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A Critical Dissection of GST Emphasis on the Contemporary Issues

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An extensive improvement of indirect taxes in the nation of India has taken place with the Goods and Services Tax (GST), to harmonise the tax system and simplify compliance. While GST has streamlined the taxation process by replacing multiple state and central taxes, it has also introduced substantial challenges. The destination-based tax model has led to revenue disparities, disproportionately benefiting consumer states at the expense of manufacturing states. Small and medium enterprises (SMEs) have been burdened with increased compliance costs, complex registration requirements, and the need for digital adaptation, which strains their limited resources. Furthermore, the system's regressive nature, applying uniform rates across all income groups, has raised equity concerns, disproportionately affecting lower-income households. Despite its potential to improve transparency and reduce tax evasion, the implementation of GST reveals significant hurdles that need to be addressed for it to achieve its intended objectives effectively.

Keywords: *gst, goods, services, enterprises.*

INTRODUCTION

In simple terms, tax constitutes a contribution made by society to the government to benefit it. Direct taxation and Indirect taxation are the two main categories of taxes. Income tax and corporation tax are two examples of Direct taxes. Products and services are subject to indirect taxes, nevertheless.[1] The Goods and Services Tax, Value-Added Taxes, Sales Taxes, and Customs Services are all examples of indirect taxes. A type of sales tax known as the Goods and Services Tax offers several advantages to all parties, including consumers, service providers, and manufacturers. It's a consumption tax, depending on where the products and services are bought. From production to final consumption, it is imposed at every stage with the credit of taxes paid at the prior available input tax credit.[2]

To put it precisely, only value addition is subject to taxation, and the ultimate consumer is responsible for paying the tax. The term service tax has been defined[3] as the Goods and Services Tax as a multi-phase, total value-added tax. Every step of the supply chain that adds value is subject to GST,[4] seamlessly blending goods and services under a single tax system. It's destination-based, meaning taxes apply where products or services are used. With the Input Tax Credit ensuring smooth transitions, GST streamlines taxation from start to finish. The Goods and Services Tax laws would apply to any taxes or levies that are owed under the CST Act,[5] GST Act,[6] UTGST Act,[7] IGST Act,[8] or GST (Compensation to States) Act.[9]

HISTORICAL EVOLUTION

In 2000, to study GST, Atal Bihari Vajpayee formed an empowering Board of state finance ministers, which brought the idea of GST to the forefront for the first time.[10] Nevertheless, the State Finance Commission's Empowered Committee was reconstituted in 2007 to study how the execution of the Goods and Services Tax (GST) would influence the revenue of the various Indian states. In 2008–2009, the Kelkar Task Force provided a model and a plan for

[1] 'Indirect Tax: Understanding Its Impact & Implications by Law Crust' (*Law Crust*) <https://lawcrust.com/indirect-tax/> accessed 04 August 2025
[2] 'Overview of Goods and Services Tax (GST)' *The Economic Times* (08 May 2017) <https://economictimes.indiatimes.com/overview-of-goods-and-services-tax-gst/articleshow/58574706.cms?from=mdr> accessed 04 August 2025
[3] Constitution of India 1950, art 366(12A)
[4] 'What is GST? Explaining the Basics of Goods and Service Tax' (*vKeel*, 03 April 2023) <https://www.vkeel.com/public/legal-blog/what-is-gst-explaining-the-basics-of-goods-and-service-tax> accessed 04 August 2025
[5] Central Sales Tax Act 1956
[6] Central Goods and Services Tax (GST) Act 2017
[7] Union Territory Goods and Services Tax Act 2017
[8] Integrated Goods and Services Tax Act 2017
[9] Goods and Services Tax (Compensation to States) Act 2017
[10] Annapoorna, 'Father of GST: Discovering the architect behind India's GST' (*Clear Tax*, 09 January 2025) <https://cleartax.in/s/father-of-gst> accessed 04 August 2025

how GST would be implemented in India. The proposed implementation date was April 1, 2010. In 2011, during its consideration by the Lok Sabha, the 115th Constitution Amendment Bill proposed to impose GST on all goods and services.[11] The amendment law was supposed to have expired in 2014 due to numerous objections voiced by both the opposing party and several states. Following Shri Narendra Modi's appointment as the Prime Minister of India, the 122nd Amendment Bill, 2014,[12] was swiftly introduced by Finance Minister Arun Jaitley in parliament.[13] The Bill became an Act in September 2016 after receiving the President of India's assent 2016. The inaugural GST Council was held in September 2016. The government submitted four GST laws in March 2017, comprising CGST, SGST, IGST, and GST for Union Territories. On June 30, 2017, Finance Minister Arun Jaitley announced that the GST system would take effect at midnight on June 30, 2017, the eve of Independence Day.[14]

TYPES OF TAX

Goods and Services Tax (GST) was initially introduced in 1954 by the French, and now it is followed by 160 countries.[15] There are different stages of tax collection and appropriation between the state and the centre. The authority of the state government to enforce GST within state territory, i.e., intra-state supply, and the centre has the power to impose tax in cases of interstate supply. There are different names for GST, which are enumerated below:

Integrated Goods and Services Tax (IGST): On interstate supply, the federal government imposes IGST. The federal government and the state governments split the IGST.[16]IGST applies when the recipient and the provider live in separate states or union territories, including SEZ transactions and imports/exports. It's treated as an interstate supply, with a maximum rate of 40%.[17]

[11] 'GST - CONCEPT & STATUS' (*CBIC-GST*, 01 January 2018) <https://cbic-gst.gov.in/pdf/01012018-GST-Concept-and-Status.pdf> accessed 06 August 2025
[12] Constitution (122nd Amendment) Bill 2014
[13] *Ibid*
[14] 'About Us Archive' (*Goods and Services Tax Council*) <https://gstcouncil.gov.in/about-us-archive> accessed 22 September 2025
[15] Annapoorna, 'History of GST Explained with Timelines' (*Clear Tax*, 01 July 2025) <https://cleartax.in/s/history-of-gst> accessed 06 August 2025
[16] C.A. Upender Gupta, 'Integrated Goods and Services Tax (IGST)' (2022) 28(2) National Law School of India Review <https://repository.nls.ac.in/nlsir/vol28/iss2/9> accessed 04 August 2025
[17] Athena Rebello, 'Interstate and Intrastate GST: Meaning, Rate, Examples, Differences' *(Clear Tax*, 05 May 2025) <https://cleartax.in/s/interstate-and-intrastate-gst> accessed 04 August 2025

Central Goods and Services Tax (CGST): The central authority is in charge of levying and collecting CGST. When there is an intra-state supply, this tax is imposed.[18] The highest CGST rate is 28%. Value Added Tax (VAT) and Central Sales Tax (CST) were superseded by CGST. SGST cannot be used to offset CGST.

State and Union Territory Goods and Services Taxes (SGST and UGST): In accordance with its registered statute, the SGST statute, the corresponding state government has set certain requirements. The relevant state government passed this law to collect the state GST. The SGST Act was first passed in Assam following the implementation of the GST.

Goods and Services Tax Cess (GST Cess): Tobacco, aerated water, cigarettes, and other specified commodities are subject to the Goods and Services Tax Cess.[19] To offset revenue losses from the new tax regime, the federal government introduced a compensatory cess. In 2019, Kerala followed suit with a special cess to fund flood relief efforts.

RELATIONSHIP BETWEEN TAX AND CONSTITUTION

When discussing the relationship between taxes and the Indian Constitution, several clauses spring to mind, including Article 265[20], the mother provision for India's tax legislation. Nothing can be taxed or collected unless the people, acting lawfully, give their unambiguous consent, as stated in Article 265. In other words, a law must exist, the legislation must authorise the tax, and the tax must be levied and paid in compliance with the law.

Parliament and state legislatures in India are each granted separate legislative authority in Article 246[21]. When it comes to matters on the Union List, only Parliament can pass laws, whilst state legislatures are in charge of matters on the State List.[22] Any item on the Concurrent List[23] can be passed by both houses at the same time. Essentially, this system prohibits both the Union and state governments from legislating on topics outside these lists. However, if new legislation is required for national interest and the subject is not covered in

[18] Gupta (n 16)
[19]Annapoorna, 'All about GST Compensation Cess' (*Clear Tax*, 15 July 2020) <https://cleartax.in/s/gst-compensation-cess> accessed 06 August 2025
[20] Constitution of India 1950
[21] Constitution of India 1950, art 246(1)
[22] Constitution of India 1950, sch 7, list II
[23] Constitution of India 1950, sch 7, list III

any of the lists, the Constitution can be amended to include it, as seen with the introduction of GST in India.

Before GST was implemented, the customs duty[24], central excise duty[25], and service tax[26] were the most significant contributors to the Union's indirect tax collection. Despite the Constitution’s 88th Amendment in 2003 adding item 92C to the Union List to allow a service tax, this was never activated publicly, so service tax continued to be imposed through the residual Entry 97. Additionally, under Entries 92A[27] and 92B,[28] the Union collected Central Sales Tax (CST)[29] on inter-state trade, but this revenue was allocated to the state where goods originated, according to Article 269 of the Central Sales Tax Act 1956.[30] State governments relied heavily on taxes like octroi, luxury tax, and entertainment tax, along with sales tax, excise duty on alcohol, and CST revenue, even though it was collected by the Union.

TAX SLABS UNDER THE GST REGIME

In the Republic of India, Goods and services are divided into many tax slabs under the GST system, to ensure uniformity and transparency in taxation, as per the GST law. These slabs include 0% (nil-rated), 5%, 12%, 18%, and 28%, with some items attracting additional cess. India’s GST has rates of 0%, 5%, 12%, 18%, and 28%, with luxury items taxed at 28% plus cess. CGST/SGST apply intrastate, and IGST covers interstate supplies.[31]

0% Tax slab: Ensures affordability and accessibility for essential items and services. Sanitary napkins, Broom raw materials, deities composed of wood, marble, or stone, bread, curd, fruits, vegetables, fortified milk, bangles, court records, newspapers, salt, and natural honey, among other everyday items, are among the items that are exempt from the Goods and Services Tax.

[24] Constitution of India 1950, sch 7, list I, entry 83
[25] Constitution of India 1950, sch 7, list I, entry 84
[26] Constitution of India 1950, sch 7, list I, entry 97
[27] Constitution of India 1950, sch 7, list I
[28] *Ibid*
[29] Central Sales Tax Act 1956
[30] Constitution of India 1950, art 269
[31] Ashish M Shaji, ‘All about Intrastate and Interstate Supply under GST’ (*Enterslice*, 16 March 2023) <https://enterslice.com/learning/intrastate-and-interstate-supply-under-gst/> accessed 07 August 2025

5% Tax slab: Basic needs that are necessary but not as fundamental as food are covered by this rate. Medicines, books, and inexpensive footwear are all subject to this rate because of their critical role in healthcare and education, respectively.[32]

12% Tax slab: This category includes standard or commonly used items and services. Although they are often utilised in daily life, these are hardly luxury goods. Examples include clothes, especially inexpensive clothing, restaurant services without air conditioning, and packaged meals that are frequently consumed by a diverse group of individuals.

18% Tax slab: This slab encompasses a wide range of consumer goods, effectively including the majority of non-luxury goods and services. Products like cell phones, which are now necessities, toiletries for personal hygiene, and electronics, which have become indispensable in modern life, are listed here.

28% Tax slab: Luxury and sin items are taxed heavily[33] to increase income and discourage excessive consumption. Aerated drinks, luxury cars, and tobacco products are taxed at the highest 28% GST rate, with tobacco also attracting an additional compensation cess.[34]

USING THE GST AS A WEAPON TO COMBAT BLACK MONEY

With end-to-end transaction tracking, the GST regime guarantees total transparency. It has greatly decreased tax evasion and financial fraud by expanding the tax base and simplifying procedures through the GST site. In addition to this, the following factors have also contributed to the financial system's efforts to eradicate black money:

Itemised and Documented Chains: In order to reduce the flow of illicit money and provide transparency, the GST regime mandates that all transactions be logged in real-time. Automated systems limit discretion and minimise taxpayer-authority interaction. Unlike the

[32] 'GST Rates in India: A Complete Guide for Businesses' (*Godrej Capital*, 24 July 2025) <https://www.godrejcapital.com/media-blog/knowledge-centre/gst-rates-in-india> accessed 08 August 2025

[33] 'GST rates: 35% GST slab may be imposed on these products; here's what we know' *Business Today* (07 December 2024) <https://www.businesstoday.in/personal-finance/tax/story/gst-rates-35-gst-slab-may-be-imposed-on-these-products-heres-what-we-know-456519-2024-12-07/> accessed 04 August 2025

[34] 'Proposed 35% GST on Tobacco and Aerated Drinks: A Health-Focused Revenue Boost?' (*efiletax*, 03 December 2024) <https://www.efiletax.in/blog/proposed-35-gst-on-tobacco-and-aerated-drinks-a-health-focused-revenue-boost/> accessed 08 August 2025

past, where VAT, Excise, and Service Tax often went unrecorded, GST demands proper invoicing, curbing tax evasion and eliminating untracked, handwritten bills.[35]

Uniform Tax Collection System: Because there were so many taxes, it was formerly hard to maintain an accurate tax record, and it was simpler to conceal such activities. The GST regime's structured structure minimises such transactions, which simplifies tax rules.[36]

Simple and Transparent Procedure: Today, Goods and Services Tax Network, or GSTN, handles the tax collection process online. In order to keep a comprehensive record of all tax collections and transactions, it is now mandatory for all traders to register under this using their Permanent Address Number.

Reduced Net Taxes: Because it tends to reduce the prices of goods and services to improve the economy and make the products and services competitive on a global scale, this new regime benefits the entire country to progressively reduce its net tax liability. Taxpayers are also permitted to claim a refund of their taxes on all inputs made throughout India.

Dual Monitoring System: The possibilities of becoming caught under the GST regime are twofold since the Centre and the State now keep two distinct accounts in the tax system through GSTN following the adoption of the GST regime.

Reduced Interface: Taxpayers will now pay all of their returns online. Additionally, taxpayers are given the option to get their returns exclusively online. As a result, there will be less interaction between taxpayers and the government, which would lower corruption. Previously, the authorities had a great deal of discretion, but under the current regime, which firmly establishes consistent and stable tax laws, that discretion is progressively diminished. As a result, corruption is reduced when discretion is reduced.[37]

Removal of the Cascading Effect: As a consequence of the prior tax structure's domino effect, taxes on taxes led to price inflation everywhere. By creating the input tax credit, which

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[35] Timsy Jaipuria, 'The GST Impact: How This Tax Will Curb Black Money' *Hindustan Times* (04 August 2016) <https://www.hindustantimes.com/business-news/the-gst-impact-how-this-tax-will-curb-black-money/story-HhdUHfSUCoRo0kn2miDTYJ.html> accessed 08 August 2025

[36] 'What is the Structure of GST in India?' (*Khatabook*) <https://khatabook.com/blog/structure-of-gst/> accessed 08 August 2025

[37] *Ibid*

enables companies to subtract taxes spent on inputs from taxes due on final sales, GST removed this.[38] This promoted efficiency and economic growth by streamlining taxes, cutting expenses, and lowering consumer prices.

CURRENT PROBLEM

GST caused a strike on the States' Revenue: States with robust manufacturing sectors, such as Maharashtra, Gujarat, and Tamil Nadu,[39] Excel under GST due to their role as significant consumers, which boosts their revenue generation. Before GST, Delhi benefited from a reduced CST of 1%,[40] attracting businesses to set up offices and transport goods there. However, the shift to GST eliminated this advantage. Producers that have invested heavily in transportation and manufacturing infrastructure face challenges under GST.[41] Being a consumption-based tax, GST revenue accrues to consumer states rather than producer states. This disproportionately affects manufacturing-heavy states, as their infrastructure and public goods, such as environmental regulation, governance, and security, require substantial financial resources.[42] The producer states gain little from GST beyond taxes on local employee expenditures, derived from attracting businesses to the region.

The Goods and Services Tax (Compensation to States)[43] Act assured complete reimbursement for revenue deficiencies if states' annual revenue growth did not exceed 14% during the first five years.[44] However, the Union Government delayed these payments during the economic

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[38] Dampreet Kaur Gill, 'Understanding Input Tax Credit (ITC) under GST: Rules & Benefits' (*Tax Guru*, 18 July 2024) <https://taxguru.in/goods-and-service-tax/input-tax-credit-itc-gst-rules-benefits.html> accessed 09 August 2025

[39] Sobia Khan, 'Indian Manufacturing Market Has the Potential to Reach USD 1 Trillion by 2025-26' *The Economic Times* (13 December 2023) <https://economictimes.indiatimes.com/news/economy/indicators/indian-manufacturing-market-has-the-potential-to-reach-us-1-trillion-by-2025-26/articleshow/105957531.cms?from=mdr> accessed 09 August 2025

[40] Dilasha Seth, 'How GST Brought Cheer to Some States, Not Others' (*Mint*, 22 January 2023) <https://www.livemint.com/news/india/how-gst-brought-cheer-to-some-states-not-others-11674410836967.html> accessed 09 August 2025

[41] Gulveen Aulakh and Gireesh Chandra Prasad, 'Change in GST Law Needed for Benefit of Producer States: TS Singh Deo' *Mint* (01 December 2023) <https://www.livemint.com/economy/change-in-gst-law-needed-for-benefit-of-producer-states-ts-singh-deo-11701453171940.html> accessed 10 August 2025

[42] Sebastian Morris, 'Does GST in India Hurt Producing Regions? A New Estimate of the Tax Base Under GST of Select States' (2019) IIMA Working Papers WP 2019-03-01 <https://ideas.repec.org/p/iim/iimawp/14603.html> accessed 09 August 2025

[43] Goods And Services Tax (Compensation to States) Act 2017

[44] 'GST compensation to States for loss of revenue arising on account of implementation of GST for a period of five years' (*PIB*, 19 July 2022) <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1842755> accessed 10 August 2025

slowdown in 2019-20, leaving states waiting until May 2022 for overdue compensation. Additionally, conflicting rulings by State-level Authorities for Advance Rulings (AARs) have created confusion. Divergent interpretations on issues like food classification (e.g., papad and fryums), solar power plant installations, and intermediary services have led to uncertainty for businesses and taxpayers.[45]

SMALL AND MEDIUM ENTERPRISES (SMES) HAVE A HIGHER TAX BURDEN

While the GST system offers certain advantages, such as the availability of Input tax credit across the production chain and the potential for MSMEs to expand their operations across state borders, it also presents significant challenges for these businesses:

Increased Compliance Burden: Under GST, MSMEs need to comply with uniform tax regulations across all states, including filing multiple returns and adhering to online submission requirements. For example, businesses will need to file three returns per month for each state, plus one annual return.[46] As a result, the GST system could require businesses operating across multiple states to submit about 4.5 times more returns than they did under the older service tax and VAT systems combined. This increase in the frequency of filings leads to a sharp rise in compliance costs, particularly for MSMEs.

Complexity of Inter-State Sales: While GST simplifies inter-state trade by applying the IGST, MSMEs struggle with understanding and managing the additional tax component. Under the GST system, businesses providing services must register independently in each state in which they conduct business.[47] This will significantly increase their administrative workload, as they will need to handle a much larger number of registrations compared to the current system.

[45] Bhumika Indulia, 'MP AAR | Can 'Fried Fryums' be equated with 'Papad'? Authority determines correct classification' *SCC Online* (06 October 2020) <https://www.scconline.com/blog/post/2020/10/06/mp-aar-can-fried-fryums-be-equated-with-papad-authority-determines-correct-classification/> accessed 10 August 2025

[46] 'New MSME Act and Its Effect on the Payment Cycle Under the New GST Returns' (*Clear Tax*, 24 January 2025) <https://cleartax.in/s/msme-act-new-gst-returns> accessed 04 August 2025

[47] Athena Rebello, 'How to File GST Returns for Multiple GSTINs?' (*Clear Tax*, 25 October 2023) <https://cleartax.in/s/gst-return-filing-for-multiple-gstins> accessed 04 August 2025

Higher Technological Demands: GST mandates that all returns must be submitted online.[48] In contrast, the previous system allowed businesses to submit physical copies of their returns. This change will force businesses to upgrade their technological skills and become familiar with filing tax returns online. MSME owners who lack digital literacy will need to hire professionals or service providers to handle this task, incurring additional expenses. This could place a significant financial strain on their already limited resources.

Cash Flow Issues: GST operates on a credit-based system, where taxes are paid upfront, and credits are claimed later. MSMEs, which often operate on tight cash flows, face difficulties in managing their finances while waiting for tax credits to be processed.[49]

Potential Cost of External Assistance: With the added complexities of GST compliance, many MSMEs need to hire tax professionals or consultants to handle their tax filings and documentation, further straining their limited resources.[50]

Lack of Preparedness for Digital Shift: The move to a fully digital system disadvantages MSMEs that are not technologically equipped or are unaccustomed to operating in a digital tax regime, leading to delays or errors in compliance.

While GST aims to create one nation, one market, these challenges disproportionately impact MSMEs,[51] hindering their ability to fully benefit from the system without incurring additional costs and effort.

Under the GST system, companies will avoid buying from small businesses (MSMEs) that are not registered under GST. One perk of GST is input tax credit (ITC), which allows

[48] 'Manual > Creation, Saving, Payment of Taxes & Filing of Form GSTR-3B Return' (*Create and Submit GSTR-3B*) <https://tutorial.gst.gov.in/userguide/returns/Create_and_Submit_GSTR3B.htm> accessed 04 August 2025

[49] 'GST and the MSME Sector: A Double-Edged Sword' (*Finextra Research*, 05 October 2024) <https://www.finextra.com/blogposting/26953/gst-and-the-msme-sector-a-double-edged-sword> accessed 04 August 2025

[50] Neba Bhalla et al., 'Effect of Goods and Service Tax System on Business Performance of Micro, Small and Medium Enterprises' (2023) 13(2) SAGE Open <https://doi.org/10.1177/21582440231177210> accessed 11 August 2025

[51] Dr. G. Vincent, 'GST-"One Nation, One Market and One Tax" - SWOT ANALYSIS' (2017) 7(2) IJEMR <https://www.scribd.com/document/363730534/GST-One-Nation-One-Market-and-One-Tax-SWOT-ANALYSIS> accessed 04 August 2025

companies to recoup some of the money they spent on taxes.[52] This reduces their overall tax burden. Unlike the old system, where ITC was limited to certain types of purchases, GST allows businesses to claim credit on almost all purchases if the seller is registered under GST. Small businesses with a turnover below a certain threshold (For instance, ₹20 lakhs for services and ₹40 lakhs for goods)[53] are exempt from the GST registration requirement. While this reduces their compliance burden, it also means they cannot offer input tax credit (ITC) to their buyers, making them less competitive.

If an MSME is not registered under GST, the buyer cannot claim ITC on purchases from them. This makes the unregistered MSMEs' products less attractive to larger companies because buying from them means losing out on tax benefits. Larger companies will prefer to buy from businesses that are registered under GST to claim ITC. This could lead to fewer orders for MSMEs that are not registered, even if their products are good or cheaper. In short, GST makes it important for MSMEs to register; otherwise, they risk losing business to competitors who are GST-registered.

GST IS REGRESSIVE

Indirect taxes, like the GST, are considered regressive because they apply the same rate of tax to everyone, regardless of income.[54] This means that both rich and poor pay the same amount of tax when purchasing goods and services, which takes up a larger proportion of the income of poorer individuals compared to wealthier ones. Taxes on products like alcohol and tobacco are also regressive because these items are often consumed more by lower-income groups. As a result, such taxes disproportionately burden the poorer sections of society.[55] The

[52] Annapoorna, 'Input Tax Credit (ITC) under GST' (*Clear Tax*, 06 February 2025) <https://cleartax.in/s/gst-input-tax-credit> accessed 04 August 2025

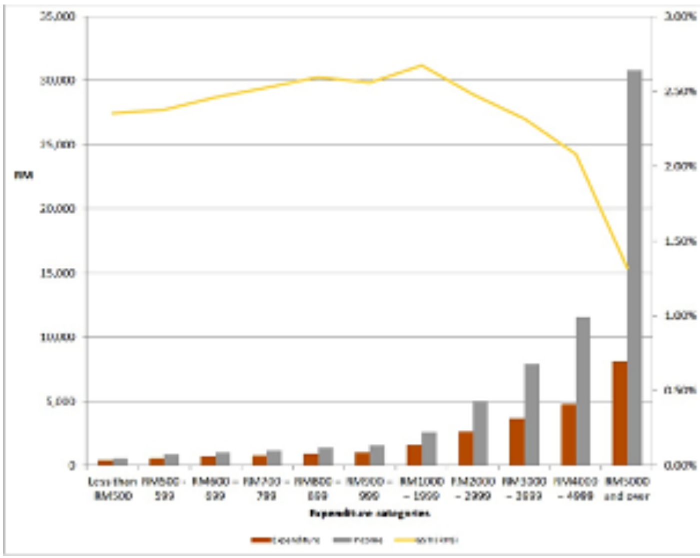
[53] CMA Rathina Bharathi A, Exemption from Registration under GST: Thresholds & Compliance' (*Tax Guru*, 17 June 2024) <https://taxguru.in/goods-and-service-tax/exemption-registration-gst-thresholds-compliance.html> accessed 04 August 2025

[54] CMA Sankar Majumdar, 'GST as a Tax – Regressive, Progressive or Hybrid?' (*Tax Guru*, 10 November 2022) <https://taxguru.in/goods-and-service-tax/gst-tax-regressive-progressive-hybrid.html> accessed 04 August 2025

[55] 'Regressive Tax' (*Clear Tax*, 18 December 2023) <https://cleartax.in/glossary/regressive-tax> accessed 04 August 2025

problem worsens because essential items like food, medicine, and utilities have high and varying GST rates, which increases the unfair burden on lower-income households.[56]

The basic premise of this argument revolves around the complexity and design of India's GST structure, particularly its multiple rate slabs, and its impact on the principles of simplicity, fairness, and equity. The government argues that multiple GST rates are necessary in India due to its diverse population across different economic strata.[57] Different rates are intended to ensure affordability for lower-income groups while charging higher rates on luxury goods and services. The argument revolves around the question of whether having multiple rates for similar goods and services (e.g., different GST rates for different types of restaurants) is justified. GST is meant to be a simple and unified tax, but the current structure adds complexity, making compliance burdensome for businesses. While GST is inherently regressive, the Indian government's use of multiple slabs introduces elements of progressivity. This hybrid character of GST—mixing regressive and progressive features- is unusual for an indirect tax, raising questions about its effectiveness and cost of implementation. India's GST structure is not ideal and calls for a rationalisation of rates to simplify the tax system.



[56] Dr. Vikas Singh, 'The Regressive Bite of Indirect Taxes' (*BW Businessworld*, 11 November 2024) <https://www.businessworld.in/article/the-regressive-bite-of-indirect-taxes-538726> accessed 04 August 2025

[57] Sacchidananda Mukherjee, 'Is GST Regressive in India?' (2024) 59(24) Economic & Political Weekly <https://www.epw.in/journal/2024/24/special-articles/gst-regressive-india.html> accessed 04 August 2025

Source: Penang Institute

The yellow line in the figure illustrates that compared to high-income families, low- and middle-income households pay a higher percentage of their income in GST (GSTI). With 2.67% of their income going towards GST, those with monthly incomes of about RM 2,500 are the most impacted. In a similar vein, those with the lowest incomes—averaging RM 605 a month—dedicate 2.35% of their income to GST. With an average monthly income of RM 30,815, the richest families, on the other hand, pay a far smaller GST burden of just 1.32%[58]:

CONCLUSION

The GST's introduction in India has had a revolutionary impact, creating a unified tax system and simplifying trade across states. By removing the cumulative impact of several taxes and ensuring a smooth flow of input tax credits, GST has enhanced compliance and transparency. However, the journey has been far from seamless, and significant challenges remain. GST's destination-based structure disproportionately affects manufacturing states, creating revenue disparities. Small and medium enterprises (SMEs) face an increased compliance burden, higher digital adaptation costs, and cash flow pressures. Additionally, the system's regressive nature, with uniform rates, places a heavier financial strain on lower-income groups. Delays in compensation payments and inconsistent rulings by Advance Ruling Authorities further complicate the landscape.

RECOMMENDATIONS

Streamline Tax Rates: Reduce the number of tax slabs for simplicity and fairness, while ensuring essential goods remain affordable.

Support for SMEs: Simplify compliance processes, enhance digital literacy programs, and provide subsidies for technological upgrades.

[58] Dr. Lim Kim Hwa and Ooi Pei Qi, 'Response to the Minister Dato's Sri Idri Jala's blog post on November 2013' (*Penang Institute,* 08 November 2013) <https://penanginstitute.org/gst/ResponseToMinisterDatoSriIdrisJala_20131108.pdf> accessed 04 August 2025

Address Revenue Disparities: Introduce mechanisms to better compensate manufacturing states for their contributions to national output.

Improve Consistency: Establish a centralised system for uniform classification of goods and services to reduce confusion.

GST has immense potential to drive economic growth and fairness. With targeted reforms to address its shortcomings, GST can evolve into a truly equitable and efficient tax system that supports India's diverse economy.