policymakers have been calling for an increase in the GST rate to 15%.

c. Canada:

Canada introduced GST in the form of a **multi-level VAT** in 1991 on supplies of goods and services purchased in the country, including almost all products except certain essentials like groceries, residential rent, and medical services. The GST replaced a previously hidden 13.5% manufacturers' sales tax (MST). It was introduced at an original rate of 7% but the GST rate has been lowered twice and currently sits at a rate of **5%**, since January 1, 2008. The GST raised **11.7% of the total federal government revenue** of Canada in 2017–2018. However, the double decrease in the GST rates has been estimated to have decreased government revenues by approximately $6 billion. Critics of these tax decreases also say that sales taxes target those who spend more and therefore such reductions disproportionately benefit Canadians giving those who have the most and spend the most the largest tax decrease.

After the bill was implemented, it led to new processing operations and techniques to verify the accuracy of the returns submitted by small entrepreneurs. This helped Canada to prevent Tax evasion which continues to be one of the main problems with GST in India. However, Canada also imposes their own sales tax besides GST and this has created price distortions in the country.

d. U.S.A. :

The U.S. is one of the few countries that does not charge VAT or GST. Instead, the U.S. uses state **sales tax** as its method of taxation. The tax applied on the final sale of a product or service in the US is called Sales Tax. Business owners are responsible for collecting sales tax from customers and then remitting it back to the state, either monthly or quarterly. Unlike VAT or GST, sales tax is not a flat rate that is applied to your invoices across the board; it **differs from state to state** and from product to product. Some 45 states, plus the District of Columbia use state-wide base sales tax rates, and five states, viz. Alaska, Delaware, Oregon, Montana, and New Hampshire, do not levy a statewide sales tax. The highest base rate of sales tax is levied by California at 7.25%. The states may also grant local governments the authority to levy additional general or selective sales taxes. Consumers pay the combined state and local sales tax rate when they shop. However, certain products - like groceries, clothing, and raw materials - may be exempt from sales tax. The U.S. also does not have a national sales tax applicable to imports.

6. Policy Recommendations:

The rationalization of GST seems a matter of when not a matter of if especially after the GST council formed GoM in 2021 to look into the rationalization of GST rates and the inverted duty structure. The following are some of the key points that the new rationalized GST bill should include:-

- **Rationalized tax brackets:-**
    - **The first step:** Firstly and most importantly there should be a consensus on the **tax rate/rates** in the rationalized GST regime. While it is desirable and indeed very tempting to jump directly into a single tax rate system it would be the wrong move to jump into the deep end right now. While the end goal should be to have a single rate of tax throughout the country the immediate step right now should be to whittle down our current 5 slab tax system into a more compact one with **3 brackets** excluding the exemptions.

    - **Suggestion by the chief economic adviser:** The chief economic adviser suggests that the rates in this 3-tier structure should be off the rates of 12%, standard rates varying between 17 to 18 percent, and a very high rate of 40 percent on "demerit" goods. While this would prevent the constant lobbying by the various companies to put their goods in the lower tax bracket and bring in more revenue for the government it does forget about the deprived section of the society who will have to pay more for amenities like clothing and footwear. A better way to go about it will be to keep the **5% rate** for the essential commodities, merge the 12% and 18% into a **15% bracket**, and finally have a third bracket for sin and luxury goods, perhaps **40%** or something lower.
    - **The end goal:** Whatever the intermediate tax rate there seems to be a consensus that the **final single rate of tax** that would be applied, should be around **15%** with exemptions for basic and necessary goods. This will not just increase revenue but also perform the very important function of income redistribution which the current GST regime has been having trouble doing.
- **Itemization of the tax brackets:-**
    - **Basic and necessity goods:** Secondly, after the rationalized tax brackets are introduced then comes the task of choosing which items will go into which brackets. Starting with the obvious ones, as per the Agro-food chamber's plea all agricultural food produced in its primary form, either in the hands of farmers or traders till it reaches the consumers, and all other essential commodities should be fully exempted from GST. Along with this all processed and value-added manufactured food products and other goods of importance for day-to-day life should be brought under the merit slab, i.e. the lowest slab.
    - **Tobacco and gold:** One of the glaring loopholes in the current GST regime concerns tobacco. While the cigarettes have been placed in the highest slab, they are not the primary products made out of tobacco, it is the leftover tobacco after making the cigarettes, the tobacco leaves, that make up the majority of production, and the leaves are only taxed at **5%**. This needs to be increased and the leaves need to be put in the sin items tax slab. Along with this, the special rate of gold should be abolished, both for the sake of simplicity and equity as gold has been a staple for the rich and corrupt to store their money.
    - **Green energy:**
        - **Coal:** Focus should also be placed on aligning our new regime with our goal for a greener and cleaner India. Coal currently attracts a tax rate of just **5%**. A developing country requires coal as a cheap source of energy but to make India

a net-zero emitter of carbon by 2070, it is important to lay the groundwork from now which includes a higher rate of interest.

        - **Lithium batteries:** The rate of Lithium batteries should be decreased from the current rate of **18%**. Internationally we have seen countries that are hubs of EV manufacturing like China and Norway have employed initiatives to help the production of lithium batteries as they form 40% of an EV. India should follow suit and put it in the lowest slab.
        - **Solar power plants:** Currently, solar power plants pay a GST of **12% and 18%** which is higher than the 5% EPC companies paid under VAT. The older rates of 5% should be bought back to encourage the adoption of solar over other sources of energy.
        - **Pharma and education sectors:** These sectors also need a revamp with items like APIs and E-books still under the **18% slab** not befitting a country aspiring to be technologically advanced. They too should be brought to the 5% slab, especially APIs, as they are currently creating an Inverted Tax Structure.

- **Clarification of vague definitions:** As seen previously in the **Dharmendra M. Jani v. Union of India** case there seems to be a lack of clarity on issues surrounding intermediary services. This is because the current definition of intermediary in the Integrated Goods and Services Tax (IGST) Act is very vague thus creating confusion amongst the public. This confusion not only ends up taking the time of the court but also ends up hurting business which ends up hurting our economy. Therefore these confusions must be cleared in the new rationalized regime.
- **The issue of cryptocurrency:** The clarity on the taxability of virtual digital assets/cryptocurrencies should be on the government's priority list. Currently, cryptocurrency itself is not charged at all and only the platform used in the currency transaction charges an 18% GST. Still, overall there is a lot of uncertainty regarding the future of crypto in India. Considering the fact that more and more businesses have started dealing in crypto and it might become an alternative form of transaction in the future the council must address this issue in the new rationalized GST rate
- **GST dispute resolution:**
    - **Current problems:** Under the current system of GST, disputes arise from tax differences paid by business owners and the computation of tax by authorities. Such tax disputes can arise due to various reasons viz. rate of tax, a claim of tax exemption, the claim of an input tax credit, incorrect determination of place of supply, classification of goods and services, etc. While GST was touted to remedy the proliferation of tax disputes and simplify tax administration, early experiences point to the contrary. Disputes on an interpretation of the law, unsatisfactory advance ruling

mechanism, and revenue-centric approach by tax authorities have proliferated litigation.

  - **GST appellate Tribunal:** A time-bound dispute resolution mechanism will be key to successfully implementing the new policy. The new law, however perfectly made, will have its own set of problems and the soon-to-be GST appellate tribunal has to be in tune with the law and be able to handle the new cases coming in. The utmost care should be taken to ensure that unlike the GST regime introduced in 2017, the newer regime does not cause confusion and backlog of cases because as the saying goes "justice delayed is justice denied".

- **Patching up loopholes and stricter punishment**:
  - **Formalization of the economy:** GST has done well to formalize the Indian economy. Currently, the majority of the informal sector in India consists of small vendors and service providers who are unaware of the law and related compliances and thus, remain outside the ambit of tax. Under the GST regime, the government has taken steps to identify such vendors who provide taxable services and still not paying tax. One such measure was to introduce Tax Deducted at Source (TDS) and Tax Collected at Source (TCS).
    - **TDS:** Like under Income tax laws, TDS under GST was introduced to bring the unorganized sectors to comply with the tax provisions and to curb tax evasion. As per the TDS provisions under the GST Act, the government would need to deduct TDS from the contractor which would ensure tax compliance by the contractors.
    - **TCS:** Concerning TCS, the GST Act imposes responsibility on e-commerce operators to collect TCS. Thus, any dealer or trader selling goods or services online would get the payment after the deduction of TCS. Further, for claiming the tax the trader must get registered under GST even if their turnover is less than the threshold limit. For instance, service providers like cab drivers who are registered under Ola or Uber are also under the tax net as they receive the consideration for their services after the deduction of TCS, and in case they want to claim the refund of TCS deducted, they must get registered under GST.
    - **E-commerce platforms:** In another example, e-commerce platforms such as Zomato, Swiggy, etc., are required to pay GST on the supply of restaurant services as if they are the supplier of these services @ 5% irrespective of whether the restaurant is supplying through them is registered or unregistered. Since the majority of the restaurant service providers are registered on e-commerce

platforms, such provisions have augmented all such service providers to register under the GST net, thus minimizing the informal players.

    - **Real estate:** In the real estate sector also the government has taken suitable measures. For instance, in the case of residential property that is let out for commercial purposes, GST is required to be paid on a reverse charge mechanism by the lessee, if he is registered. For instance, there are grocery shops opened in residential units, people use their houses partly for residence and partly for businesses like boutiques or salons. In such cases, where end-use is commercial, or a mix of both commercial and residential, such residential accommodation would be taxable.
    - **Digitalization:** Further, under the GST regime, with the motto of simplifying the return system and minimizing the errors in return filing, the government has taken multiple steps to digitize GST compliances such as E-invoicing, E-way bills, auto-population of returns, etc. Moreover, the GST return filing system has been also streamlined with the aid of technology.
    - **Effect of formalization:** Its effect has been the most prominent in the Hospitality Industry where the cascading effect of multiple taxes like the luxury tax, service tax, and other various local taxes. It has also increased tax compliance by categorizing the hotels into the 5%, 12%, and 18% brackets.
  - **The pest of evasion:** Yet, tax evasion in the informal sector continues with the example mentioned above of the steel industry. This evasion is not just restricted to small businesses. In 2019 a fraud was unearthed when a beverage company called **Manpasand Beverages** opened multiple fake plants and created bogus invoices to get an Input tax credit(ITC) from the government. Overall the fraud was worth over 4**0 crores**. Such examples are clear examples of loopholes existing in the current taxation system which not only allow rampant tax evasion to occur but consequently lead to loss of revenue, revenue which can be diverted to social purposes. The next rationalized tax regime should not only have a modest tax rate to incentivize shopkeepers to pay GST but also have stricter punishments and a more watchful implementation mechanism.

7. Conclusion:

Through the above paper, it can be seen that the current GST regime, while better than the previous system, is not perfect by any means. The current system's biggest fault lies in its **multiple**

slab structure which creates a lot of **bureaucratic burden** on the country's scarce resources, especially in the form of paperwork. Besides this another fatal flaw resides in the system of input tax credit(ITC) under the current regime. The reasoning behind ITC was noble, to decrease the effect of the introduction of GST, i.e. the creation of an **inverted duty structure**, on the indigenous firms, especially MSMEs. But, in reality, this has led to an increasing financial burden on an already burdened economy.

While it is tempting to jump into the deep end and directly adopt a single rate structure in India, like the one in Australia and New Zealand, that dream is far from being realized, and considering the size and diversity of India it is doubtful if it will ever be. Another alternative is to follow the example of the United States. It chose fiscal federalism and let each state choose its own sales tax. But considering the multi-party system in India and the overall goal of rationalization, i.e. simplification, and unification of tax rates, this is also not a feasible option. The most viable option for India is to follow the advice of the chief economic adviser and narrow down our slabs into a **three-tier structure**. It won't be a smooth road and the government will likely face a lot of difficulties with its implementation but it is important to remember that big reforms are never brought overnight, they are the results of years and years of hard work, and a young and developing country like India will sooner rather than later find its footing in the taxation system.

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