Evolution of Goods and Services Tax in India

The Goods and Services Tax (GST) was implemented in India on 1 July 2017, after four decades of protracted deliberations amid critical socio-economic and political challenges. It is a comprehensive multistage value-added tax on goods and services where both central and state governments share the same tax base. Finding a suitable design for GST that encompasses taxes from both the centre and the state tax baskets makes the Indian GST unique among GSTs implemented in other federal countries. This book tracks the debates around its evolution in India since the report of the Taxation Enquiry Commission (1953–54). It studies the following issues and debates: inclusions and exclusions in GST, finding revenue neutrality of the tax reform, providing compensation to states for any possible loss of revenue due to its adoption, and possible scope for coordination in GST administration.

The book is divided into three sections. The first section studies the debate on fiscal autonomy versus tax harmonisation as an important issue for any tax reform that involves multiple layers of government with independent taxation power. The second section focuses on policy alternatives available to include items excluded from GST and shows that an element of tax cascading will be retained if energy sources are kept out of the GST system. The third section assesses the possible impact of GST on economic growth and inflation, and provides alternative ways of its administration.

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Evolution of Goods and Services Tax in India

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Sacchidananda Mukherjee

with contribution from Amaresh Bagchi
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Acknowledgements

This book is the outcome of research carried out at the National Institute of Public Finance and Policy (NIPFP), New Delhi, on goods and services tax (GST). The enlightening discussions with our colleagues at NIPFP, often leading to fruitful outcomes, are gratefully acknowledged. We are also thankful to every individual who directly or indirectly have helped us through energised debates, dialogues and discussions in shaping our thought process on GST. We are truly grateful to Dr Rathin Roy, Director, NIPFP, for his constant encouragements and intellectual supports.

We are particularly thankful for the constant support from Ms Anwesha Rana of Cambridge University Press, who kept her faith in our efforts since the proposal stage. Special thanks go to Mr Aniruddha De and the editorial team of Cambridge University Press.

Finally we would like to thank our respective family members for bearing with us while we were working on the volume. Without that unending support, the volume would never have come out.

R. Kavita Rao
Sacchidananda Mukherjee
Abbreviations

ACTA Agreement on Coordination of Tax Administration
AED additional excise duty
ARA Autonomous Revenue Agency
ATF aviation turbine fuel
CBEC Central Board of Customs and Central Excise
CE central excise
CEA Chief Economic Advisor
CENVAT central value added tax
CFDA Catalogue of Federal Domestic Assistance
CGST central GST
CII Confederation of Indian Industry
CIS change in stock
CMIE Centre for Monitoring Indian Economy
CRA Canadian Revenue Agency
CSO Central Statistics Office
CST central sales tax
CVAT central VAT
CVD countervailing duty
DoR Department of Revenue
DTI direct tax incidence
EC Empowered Committee of State Finance Ministers
ED excise duty
ESL European Community Sales List
ETR effective tax rate
EU European Union
FD final demand
FICCI Federation of Indian Chambers of Commerce and Industry
FISIM Financial Intermediation Services Indirectly Measured
FRBM Fiscal Responsibility and Budget Management
FTA Forum on Tax Administration
GCF gross capital formation
GDP gross domestic product
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>GFCE</td>
<td>government final consumption expenditure</td>
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<td>GFCF</td>
<td>gross fixed capital formation</td>
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<td>GoI</td>
<td>Government of India</td>
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<td>GSDP</td>
<td>gross state domestic product (GDP for state)</td>
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<td>GST</td>
<td>goods and services tax</td>
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<td>GSTC</td>
<td>GST Council</td>
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<td>GSTN</td>
<td>GST Network</td>
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<td>GVA</td>
<td>gross value added</td>
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<td>HSD</td>
<td>high-speed diesel</td>
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<td>HST</td>
<td>harmonised sales tax</td>
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<td>IGST</td>
<td>integrated GST</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>I-O</td>
<td>input–output</td>
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<td>ITC</td>
<td>input tax credit</td>
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<td>JITSIC</td>
<td>Joint Tax Shelter Information Centre</td>
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<tr>
<td>KTF</td>
<td>Kelkar Task Force</td>
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<td>LPG</td>
<td>liquid petroleum gas</td>
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<td>MANVAT</td>
<td>manufacturing level value added tax</td>
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<td>MCA</td>
<td>Ministry of Corporate Affairs</td>
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<td>MODVAT</td>
<td>modified value added tax</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>NAS</td>
<td>National Academy of Sciences</td>
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<td>NCCD</td>
<td>National Calamity Contingency Duty</td>
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<td>NDC</td>
<td>National Development Council</td>
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<td>NDP</td>
<td>net domestic product</td>
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<td>NIC</td>
<td>national industries classification</td>
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<td>NIC</td>
<td>National Informatics Centre</td>
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<td>NIPFP</td>
<td>National Institute of Public Finance and Policy</td>
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<td>NIT</td>
<td>net indirect taxes</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OMC</td>
<td>oil marketing company</td>
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<tr>
<td>OMC</td>
<td>oil marketing company</td>
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<td>PDS</td>
<td>public distribution system</td>
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<td>PFCE</td>
<td>private final consumption expenditure</td>
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<td>PFCL</td>
<td>Power Finance Corporation of Ltd.</td>
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<td>PPAC</td>
<td>Petroleum Policy Analysis Cell</td>
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<td>PSU</td>
<td>public sector undertaking</td>
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<td>QST</td>
<td>Quebec sales tax</td>
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<td>RBI</td>
<td>Reserve Bank of India</td>
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<td>RNR</td>
<td>revenue neutral rate</td>
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<td>SAD</td>
<td>special additional duty</td>
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<td>SARA</td>
<td>Semi-Autonomous Revenue Agency</td>
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<td>State Electricity Board</td>
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<td>SGST</td>
<td>state GST</td>
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<td>ST</td>
<td>service tax</td>
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Abbreviations

TARC Tax Administration Reform Commission
TBCS Treasury Board of Canada Secretariat
TC tax cascading
TFC Thirteenth Finance Commission
THFC Thirteenth Finance Commission
TIE Tax Information Exchange
TINXSYS Tax Information Exchange System
TO total output
TRC Tax Reforms Committee
TTI total tax incidence
UFC Union Finance Commission
UNEP United Nations Environment Programme
UR under recovery
VAT value-added tax
VOP value of output of petroleum products