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Abstract

The Goods and Service Tax was introduced in 2017 with the objective of simplification of India's taxation structure, increasing voluntary tax compliance and reducing tax evasion and corruption. Since then, several changes have been made to the GST structure by the GST Council, to resolve some of the challenges faced by the GST regime, but some have added to the general complexity of the new system. The paper identifies all areas of structural complexity and provides the first ever estimate of the progressivity of the GST. The paper proposes two options for simplifying the GST structure, and calculates their revenue implications.

Keywords: Indirect Taxes, Value Added Tax, Goods and Services Tax

JEL No. I00, I18, E01, O40

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Introduction

The constitutional amendment to replace a slew of State and Union Government taxes by a GST was the most important change in the economic structure of the constitution since independence. However, Value Added Tax reform has a long and painful history starting from the L K Jha committee (1974), constituted to introduce VAT. Pursuant to this a modified Value Added tax was introduced in 1986. In 1991 the Cheliah committee recommended moving to a proper VAT. It took eight years for the Union Government to introduce a VAT on Goods alone, and it took another 3 years for states to introduce it. In the meanwhile, a separate service tax was introduced by the Union government in 1994. States also started introducing State VATs on Goods, starting with Haryana in 2003. By 2006 VAT had been introduced in all States & UTs. In 2004 the Kelkar Task force recommended the introduction of GST, which is merely a VAT applied in a federal structure. Thereafter it took 10 years to introduce the revolutionary Constitutional(122nd) amendment bill on GST and another year to pass it, even with a clear majority of the ruling Party in the Lok Sabha. In the process, numerous compromises had to be made to get all the states on board. These included the setting up of a GST council with independent constitutional Status in which the Union Govt has only a 1/3rd vote share (a fraction of the ½ share proposed earlier) and an overly complex GST structure which bears little resemblance to the structures proposed by many independent professional experts.

GST is now a household name, but many of the basic objectives and distinctions that underlay it have been forgotten. The Goods and Services Tax is a Value Added Tax Applied to a Federal Structure in which the Union Government and the State Governments have independent constitutional authority to levy taxes. As the name suggests, a VAT is a tax on Value Added by the economic agent, whether a producer trader or service provider. Value added can be measured in two ways. One is the income (rents, profits, wages) generated in producing/selling it or as the difference between the Value of output produced minus the value of inputs used in its production. If this aggregated across the entire economy, the Value added is exactly to the aggregated income generated in the economy, which in turn is equal to the GDP.

The original objective of the VAT was to avoid the Cascading effect of taxes, that is, to avoid charging/paying tax on tax as the goods wound their way from one sage of production to the next in an increasingly complex production system. Thus, the VAT system divides value added and tax paid on value added into two separate streams, which remain separately identifiable as the good winds its way through the supply chain and Value is added to it at every stage. The system can ensure that tax is levied only on value added and not on the tax already paid on previously added value. The simpler the VAT/GST tax system, the easier it is to keep these streams separate and to monitor the tax payments at each stage of Value Added, in a complex supply chain.

Over the years, as tax rates and revenue requirements grew and tax system became broader, deeper and more complex, the objective of minimizing tax evasion and corruption has increased in importance, to become fundamental to design of an efficient and effective indirect tax structure. The fundamental lesson from India and the world is that the more complex the tax structure, the easier it is to evade taxes and the more likely the rise of corruption. Compared to other indirect taxes like excise, “first stage” sales tax, final (stage) sales tax, the VAT/GST has the unique advantage of collecting a little bit of the tax at every stage of the production and supply process. A simple tax which is easy to calculate, pay, collect, monitor and enforce is truly like a honey bee collecting honey from every flower (or lip) without the person feeling any discomfort. In addition, such a system, can collect taxes missed at an earlier stage of production, at a later stage in the chain of production, trade, and sale.

Broadly, there are two ways to calculate the value added tax. The first is based on the credit invoice method while the second is based on the accounts-based method. The credit invoice method taxes sales transactions with the customer is informed of the VAT on the transaction while businesses are provided with a credit for the tax paid on inputs whether goods or services. Most countries except for Japan use the credit-invoice method. The subtraction method is based on calculating the value of taxable sales and then subtracting the sum of all taxable purchases at the end of the reporting period. The difference is then taxed at the applicable VAT rate. The subtraction method VAT has been gaining a lot of attention as many recent tax reform proposals by US politicians are based on the same and are termed as “flat tax” proposals. Both the methods across the world, however, do have exceptions in the calculation methods that are based on specific items and transactions.

Section 2 surveys the literature on GST/VAT. Section 3 provides an overview of the current GST structure and its complexity, Section 4 analyses the rate structure in terms of the economic categories of Consumer goods, Capital goods and Intermediate inputs into production, which are critical to rationalizing and simplifying the GST/VAT structure. Section 5 is a short overview of the, relatively unfamiliar, services sectors in the GST. Section 6 reviews the revenue collections from the current structure. Section 7 details the two GST reform proposals. Section 8 derives the average GST rates for major sectors and consumer categories. It then derives the revenue implications of the reform proposals. Section 9 analyses the progressivity of the current and proposed GST. Section 10 discusses the issue of petroleum and liquor taxation and Section 11 concludes the paper.

2. Literature & Policy Suggestion Review

2.1. Literature Review

Crawford et al (2010) and Cnossen (2010) have argued against exemptions as they impact the choice of input and thus create an element of production taxation. This happens as under such a situation, no tax is charged on the final consumption, which in turn results in no inputs being refunded. Most economies have provided with exemptions in sectors such as healthcare, education and some financial services and this can create distortions which in turn have an impact on the economy.

Ebrill et al (2001) argues on the lower administration costs of having lower rates and argues against having multiple rates while Mirrlees et al, (2011) raises the distortion caused by multiple rates on consumers spending decisions. He further highlights that moving towards a uniform rate will reduce relative price distortions which will lead to a sizeable gain in consumers welfare.

Keen (2013) and Ueda (2017) provide evidence to suggest that for developed economies, changes in policy choices whether for rate differentiation or exemptions explain the trends in C-efficiency. C-efficiency measures the departure of VAT from a perfectly enforced single rate tax system and is measured as the ratio of VAT revenue to the product of VAT standard rate and final consumption (excluding VAT revenue).

EC (2011) reports negligible long run effect of VAT (and its components) on either aggregate consumption or the GDP. In contrast, Alm and El-Ganainy (2013) showed that changes in the VAT rate have both short- and long-term implications. They report both long and short run reductions in aggregate consumption caused by an increase in the VAT rate.

Acosta-Ormaechea, and Morozumi (2019) look at the issue of the design of a tax and its impact on growth. They assemble a dataset for 30 OECD countries over 1970-2016 periods and look at the effects of VAT on growth depending on whether it is raised through the standard rate of C-efficiency. They show that for OECD countries broadening the VAT base through fewer, reduced rates and exemptions is more conducive to higher long-run growth than a rise in the standard rate. They report a positive and statistically significant long-run coefficient on VAT and argue that VAT is growth promoting compared to other taxes. They further mention that for a one percentage point increase in the share of VAT in total taxes, offset by a fall in the share of total income taxes of same size leads to a 0.085 percentage points increase in annual growth in long run.

To specifically see the impact of the different components of VAT on growth, they find that raising VAT through a rise in C-efficiency is more growth promoting than increasing the standard rate. This is important finding that explains the impact of exemptions which narrows the VAT base and lowers C-efficiency. Similarly, presence of several reduced rates breaks the chain of output and input credit.

Their key finding is that for OECD countries, broadening the tax base is likely to have a higher long-run growth rather than a rise in standard rate. This thus builds a strong case for fewer reduced rates and exemptions; or in other words, simplification of the VAT/GST structure. One possible channel of impact on growth was explored by Cnossen (2010); Lack of input credit results in increased costs which reduces investment in research (especially in health and education) which reduces growth of total factor productivity (TFP).

2.2. Literature on Indian GST

Rao (2019) criticizes the 28 per cent rate which has been levied on consumer durables such as air-conditioners, refrigerators and automobiles and parts which disincentives compliance and is distortionary. He advocates a separate excise tax for ‘sin’ and demerit goods, such as cigarettes instead of cesses for these goods. He also suggests merging the 12 and 18 per cent rate to 15-16 per cent so that GST has two main rates, 5 per cent and 15 or16 per cent. If this cannot be done, consumer durables including cars and building material should be shifted from 28 to 18 per cent. According to his estimate, revenue from this category inclusive of cess is about 22 per cent of total (GST) revenue, while 12 and 18 per cent tax rates contribute almost two thirds of revenue collection. He points out the tax cascading arising from compensatory cesses, constituting about 9 per cent of GST collections, as they are not eligible for input tax credit.

The internal MOF committee chaired by the Chief economic Advisor had recommended a single, uniform GST rate of 15.3 per cent (2015).

RBI in its Debt Study, “Medium-Term Fiscal Challenge” (2019), reviewed the revenue performance of GST and calculated the effective GST rate based on data from Central Board of Indirect taxes and minutes of the GST Council meetings. The weighted average GST rate was found to be 14.4 per cent. The rate was found to have systematically declined over the years falling to 12.6 per cent in November 2017, 12.2 per cent in January 2018, 11.8 per cent in July 2018 and 11.6 per cent in December 2018. The weighted average GST rate in July and September of 2019 was 11.6 per cent. The RBI debt study (2019), also says that buoyancy has increased due to rationalization of rates and widening of the tax base. Except for a few states, however, GST targets have been elusive and that has resulted in compensation cess rate increases during first two years of GST. Compensation cess increased in absolute amount in 2018-19 RE vis a vis 2017-18, as a per cent of taxes on commodities and services. It declined for most of the states, while a few states did not require any compensation in 2018-19.

Aggarwal (1995) analyses the incidence of indirect taxes in India, for 68 broad groups of commodities, using the distribution of the per-capita expenditure across five expenditure classes, to estimate the tax incidence for major indirect taxes such as excise, customs and the sales tax. The paper also evaluated the impact of the tax reforms by the central government in the 1990-91 budget which reformed the structure of excise and customs duties. He shows that the indirect tax structure is progressive, with the tax rate on the highest expenditure group 1.4 times that of the lowest group.

2.3 Global GST/VAT

The VAT was introduced in 1954 by France which extended a previous tax and renamed it as the “value added tax”. Since the mid-1980s, VAT (or GST) has become the predominant consumption tax (OECD, 2018) as part of their fiscal reform and consolidation strategy. By its design, VAT is a tax on final consumption that is neutral towards production and international trade which makes it a growth friendly tax.

Currently 168 of the 200 odd countries in the World have VAT system for indirect taxes, which includes 35 of the 36 OECD member countries. Most others, including the USA use a (final or retail) sales tax system. VAT approximately accounts for a fifth of total tax revenues in OECD and worldwide. Currently, 53% of countries with a VAT/GST have a single rate VAT, 23% have two rates and 13% have three rates. Only 10% have four or more rates. However, of countries which have introduced the VAT during 1990 to 2001, 72% had a single rate (Ebril et al (2001)).

Rates

Table 1 provides a comparative picture of VAT rates in 35 OECD countries. The standard tax rate is also the maximum VAT rate in these countries, with Canada having the lowest VAT rate of 5 per cent and Hungary having the highest VAT rate of 27 per cent.

The average of the standard/maximum rates among OECD countries is 19.2 per cent and the median rate is 20 per cent (table 1). In complete contrast, India has no Standard rate, and a maximum rate of 28%; On top of this maximum rate, Compensation Cess of up to 300 per cent has been levied (for initial 5 years).

Nine countries have no other rate besides the standard rate. Of these Canada, Denmark, Israel, Korea, Mexico and New Zealand have an exemption rate at 0 per cent. 19 countries levy two reduced rates and Four countries have three reduced rates (besides the standard rate), The mean of the three reduced rates is 11 per cent, 6 per cent and 3 per cent.

Threshold Limits

The threshold limits for registration under VAT regimes have been provided to reduce the compliance costs on businesses along with the costs associated with collection of small amounts of tax revenue from small and medium sized businesses (SMEs). In general, there are two kinds of threshold limits, one based on registration and the other on collection. Companies below the registration threshold don't have to registered, while registered companies have to pay tax if their collection exceeds the collection threshold.

Nineteen countries have a threshold above PPP $30,000, while nine countries have a threshold less than USD PPP $30,000. UK has the highest threshold, while there is no threshold ($0) in Mexico and Chile (OECD (2019)). The average threshold is PPP $61,000. India's GST threshold of PPP $ 91, 324 is therefore about 1.5x the average for OECD in terms of purchasing power parity. The arguments for lowering this are therefore stronger than for raising it.

3. Current GST Structure

In this section we analyse the present structure of GST in India, in terms of rates, cesses and exemptions. These aspects interact and lead to two kinds of problems such as complexity due to the prevalent structure along with procedural complexities. A bulk of the literature has focused on issues related to the multiple GST rates or procedural issues; however, our analysis takes this further by looking at the overall GST structure, including multiple rates, compensation cesses, exemptions, end-use exemptions along with specific procedural issues.

3.1. Rate Structure

The Indian rate structure is specified in approximately 1900 line items, 1570 of which are for commodities and 330 for services, A common misconception is that the Goods and Service Tax has 4 rates of 5%, 12%, 18% and 28% per cent plus the exemption rate 0. There are four additional rates, 0.25%, 1.5% 3% and 7.5% on select set of commodities and services, taking the total number of rates to 8, excluding 0 per cent. In terms of number of items, 20.2% of items are in the exempt category, another 1.4% in the miscellaneous rates and the rest 78.4% in the conventional 5, 12, 18 & 28% slabs (table 2). Most goods are taxed at 18 per cent, while nearly 40 per cent of the goods and services are taxed at either 5 or a lower rate. The 28 per cent rate has been levied on consumer durables such as air-conditioners, refrigerators and automobiles and parts constituting 4.5% of the goods.

Apart from different rates across categories of goods, there's an additional problem of multiple rates being applicable on similar kinds of goods and services. For instance, items related to jewellery and precious stones are taxed at 0.25 per cent, 3 per cent and 18 per cent depending on how they have been classified.1 Dust and power of natural or synthetic precious or semi-precious stones2 are taxed at 3 per cent, and imitation pearls at 18%, and Services by way of job work in relation to diamonds (Ch 71) at 1.25% (Ch 71 of GST).3 The rate differentiation for motor vehicles (chapter 87) is based on engine capacity, length of the cars, fuel base and its use. While footwear, apparel, quilts, hotel tariffs also attract different

[1] Under the heading 7102, 7103 and 7104: precious stones (other than diamonds) and semi-precious stones, whether or not worked or graded but not strung, mounted or set; ungraded precious stones (other than diamonds) and semi-precious stones, temporarily strung for convenience of transport.

[2] Items such as 7101, 7105 to 7117

[3] Item 7108: Imitation pearls, imitation precious or semi-precious stones and similar glass smallware's, and articles thereof other than imitation jewellery; glass eyes other than prosthetic articles; statuettes and other ornaments of lamp-worked glass, other than imitation jewellery; glass microspheres not exceeding 1 mm in diameter

rates based on the value of items. A key problem with multiple rates is the possibility of misclassification which can have implications for tax compliance.

Table 1: VAT/GST Rates, Exemption (0%) & Threshold

Country	Standard Max	Reduced Rates			Exemptions 0%	Threshold (PPP)
Canada	5	-			yes	$23,976
Switzerland	7.7	3.7	2.5		yes	$81,953
Japan	8	-			no	$100,408
Australia	10	-			no	$50,951
Korea	10	-			yes	$27,364
New Zealand	15	-			yes	$40,813
Mexico	16	-			yes	$0
Luxembourg	17	14	8	3	no	$33,690
Israel	17	-			yes	$26,132
Turkey	18	8	1		no	$0
Germany	19	7			no	$22,436
Chile	19	-			no	$0
United Kingdom	20	5			yes	$119,167
Estonia	20	9			yes	$72,612
France	20	10	5.5	2.1	no	$103,913
Slovak Republic	20	10			no	$100,753
Austria	20	13	10		no	$37,457
Netherlands	21	6			no	$1,650
Lithuania	21	9	5		no	$97,563
Spain	21	10	4		no	$0
Belgium	21	12	6		yes	$31,109
Latvia	21	12	5		no	$79,774
Czech Republic	21	15	10		no	$76,297
Slovenia	22	9.5			no	$83,257
Italy	22	10	5	4	no	$90,381
Poland	23	8	5		no	$111,215
Portugal	23	13	6		no	$16,886
Ireland	23	13.5	9	4.8	yes	$32,218
Iceland	24	11			yes	$14,202
Greece	24	13	6		no	$16,711
Finland	24	14	10		yes	$11,062
Sweden	25	12	6		yes	$3,297
Norway	25	15	12		yes	$4,917
Denmark	25	-			yes	$6,908
Hungary	27	18	5		no	$57,602
India	28	18	12	5	yes	$91,324

Source: OECD (2018), *Consumption Tax Trends 2018: VAT/GST*

Item 7108: Imitation pearls, imitation precious or semi-precious stones and similar glass small ware's, and articles thereof other than imitation jewellery; glass eyes other than prosthetic articles; statuettes and other ornaments of lamp-worked glass, other than imitation jewellery; glass microspheres not exceeding 1 mm in diameter

Table 2: Distribution of Goods by applicable rates

GST Rate (in %)	Per cent of Goods (in %)
0	20.2
0.25	0.2
1.5	0.2
3	0.9
5	19.8
7.5	0.2
12	18.3
18	35.3
28	4.5

Source: Authors Computations using the GST Rates Data

Construction services have 6 different applicable rates for items under heading 9954. The applicable rates are 0, 1.5, 5, 7.5, 12 and 18 per cent, on the treatment of input tax credit and on the end-use (or consumer) of the construction activity which adds to overall complexity of the system (details in appendix A.2). In housing sector, most inputs are taxed at 28 per cent. The tax on housing however is different for "affordable housing" and other housing and also depends on whether input tax credit is taken or is compounded (compounded levy of 1 per cent and 5 per cent if they claim input tax credit and 5 or 12 per cent if they don't). Similarly, in textiles, synthetic fibre is taxed at 18 per cent, yarn at 12 per cent and cloth at 5 per cent.

Such complexity and difference in tax rates creates the possibility of tax arbitrage by re-classifying items by companies thereby posing a challenge for tax-compliance. Multiple rates also complicate calculation, filing and monitoring of input-tax credit, which becomes problematic when there's a mismatch in the rate of taxation of inputs and on the final good. For instance if a product taxed at 18 per cent is used to produce a good which is taxed at 5 per cent, the taxes paid on inputs cannot be fully offset against tax collected on output, resulting in higher than intended tax rate on Value added. Giving end-use exemptions to solve this problem creates further complexity and avenues for evasion and corruption. Such complications increase the time and cost of statutory compliances which has a dampening effect on productivity and discourages the shift towards formal enterprises. Additionally, there is double taxation on ocean freight being paid by importers under the GST regime. This issue needs to be addressed in order to further integrate India with global value chains.

3.2. Exemptions

The present GST structure has a large number of exemptions. We classify these exemptions into two broad categories, ones designed to make the system progressive, such as on Food products, Health services and basic Education, and those driven by special interest groups. Public Goods provided by the Government such as parks, and the non-marketable services such as driving & other licenses are not taxable goods under GST, but are sometimes shown as exempted to remove any doubts. However, where public sector organizations produce goods and services that are marketable and/or compete with private producers should be subject to uniform rules and not provided special exemption merely because a PSU is the producer.

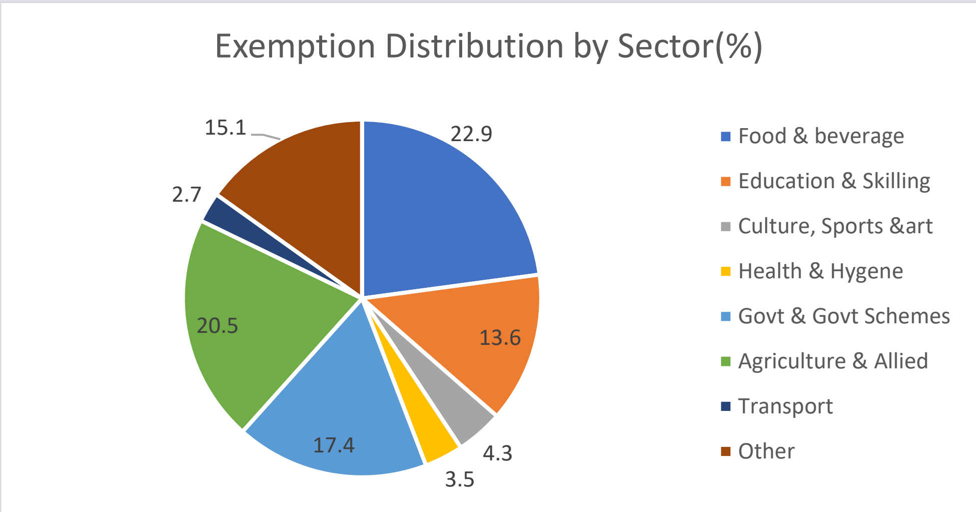
There are 258 exemptions in the current version of GST, with only 40% targeted at ensuring progressivity of the GST, while a majority are targeted at other, non-revenue related objectives (table 3, figure 1). The exemptions relating to, (a) food & beverages, (b) education and (d) Health, hygiene and medicine constitute only 40% of the total, with food products being almost 2/3rd of this sub-set of exemptions and over 1/4th of all exemptions (figure 1). In (a), besides, grains, beans, seeds, vegetables, fruit, poultry meat and fish, this category also includes products like honey, jaggery, bread, pappad, fresh tea leaves, unroasted coffee beans, and curd. Exemptions related to education (b), include basic education services, books, journals, maps, pencils, slates used in this sector as well as services like libraries (13.6%). Goods provided by Agriculture and Allied Services (f) used as inputs for pre-processing of the output of this sector, constitute the second largest number of exemptions (20.5%). Exemptions for health and hygiene (d) total 3.5% of all exemptions (table 2, figure 1). Main items are services of doctors & clinics and medicines & drugs, and a few items related to blood, food safety, public toilets and sanitary napkins.

Table 3: Distribution of Exemptions (0%) by Sector

		Goods and Sevices		*Goods*		*Services*	
sn	***Category***	Nos	%	Nos	%	Nos	%
a	Food & beverage	59	22.9	59	42.8	0	
b	Education & Skilling	35	13.6	8	5.8	27	22.5
c	Culture and Sports	11	4.3	0		11	9.2
d	Health & Hygene	9	3.5	4	2.9	5	4.2
e	Govt & Govt Schemes	45	17.4	7	5.1	38	31.7
f	Agriculture & Allied	53	20.5	46	33.3	7	5.8
g	Transport	7	2.7	0		7	5.8
h	Other	39	15.1	14	10.1	25	20.8
i	Total	258	100	138	100	120	100
	(%)	100%		53%		47%	

Source: Authors Computations using the GST Rates Data

Figure 1: Classification of Exemptions (0%) by Sector



Source: Authors computation based on the present GST Structure

Govt Services and Government programs (e) are the third largest category of exemptions (17.4%). These include services that have been provided by the central government to a state government, or a government providing a non-marketable service such as passport services to citizens. It also includes a host of services provided by private organizations to beneficiaries under various government schemes. Culture and sports related exemptions (c) constitute about 3.5% and public transport, highways (g) about 2.7% of all exemptions. The former include, services by an artist by way of a performance in folk or classical art forms of music, dance and theatre, while the latter includes fees paid for toll highways and tolled bridges.

A number of different types of exemptions are included in the *Other category* (h) of which, legal services is noteworthy. A senior advocate who provides legal services is exempt from levying a GST in the event of his or her customer having a turnover of less than the threshold limit of GST[4]. This is a peculiar situation where the end-use exemption has been granted not on the basis of the service provider but instead on the threshold limits applicable on the consumer of the product.

Services by way of collecting or providing news by an independent journalist, Press Trust of India or United News of India have also been exempt from the GST.

Services provided by an unincorporated body or a registered non-profit entity is exempt from GST provided that they are engaged in

- activities relating to the welfare of industrial or agricultural labor or farmers
- promotion of trade, commerce, industry, agriculture, art, science, literature, culture, sports, education, social welfare, charitable activities and protection of environment, to its own members against consideration in the form of membership fee up to an amount of one thousand rupees (Rs 1000/-) per member per year.

A destination-based VAT/GST is not supposed to tax services provided outside the custom jurisdiction of India, such as transportation of goods by an aircraft from a place outside India up to the customs station of clearance in India. These items constitute about 2% of exemptions and have been classified under the term “Exim”.

3.3. End Use Exemptions

“End use exemptions” are defined as goods or service which are exempted from the GST when sold to a specified category of buyer, are used for a particular purpose, or sold by a particular category of institutions or specific organization. In the case of all exemptions to an identified buyer, its more efficient to collect the GST at normal rates & provide a direct cash transfer as subsidy. India is unique in its extensive use of end-use exemptions in every indirect tax (customs, excise, sales, VAT), compared to most other countries, creating a unique source of complexity. The end-use exemptions which can be justified are those, (a) provided to diplomats, embassies, UN bodies and other International organizations, under treaties signed by the country (b) Exports or virtual exports(services provided to international airlines, ships), (c) those provided free for example by NPO/NGOs (a to c are included in “Other”), (d) Services provided by Govt to another level of Government, (e) Services provided by Courts, Regulatory bodies and similar organizations providing Governmental services & public goods. For all other end-use exemptions its more efficient to collect the GST at the normal rate applicable to the Good or Service, and refund the buyer or seller through a Direct Cash transfer system.

[4] Otherwise, the applicable GST rate on legal services is 18%

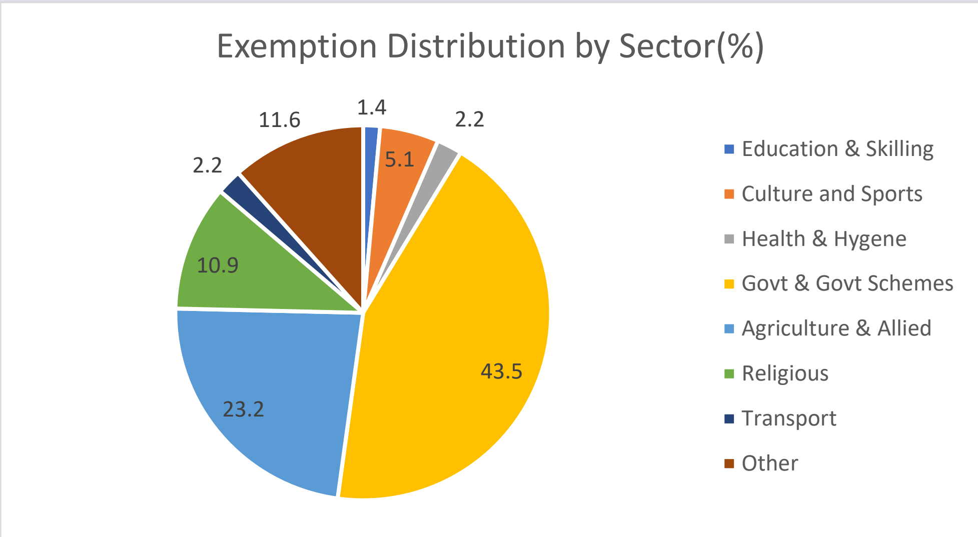
Goods and Services provided to Government or to Govt welfare schemes or G&S used by Govt, constitute about 43.5% of all end-use exemptions (figure 2). Agriculture & Allied sector at 23.2% of total are the second highest per cent of exemptions, followed closely by Religious goods and services at 10.9% of total goods and services (figure 2 & table 4). Culture & sports (5.1%), Health & Hygiene (2.2%) and education and skilling (1.4%) are relatively less significant.

Table 4: Distribution of End-Use Exemptions by Sector

	Goods and Sevices		*Goods*		*Services*	
Category	Nos	%	Nos	%	Nos	%
Education & Skilling	2	1.4	0		2	1.9
Culture and Sports	7	5.1	0		7	6.8
Health & Hygene	3	2.2	1	2.9	2	1.9
Govt & Govt Schemes	60	43.5	2	5.7	58	56.3
Agriculture & Allied	32	23.2	14	40.0	18	17.5
Religious	15	10.9	12	34.3	3	2.9
Transport	3	2.2			3	2.9
Other	16	11.6	6	17.1	10	9.7
Total	138	100	35	100	103	100
(%)	100%		25%		75%	

Source: Authors Computations using the GST Rates Data

Figure 2: Classification of End Use Exemptions



Source: Authors computation based on the present GST Structure

In agriculture category, agricultural extension services and services by any Agricultural Produce Marketing Committee or Board or services provided by a commission agent for sale or purchase of agricultural produce has been exempted. Health category includes transport of students and teachers from and to school and cleaning services provided to educational institutions. The rest category includes, goods and services supplied to diplomats and international organizations, Transport to North East (details in appendix A4).

If we take product exemptions and end-use exemptions together, Govt and Government Schemes are recipient of 26.5% and Agriculture and Allied sector is the recipient of 21.5% of these. In most of these it would be completely revenue neutral to collect GST at normal rates and use it to subsidize the intended beneficiary through Direct cash transfers.

3.4. Low Rate: 5% and 3% rate

Exemption with 0% tax rate has the advantage that the producer of the exempted goods or service is free from onerous accounting and reporting requirements. However, any rate above 0% but lower than the standard rate, does not have this advantage of simplicity, and requires more elaborate justification.

It is rather striking that Food and Beverage goods receive 29.4% of the significantly reduced rates and the Agriculture and Allied sectors receive 26.6% of the lower rates on Goods and Services (table 5). When seen along with the previous analysis of exemptions, it is clear that the Agriculture and Allied sector and its output in the form of Food & Beverages receive the heaviest subsidies through the GST system. There is therefore a strong case for raising the rate of tax on these two categories 3%/5% to 15%, while leaving the clean exemptions alone for the time being.

Table 5: Distribution of Items with Reduced rates of 5% and 3%

	Goods and Sevices		Goods		Services	
Category	Nos	%	Nos	%	Nos	%
Food & beverage	93	29.4	93	31.2	0	0.0
Education & Skilling	1	0.3	1	0.3	0	0.0
Health & Hygene	20	6.3	20	6.7	0	0.0
Govt & Govt Schemes	12	3.8	8	2.7	4	22.2
Agriculture & Allied	84	26.6	78	26.2	6	33.3
Environment	17	5.4	17	5.7	0	0.0
Other	89	28.2	81	27.2	8	44.4
Total	316	100	298	100	18	100
(%)	100%		94%		0.057	

Source: Authors Computations using the GST Rates Data

3.5. Compensation Cess

The compensation cess is a cess that will be collected on the supply of select goods and or services or both till 1st July 2022. The cess will compensate the states for any revenue loss on account of implementation of GST.

There are 28 different compensations cess, applicable to 52 different goods and services, with rates ranging from 1 per cent to 290 per cent. Most compensation cesses are in per cent except for specific categories where the rates are fixed per unit of quantity. Table in appendix A.3 provides a comprehensive list of items and the corresponding rate of GST and the compensation cess as applicable. Items to which compensation cess is applicable have either 5, 18 or 28 per cent GST rates and the Cess is levied over and above this rate. There are items that have both a fixed amount of compensation cess along with an additional component in per cent of value of the good or services.

Motor vehicles with a GST rate of 28% (chapter 87) have two different applicable compensation cesses at 17 and 22 per cent.[5] Mineral and Aerated water (chapter 22) also has a GST rate of 28 per cent and compensation cess of 12 per cent.

Pan Masala (chapter 21), is another product with a GST rate of 28, has a compensation cess of 60 per cent. Tobacco and products (chapter 24), with a GST rate of 28%, has numerous

[5] Under heading 8703; the different rates of compensation cess depends on capacity of the engine and whether the car is classified as a SUV or not.

cesses. Unmanufactured tobacco has two different rates of compensation at 65 and 71 per cent.[6] Tobacco, Stemmed & Stripped has 20 different compensation cesses ranging from 11 per cent to 290 per cent. Cigars and cheroots have a compensation cess of 21 per cent or Rs 4170 per thousand, whichever is higher.

Other aircrafts such as helicopters etc. for personal use (under chapter 88), with a GST rate of 5%, have a 3 per cent compensation cess. The category of Ships, boats and floating structures (Chapter 89), with a GST rate of 28%, has a 3 per cent compensation cess on Yacht and other vessels for pleasure or sports. Coal, lignite and peat at 5% are subject to a Rs 400 per ton cess. Aircraft, helicopters etc. with a GST rate of 5% have an additional cess of 3%.

3.6. Threshold of taxation

The Goods and Service Tax has a threshold limit based on the value of goods and services that have been provided in a particular financial year by a company. As per section 22(1) of CGST Act, every supplier shall be liable to be registered in the State or Union Territory (other than special category states) from where he makes supply of goods or services or both, if his aggregate turnover in a financial year exceeds Rs. 20 lakhs.

In case of 'special category states', registration is required if his aggregate turnover in a financial year exceeds Rs. 10 lakhs – first proviso to section 22(1) of CGST Act [renumbered vide CGST (Amendment) Act, 2018, w.e.f. 1-2-2019]. These States are Arunachal Pradesh, Assam, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh, and Uttarakhand.

3.7 Procedural issues

The greater the number of rates and exemption the greater the difficulty and cost of complains as well as of monitoring and enforcement. The two are non-linearly related. For example, if the number of rates increases from 2 to 10 (5x), the index of complexity increases from 4 to 100 (25x).

Exports and Imports

The GST is a destination-based tax, so export of domestic taxes would make exports less competitive. Consequently, exports are zero rated, with all GST payments by exporters refunded to the exporter. These refunds are paid with a highly variable lags, making exporters run from pillar to post and raising their cost of capital. This is essential for integrating with global value chains and attracting global supply chains which are trying to diversify out of China. Objective must be to refund all GST and/or IGST paid by an exporter, within 24 hours by linking exporters, transporters, customs system, RBI and banks. Imports have to pay the IGST applicable to the item or service being imported. The IGST is levied on the import of goods along with the Basic Customs Duty (BCD).

CGST, SGST and IGST

The Goods and Service Tax system has another complexity in the form of demarcation of the CGST, SGST and IGST along with norms that prevent adjustment of CGST inputs with SGST. These norms do not resolve the issue of tax cascading that prevailed in the previous VAT system which was one of the motivation behind introduction of the Goods and Service Tax. There should be a single GST classification for filers, while any demarcation of CGST, SGST and IGST must be done internally for determining the appropriate share of tax revenue

[6] Under heading 2401: the different rates of compensation cess depends on whether unmanufactured tobacco is with or without lime tube.

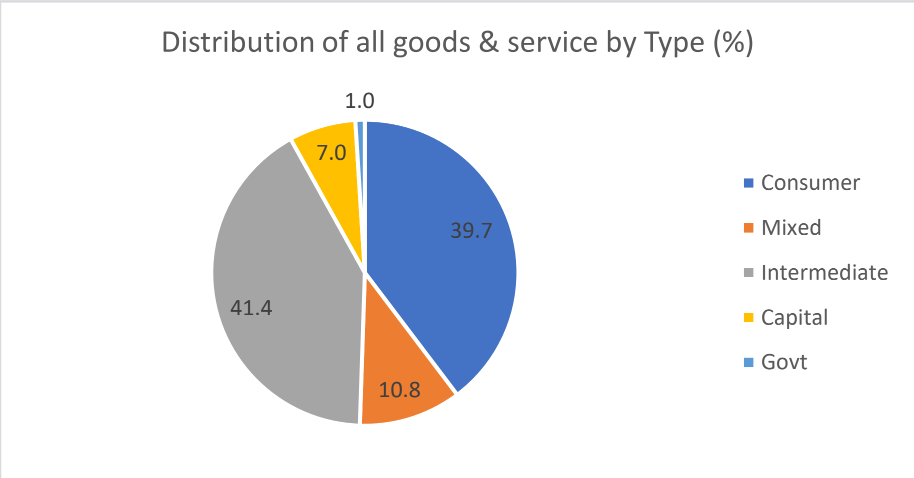
for respective governments. Moreover, to resolve the tax cascading issue, we must allow for input tax credit to be adjusted irrespective of whether they're both from CGST or not.

4. Intermediate, Capital and Consumer goods

The critical difference between a VAT/GST and a final sales tax is that the first collects the tax at every stage in the supply chain, while the latter collects it at one stage before the product is sold to the final consumer. Therefore, it is important to understand the structure of the GST as it relates to the supply chain, starting from natural resources and man-made intermediate goods, to complete Consumer goods and Capital goods. Some goods & services are used both by the consumer and as an input into the production process. We term these as "Mixed" goods.

Figure 3 shows the distribution of goods and across these four categories plus Govt Public Goods. Final consumption goods constitute about 40% and mixed goods 11%. If we assume that half the mixed goods are used for consumption only 45% of the goods are consumer goods. 55% are goods which should be mere collection points, which have no effect on the final revenue collection if compliance is taken as unchanged. A single uniform rate of GST on all Capital and intermediate goods will actually raise the rate of voluntary compliance and reduce tax evasion and will therefore increase revenue.

Figure 3: Composition of Goods and Services under GST



Source: Authors computation based on the present GST Structure

Table 6 shows the composition of the goods and services at different rates. At the 0 per cent rate, 51 per cent of the goods & services are under this category are final consumption, while 8 per cent are mixed use and 35 per cent are intermediates (figure 4). Capital goods are concentrated in the 18% rate (6%) and an integration of all capital goods at 15% will simplify the system without changing collections. Intermediates are also concentrated at 18%, but with secondary concentration at 12% & 5% goods, so integration at 15% will likely raise collections & improve compliance, without raising the tax burden on consumers (table 6). Similarly, the 7% of exemptions on Intermediate goods can easily be raised, without affecting the effective tax rate on consumers, thus simplifying the system and making compliance and monitoring easier.

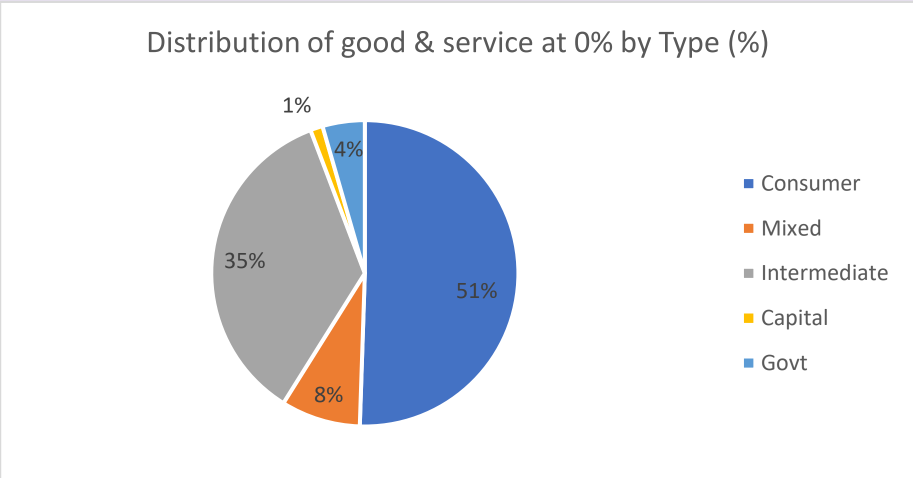
Table 6: Distribution of Goods & services by Type and GST rates

GST Rate	Consumer	Mixed	Intermediate	Capital	Govt	All G&S	*Nos*
0%	10	2	7	0	1	20	381
>0 to <5	1	0	1	0	0	2	42
5 & 7.5	9	2	8	0	0	20	376
12	10	2	5	0	0	18	341
18	7	4	19	6	0	36	677
28	3	1	0	1	0	4	81
All rates	40	11	41	7	1	100	1898
Total nos	761	207	778	133	19	1898	
0 rate(%)	50.7	8.4	35.4	1.0	4.5	100.0	

Source: Authors computation based on the present GST Structure

Consumer and mixed items together are distributed at 11%, 12% and 11% in the 5 to 7.5, 12% and 18% rate categories. Integration of these to a single rate of 15% could greatly simplify compliance and monitoring, without significant effect on short term revenues (table 6).

Figure 4: Distribution of Exemptions on goods & services by Type



Source: Authors computation based on the present GST Structure

There are 264 goods and services with GST rate of 5% and 20 with a rate of 3%. The distribution of these items by type is shown in table 7, with 5% distributed by type and 3% shown in separate line. More than half the items (56.3%) are found in the Food & beverage and Agriculture and allied categories, with the former concentrated in the Consumer(22%) category and the latter in both consumer 9%) and intermediate(10%) category (table 7). This strengthens the point about concentration of subsidies in these 2 sets of items, and the need for selectively increasing the rates to 15% or introducing a temporary 10% rate for gradually raising them.

5. Services

Transmission or distribution of electricity by an electricity transmission or distribution utility is exempt under the Goods and Service Act, however, business support services such as Support services to mining, electricity, gas and water distribution are taxed at 18 per cent.

Construction activity has 6 applicable rates ranging from 0 to 18 per cent. The rates depend on different treatment of input tax credit and on who the end user of the service is. The restaurant as a service is taxed at 5 per cent rate if the input tax credit is not claimed. However, there are different treatment of accommodation services depending on the invoice of the per day tariff of the hotel. For instance, Supply of "hotel accommodation" having value of supply of a unit of accommodation above one thousand rupees but less than or equal to seven thousand five hundred rupees per unit per day has a GST rate of 12 per cent.

Table 7: Distribution (%) of goods & services with rates 5% & 3% by Type & Sector

	Goods & Services at 5% (& 3%) rate by type(%)					Nos
	Consumer	Mixed	Intermediate	Capital gds	All	all
A&A	9.2	3.5	10.9	0.4	23.9	68
F&B	22.2	8.5	1.8	0.0	32.4	92
Education	0.4	0.0	0.0	0.0	0.4	1
Health	4.6	0.0	1.1	0.0	5.6	16
GOVT	0.4	0.0	2.5	0.0	2.8	8
Environment	0.7	1.1	2.8	0.0	4.6	13
Special(3%)	2.1	0.0	4.9	0.0	7.0	20
OTHER	13.4	1.1	7.4	1.4	23.2	66
All sectors	52.8	14.1	31.3	1.8	100	284
Total nos	150	40	89	5	284	

Both wholesale and retail trade services are taxed at 18 per cent rate. Reduction of this rate, may have temporary negative impact on collections but will reduce compliance costs, incentivize compliance by consumers and increase voluntary tax payment. Transport Services attract a GST rate of 0 per cent, 5 per cent, 12 per cent and 18 per cent depending on the classification of the service, the total size of the invoice and treatment of the input tax credit.

Financial services attract broadly three rates of 0 per cent (which is services that have been exempt), 12 per cent and 18 per cent. Integrating GST rates at 15% will help rate collection rates. Different business and production services attract a different GST rate of 5 per cent, 12 per cent and 18 per cent. The services also include legal services which are exempt, and accounting services which attract a GST rate of 18 per cent while supply of e-books attracts a GST rate of 5 per cent. The bulk of these services are important as an input for consumer facing businesses.

6. Revenues from GST

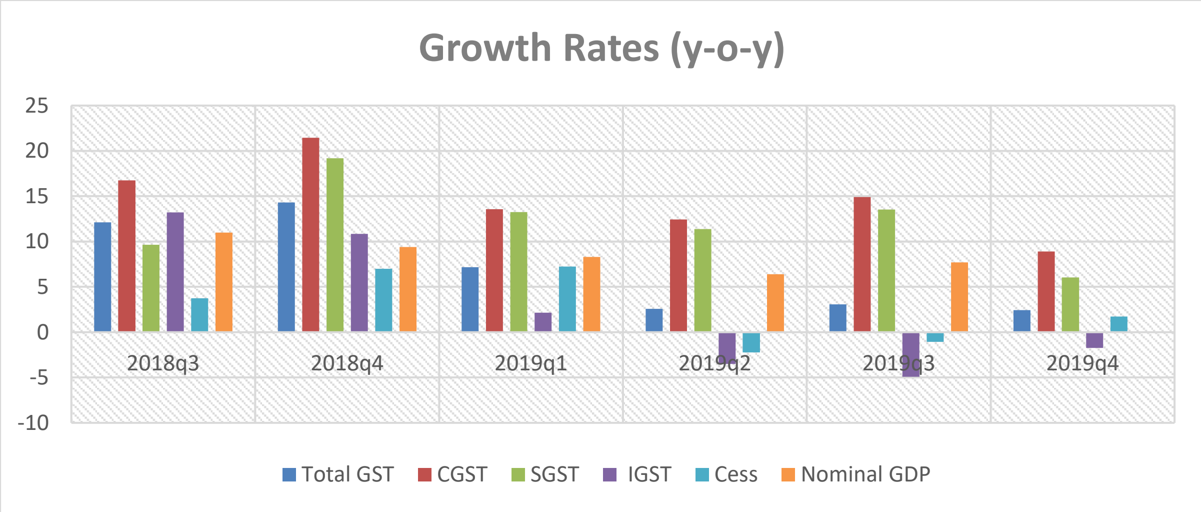
The transition from the VAT/Excise system to the Goods and Services Tax was expected to be revenue positive over a few years as it reduced the number of different taxes to a single tax, though with three components(Central, State and Interstate). It was anticipated that this would result in higher growth and improved tax compliance resulting in an increase in revenues. Consequently, the central government guaranteed a compensation to states for any growth in States GST revenues lower than 14 per cent growth, for 5 years.

Over the last two financial years, the Goods and Services Tax has failed to meet the budgetary targets. Part of the reason is lower than projected nominal growth of GDP, due to lower than projected inflation. Frequent changes in the GST rates, procedural changes and technical glitches, have resulted in increased complexities of GST Rules and Regulations and have prevented the stabilization of the GST system. In 2018 revenues were Rs 11,77,369 crores and 2019 Rs 12,22,141 crores.

It is, however, encouraging that the number of states requiring compensation cess was lower in 2018 than in 2017 (RBI). In fact, several states did not require compensation cess in 2018 due to adequate revenue mobilization.

Figure 5 depicts the quarterly (year on year) growth rates of revenues from Total GST, CGST, SGST, IGST and the nominal GDP. As expected, the recent lower revenue mobilization is partly because of the lower levels of nominal GDP while a subsequent part of it is also related to the inability of the system to improve compliance.

Figure 5: Revenue Growth GST & Cess



Source: Authors Computation based on Monthly GST Revenue Data

Table 8 presents the Weighted Average (Effective) GST rate from an RBI staff computation using data from CBIC and minutes of GST Council meetings. As evident, there has been a steady decline in GST collection rate since its introduction.

Table 8: Weighted Average (effective) GST rates (%)

	Effective GST Rate (in %)
Subramanian Committee Recommendation (2015)	15.3
Actuals as of,	
May 2017	14.4
November 2017	12.6
January 2018	12.2
July 2018	11.8
December 2018	11.6
July and September 2019	11.6

Source: RBI, Debt: State's Medium-Term Fiscal Challenge

7. Proposed Structure

Principles underlying good Exemptions:

(a) International treaties require tax free sales to senior Diplomats and Multilateral development organizations.

(b) Sovereign functions of Government, including the services provided by Regulatory organizations (RBI, SEBI, IRDA), services provided to other levels of Government and Supply of Public goods (Highways, roads, bridges, parks, monument, Public Libraries). Though Railways is a part of the Govt of India, it provides a transport services which should not be exempt under this principle. Public bus transport is

(c) Services provided for free, without charging even for the goods and services which are input into it. For instance, either collecting or preparing food and clothes, and distributing free to the unrelated-unconnected poor, i.e. excluding one's own workers, associates, relatives and friends. This principle applies to non-commercial, non-profit, non-govt organization and also applies to Governments Welfare programs for the poor and less well off. This principle cannot, however, be used to exempt goods and services which are used as inputs by the organization providing free services (e.g. the cloth, bicycle or catered food bought from a commercial seller).

(d) Repressiveness or Progressivity of the VAT/GST. Food and Beverages constitute 27.6% of the consumption basket (2018-19). Food & Beverages are a much higher proportion of the consumption of the poor (40-50%). Thus, an exemption for basic food and beverages can ensure progressivity of the VAT/GST, even if it's a single rate system, with no other rates or exemptions.

One of the important events pushing households normally above the poverty line, into poverty is a medical event, even though has a free health system (Primary-secondary-tertiary). Exempting *Health services*, constituting 4.8% of the private consumption basket, along with an exemption for health and life insurance, and Public health (e.g. Public toilets) can increase the progressivity of the GST.

Education services constitute 4.4% of the Consumption Basket. Education along with R&D, knowledge creation and dissemination are quasi-public goods, which benefit the entire population. Despite the existence of a Government education system (Primary, secondary, tertiary), the poor spend too much of their budget on education. Thus, an exemption for basic education increases tax progressivity and benefits the public.

These three exemptions (at 0% rate), constituting about 37% of the consumption basket, would make a single rate Indian GST very progressive, relative to any other VAT.[7]

(e) Non-marketable or non-marketed goods and services. Transfer of assets involves capital gains and losses which do not measure, the value added by the intermediary intermediating the transaction. The problem of valuation becomes even more

[7] If our Government health and education systems provided good quality health and education to the poor and middle class, there would be little justification for these two sets of exemptions.

complicated when the deal involves paper transactions with layers of rights and obligations. There are also a lot of joint products in the financial sector (e.g. deposits and loans with or without defaults), for which it is difficult to determine value added for each transaction. Interest paid on a loan or received on a bank deposit is not Value added. Therefore, several countries exempt the financial sector from the VAT/GST.

(f) Housing Service: Owner occupied housing has no intermediation, but what is the value added in renting or leasing land or property. Just like interest, Rent and capital gains are a form of income, but does not constitute Value added. If a broker intermediates the process of leasing or renting out of a premise, then he provides a service and should pay the VAT.

The following structure is proposed:

A. Capital Goods and Intermediate Items to be integrated at 15%. An exception is made for currently exempted inputs into the agriculture & allied sectors, household manufacturing and tiny sectors and Government promoted low income housing. These are left undisturbed as a transitional measure but should be eliminated in the next round of GST reforms.
B. Consumer goods & services (including electricity which is an intermediate good) and mixed items to be at 15%, with following exceptions,
    a. Food and Beverages, education & health services to be exempt (0%) to ensure progressivity of GST. Purely as a temporary measure, other exempt consumer goods and services can remain exempt till end of FY22, to ease the transition.
    b. Rates above 0 and below 5% to be raised to 5%.
    c. Rates above 5% but below 15% to be raised to 10% or 15%. The 10% is a transitional rate, where an economically sound case can be made for correction of externalities (e.g. environment).
    d. Replace 28% rate by 15% on all food and beverage items. There is no rational reason for exempting most food and beverage items, putting low 5% rate on rest (including sugar) and then putting 28 % rate on lemonade and aerated waters. High rate of tax on these items keeps SMEs from offering competitive products to large established companies.
    e. Reduce 28% rate on all automobiles to 25%. Compensation cesses are also modified to simplify the system. Revenue negative changes are needed to boost the automobile sector which was hit by increase in regulatory costs (BS 6, insurance etc.) and help convert it into a leading sector for the economy.
    f. Tobacco products: GST rate to be lowered to 25%, but compensation cess to be a uniform 100% on all tobacco and products, to keep the effective rate at 50%. o and Cigarettes can continue but should be simplified.
    g. End use exemptions for Govt & International organizations will remain as required by treaties. Natural resource (including agriculture) based exemptions are unnecessary for small producers as there is no GST below a threshold for filing-could be included in temporary list. . As a transition measure several exempt consumer goods and services are left undisturbed but should be eliminated in the next round of reforms.

We present two different proposals based on these principles. Details of individual items on which changes have been proposed, are in appendix A6.[8] The frequency distribution of items

[8] This will be published separately as it is 75-100 pages long depending on formatting.

is shown in table 9 and the average rate by sectors in table 11, which also compare Proposal 1 and 2 with the current rates. The dramatic simplification of the rate structure is shown in table 9, with 59% of items at 15% rate in proposal 1 and 78% of items at 15% rate in proposal 2. 78% of items are at 15% rate. This compares with the current structure in which 36% of items are at 18% rate and 18% of items are at 12% rate.

The 28% rate is proposed to be reduced to 25%. However, rates on 9 sets of items are proposed to be reduced to 15% in proposal 1, and 19 items in proposal 2 (table 10). The main consideration in this context was to ensure a smooth adjustment of revenue collection to a different part of the supply chain. The average GST rate by sector, resulting from our proposals is shown in table 8 (section 8), along with the current one.

Table 9: Frequency distribution of items (%) by GST rates

Rate(%)	Current	Proposal 1	Proposal 2
0	21	19	13
1.5	0	0	0
3	1	0	0
5	20	12	6
7.5	0	0	0
10	0	7	0
12	18	0	0
15	0	59	78
18	36	0	0
25	0	4	3
28	4	0	0
All rates	100	100	100

Table 10: Items proposed to be reduced from 28% to 15%

			GST rates			
Ch	Tariff item	C,I,K	Current	Propsl 1	Propsl 2	Product or Service
17	1703	I	28	15	15	Molasses
25	251512 20/90	M	28	25	15	Marble & travertine, other than blocks
25	2516 12 00	M	28	25	15	Granite, other than blocks
25	2523	M	28	15	15	Portland cement & hydraulic cements
40	4011	M	28	15	15	Pneumatic tyres, Rear Tractor tyres; & aircraft tyres
84	8407	K	28	25	15	Spark-ignition reciprocating or rotary IC piston engine
84	8408	K	28	25	15	Compression-ignition internal combustion piston engines (diesel)
84	8409	I	28	25	15	Parts suitable for use with engines of heading 8407 or 8408
84	8413	K	28	15	15	Pumps for dispensing fuel,lubricants & cooling IC engines
85	8507	M	28	15	15	Electric accumulators
85	8511	M	28	15	15	Electrical ignition,starting equipment for spark/compress-ignition IC Engines
85	8528	K	28	15	15	Monitors & projectors,TV reception,recording or reproducing apparatus
87	8701	K	28	25	15	Road tractors for semi-trailers of engine capacity more than 1800 cc
87	8702	K	28	25	15	Motor vehicles for the transport of >ten persons[other than Bio-fuels]
87	8704	K	28	25	15	Trucks [non-refrigerated]
87	8706	K	28	25	15	Chassis fitted with engines(for motor vehicles of 8701 to 8705)
87	8707	K	28	25	15	Bodies (including cabs), for motor vehicles of 8701 to 8705
87	8708	I	28	15	15	Parts & accessories of motor vehicles of 8701 to 8705
87	8714	I	28	15	15	Parts & accessories of vehicles of headings 8711

Table 11 shows the change in the number and structure of exemptions. Total number of exemptions is reduced by about 30 in proposal 1 and by 55 in proposal 2. In proposal 1 the eliminated exemptions are distributed half in Consumer G&S and half in Mixed plus Intermediate. In proposal 2, 3/4th of the removed exemptions are in consumer goods.

Table 11: Change in Structure of Exemptions

	Number of items by category			Change	
Category	Current	Proposal 1	Proposal 2	Proposal 1	Proposal 2
Consumer G&S	193	177	82	-16	-111
Govt G&S	17	17	17		
Mixed G&S	36	31	16	-5	-20
Intermediate	130	123	118	-7	-12
Capital gds	4	4	2		-2
Total	380	352	235	-28	-145

Table 12 shows how Proposal 1 is revenue neutral and proposal 2 is revenue positive. In subsequent years improved compliance is expected to raise the buoyancy of the GST and result in significantly higher revenues. Appendix A5 gives an idea of how dramatically reporting & monitoring can be simplified because of these proposals. Going forward, the 6% of items still having a tax rate of 5%, should be moved into 15% category so that 84% of rates are subject to this rate. About 120 exemptions on Intermediate & capital goods should be eliminated and exemptions on Consumption & mixed Goods halved (from proposal 2). Cesses on all motor vehicles should expire by June 2022, if not earlier. If GST council wants to be bolder than in proposal 2, these can be thought of as proposal 3, which is likely to be even more revenue positive.

8. Rates and Revenues

As the detailed data from the revenue department or the GSTN is not available to us, we use a different approach to estimate current effective rates, changes in them and the revenue resulting from each proposal. We start by creating the average rates by sub-categories and the value-added base to which it applies.

Our methodology has three steps. One is to take the structure of Gross Value added at the detail available in the 2017-18 National accounts, in which manufacturing has only 5 industries, and subdivide them into 23 manufacturing sub-sectors, present in the IIP, using IIP (2011-12) weights. In parallel, we map each of the approximately 1900 items under different chapters and sub-headings, into the industries and services resulting from the previous exercise. The rates within each of these categories are than averaged. Then we re-aggregate these rates (as needed), by weighting them with GVA distribution produced in step 1. The results of this exercise are shown in table 12.

Table 12: Average GST rates by sector, sub-sector and industry: Current, Proposals 1 & 2

S. No.	Item	Mean GST Rate		
		Current	Proposal 1	Proposal 2
1	***Agriculture, forestry, and fishing (collection rate)***	3	5	8
1.1	Crops	2	2	6
1.2	Livestock	4	4	8
1.3	forestry and logging	6	7	11
1.4	fishing and aquaculture	3	3	6
2	***Mining and quarrying***	7	15	15
3	***Manufacturing***			
3.1	Food Products, Beverages & Tobacco(average)	10	10	13
3.2	Textiles, Apparel and Leather Products (average)	9	11	14
3.3	Metal Products (collection rate)	18	15	15
3.4	Machinery and Equipment (collection rate)	16	15	15
3.5	Other Manufactured Goods (collection rate)	12	14	15
4	***Electricity, gas, water supply & other utility services***	12	10	10
5	***Construction***	11	12	14
6	***Trade, repair, hotels and restaurants (collection rate)***	17	15	15
6.1	Trade & repair services	18	15	15
6.2	Hotels & restaurants	7	10	14
7	***Transport, storage, communication & services related to broadcasting***			
7.1	Railways	4	7	9
7.2	Road transport	2	4	6
7.3	Water transport	8	8	10
7.4	Air transport	4	6	9
7.7	Communication & services related to broadcasting	9	8	8
8	***Financial services***	1	1	4
10	***Public administration and defence***	2	2	3
11	***Other services***	6	6	8
12	***TOTAL (collection rate)***	9	9	10

Source: Authors Calculations, based on published GST rates, GCA data and IIP weights

We carry out a similar exercise for the consumption basket using the Consumer expenditure data from the NAS. This requires removing those of the 1900 items which are intermediate and capital goods and retaining only the Consumer and mixed goods and services. These are then assigned to the detailed consumption categories and the rates averaged over them (table 13).

The significant discrepancy between the NSS Consumption Expenditure Survey's estimates of final consumption expenditure and the NAS estimates of PFCE has been increasing since 1980s. A major reason for this is the inability of the NSS survey to capture the extent of services expenditure and consequently, it's tendency to overestimate the food expenditure. A key discrepancy is for food and beverages, which is 33 per cent as per NAS and 44.6 per cent as per NSS consumer expenditure survey (2011). One reason for this discrepancy is the inability of the survey to adequately capture the impact of free or subsidized food grains for those eligible under the PDS program. Another major discrepancy is transportation, which for 2011-12 is estimated to have a share of 5.2 per cent in the NSS and 15 per cent in NAS. This could be due to the NSS attribution of value added by owner driven transport, At the aggregate level, the NAS estimates seem to be more reliable than the NSS estimates and we find that the effective GST rate under the current system comes to be 6.4 per cent..

Table 13: Average GST rates for Consumer categories in the NAS

Item	2019 PFCE (Rs Crores)	2017-18 based shares	Current Average GST Rate
Food and non-alcoholic beverages	2188874	26.3	6.0
Alcoholic beverages, tobacco, and narcotics	147630	1.8	-
Clothing and footwear	530849	6.4	10.1
Housing, water, electricity, gas, and other fuels	1167515	14.0	0.0
Furnishings, household equipment and routine household maintenance	287738	3.5	-
Health	398370	4.8	7.9
Transport	1408301	16.9	12.5
Communication	172850	2.1	9.0
Recreation and culture	70507	0.8	-
Education	327769	3.9	0.9
Restaurants and hotels	187623	2.3	-
Miscellaneous goods and services	1442216	17.3	8.5

Source: Authors calculations based on NAS Data on Private consumption.

Given the sectoral/industry wise distribution of GVA and the average GST rates corresponding to each sub-sector/industry (table 12), the revenue implications of each GST structure can be derived easily. The change in revenues resulting from our two proposals is shown in table 14. The aggregate revenue is shown at the bottom of the table, there is no change in the total revenue in proposal one, while Proposal two is projected to result in an increase in revenue by 9%, over levels which would prevail at current rates.

A perusal of the change in revenues from sectors requires an explanation. Financial services are currently estimated to have an average GST rate of 1 per cent, as most of the items under the heading have been exempt. These include banking services related to the PM Jan Dhan Accounts, or life insurance services extended to government employees. These services have been exempted even in the proposal 1 but are removed in proposal 2 and taxed at 5 per cent. This in turn increases the average rate for financial services up from less than 1 per cent to closer to more than 4 per cent, showing a 425% increase in revenues from this sector.

Table 14: Revenue Implications of Reform Proposals

S. No.	**Item**	**Revenue change (%)**	
		Proposal 1	Proposal 2
1	***Agriculture, forestry, and fishing***	16	144
2	***Mining and quarrying***	106	102
3	***Manufacturing***		
3.1	Food Products, Beverages & Tobacco	-2	27
3.2	Textiles, Apparel and Leather Products	20	55
3.3	Metal Products	-16	-16
3.4	Machinery and Equipment	-5	-4
3.5	Other Manufactured Goods	10	19
4	***Electricity, gas, water supply & other utility services***	-17	-17
5	***Construction***	9	30
6	***Trade, repair, hotels, and restaurants***		
6.1	Trade & repair services	-17	-17
6.2	Hotels & restaurants	40	91
7	***Transport, storage, communication & services related to broadcasting***		
7.1	Railways	59	105
7.2	Road transport	59	173
7.3	Water transport	9	30
7.4	Air transport	67	141
7.7	Communication & services related to broadcasting	-17	-17
8	***Financial services***	7	426
10	***Public administration and defence***	-6	15
11	***Other services***	3	28
12	***TOTAL***	0	18

Source: Authors Calculations, based on published GST rates, GCA data and IIP weights

Similarly, in Agricultural and Allied sectors the rate is raised from 3% to 5% in proposal one and 8% in proposal 2, showing a large percentage increase from a very low base. In Mining and Quarrying the average GST rate is raised from 6 per cent to 15 per cent. This was done as a bulk of the categories contained under this heading relate to inputs that go into the production process.

The rate on textiles has also increased on an average from 9 per cent to 11 per cent in proposal 1 and 14 per cent under proposal 2 which results in a 20 and 55 per cent increase in revenue respectively. Hotels and restaurants also witness a steady increase in rates and consequently, in revenue mobilization as we do away with the difference of rates based on whether a restaurant is an air-conditioned or non-air conditioned and similarly, we remove the option of a lower rate without claiming the input tax credit and provide a standardized rate across different items. For railways and road transportation too, the average GST rate has gone up as different categories of rates based on different criterion have been eliminated. Consequently, both these sectors witness a substantial increase in the revenue mobilization.

The compensation cess is levied on over 60 items and generated about 10,000 crore of revenue in 2019. These cesses are to expire in June 2020. Most of these should be eliminated on all items except Tobacco products (chapter 24) and Automobile sector (chapter 27). The compensation cess on tobacco products can be drastically simplified, by replacing it by a near-uniform tobacco cess at an average effective rate of 18.8% relative to the current average effective rate of 18.8%.[9] For automobiles, the proposed simplification results in an average effective rate of 5.1% per cent relative to the current average effective rate of 1 per cent. Note that the GST rate on automobile sector has been reduced to 25% and 15%, so the compensation cess has been proposed to be raised, temporarily to maintain revenue neutrality, given elimination of cess on all other items. In the absence of detailed data on revenue obtained from automobile, tobacco and other sectors, it is not possible to estimate the precise change in revenues.

We have not accounted for reduction in compliance costs, improved voluntary compliance, easier monitoring and detection of evasion which will arise from the dramatic simplification of the GST structure. This is expected to increase the revenue collections and lead to increased buoyancy of the GST. We conservatively estimate higher revenues due to these improvements at 10% in second year and 20% in third year after introduction.

9. Progressivity of GST

We estimate the progressivity of the current and proposed GST structure by using the distribution of consumption across income levels and consumption categories, from the World Bank's Global Consumption Database. Given the difference in categories this requires re-doing the mapping of GST items, and obtaining a revised rate structure relevant to these categories. There is one key difference from earlier measures, in that for two categories, Food & beverages and Clothes & foot ware we separate out the exempt items and derive an average rate for non-exempt items. For these two categories we sub-divide consumption into exempt and non-exempt before applying the average rate to the latter. Two key assumptions made to derive these results are (a) Proportion of food & beverage items which are exempt (including PDS, informal markets & below threshold sellers), are 90% for lowest, 70% for low, 60% for middle and 40% for higher. (b) For Clothes and footwear, the proportion of exempt items is assumed to be 40% for lowest and 20% for low. Note that, fibre's, yarns & fabrics derived from agriculture and allied sectors are exempt, and households or the village tailor can make clothes. In addition, clothing items & footwear of unit value < Rs 1000 have

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[9] As the cess is levied on top pf the GST, the effective rate is equal to the GST rate times the cess rate. For instance, if the GST rate is 25% and cess rate is 10% the effective rate is 2.5%. This is then averaged over all the items to get the average effective rate.

a 5% rate. Rural low income and urban lowest income are most likely to use these low-priced items.

Given the consumption distribution for each income quartile and the average rate for each consumption category we derive the average effective rate for each income group (table 15). The Indian GST is highly progressive with the average tax rate for the highest quartile 2.4 times that of the lowest. This is unchanged in proposal 1 but declines marginally to 2.1 in proposal 2.

Table 15: Progressivity of the current and proposed GST rate structures

	Effective GST Rate				
	Lowest	**Low**	**Middle**	**Higher**	**Highest/ lowest**
Current GST	4.1	6.6	8.2	10.0	2.4
Proposal 1	4.3	6.8	8.4	10.2	2.4
Proposal 2	5.9	8.9	10.6	12.4	2.1

Authors calculations using World Bank consumption distribution (2011-12) &rate structure

To evaluate the sensitivity of our assumptions with respect to the consumption of exempt food & beverage and exempt clothing and footwear among different consumption classes, we assume that all consumption classes consume ½ exempt and half non-exempt goods of these two types. Even in under this extreme assumption, the current GST system is progressive, with a tax rate for the highest consumption group 1.9 times that of the lowest group. Under proposal 1 this is 1.8 and 1.6 under proposal 2. This compares with the 1.4 ratio found for the indirect tax system by Aggarwal (1995).

10. Future Structural Changes

Petroleum products are currently excluded from the GST system. VAT and Excise taxes on petroleum products raise Rs 2.4 trillion for Central Govt and Rs 1.90 trillion for States. Different states levy different VAT rates ranging from 6 to 29% which is over the excise levied by the central government. We propose that all petroleum products be brought into the GST system with a uniform GST rate of 15% on crude oil, natural gas and all refined petroleum products. To maintain revenue neutrality, Petrol and diesel could be subjected to a compensation cess, or a carbon tax in the form of an excise/VAT, which is not eligible for input tax credit under GST. Whether the extra tax is called an Excise, VAT of Carbon tax is not important as long as it's levied at the final sale point the pump and states can retain the flexibility to adjust it subject to a maximum of 20%, which accounts for the State's 7.5% share of the 15% GST proposed on petroleum products.10

As potable Alcohol is a final consumer product and a demerit good, there is no urgency to incorporate it into the GST. The States are entitled to some flexibility on this revenue source.

[10] 29%-7.5% =21.5% .

11. Conclusion

Three years have passed since the introduction of the Goods and Services tax (GST) in India on April 1, 2017. This paper carries out a comprehensive review and economic analysis of the Indian GST, including its progressivity. It starts by exposing the incredible complexity of the GST structure, despite three years of effort by the GST council to simplify it. It then undertakes an economic analysis of its structure in terms of the stage of production from natural resources to intermediate goods to capital goods and final consumption goods. The incidence of the existing GST structure is shown to be highly progressive.

Based on this comprehensive analysis the paper suggests two different reforms, one of which is revenue neutral and the other revenue positive. Both these proposals will greatly simplify compliance and monitoring, help reduce the big burden of compliance costs on SMEs and make it easy to identify tax evasion. Over the next few years either of these proposals will improve the buoyancy of the GST system and promote economic growth. An additional stimulus can be given to the heavily taxed automobile sector, with its numerous forward and backward linkages, by reducing the compensation cess sharply during the Pandemic crises.

As number of agriculture and labour reforms are either underway in different states or are expected in the near future, it has been judged prudent to leave a large number of exemptions in place during the transition period and return to them a couple of years after the proposals in this paper are implemented. If bolder reforms are thought feasible by the GST council, these at least half these exemptions can by abolished as part of proposal 2 (i.e. proposal 2b), as revenue starved States will actually benefit from higher revenues and revenue buoyancy from FY22.

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13. Appendix

Appendix A1. Procedural & Administrative Issues

A1.1 Procedures & Administration

On procedural issues, there is a need to shift to back office analysis of filing of data which could result in further development of benchmarks for auditing of claims. While the filing system is working well, it is therefore advised to use the National Informatics Centre portal for e-way bill rather than outsourced agency that handles the GSTN portal ((Rajaraman, 2019). Consistent with our approach, Rajaraman (2019) also suggests removal of all rate differentiation at the 4-digit level. The two proposals contained within the paper extend to further simplify by removing rate differentiation by taxing a bulk of items at a single standard rate. One important suggestion made by her is on forward compliance, which can be reinforced if bank credit from GST tax records can be used as a collateral and this can increase formalization.

The issue of matching of invoices require excessive monitoring which often results in substantial administrative resources. Efficiency dictates that only the large taxpayers (Rao, 2019 proposes those with a turnover greater than Rs 1 crore) should be monitored for 100% matching of the invoices. He also recommends increasing the threshold for paying GST to Rs 50 lakhs, however, India at present already has one of the highest thresholds in PPP terms and any tinkering with the same should be avoided.

A1.2 Forms

The various forms give an idea of the complexity arising from the complex structure of rates and exemptions. The GSTR 9 requires the 8 digits HSN codes while GSTR1 requires only 4 digits HSN codes. This creates a lot of confusion and leads to a lot of hassle while filing, especially for small and medium size enterprises. Ideally, we should move towards uniform 4-digit HSN codes across the filing process. Similarly, under GSTR 9, there are requirements for verification of tax rates of all goods sold by the taxpayer. This imposes an additional compliance burden on part of the taxpayers. On the other hand, forms GSTR 9 AND GSTR 9C have resulted in a lot of confusion and they seek repetitive information. The forms are lengthy, and taxpayers often find it difficult to provide the required information. For example, HSN-wise information is required to be reported for inward supplies. However, businesses with a turnover of less than Rs 1.5 crore were not required to mention HSN code while making supplies. Those who have bought from such suppliers do not have the relevant information.

In GSTR – 9C, provision has been made for auditors to verify the tax rates of goods sold by taxpayers. This will not only take huge amount of time, but it will be herculean task to complete the audit. On the other hand, there’s a big issue with regards to preparing the GSTR – 9 and 9 C as the GST data of any taxpayer has 5 set of accounting data for any taxpayer:

- Data As per GSTR – 1
- Data As per GSTR – 3 B
- Data As per GSTR – 2 A
- Data As per Taxpayer Books / Income Tax records
- Data As per GST Law

A simple comparison reveals that under the GST Regime, a lot more data for annual returns is sought than compared to the VAT regime. This has made the process lengthy and increased compliance costs, especially for MSMEs. Moreover, the present system provides no scope for revision of GST returns. Human errors are possible while filing of taxation returns. Allowing revision of annual returns will simplify the system. Bifurcation of Input Tax Credit claimed between inputs services and capital goods in GSTR-3B is redundant and adds to further complexity while filing the return.

Another concern is with regards to the new input tax credit amendment where only 20% of the credit is provide if vendor invoices are not uploaded on the GST network. Ideally, it is not the function of an enterprise to ensure that its vendor comply with their statutory government compliances.

A key issue has been on the levy of interest on wrong availing of Input Tax Credit. This has been done with the intention of frauds; however, the sheer complexity of the GST structure with multiple rates applicable across products is bound to create such confusion. Therefore, the levy of interest is a penal provision on errors which are made due to the general complexity of the GST structure.

Another problem while filing of taxes is that while table 6(B) requires the reporting of all inward supplies and input tax credit availed during the financial year, other than imports and inward supplies liable to reverse charge, table 6(H) requires the reporting of input tax credit which had been availed, reversed and later reclaimed during the same financial year. This has led to the overlapping of figures between tables 6(B) and 6(H) of the GSTR-9. Although a government clarification has been issued for cautioning the taxpayers about what both the fields mean, the entire process of filing of taxes has become a daunting task in itself.

Appendix A2: Current Rates

Under heading 9954 there are 6 applicable rates:

The 1.5% rate is applicable:

- Provided that the central tax at the rate specified shall be paid in cash, that is, by debiting the electronic cash ledger only.
- Provided also that credit of input tax charged on goods and services used in supplying the service has not been taken except to the extent as prescribed in Annexure I in the case of REP other than RREP and in Annexure II in the case of RREP
- Provided also that the registered person shall pay, by debit in the electronic credit ledger or electronic cash ledger, an amount equivalent to the input tax credit attributable to construction in a project, time of supply of which is on or after 1st April, 2019, which shall be calculated in the manner as prescribed in the Annexure I in the case of REP other than RREP and in Annexure II in the case of RREP
- Provided also that where a registered person (landowner- promoter) who transfers development right or FSI (including additional FSI) to a promoter (developer-promoter) against consideration, wholly or partly, in the form of construction of apartments,
    - (i) The developer- promoter shall pay tax on supply of construction of apartments to the landowner- promoter.
    - (ii) Such landowner – promoter shall be eligible for credit of taxes charged from him by the developer promoter towards the supply of construction of apartments by developer- promoter to him, provided the landowner- promoter further supplies such apartments to his buyers before issuance of completion certificate or first occupation, whichever is earlier, and pays tax on the same

which is not less than the amount of tax charged from him on construction of such apartments by the developer- promoter.

In contrast, the 7.5% rate is applicable when:

- The promoter maintains project wise account of inward supplies from registered and unregistered supplier and calculates tax payments on the shortfall at the end of the financial year and shall submit the same in the prescribed form electronically on the common portal by end of the quarter following the financial year. The tax liability on the shortfall of inward supplies from unregistered person so determined shall be added to his output tax liability in the month not later than the month of June following the end of the financial year.
- Notwithstanding anything contained in Explanation above, tax on cement received from unregistered person shall be paid in the month in which cement is received.
- Input Tax Credit not availed shall be reported every month by reporting the same as ineligible credit in GSTR-3B [Row No. 4 (D) (2)].

While the 12% rate is applicable

- Provided that in case of on-going project, the registered person shall exercise one time option in the Form at Annexure IV to pay central tax on construction of apartments in a project at the rates as specified for item (ie) or (if), as the case may be, by the 20th of May, 2019.
- Provided also that where the option is not exercised in Form at annexure IV by the 20th of May, 2019, option to pay tax at the rates as applicable to item (i) or (ia) or (ib) or (ic) or (id) above, as the case may be, shall be deemed to have been exercised; Provided also that invoices for supply of the service can be issued during the period from 1st April 2019 to 20th May 2019 before exercising the option, but such invoices shall be in accordance with the option to be exercised.

Another issue is of textile articles, where sale value not exceeding Rs. 1000 per piece is taxed at GST rate of 5% while similar items under 5604, 5901 and 5903 are taxed at 12%. Similarly, transport of passengers under heading 9964 and 9965 which has four applicable rates of 0, 5, 12 and 18 per cent. The 5 per cent rate is applicable if credit of input tax charged on goods used in supplying the service has not been taken. Therefore, for the same service, businesses have a choice of the rate based on whether they claim the input or not.

However, this choice is in violation of the basic principle of value-added taxation as the lower rate is applicable on the entire value of the service and not on value addition. Therefore, such options that provide multiple rates have further resulted in complications in the entire GST structure. Another similar example is the lower GST rate applicable on restaurants that do not claim input tax credit.

Similarly, under heading 9966 which pertains to renting of any motor vehicle where the cost of fuel is included in the consideration charged from the service recipient, there are two rates, 5 and 12 per cent. The 5 per cent is applicable if credit of input tax charged on goods (other than on ships, vessels including bulk carriers and tankers) has not been taken while the 18 per cent rate is applicable if the cost of fuel is not included in consideration.

The heading 9967 pertaining to includes services of goods transport agency (GTA) in relation to transportation of goods (including used household goods for personal use) or supporting services in transport other than above has 3 applicable rates of 5%, 12% and 18%. The 5% rate is applicable when the credit of input tax charged on goods and services used in supplying the service has not been taken. The 12% rate is applicable when that the goods transport agency opting to pay central tax at 6% under this entry shall, thenceforth, be liable to pay central tax at 6% on all the services of GTA supplied by it. The 18% rate is applicable on supporting services in transport other than in relation of transportation of goods.

Appendix A3: Compensation Cess

S. No	Chapter / Heading / Sub-heading / Tariff item	GST Rate (%)	Compensation Cess
			(% unless stated otherwise)
1	2701	5	Rs.400 per tonne
2	2702	5	Rs.400 per tonne
3	2703	5	Rs.400 per tonne
4	8802	5	3
5	8703 31	18	3
6	8703	18	17
7	8703	18	17
8	8703	18	22
9	8711	18	3
10	2106 90 20	28	60
11	2202 10 10	28	12
12	2202 10 20	28	12
13	2202 10 90	28	12
14	2401	28	71
15	2401	28	65
16	2401 30 00	28	61
17	2402 10 10	28	21% or Rs. 4170 per thousand, whichever is higher
18	2402 10 20	28	21% or Rs. 4170 per thousand, whichever is higher
19	2402 20 10	28	5% + Rs.2076 per thousand
20	2402 20 20	28	5% + Rs.3668 per thousand
21	2402 20 30	28	5% + Rs.2076 per thousand
22	2402 20 40	28	5% + Rs.2747 per thousand
23	2402 20 50	28	5% + Rs.3668 per thousand
24	2402 20 90	28	36% + Rs.4170 per thousand
25	2402 90 10	28	Rs.4006 per thousand

26	2402 90 20	28	12.5% or Rs. 4,006 per thousand whichever is higher
27	2402 90 90	28	12.5% or Rs. 4,006 per thousand whichever is higher
28	2403 11 10	28	72
29	2403 11 10	28	17
30	2403 11 90	28	11
31	2403 19 10	28	290
32	2403 19 90	28	49
33	2403 19 90	28	11
34	2403 91 00	28	72
35	2403 99 10	28	160
36	2403 99 10	28	142
37	2403 99 10	28	160
38	2403 99 20	28	72
39	2403 99 30	28	160
40	2403 99 40	28	72
41	2403 99 50	28	72
42	2403 99 60	28	72
43	2403 99 60	28	65
44	2403 99 70	28	20
45	2403 99 90	28	204
46	2403 99 90	28	96
47	2403 99 90	28	89
48	8702 10, 8702 20, 8702 30, 8702 90	28	15
49	8703 40, 8703 60	28	15
50	8707 50, 8703 70	28	15
51	8703 21 or 8703 22	28	1
52	8903	28	3

Appendix A.4: End Use Exemptions

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description of Goods	Exemption Category

1	44 OR 68	Deities made of stone, marble or wood	Other
2	Any chapter	Puja samagri namely,-	Other
3	Any chapter	(i) Rudraksha, rudraksha mala, tulsi kanthi mala, panchgavya (mixture of cowdung, desi ghee, milk and curd);	Other
4	Any chapter	(ii) Sacred thread (commonly known as yagnopavit);	Other
5	Any chapter	(iii) Wooden khadau;	Other
6	Any chapter	(iv) Panchamrit,	Other
7	Any chapter	(v) Vibhuti sold by religious institutions,	Other
8	Any chapter	(vi) Unbranded honey	Other
9	Any chapter	(vii) Wick for diya	Other
10	Any chapter	(viii) Roli	Other
11	Any chapter	(ix) Kalava (Raksha sutra)	Other
12	Any chapter	(x) Chandan tika	Other
13	Any chapter	Parts for manufacture of hearing aids	Other

S. No.	**Chapter / Section / Heading**	**Description of Service**	**Exemption Category**
1	Heading 9972	(ii) Supply of land or undivided share of land by way of lease or sub lease where such supply is a part of composite supply of construction of flats, etc. specified in the entry in column (3), against serial number 3, at item (i); (i) (ia), (ib), (ic), (id), (ie) and (if).	Other
2	Heading 9986	(i) Support services to agriculture, forestry, fishing, animal husbandry.	Other
3	Chapter 99	Services by an entity registered under section 12AA of the Income-tax Act, 1961 (43 of 1961) by way of charitable activities.	Other

4	Chapter 99	Services by way of transfer of a going concern, as a whole or an independent part thereof.	Other
5	Chapter 99	Services provided by and to Fédération Internationale de Football Association (FIFA) and its subsidiaries directly or indirectly related to any of the events under FIFA U-17 World Cup 2017 to be hosted in India.	Other
6	Chapter 99	Services provided by and to Fédération Internationale de Football Association (FIFA) and its subsidiaries directly or indirectly related to any of the events under FIFA U-17 Women's World Cup 2020 to be hosted in India.	Other
7	Chapter 99	Supply of services associated with transit cargo to Nepal and Bhutan (landlocked countries).	Other
8	Chapter 99	Services by an old age home run by Central Government, State Government or by an entity registered under section 12AA of the Income-tax Act, 1961 (43 of 1961) to its residents (aged 60 years or more) against consideration upto twentyfive thousand rupees per month per member, provided that the consideration charged is inclusive of charges for boarding, lodging and maintenance.	Other
9	Heading 9954	Services provided by way of pure labour contracts of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of a civil structure or any other original works pertaining to the beneficiary-led individual house construction or enhancement under the Housing for All (Urban) Mission or Pradhan MantriAwasYojana.	Other
10	Heading 9954	Services supplied by electricity distribution utilities by way of construction, erection, commissioning, or installation of infrastructure for extending electricity distribution network upto the tube well of the farmer or agriculturalist	Other

		for agricultural use.	
11	Heading 9961 or Heading 9962	Service provided by Fair Price Shops to Central Government, State Government or Union territory by way of sale of food grains, kerosene, sugar, edible oil, etc. under Public Distribution System against consideration in the form of commission or margin.	Other
12	Heading 9963	Services by way of renting of residential dwelling for use as residence.	Other
13	Heading 9963	Services by a person by way of-	Other
14	Heading 9963 or Heading 9972	(a) conduct of any religious ceremony;	Other
15	Heading 9963 or Heading 9995	(b) renting of precincts of a religious place meant for general public, owned or managed by an entity registered as a charitable or religious trust under section 12AA of the Income-tax Act, 1961 (hereinafter referred to as the Income-tax Act) or a trust or an institution registered under sub clause (v) of clause (23C) of section 10 of the Income-tax Act or a body or an authority covered under clause (23BBA) of section 10 of the said Income-tax Act:	Other
16	Heading 9963	Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having value of supply of a unit of accommodation below or equal to one thousand rupees per day or equivalent.	Other
17	Heading 9964	Transport of passengers, with or without accompanied belongings, by –	Other
18	Heading 9965	(a) air, embarking from or terminating in an airport located in the state of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, or Tripura or at Bagdogra located in West Bengal;	Other

19	Heading 9966	(b) non-airconditioned contract carriage other than radio taxi, for transportation of passengers, excluding tourism, conducted tour, charter or hire; or	Other
20	Heading 9967	(c) stage carriage other than air-conditioned stage carriage.	Other
21	Heading 9990	(d) renting or leasing of agro machinery or vacant land with or without a structure incidental to its use;	Other
22	Heading 9991	(e) loading, unloading, packing, storage or warehousing of agricultural produce;	Other
23	Heading 9992	(f) agricultural extension services;	Other
24	Heading 9993	(g) services by any Agricultural Produce Marketing Committee or Board or services provided by a commission agent for sale or purchase of agricultural produce;	Other
25	Heading 9994	(h) services by way of fumigation in a warehouse of agricultural produce.	Other
26	Heading 9986	Carrying out an intermediate production process as job work in relation to cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products or agricultural produce.	Other
27	Heading 9992 or Heading 9967	(i) transportation of students, faculty and staff;	Other
28	Heading 9992 or Heading 9968	(ii) catering, including any mid-day meals scheme sponsored by the Central Government, State Government or Union territory;	Other

A5. Post-reform GST Filing Form

We provide below a simplified GST filing form to promote Ease of compliance, monitoring, collection and refund of input credit. Since a bulk of the items will be taxed at 15%, the tax filer can focus on a simple sheet for the 15% rates while maintain a separate account for sales at the other GST rates such as 0%, 5%, 10% or 25%. The proposed sheet for 15% will focus on total value of sales from each seller across different months and the 15% rate will be applicable on the cumulative value of goods and services.

The proposed filing form makes it possible for small businesses to effectively track their sales and comply with the GST regulations without much complications and make it possible for the revenue department to effectively monitor all sales, purchases, collections and refunds through a single sheet.

Table: Ease of compliance, monitoring, collection and refund of input credit

	Volume of total sales (monthly, cumulative and full year), from and to, registered buyers at 15%																
Seller	**Buyer GST No**													Export	Unregistered	Final	Exempt
GST No	1	2	3	4	5	6	7	8	9	10	11	.	n	0 rated	Buyer	Consumers	Govt/org
1																	
2																	
3																	
4																	
5																	
6																	
7																	
8																	
9																	
10																	
11																	
.																	
n																	
Imports																	
Unregtd seller																	
Consumers																	
Govt/org																	

Note: As a majority of sales will be at 15% the buyers and sellers need to keep a record of total volume of sales to each GSTN number and purchases from each GSTN number.

Sales at any rate to unregistered buyer or consumer at other rates (0, 5, 10, 25) can be kept account of sepertely

Only remaining complication will be sale of intermediate & mixed goods at a rate different from 15% to registered buyers. These will require a separate sheet

If these are eliminated, CBIC & GSTN will require only a spread sheet to monitor all sales, purchases, collections & refunds.

A6. Proposed Changes in rates and exemptions

(this detailed, 75-page list will be available separately)

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