8 YEARS OF GOODS AND SERVICES TAX – ECONOMY

NEWS: India has completed **eight years** since the implementation of the Goods and Services Tax (GST) on **July 1, 2017**, a significant reform aimed at creating a **"One Nation, One Tax" regime.**

WHAT'S IN THE NEWS?

Concept and Structure of GST

- **Destination-Based Indirect Tax:**
  - GST is a **destination-based tax**, meaning the tax revenue is credited to the **state where the final consumption of goods or services occurs**, not where they are produced or originated.
  - This marks a **major shift** from the earlier **origin-based taxation system**, promoting consumption-centric revenue allocation.
- **Dual GST Model:**
  - India follows a **dual GST model**, where both the **Centre and States/Union Territories (UTs)** simultaneously levy GST on every taxable transaction.
    - **CGST (Central GST):** Levied and collected by the Union Government.
    - **SGST/UTGST (State/Union Territory GST):** Levied and collected by the respective States or UTs.
    - **IGST (Integrated GST):** Levied by the Centre on **inter-state supply** of goods and services and imports; the revenue is **shared** with the consuming state.
- **Input Tax Credit (ITC):**
  - GST ensures a **seamless flow of ITC** across the value chain, reducing the **cascading effect** (tax on tax).
  - Businesses can claim credit for taxes paid on **inputs and input services** used to supply taxable goods/services.
- **Zero-Rated Exports:**
  - Exports are treated as **zero-rated supplies**, allowing exporters to **claim a full refund of input taxes**, thereby boosting competitiveness of Indian exports globally.
- **GST Rate Structure:**
  - There are **four primary tax slabs**: 5%, 12%, 18%, and 28%.
  - **Special rates** include:
    - **3%** on precious metals and jewellery.
    - **1.5%** on cut and polished diamonds.
    - **0.25%** on rough diamonds.

- **GST Compensation Cess** is levied on specific goods like **tobacco, aerated drinks, luxury vehicles** to compensate states for revenue loss post-GST.

II. Achievements in 8 Years of GST (2017–2025)

- **Record Revenue Growth: GST revenues** have consistently grown, with the highest ever **gross collection of Rs 22.08 lakh crore** in FY 2024-25, with an average monthly collection of **Rs 1.84 lakh crore**.
  - This growth has **outpaced nominal GDP**, reflecting **better compliance**, **reduced tax evasion**, and increased **economic formalization.**
- **Digital Transformation & Compliance Efficiency:** GST has undergone **digitization**—from **manual filings** to **e-invoicing**, **real-time credit matching**, **automated returns**, and **e-way bills**—reducing **errors and fraud**.
  - While **MSMEs**, once hesitant, now see it as a gateway to **credit**, **government procurement**, and **national market access.**
- **Expanded Taxpayer Base:** As of **30th April, 2025**, India boasts over **1.51 crore active GST registrations**, marking a significant increase from **65 lakh in 2017**.
  - This growth underscores the success of GST in **formalizing the economy** and enhancing tax compliance.
- **Ease of Doing Business:** GST has **removed inter-state tax barriers**, lowering **logistics costs** and enhancing **supply chain efficiency**, while the elimination of **entry taxes** and **octroi** has led to further **business cost savings.**
  - GST's **'One Nation, One Tax'** framework replaced the **multi-layered tax system**, reducing **cascading effects** while the **Input Tax Credit (ITC)** mechanism ensured **seamless credit flow**, lowering **business costs** and boosting **competitiveness.**
- **Efficient Refund Processing:** Automated **Integrated GST (IGST) refunds** via the **Customs ICEGATE portal** have sped up processing to **within a week**, with **₹1.18 lakh crore** disbursed in **FY25**, boosting **exporter liquidity.**

III. Key Shortcomings of GST Implementation

- **Exclusion of Petroleum and Alcohol:**
  - Critical items like **petroleum products (crude oil, diesel, petrol, natural gas, ATF)** and **alcohol for human consumption** remain **outside the purview of GST**, leading to **tax cascading** and fragmentation in revenue streams.
- **Complex and Multi-Slab Rate Structure:**
  - The presence of **multiple GST slabs (0%, 5%, 12%, 18%, 28%)**, combined with **special rates** and **compensation cess**, creates complexity.

    - This results in **classification disputes**, confusion, and **litigation**, especially for MSMEs.
- **Frequent Compliance Changes:**
    - Regular changes in **return formats, compliance requirements, and penalties** cause confusion, particularly for **small businesses and traders**.
- **Inverted Duty Structure:**
    - In sectors like **textiles and footwear**, the **input GST is higher than output GST**, causing working capital issues due to refund delays.
- **ITC-Related Challenges:**
    - **Denial of Input Tax Credit (ITC)** due to procedural lapses, or when **suppliers fail to upload invoices**, places unjustified burden on the buyer.
- **Dispute Resolution Delay:**
    - **GST Appellate Tribunal (GSTAT)** was non-functional for years, resulting in the **accumulation of unresolved appeals** and **overburdened High Courts**.

IV. GST 2.0: Reforms and Way Forward

- **Inclusion of Petroleum and Electricity:**
    - Bringing **petroleum products and electricity** under GST would **widen the tax base**, reduce cascading, and **benefit manufacturing and logistics sectors**.
- **Simplified Compliance for MSMEs:**
    - Introduce **quarterly returns and simplified formats** for small taxpayers.
    - Enable **automatic ITC reconciliation tools** to reduce mismatch-related litigation.
- **Broaden Tax Base:**
    - Review and rationalize **exemptions**, particularly those creating distortions or benefiting narrow interests.
    - Expand coverage to **gig economy and digital service platforms** to reflect new economic realities.
- **Improve ITC Mechanism:**
    - Allow **provisional ITC** subject to verification, and avoid penalizing buyers for **supplier defaults**.
    - Improve **supplier-buyer matching tools** and invoice-tracking systems.
- **Rationalisation of GST Slabs:**
    - Aim to **reduce the number of GST rates**, possibly moving toward **a three-rate structure** to improve clarity and compliance.

- **Reform GST Council Functioning:**
    - Ensure **greater transparency, stakeholder consultations**, and **time-bound decisions** in the GST Council.
    - Explore **weighted voting mechanisms** to resolve deadlocks while maintaining **cooperative federalism**.

V. The GST Council: Constitutional Framework

- **Established under Article 279A** by the **101st Constitutional Amendment Act (2016)**.
- **Chairperson:** Union Finance Minister.
- **Functions:**
    - Recommends GST rates, exemptions, model laws, and apportionment rules.
    - Resolves disputes between Centre and States or between States.
- **Voting Power:**
    - **Centre holds one-third** of voting power.
    - **States collectively hold two-thirds**, ensuring balanced federal participation.

VI. Concluding Remarks

- **GST has transformed India's indirect tax landscape**, promoting **economic integration, formalization, and revenue growth**.
- However, it remains a **work-in-progress**, with structural, legal, and compliance challenges to be addressed.
- As India aspires to become a **$5 trillion economy**, **GST 2.0 reforms** are critical to ensuring a **resilient, inclusive, and growth-friendly tax system** rooted in **cooperative federalism**.

Source: https://www.business-standard.com/economy/analysis/8-years-of-gst-how-automation-has-changed-the-refund-game-for-exporters-125063001352_1.html