

## GST BURDEN ON INDIAN HOUSEHOLDS – ECONOMY

NEWS: A recent study analysing **India's Goods and Services Tax (GST)** regime using the **2022–23 Household Consumption Expenditure Survey (HCES)** has revealed that the **bottom 50% of consumers bear the same GST burden as the middle 30%**, raising important questions about the tax system's progressivity and equity.

### WHAT'S IN THE NEWS?

#### Key Findings from the Study

- **Rural GST Burden Distribution:**
  - The **bottom 50%** of rural households bear **31%** of the total GST burden, despite their limited purchasing power.
  - The **middle 30%** also shoulder **31%**, indicating similar tax exposure across lower and middle-income groups.
  - The **top 20%** of rural households bear a slightly higher burden at **37%**, reflecting only moderate progressivity.
- **Urban GST Burden Distribution:**
  - The **bottom 50%** of urban consumers pay **29%** of GST, a marginally lower share than rural counterparts.
  - The **middle 30%** contribute **30%**, again showing a nearly equal burden with the lower-income group.
  - The **top 20%** of urban consumers pay **41%**, showing higher burden but still not proportional to their income levels.
- **Contradiction with Earlier Estimates:**
  - Earlier reports, such as **Oxfam India's 2023 analysis**, claimed that the **poorest 50% paid nearly two-thirds** of total GST revenue, while the **richest 10% paid just 3–4%**.
  - This new study **refutes those claims** with a more data-grounded, nuanced distribution across income groups.

#### How GST Is Designed to Work

- **Definition and Objective:**
  - GST (Goods and Services Tax) is a **comprehensive, destination-based indirect tax** aimed at **simplifying India's tax system** by subsuming multiple previous taxes like VAT, excise, and service tax.
- **Consumption-Based Mechanism:**

- GST is levied on **final consumption**, not income or profits, meaning everyone pays tax based on what they buy.
- Essential goods (like **unbranded grains, fruits, vegetables**) are **either tax-exempt or taxed at 0–5%**, aimed at protecting low-income households.
- Luxury items and sin goods are taxed at **higher slabs (18–28%)**, aiming to create progressivity.
- **Theoretical Progressivity vs. Practical Outcome:**
  - Ideally, wealthier individuals—who spend more on taxed luxury goods—should bear **greater tax burden**.
  - In practice, the tax remains **only mildly progressive** as per international inequality indices like the **Kakwani Index** and **Reynolds-Smolensky Index**.

### Reasons for the Observed Distributional Trend

- **High Proportion of Spending on Necessities:**
  - Lower-income households **spend most of their income on consumption**, often on semi-taxed or fully taxed items like packaged goods, personal care, fuel, etc.
  - Even with some essential items exempt, a **significant portion of their expenses attract GST**, increasing their effective tax burden.
- **Limited Progressivity:**
  - High-income groups do spend more on luxury goods, but **their consumption does not increase in direct proportion to their income**, limiting the increase in GST paid.
  - As income grows, **saving rates rise**, so the proportion of income spent (and taxed) falls.
- **Indirect Nature of Taxation:**
  - Since **GST taxes spending, not ability to pay**, it fails to align fully with principles of equity in taxation.
  - This contrasts with **direct taxes** (like income tax), which are inherently more **progressive**.
- **Structural Tax Design Issues:**
  - Though **essential goods are exempt or taxed lower**, many regularly consumed semi-essentials still fall in the **12–18% range**, affecting both lower and middle-income groups.

### Implications of the Study

- **Equity and Fairness Concerns:**

- The GST's structure results in **limited redistribution of wealth**. It does not sufficiently reduce income inequality.
- The burden on the bottom 50% is **almost equal** to that on the middle 30%, raising **fairness issues**.
- **Regressive Nature for the Poorest:**
  - For people with very low incomes, **almost all income goes into taxed consumption**, making GST appear **regressive** in effect.
- **Need for Social Compensation:**
  - The persistently **high GST burden on the poor** increases the case for **targeted subsidies**, cash transfers, or **enhanced public welfare programmes** to correct post-tax inequality.

### Way Ahead and Reform Measures Needed

- **Enhance GST Progressivity:**
  - **Reduce or eliminate GST** on frequently used goods and services that are critical for lower-income groups (e.g., low-cost hygiene products, affordable clothing, basic appliances).
- **Revise Exemption Lists Periodically:**
  - The current exemption list is **static** and doesn't fully reflect **changing consumption patterns** of poor and middle-class households.
  - Use **consumption surveys** to regularly update the exemption/low-tax categories.
- **Strengthen Impact Monitoring:**
  - Institutionalise **regular distributional impact studies** of GST across income groups, regions, and urban-rural divides.
  - Use such data to inform **rate changes and GST Council decisions**.
- **Encourage Greater Use of Direct Transfers:**
  - Instead of excessively relying on indirect taxation, consider **expanding direct benefit transfers (DBTs)** and targeted welfare schemes to **offset GST burdens** on the poor.
- **GST Council's Role in Cooperative Federalism:**
  - The **GST Council**, comprising Union and State Finance Ministers, must ensure that **tax policy aligns with inclusive growth goals** and not just revenue maximisation.
  - It can play a pivotal role in balancing **fiscal needs with socio-economic equity**.

### Broader GST Structure Overview

- **Rate Slabs:**

- Currently, GST has **multiple tax rates**:
  - 0% (exempted goods)
  - 5% (essentials)
  - 12%, 18% (standard goods/services)
  - 28% (luxury items)
  - Special cesses (e.g., on tobacco, aerated drinks)
- **Input Tax Credit (ITC)**:
  - A key feature allowing businesses to claim credit for taxes paid on inputs, helping reduce cascading tax effects.
- **Exclusions**:
  - **Petroleum products, alcohol, and electricity** remain outside GST, leading to **tax inefficiencies and uneven burdens**, and there are repeated calls for their inclusion.

Source: <https://indianexpress.com/article/business/india-bottom-consumers-face-same-gst-burden-study-top-pay-10143707/>