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Contours and Conflicts in Tax Design: The Indian Experience

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1. Introduction

In the design of any tax system, certain principles have to be aspired to so that the tax structure exhibits those characteristics. The most traditional of these principles are equity, efficiency and stabilisation. When the economy is in a deflationary cycle, progressivity in the tax structure protects the less well-off. Second, progressive tax rates also assist in stabilisation of an economy from unwanted or unexpected fluctuations, for example, in crisis and post-crisis periods (Shome, 2011). Third, efficiency of resource allocation should be protected in designing a tax system by minimising tax incentives that distort relative prices across sectors and result in erroneous signals for production—away from consumer preferences.

Apart from those three traditional principles of taxation, fourth, country authorities are interested in a tax structure that has good buoyancy or built-in ability to generate revenue during affluent and deflationary years alike, through the income tax, and the VAT or GST, respectively. Fifth, if the tax law is cumbersome and hard of interpretation, the tax system loses its sharpness and leads to litigation and, the worse is the law, the longer is the litigation process likely to be. Sixth, a simple tax system that is associated with the ease of taxpayer compliance complemented by taxpayer rights, is an important criterion (Baker and Piston, 2015). Seventh, a tax administration's transparency, incorruptibility and impartial application of the law and administrative rules perhaps comprise the centrepiece of the system's success (Shome, 2012, 2015). Eighth, a tax structure should not adversely affect market confidence and the associated stability in business decision making that are essential to ensure production, supply and economic growth.

A challenge appears when these principles conflict that could result in any tax reform becoming unable to deliver on all eight principles of taxation. An inefficient tax that raises revenue in the short run could impinge on economic growth and thus lead to revenue stagnation in the medium term. Taxing capital gains less than other sources of income would lead to inequity across income sources; yet, subjecting domestic capital to the same tax rates as other income sources could lead to flight of capital abroad where capital tax rates could be low. In turn, a slowdown in capital accumulation would truncate economic growth. The resultant accommodation to the taxation of returns to capital of multi-national companies (MNC's) nevertheless led MNC's in the services sector to organise their tax matters to successfully minimise tax payments globally, sometimes to miniscule levels in terms of global profits.

Even as the principles of taxation and tax reform are debated and have evolved, a challenge also appears when the question, what tax reform itself comprises, is pondered. How often, how far, and across what expanse of geographical reach can tax reform be said to have achieved congruity? The answer to this rhetorical question could be given through various arguments. Any survey of the economics or legal tax literature reveals that the term itself has been variously used by researchers and authors, for example, Bernardi, Fraschini and Shome (2006), Chen and Mintz (2011), Focanti et al (2013), Gimenez and Rodriguez (2016), Alm et al (2016), or Ruiz et al (2017) to name a few. Economists tend to emphasise the efficiency criterion, disliking a structure that has many tax incentives. Some economists believe that a structure that uses taxation to achieve equity in the economy over and above using expenditure policies is a poor one. Legal experts tend to focus on the sharpness or clarity of law though, if the law is unclear, they make imaginative interpretation of the law, to be resolved by the judiciary. Yet, a tax administrator's best tax structure is one that is characterised by revenue productivity. It is almost as if there is a glass wall between the tax economist and the legal expert and, again, between the tax economist and the administrator. Differences between a legal expert and a tax administrator in the interpretation of the law also emerge, reflecting differences in professional perceptions. Bridging these perceptible gaps perhaps remains a crucial challenge to the larger taxation profession (Shome, 2013a).

Even when 'tax reform' is announced to have occurred, empirical observation suggests that, after about five years, country authorities face new challenges to the structure they put together. First, those who were adversely affected, begin to lobby for reinstatement of their privileges, usually for sector specific tax incentives, tax holidays, scaled back VAT rates for individual commodity classifications and so on. Thus, the same individuals or companies who complain rightly about challenges to the feasibility in tax compliance, nevertheless seem perennially hungry for tax incentives.

Second, in most democracies there is likely to be a change in government in four, five or six years; and the new administration likes to put its own stamp on public policy including, or in particular, tax policy. Thus, third, the term 'tax reform' possesses perennially changing interpretations in the same society over different regimes. Any change is claimed to be reform by successive governments who attempt to rapidly change what their predecessors had installed. Indeed, in some cases, administrations have set up full and comprehensive departments for 'Change', rendering a rather amusing interpretation that tax policy or tax administration reform may never achieve a stable equilibrium. Fourth, with the increasing global reach and internationalisation of taxation, a country's tax structure gets affected by multilateral movements in international taxation as well as by changes in political or trading blocs (Rohatgi, 2005). Thus exogenous shocks from abroad can make the life of a block of domestically initiated tax reform short lived.

It is judicious to treat the eighth principle—stability in business decisions—separately, reflecting its recently emerging importance. An investor invests, or not, reflecting his aversion, neutrality or preference for risk. He calculates the risk in investing based on market environment, existing tax structure and his attitude towards risk. But uncertainty vitiates this business model. If his investment decision is made in time t, and government changes tax law in time t+2 retrospectively going back to time t-5, the basis of that investment crumbles and uncertainty is created. Yet certain tax jurisdictions have tended to use this legal device to capture revenue already lost. Retrospectivity is therefore an unwarranted principle.

Note however, that non-taxation of indirect transfers is not sacrosanct in itself. Safeguarding indirect transfers from taxation is a legal myth and, perhaps, the difficulty or impracticality of taxing them has resulted in placing their non-taxability as an acceptable international tax principle. Ideally, however, indirect transfers should be taxable, though not retrospectively. Any meaningful tax reform should embrace this aspect and, in the final analysis, ask whether all eight principles of taxation been addressed?

Thus the life of a global trend in tax reform can be cut short through blowing domestic and international winds that fail to adhere to modern tenets of taxation. In what follows, we consider how Indian taxation and tax reform have stood up against these principles.

2. Complexity of Indian tax reform

With the advent of a new government from May 2014, tax processes and preparations from the previous regime were set aside including a completed draft of a Direct Tax Code (DTC). Instead, the new government surged forward with the introduction of a Goods and Services Tax (GST)—comprising both the Centre and states—in July 2017 that had already been drafted by the previous regime and examined by the previous parliament. This urgency was an apparent reflection of the new administration's conviction that the GST should be their reform since the earlier VAT—introduced at the level of the states—in April 2005 by the previous administration had, somehow, slipped from their political configuration. Elements of the DTC did survive, however, though they were being taken up one component at a time in successive Union Budgets of the new administration. Thus it is interesting that suddenly in 2017, a working group was set up to re-examine the DTC as a composite whole. Hopefully it will examine the various DTC incarnations that preceded it.[2] This element of considering and reconsidering essentially the same tax elements in different formulations by successive administrations in democracies across the globe was raised and discussed in the previous section. What is missed in such political economy compulsions is that taxation and taxes are technical aspects and should remain outside all political consideration. Otherwise, it is likely that the structure and system of taxation that are hastily put in place will lack in some of the important principles delineated in the previous section.

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[2] FM during presentation of Union Budget 2014-15 in parliament: "The Direct Taxes Code Bill, 2010 has lapsed with the dissolution of the 15th Lok Sabha. Having considered the report of the Standing Committee on Finance and the views expressed by the stakeholders, my predecessor had placed a revised Code in the public domain in March, 2014. The Government shall consider the comments received from the stakeholders on the revised Code. The Government will also review the DTC in its present shape and take a view in the whole matter."

FM during presentation of Union Budget 2015-16 in parliament: "Enactment of a Direct Taxes Code (DTC) has been under discussion for quite some time. Most of the provisions of the DTC have already been included in the Income-tax Act. Among the very few aspects of DTC which were left out, we have addressed some of the issues in the present Budget. Further, the jurisprudence under the Income-tax Act is well evolved. Considering all these aspects, there is no great merit in going ahead with the Direct Tax Code as it exists today."

Ministry of Finance release on the constitution of a Task Force for drafting a New Direct Tax Legislation:

"During the Rajaswa Gyan Sangam held on 1st and 2nd September, 2017, the Prime Minister Shri Narendra Modi had observed that the Income-tax Act, 1961 (the Act) was drafted more than 50 years ago and it needs to be redrafted. Accordingly, in order to review the Act and to draft a new Direct Tax Law in consonance with economic needs of the country, the Government has constituted a Task Force etc.

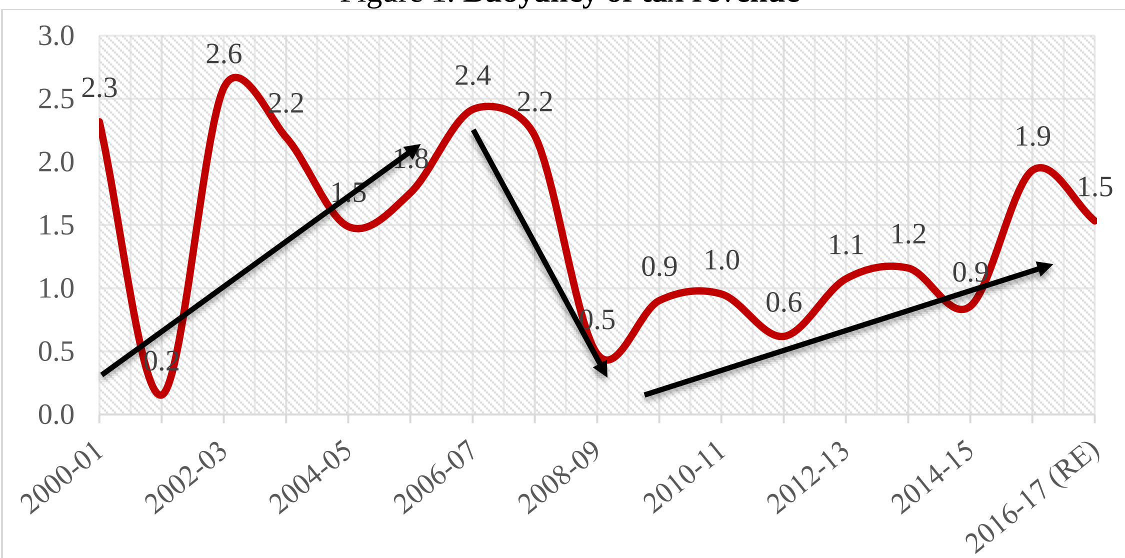
"The Terms of Reference of the Task Force is to draft an appropriate Direct Tax Legislation keeping in view: (i) The direct tax system prevalent in various countries, (ii) The international best practices. (iii) The economic needs of the country and (iv) Any other matter connected thereto. The Task Force shall set its own procedures for regulating its work and shall submit its report to the Government within six months."

Needless to say, in the absence of appropriate cost-benefit analysis or impact assessment of such repeated changes in course, suffice it to say that it carries significant financial and public sector staff cost in policy making and associated dithering. In what policy, we will consider particular aspects of the Indian tax structure though, prior to that, it may be of some interest to place before the reader, a review of India's tax revenue behaviour.

3. Tax revenue trends

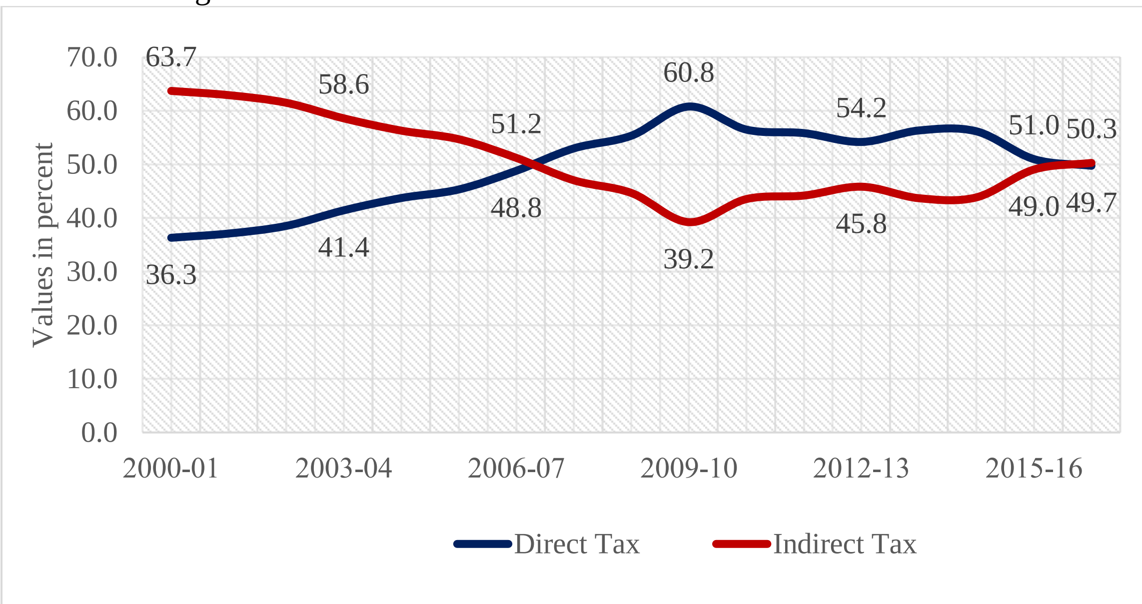
Buoyancy crashed in 2008-09 and 2009-10 reflecting the loosening of taxation after the 2008 global crisis. We have maintained in earlier discussions that it was not needed to the extent loosening was carried out since India was not severely exposed to the crisis. Now looking forward, what policy mix would move the buoyancy upward from the steady state at which it appears to be languishing? Obviously more tax incentives will not help while base broadening would.

Figure 1. **Buoyancy of tax revenue**



Initial gain in direct tax collection has been challenged by indirect tax and the difference is closing. A scissors like pattern had emerged earlier with direct tax steadily gaining and then overtaking indirect tax in share of total tax revenue from 2007-08 but, after achieving the highest difference in 2009-10, the gap has been narrowing. If it is agreed that an indicator of economic development comprises higher dependence on direct tax over time reflecting less dependence on distortionary customs duties and domestic excise taxes, then India had been progressing in the right direction. That direction has, however, been reversed in the most recent years.

Figure 2. **Direct and Indirect Tax as Percent of Tax Revenue**



An explanation could be that the rate of growth of private final consumption has been higher than the rate of GDP growth so that the tax collection rate from the former base has been higher than from the latter. A second explanation could be the maintenance of petroleum revenue in per litre terms even as its international price per litre declined during the concerned period. I third explanation was a steady rise in the rate of the centrally levied tax on services which has now been subsumed under a new GST.

We now proceed to examine selected aspects of India's tax structure setting it against an ideal or appropriately reformed one.

4. Corporate Tax Rate Structure

i. Proposals for change

In the 2015-16 Union Budget, on February 28, 2015, the Indian finance minister (FM) announced slashing of the corporate tax from 30 percent to 25 percent over four years. Government subsequently announced on November 20, a road map to eliminate tax exemptions and incentives for corporates as a precursor to lowering of corporate tax rate to 25 percent over a four-year period. In the 2016-17 Union Budget, FM announced two changes in corporate income tax (CIT) rates: new manufacturing companies which were incorporated on or after 1.3.2016 would be given an option to be taxed at 25% (plus surcharge and cess) provided they did not claim profit linked or investment linked deductions and did not avail of investment allowance or accelerated depreciation.

FM also proposed to lower the CIT rate by 1 percent for those companies with turnover not exceeding Rupees 50 million (in the financial year ending March 2015), to 29 percent plus surcharge and cess.[3] In the 2017-18 Union Budget, he proposed to reduce the CIT rate for companies with an annual turnover upto Rs. 500 million to 25% that essentially covered

[3] At that time the exchange rate was around Pound 1 = Rupees 100. Currently Pound 1 has fallen to less than Rs 90).

96 percent of companies, the argument being that the remaining 4% of companies had a lower effective tax rate already. However, their globally compared CIT rate continues to remain high as Tables 1 and 2 reveal.

Table 1. India: Structure of Corporate Income Tax

	Domestic Companies	**Foreign Companies**
CIT rate	30% (25% for turnover upto Rs. 2500 million)	40%
MAT	18.5% of adjusted profits	18.5% of adjusted profits
Surcharge levied on the basic tax rate based on the level of total income as follows:		
a) Total income less than Rs. 10 million	Nil	Nil
(b) Total income Rs. 10- 100 million	7%	2%
(c) Total income above Rs. 10 million	12%	5%
Health and Education cess:	4% on income tax (inclusive of surcharge)	4%
Effective tax rates	(a) 31.2= (30x1.04) (b) 33.38{=[(30+30 x 0.07)x 1.04]} (c) 34.94{=[(30+30x 0.12)x1.04]}	41.6 42.43 43.68
Dividend distribution tax (DDT)	15% (plus surcharge at the rate of 12% and education cess at 3%)	Nil

Table 2. Cross-Country CIT Rates (in percent)

BRICS		**OECD**		**Latin America**		**Asia**	
Brazil*	**34** (19)	United Kingdom[$]	19	Argentina*	**35**	Singapore	17
Russia	20	United States[!]	**21**	Chile[#]	24	Turkey	20
India*	**34.94** (D) + DDT 29.12 (D) + DDT	Germany	29.72	Colombia[&]	**34**	Malaysia	24
	43.68 (F)	Australia	30			Bangladesh[@]	25
China	25						
South Africa	28						

*There has to be less dispersion around 25 %, otherwise effective CIT rate likely to fall below 22-23 %. Therefore, tax incentives have to go.

D: Domestic companies and F: Foreign companies

$: The current corporate tax rate was reduced to 19% on 1 April 2017 from 20% rate of 2016-17.

! : US government had a 35% rate that was drastically brought down to 21% in late 2017.

#: In 2017, the CIT rate changes depending on the elected tax system: if attributed system is elected: 25% onwards; if semi-integrated system is elected 25.5% for commercial year 2017, and 27% for commercial year 2018 onwards.

&: The current rate was increased to 34% from 25% rate in 2016 and 33% for 2018 and onwards.

@: The corporation tax rate is 25% for listed companies and is 35% for unlisted public and private limited companies.
Source: KPMG, 2017 CIT rates.

ii. Analysing the corporate income tax

Overall, the Indian CIT structure is far from simple, with multiple objectives built into it. Despite best intentions, there are real challenges in achieving a 25 per cent corporate tax rate. The prevailing effective CIT rate – how much total revenue is collected in proportion to corporate income – is 23 per cent. Thus, the difference between 30.9/34.61 per cent and 23 per cent is substantial and mainly represents tax incentives (or tax "expenditures" quantified in every Union Budget) that benefit different sectors and different companies differentially. Moreover, after the CIT rate reduction, there will remain very little revenue space between 25 per cent and 23 per cent to accommodate tax incentives (on a revenue neutral basis). Yet absence of tax incentives will be tough for industry to swallow, used as it is to special tax regimes. Hence, the challenge is to convince productive sectors that a lower general rate would benefit all and remove the prevalent system of favours targeted towards narrow industry and service sector groups.

It is thus important to identify existing tax incentives and take a view of the landscape. To begin, they include agricultural income, new units in SEZs, new 100 per cent export-oriented units, and charitable/non-profit organisations (NPOs). The next are infrastructure development in industrial undertakings including projects of highway, bridge and rail, water supply, water treatment, irrigation, sanitation, sewerage, solid waste, port, airport, inland waterway and others. This is followed by non-infrastructure such as cold chain facility, processing, preserving and packaging fruits, vegetables and meat, biodegradable waste, rural hospitals, and hospitals in non-excluded areas. Some of these are being phased out while others are not. Others excluded from tax are offshore banking units and cooperative societies engaged in most categories of economic activity. Another kind of incentives is regional, for special category states and the strategic North Eastern states.

International experience has revealed that rarely do incentives work and continuing them does not help sectors develop (Shome, 2014, III.5). Experience in India also reveals that even high profile NPOs may be prone to tax avoidance or even tax evasion despite the overall legitimacy of the sector. Certainly it is time for them to contribute to the exchequer in a regularised manner. Exclusion of export oriented profits from taxation made little sense in the past and even less so at this point when India is flushed with foreign exchange. There can be little justification for continuing windfall profits generated by income- or profit-oriented tax incentives. In the past, eradication of tax incentives has remained well-nigh impossible. In the 2001 Tenth Five Year Plan Committee Report that this author chaired, tax incentives were listed in detail that the then finance minister promised to remove in his 2002 Union Budget. He barely began his task before he was shifted as external affairs minister. The recipients of tax incentives are known to drive a hard bargain.

The 2009 Direct Tax Code (DTC) on which this author and his colleagues toiled from 2007, recommended a 25 per cent CIT rate and streamlined tax incentives but it was unsuccessful, Subsequent revisions in 2010 and 2013 by and large reinstated the incentives and, in any event, the DTC could not be placed before the cabinet despite the draft clearing all technical and line ministries. Detractors of fundamental tax reform and seekers of tax incentives remain in powerful places inside and outside government. Yet, unless a slash and burn policy against tax incentives is unleashed, a 25 per cent headline CIT rate is infeasible at least in terms of revenue neutrality.

Whether the present government can bite the bullet and finally eradicate incentives remains a crucial question. Government could perhaps afford to leave intact only a handful of investment incentives, while eschewing profit based incentives altogether. Help could have appeared from revenue productivity of the new GST but its rate structure is inefficient—leading to input tax credit build up with continued cascading elements,—and its base narrow with important components remaining outside. Yet, reflecting a naïve attempt to include too wide a taxpayer base, and by requiring the filing of GST returns every month from a populace that has been quite unused to such a strict regimen, the tax has already become unpopular. Presently, government seems to be on an agenda of reducing rates in particular reflecting forthcoming elections in selected states. Thus, GST is unlikely to lead immediately to GDP growth or bountiful revenue reflecting its structural distortions.

To sum up, a severe cut back of tax incentives is imperative, matched with a lower and more equitable CIT that brings down or eliminates the dispersion of tax rates. This will impulse economic growth and, in turn, generate additional revenue. If FM undertakes deep cuts in tax incentives through a pre-announced sequence comprising a three-year process, then one could surmise an achievement of his stated objective of a 25 per cent headline CIT rate successfully. Yet at the moment there is wide expectation that, willy nilly, the CIT rate will be cut down following the recent change in the US. If this occurs on February 1, the Union Budget Day, it will once again fortify the argument that tax reform is really political economy rather than economics.

iii. The Indian MAT

History: Given the fact of the distortions represented by existing incentives, the idea of a minimum tax has carried some appeal. Therefore a MAT was first introduced as Section 115J of CIT in the Finance Act of 1987. The intent of computing minimum taxable income at 30% of book profits was to combat base erosion through avoidance. Reflecting an income tax rate of 50%, the minimum tax liability was fixed at 15% of book profits.[4] However, the provision was deleted in Finance Act, 1990, the reasoning being that a large number of incentives including an investment allowance were being withdrawn. With the withdrawal of the MAT in 1990, the phenomenon of zero tax companies continued, so that it was re-introduced by Finance Act, 1996. However, under intense pressure from business interest groups, a provision of carry forward and set off of excess MAT liability over 'actual' liability against any excess of 'actual' liability over MAT liability in the subsequent five years, was introduced.

The law was again amended by Finance Act, 2000 to introduce Section 115JB, which provided for a minimum tax of 7.5% of book profits (defined as commercial profits). An obvious shortcoming of MAT provisions is that it is based on reported income unmindful of the prevalent incidence of underreporting. It could be argued that a MAT based on book profits could be designed appropriately if the plethora of incentives were withdrawn and rates of depreciation under the tax law were aligned with commercial rates. The variability across sectors of any one measure as an appropriate base for MAT suggests that the use of some combination might be preferable- a combination of both stock and flow components

[4] Manohar (2014) lays out how the Indian MAT is actually calculated in Shome (2014, V.4, Appendix).

could comprise such a measure—the best being a combination of gross assets and sales/turnover. The second best combination could be a percentage of net worth plus a percentage of dividend distribution. This combination could represent an economically efficient and equitable measure.

MAT on foreign companies: The government has given some signals of avoiding aggressive litigation with respect to selected international taxation issues. A case in point was its decision not to appeal against the judgment of Bombay High Court in a Vodafone transfer pricing case that related to a dispute between the income tax department and the MNC over a Rs 32 billion tax liability arising out of differences in share valuation. It is, therefore, surprising why the matter of imposition of MAT on foreign institutional investors (FIIs) was allowed to re-emerge. In a few cases, such unanticipated income tax action seems to be followed by a retreat by the policymakers. Such actions tend to blemish the friendly assurances of top leadership that India is a friendly place to conduct business. A memorandum from industry had already raised the issue at the Tax Forum run by the adviser to the finance minister in the previous government which, in person, was this author. It questioned the applicability of MAT to foreign companies in the financial services sector.

The genesis of the issue lay in the context of particular observations and conclusions of the Authority for Advance Rulings (AAR). In its decision, the AAR departed from the view expressed in a previous ruling in the case of Timken Company 2010 (326 ITR 193) (AAR). In the Timken case, it had been held that MAT provisions in Section 115JB would not apply to a foreign company that had no presence in the form of a permanent establishment (PE) in India. This was obviated in the Castleton case by the AAR. The AAR had failed to appreciate the fact that, in case of non-PEs, or foreign companies having no presence in India, there was no requirement under the law to prepare profit and loss accounts (which in other cases had to be prepared in accordance with the provisions of Parts II and III of Schedule VI of the Companies Act, 1956). Accordingly, it would not be possible for a foreign company having no presence in India, that is, a non-PE, to comply with the requirements of Section 115JB (2) of the Income Tax Act.

The AAR also failed to appreciate the beneficial provisions of Article 13 of the India-Mauritius Tax Treaty. Under Section 90 of the IT Act, foreign companies were entitled to enjoy beneficial tax treatment under applicable tax treaties. If the proposition that MAT applied to every foreign company was accepted, then in every case, despite treaty protection, income tax in the form of MAT would be payable. Such an interpretation would give MAT an overriding effect over the tax treaty, or, an unintended and certainly unexpected, treaty override. Such a consequence was contrary to the intention of the IT Act and would render tax treaties ineffective and otiose. Industry asserted that the context and legislative history of MAT provisions had to be interpreted to read as limiting the applicability of Section 115JB to Indian companies.

The Tax Forum concluded that non-PE FIIs were not liable to pay MAT. Accordingly, the Tax Forum suggested to the then finance minister that the ministry of finance should clarify the matter to avoid unwarranted litigation on this issue, and that instructions should be given to the tax authorities to the effect that MAT should apply only to foreign companies that had a PE in India in case of a treaty country, or had established a place of business in India within the meaning of Section 591 of the Companies Act and where the foreign company was required to maintain accounts in India.

In particular, in the instance of FII-MAT, it was clear that the earlier and current governments were on the same wavelength; hence, action was anticipated to be quick and decisive in the 2014 Budget itself following installation of the new government or, if that was too soon, then at least in the 2015 Budget. The subsequent appearance of tax demands on FIIs citing the AAR ruling was, therefore, surprising. Using the AAR to issue tax demands was not only not imperative for the department, but it went against already arrived-upon understandings. Thus a non-adversarial approach from tax officials may not be assured despite the usual multiple assertions to foreign investors by top policymakers.

iv. BEPS and India

India's comprehensive role in the G20-OECD project deliberations on MNE tax base erosion through profit shifting (BEPS) from high- to low-tax jurisdictions followed by the formulation of its recommendations, has already been elaborated upon in the context of emerging economies in the previous main section on general principles and structure of taxation. Gupta (2016) goes through each BEPS Action and how it may affect India while others including Nigam (2016) and Doshi (2016) look specifically at MLI and ramifications for indirect taxes respectively.

Nevertheless, among the 15 BEPS Actions, Action 14 on dispute resolution should be mentioned here. India should have taken a different stand on dispute resolution. The quantum—generation, accumulation, management, resolution—of tax disputes in India exceeds the rest of the world. India decided not to be a part of the mandatory arbitration process on sovereignty grounds, and missed an opportunity to rationalise disputes. The additional argument that it would be too costly for India financially and in terms of manpower to agree to BEPS Action 14 on dispute resolution through arbitration is also difficult to accept.

India's position is unlikely to bring any improvement in the Mutual Agreement Process (MAP) that addresses double taxation, a sore point with India's treaty partners. India's position would also continue to affect investment adversely. The Indian tax administration needs to rise above being a mere revenue collection agency shorn of, and supra, the context of economic growth. More fundamental than how the revenue pie is shared among tax administrations is how accountability and compliance cost would be dealt with between global tax authorities on the one hand, and MNEs, on the other.

5. Goods and Services Tax

i. Introduction

India's GST was introduced after a decade of preparations, the first government paper having been completed on December 31, 2007 by the Union ministry of finance in cooperation with the states' Empowered Committee of finance ministers. Over the following decade several modifications were considered and made at both levels of government and a draft Constitutional Amendment Bill proposed by the ministry of finance to parliament. This was examined by the parliamentary finance committee whose suggestions were then incorporated and the Bill finalised, but was not introduced in parliament as general elections approached. With the advent of a new central government, the Bill successfully passed in Parliament and state assemblies. The GST was finally introduced on July 1, 2017, albeit in a great hurry before crucial structural and technical aspects could be comprehensively addressed.

Here we traverse selected pre-introduction discussions as well as post-introduction efforts and continuing issues with respect to the GST. It also attempts a critical analysis of the structure and administration of the GST.

ii. Considerations prior to GST introduction

To begin with, the ideal structure of a GST needs some elaboration. Recall that a GST should be structured such that "tax on tax" or cascading should be done away with. This occurs when an input is taxed but is not given credit against the tax on output that the inputs help produce. There is more cascading left in the tax system the more is the number of "exemptions" from a GST. This is because an exemption means that the output is not taxed so that no credit can be taken on the tax paid on inputs in the previous stage of production or distribution. Thus one objective of a GST is to keep exemptions to a minimum. This objective could be viewed also as a reflection of keeping the GST base as broad as possible. Another objective of a GST is to keep the number of tax rates as low as possible so that there is no significant mismatch between output and input rates. For example, if the output GST rate is lower than the input GST rate, then too much credit will be accumulated that cannot be taken against the output tax. And it becomes a difficult "fitment" exercise to arrive at a menu of rates such that anomalies are minimised. Cnossen (2013) elaborated on several of these issues in preparation for the Indian GST.

In India, the GST was, in the final analysis, a political compact of fiscal federalism among the central government and states. Few countries have achieved this. Brazil introduced a conjoint value added tax (VAT) at two levels of government in the mid-1960s though today it has become fractured, narrow in base, and is not managed well.[5] Canada also has a similar federal GST comprising the federal and provincial governments, but it is small compared to India or Brazil in terms of the number of taxpayers, is highly computerised reflecting its financial resources, and has relatively little tax evasion. Australia is another country but there it is collected at the central level and then shared with the provinces. Thus today India stands out as having successfully introduced a complex GST relative to its circumstance at both central and state levels of government simultaneously.

While this comprises a significant step forward in the presentation of India's overall tax design, it has to be examined as to how close the structure and administration are to what is generally as acceptable optimal VAT/GST structure, and how quickly could the GST system be expected to stabilise in terms of acceptable implementation—ease of taxpayer compliance and fair administration. Table 3 presents a structure of how a fiscal federal GST should ideally have looked in India (Shome, 2017a).

[5] Brazil's VAT was essentially one among the centre and states, the provinces being assigned local services (ISS) without application of the input-output tax credit mechanism, however. Also, the base of the state level VAT was ample (ICMS) as a VAT should be while, at the central level, it was narrow and included a few industrial products (IPI).

Table 3. Ideal GST Framework for India

Centre CGST	Selected Features	States SGST
1 general rate (1 lower rate could be accommodated)		1 general rate (1 lower rate could be accommodated)
• Broad base including petroleum, alcohol and tobacco • Goods and services to be taxed at general rate • A few low-income consumption items at lower rate • Full ITC across multiple units of a firm	Parallel chains → No ITC between CGST and SGST • Cascading removed from overall GST system • No CST on inter-state trade - IGST to operate	• Broad base including petroleum, alcohol and tobacco • Subsume smaller taxes • Goods and services taxed at general rate • A few low-income consumption items at lower rate • Abolish CST • Full ITC across states • Monitor inter-state trade with computerized infrastructure • Install clearing house (at central government level) for accounting and payments for inter-state trade (IGST)

The Indian finance minister has called the GST the 'single biggest tax reform since Independence', in Parliament on December 20, 2014. However, it is clear that while some of the conditions for an ideal GST are met, several are not. The main motivation for GST was trade facilitation for the productive sector and enhancing the ease of doing business. The purpose was to have a single tax to subsume all central and state level indirect taxes, not only revenue protection or enhancement for the central and state governments.

The GST subsumed a plethora of indirect taxes on consumption and production at the level of both the centre and states. Central Excise Duty, Service Tax, state VAT, Central Sales Tax, Countervailing Duty / Special Additional Duty of Customs, Octroi and Entry Tax, Purchase Tax,[6] Luxury Tax, Tax on Lotteries, Betting and Gambling. This clearly reduced drastically the fragmentation of indirect taxation. However, there are four state taxes that

[6] Octroi was a tax that imposed physical checks on transport vehicles prior to entering a municipal area; Entry Tax, a later version, was imposed based on financial accounts rather than physical checks though selected large municipalities including Mumbai, had continued with the Octroi causing immense distortions and costs to the production-distribution chain. Purchase Tax was collected in a few large agricultural states on their produce at the wholesale marketplace.

are excluded from GST: on petroleum products, electricity duty, on alcohol for human consumption, and stamp duty on immovable property.

Petroleum products represent ¼ to ½ of different states' revenues. To maintain that, states were opposed to including it in the GST base. But they are also a high cost of production for several services and industries for which no ITC is being given. In a reflection of centre-state fiscal struggle, the centre has preferred to include petroleum in the GST base and has occasionally expressed it, but the states have been steadfast in keeping it in their exclusive hands. Putting it in the GST base would have ensured a non-cascading channel, and reduce GST's inflation impact. Since the GST Council retains an enabling provision to tax it, it is hoped that, in the future, petroleum could be included in the GST base.

As listed above, another tax that was excluded from the GST base was stamp duty on real estate transactions. Had it been included, its cascading effect would have been minimized. However, its exclusion could be explained through the good revenue that it fetches in its independent form to various states. For example, to give a range, in Maharashtra—populous and urbanised—20% of own revenue, and in Bihar—rural and poor—12% come from stamp duty. Thus, with respect to real estate business, he GST base only includes cost of construction materials and services provided by architects and contractors. But land value is excluded i.e. stamp duty cannot be set off and, therefore, this will cascade.

Success of the GST is based on an ICT network for efficient working of a clearing house set up by the centre for revenue distribution to states. It was announced on 22.9.2015 that Infosys, a major private sector company, would be in charge of setting up and administering the system. Though the financial cost of using the private sector was criticized in some quarters, it was actually a good decision to aim for the most efficiently run system possible to be acquired. On another criticism that the private sector would have access to confidential data, already Infosys has been involved in running the central processing centre (CPC) for the income tax and no breach of confidence has appeared thus far.

iii. The GST Council: Centre-state administration of GST

The structure of the GST Council is unique in that it represents an example of successful fiscal federal cooperation (Poddar and Ahmad, 2009). Its composition comprises the union finance minister as the chair; the central minister of state (deputy minister) in charge of revenue or finance as member; and, at the level of states, the minister in charge of finance or taxation or any other minister nominated by each state government as members. The centre has a 1/3 voting share; and the states possess 2/3. The Council will recommend rates/bands, exemptions, thresholds, model GST Law, principles of levy, IGST apportionment, principles to govern the place of supply.

However, a Dispute Settlement Authority that had been dropped from the original 2011 Constitution Amendment Bill, was finally reinstated after the opposition parties in parliament refused to vote without its inclusion. The reasoning of the opposition was that, if each state had its own authority, the concept of a common market—the fountainhead of a federal GST—would be thwarted. Finally, a compromise was reached so that the GST Council established a mechanism to adjudicate any dispute arising out of its recommendations. Since disputes can be between: (a) the centre versus one or more states; (b) the centre and states versus one or more states; or (c) state versus state, the final position implies that there will be a standing mechanism to resolve disputes.

While the Council is a fiscal federal construct that took a decade to achieve, in the final analysis, the states were driven by a revenue goal rather than by designing a non-distortionary, non-cascading tax. And, in its rush to install a GST, the centre acquiesced to their demands. In the immediate post-introduction phase, the Council has also been making several rate changes. This may reflect teething problems but could equally reveal a wrong use of the Council right from the start that could take hold for the long run. It is nevertheless hoped that, after correcting for rate anomalies, the Council would quickly revert to considering genuine policy improvements.

iv. A critical look

A reformed tax is one which reduces production distortions and administrative hurdles, thus clearing the way for higher productivity of goods and services. That, in turn, will produce more and add up to a higher GDP. In turn, this should then generate more revenue for the authorities. It is important for the authorities to ensure at both levels of government—through the GST Council--that capturing revenue does not become the first goal of the GST. Thus, a plethora of critical policy corrections have to be undertaken in the future by the GST Council. Among them are:

--removing continuing differentiation between goods and services

--reduce the number of rates and classification—already the GST tariff structure has been published as a significant volume—both of which are anticipated to lead to adverse implications for litigation

--annul an administrative requirement for inter-state dealers to register in every state they trade in which goes against the common market principle

--stepping back from the newly introduced rule not prevalent under the replaced state level VAT—that a trader can be picked up for audit in any of these states, making post-tax compliance onerous for taxpayers

--removing the rule that no input tax credit for output is to be given to an output supplier until the seller of input deposits the amount in the government's exchequer, thus shifting a government responsibility to the taxpayer (output producer)

--removing the presumption of unjust enrichment in case of subsequent decline in prices so that the administration can effectively withhold benefits from a taxpayer, a matter that should be addressed through a GST monitoring cell, that was included in the first GST draft but subsequently removed, reflecting another abrogation of technical and intellectual responsibility of government.

--replacing the joint administrative powers of the centre and states over the same taxpayers even at low turnover levels thus implying a prohibitive compliance burden on taxpayers who would have tax administrations at both levels of government, in addition to all the state level administrations where he is trading, to deal with. In fact lower turnover levels had been excluded from service tax and the CENVAT (the centre's earlier excise at the central government level) by the previous government. However, the new regime has lowered turnover levels in the GST structure. This should put considerable administrative burden on officers without the promise of much revenue gain, and put the small taxpayers in the hands of ruthless revenue collectors. It reflects the victory of powerful tax officer unions over management.

v. Tax incidence of GST

The debate during the decade prior to the GST's introduction was for it to be structured along revenue neutral lines. But there are bound to be winners and losers among the various players, for example, among various states' revenue authorities, among producers and dealers (traders), and among consumers. This is bound to cause some dissatisfaction. What is important however is to install mechanisms to monitor egregious anomalies and malpractice that could occur in particular during the early implementation phase. Thus it is important to put in place a monitoring cell to check if excessive prices are not being charged by retailers and such challenges that are likely to appear. This is not unknown internationally when a GST or VAT is introduced covering goods and services. For example in South Africa, such a cell played a crucial role in checking the immediate ramifications of the new tax, so that prices actually fell as cascading was reduced significantly.

vi. Long term ramifications of exclusions

Petroleum and electricity are essential inputs in the supply—production and distribution—chain. By keeping these out, both upstream and downstream cascading will occur. This phenomenon can be explained as follows. First, there will be a tax on petroleum in every state though it will not be under GST. Therefore the tax paid cannot be credited out by businesses who pay the tax when they buy and use petroleum products. Second, petroleum being outside GST, petroleum companies themselves—since they are excluded from GST—will not get any credit for the GST that they will have paid on their own inputs. Thus petroleum companies will add the tax they will pay on inputs into their product price; and businesses that purchase petroleum will build in the tax they pay on their petroleum input into the sale price of their product (Shome, 2017b).

Consequently there will be double cascading. Similar cascading will occur for other inputs excluded from the GST, in effect continuing the cascading through production and distribution, with concomitant distortionary production decisions and, therefore, of the pricing of products. Those products that use more excluded inputs will set prices relatively highly vis a vis those products that use less excluded inputs that enjoy input tax credit. The structure of relative prices that emerges will not reflect consumer preferences that should ideally determine all product prices.

As far as domestically consumed alcohol is concerned, its exclusion reflects political expediency at the state level for any revenue from it can be used in whatever way they wish with little monitoring and evaluation. In the ultimate analysis, as could be expected in a country whose constitution provides separate taxing powers to states, it also reflects the centre's inability to reign in malpractices at the state level.

This translates to continuing challenges for the GST Council to address in the medium term, viz. to include these important inputs in the GST base. Until that time, the GST will not be successful in eradicating cascading.

vii. What proportion of GDP is in the GST base

One question that follows from the above-mentioned exclusions is what portion of GDP is covered in the GST base. If one considers the exclusion of real estate from GST and all other inputs and exemptions, some estimates show an exclusion of 60 per cent of GDP from the GST base. If we ignore real estate, the figure approaches 40-50 per cent. In any event, there is little doubt that a large portion of GDP has been excluded. It implies that indirect taxes paid by this excluded portion will not be credited out in the supply chain and, instead, will be embedded multiple times as the production-distribution chain progresses downstream. The ultimate outcome will be continuing distortions in price determination in the economy. A detailed analysis of the GST base and exclusions from it is found in Srinivasan (2016).

Having a low proportion of GDP in the GST base also implies low revenue productivity even though the VAT or GST is known as a revenue productive tax. A measure of the GST's revenue productivity was observed in Latin America by this author where it has been referred to as the Shome VAT or GST productivity index (Modi, 2009) . If the general GST rate is X%, then if it is designed well, it should be able to yield ½ X% of GDP in revenue. Chile and New Zealand both had an 18% rate and collected approximately 9% of their GDP in revenue on a secular basis during the 1990's. Most countries achieve 1/3X% of GDP or above without touching ½X%. Countries that linger below 1/3X% comprise examples of poor GST or VAT performance. In the UK, with a 17.5% VAT rate, VAT revenue hovers near 1/3 X% (or 6%) of GDP. The open secret of achieving high VAT or GST revenue productivity is to structure it in such a way that most commodities are at the general rate, there are not too many lower rates, exemptions are few, zero rated items are few—so that most goods and services are covered in the tax base—and tax administration is reliable so that tax compliance is good and, last but not least, the taxpayer base is ample and can be steadily expanded.

Despite the new compliance challenges faced by the small taxpayer, if, however, the Indian GST is able to improve the ease of paying taxes for large taxpayers, then investment and foreign investment could receive an impetus. Ultimately, the GST will be an important test to check if the corner has been turned and the business community experiences a perceptible improvement in the ease of paying taxes. The tax authorities both at the central and state levels have to be given the opportunity to work on this and achieve success.

viii. ICT framework

The shared GST Network—GSTN—between the centre and states is a good feature of the GST. First, as a new feature in Indian taxation, the centre and states are sharing the same platform. Second, the public and private sectors are sharing the responsibility to deliver efficient processes which already exists in the income tax area. The challenge in the case of GSTN is of course deeper since both states and the centre are involved and revenue intake has to be correctly released to all of them. Further, more administrative procedures that have to be completed must be successfully managed by GSTN.

ix. GST post-introduction

It has been eleven months since the GST regime was introduced. One major test was when GSTN, the digital backbone, was called on to deal with a large number of simultaneous submissions; the initial experience was not good. After initial success, GSTN began to experience hitches in terms of delay in the IT system for the loading of returns, impossibility in making corrections in returns after initial filling in of forms, and other IT related procedures. Hopefully such problems can be resolves quickly. Whether disruptions experienced in transition are temporary or reflect GST's structural flaws will reflect government's problem-solving agility.

Policy improvement: On the policy side, therefore, GST is a start that possesses the potential of making positive changes to the structure of Indian taxation. It may, as time passes and as it is fine-tuned, reduce costs in the supply chain. This would lead to greater efficiency in business decision making that would be based on consumer preferences since relative price signals would get less distorted.

Can GST be an administrative success: On the administrative side, with a good GST, businesses should find it easier to operate on a level playing field. Ideally, the design of GST should simplify processes for the productive sector and reduce the discretionary powers of tax officials. We have to give GST some time for a full assessment, perhaps in December 2017 and April 2018, in order to come to an intelligent view what was achieved and what remains to be improved.

What happens at inter-state checkpoints: Continued success depends crucially on not only the overall administration of GST but also on what occurs at inter-state checkpoints.

- --If, for example, trucks crossing between Karnataka and Maharashtra are invariably checked for alcohol, then the queues will rapidly re-develop and benefit of the GST already experienced will be lost. So an optimal checking model is needed.
- --And note that this matter is not one related to the Octroi or entry tax, but with the type of checking applied at cross-border points.

While the crossing points between several states manifested in the pre-GST era in long queues of trucks seem to have dissipated, informal reports indicate that there is a considerable increase in clandestine transfers of non-GST paid goods across states. If this were true it would reveal the challenges a developing country tax administration may face in modernising—simplifying—administrative practices.

If GST is to achieve global quality levels, governments must keep erring officers in check. To take one example, the use of dormant rules against transporters has to be ruled out. Only a transparent, rule-based approach should be employed at checkpoints.

The possibility of remaining “entry taxes” apparently used some urban local bodies should be examined and curbed, as this has the potential to impede the free flow of goods, a main advantage of GST on which the concept was sold to the productive sector.

Monitoring of small business condition: A movement away from small providers to larger, GST-ready suppliers should occur over the medium to long term. This should steadily formalise the economy. On the other hand, this could negatively affect employment rates since the vast majority of India’s employment occurs in the small informal sector. If that happens, government must stand ready to introduce remedial measures including possible dissent from labour-intensive sectors such as textiles and steel processing/conversions that must be sympathetically considered with a solution in mind. In fact, government must monitor the situation constantly since one important objective of GST is to make it easier for small businesses to pay tax, and not to push them out of the formal economy or from productive activity altogether. So far, there have been sporadic accounts from small businesses of a degree of chaos in GST offices in the initial phase but there is no report of a wide systemic failure.

Nevertheless, dissent against complexity in processes must be listened to, and not be allowed to linger. Government must be swift in taking corrective action to further simplify compliance requirements and reduce compliance costs. A continuing measure would be a single nodal point to disseminate information about the application of the GST, and to respond to queries. There are worries that multiple central ministries have issued complex and contradictory advisories. Clarity from the authorities is essential for maintaining consistency and clarity. Inter-ministerial committees and meetings remain crucial.

Removing tax uncertainty: It is evident that the GST is an imperfect tax structure for, in the final analysis, it comprises a compromise struck between the centre and states. Hence, to continue to unlock potential gains from the GST, governments at both the state and central levels — as represented in the GST Council — must have a clearer sense of the direction in which modifications to the GST need to be made.

There is no doubt that some changes in rates were needed. For example, hiking the cess on bigger cars corrected an anomaly since the earlier CENVAT + excise tariff had not been fully reflected under the GST. Thus, given the way the GST rates, including the cesses on various goods and services, were calculated, the effective duty rate on bigger cars and SUVs fell from 52-55% in the excise-cum-VAT days to 43% under the GST while that on hybrid vehicles above 4 metres in length rose from around 30% to 43%. To that extent, if the government policy is to encourage the use of hybrid vehicles, this needed to be fixed quickly. This has now been corrected by the GST Council by agreeing to hike the cesses on bigger cars/SUVs, thus restoring the edge hybrid vehicles had in terms of tax rates.

A similar anomaly had led duty rates on cigarettes to come down dramatically post-GST. The GST Council was quick to hike rates and, in the bargain, provided around Rs. 5,000 crore extra in the cess account to compensate states in cases of a fall in their revenues after GST implementation.

However, other alterations are also continuing to be introduced in every GST Council meeting. The 20th meeting of the GST Council, held on 5th August, 2017, decided to increase the cess on luxury cars and sports utility vehicles from 15% to up to 25%. This was a necessary modification.

The Council also slashed the tax rate for textile subcontracting — "job work" — to 5% from a high of 18%. Even this could be justified. However, there were other rates changes made on that date as well. As an illustration, the rate changes of the August 2017 is shown in Appendix 3. However, the same type of rate changes has continued through subsequent GST Council meetings to date.

Uncertainty is exacerbated by continuing rate changes. Thus, goods and services related to the Under-17 Football World Cup were completely exempted. And, for some reason, the GST on tickets for entering planetariums was reduced. These types of changes would move the GST away from simplicity. The GST Council needs to be cautious about such changes.

Admittedly, the current GST is a work in progress. The structure of the GST Council has been designed so that the GST system can be constantly updated and improved. But the changes made must be in the direction of greater simplicity and facilitating compliance. There should be a high bar for adoption of sector-specific exemptions and rate changes.

The GST Council should focus on examining problems associated with the actual administration of the tax; if it instead uses its regular meetings to keep changing rates (unless there is a clear anomaly), cesses and exemptions, the GST will become less predictable and more prone to abuse than even the previous system. The final objective has to be to reach a smaller number of rates as is global experience, that is, the number of rates tends to diminish over years subsequent to introduction. Indeed, the finance minister has informed parliament that there was scope to merge the 12% and 18% GST rates in future.

It is still early days for the GST. So it is to be hoped that smaller changes will not become the norm. And, instead, the impetus towards fundamental simplification—including across-the-board reduction in general GST rates—should begin after the initial phase is completed. This objective to reach a smaller number of rates is the global experience.

Hand holding by the tax administration: One notable aspect of GST introduction is the handholding that Customs and Excise Department is doing. The CBEC Chairman is passing on instruction on a weekly basis to the entire officer community and exhorting them to provide the best helpful services possible to GST payers. Caution against wrong doing and corruption is also a feature in those statements. This is possibly the first such public action in India's tax administration and is a welcome step forward. Recent notices from the Chairman's Corner from the Department's website appear in Annexe 2. Nevertheless, in the latest Economic Survey (2017-18) of the Union government, there is an overtly optimistic outlook on the GST.

x. Concluding remarks

The GST, in its current form, has been a step up for the Indian tax authorities. There are, however, structural challenges that remain. There also are administrative challenges and issues of compliance cost in particular for small taxpayers who have been newly brought under the GST net. While it is a commendable move to expand the taxpayer base, the move to audit small taxpayers at both central and state levels will tend to increase the compliance burden on such taxpayers.

The authorities have to maintain keen vigilance to ensure tax compliance while, at the same time, not to burden taxpayers with additional compliance costs. The need for such perspicacity will be carefully observed by experts and be reflected in whether customer focus improves with time. And, since GST is known to be a revenue productive tax, the revenue trend of GST would also remain of interest to observers who remain alert over India's taxation policy and administration.

To make the GST successful, it remains a responsibility also of the taxpayer in fulfilling his role in fully complying with the tax. To allay difficulties, the indirect tax department is offering assistance at the field level and this should be taken advantage of. It could represent the greatest opportunity for government-to-citizen co-operation and it is hoped that the process will reach aits potential height of success.

However, the work of improvement will remain challenging in the future. Structural deficiencies will need to be eradicated or corrected. The severe aspects of tax administration have to be eased. Cases of serious tax evasion must be pursued to the end. And every care should be taken to minimise disputes among the centre and state authorities, and between taxpayers and the tax administration.

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Annexe 1

Table 1.1: **Personal Income Tax rate structure**

Net income range	**Income-tax rates**				**Education Cess (EC)**	**Secondary and higher Education Cess (SHEC)**
	Age<60 years (1)	**60 years=< Age <80 years (2)**	**Age>=80 years (3)**	**Non-resident (irrespective of age) (4)**		
Up to Rs. 0.25 million (Up to Rs. 0.3 million for (2))	Nil	Nil	Nil	Nil	Nil	Nil
Rs. 0.25 million- Rs. 0.5 million (Rs. 0.3 million – Rs. 0.5 million for (2))	5% of (total income *minus*Rs. 0.25 million)*	5% of (total income *minus*Rs. 0.3 million)*	Nil	5% of (total income *minus*Rs. 0.2 million)#	2% of income-tax	1% of income-tax
Rs. 0.5 million-Rs. 1 million	Rs. 0.012,5 million + 20% of (total income *minus*Rs. 5 million)	Rs. 0.01 million + 20% of (total income *minus*Rs. 0.5 million)	20% of (total income *minus*Rs. 0.5 million)	Rs. 0.012,5 million + 20% of (total income *minus*Rs. 5 million)	2% of income-tax	1% of income-tax
>Rs. 1 million	Rs. 0.1125 + 30% of (total Income *minus*Rs. 1 million)	Rs. 0.11 million + 30% of (total income *minus*Rs. 1 million)	Rs. 0.1 million + 30% of (total income *minus*Rs. 1 million)	Rs. 0.1125 + 30% of (total Income *minus*Rs. 1 million)	2% of income-tax	1% of income-tax

*A resident individual (whose net income does not exceed Rs. 0.35 million) can avail rebate undersection 87A. It is deductible from income tax before calculating education cess. The amount of rebate is 100 per cent of income tax or Rs. 0.0025 million, whichever is less.

#No rebate is available to a non-resident individual.

Note: Surcharge is levied @ 10% on the amount of income tax if net income exceeds Rs 5 million but does not exceed Rs. 10 million and @ 15% on the amount of income tax if net income exceeds Rs. 1 million. In a case where surcharge is levied, EC of 2% and SHEC of 1% will be levied on the amount of income tax plus surcharge.

Annexe 2

1. Weekly monitoring of GST implementation by Chairman, CBEC

• To make the transition of GST smooth and painless for both traders and general public, it is important to constantly obtain and analyse feedback from the ground level and take corrective measures immediately.

• To ensure that all the grievances/queries received from the trade and general public are attended on real time basis and in case of any issue requiring escalation, the same may be sent to the Feedback and Action Room (FAR) immediately for further necessary action.

• Chairman has encouraged field officers to send feedback regarding issues faced in the field so they may be suitably looked into and handled.

• Field nodal officers (both central/State) collated feedbacks, and clarifications in the form of press releases are being issued to address those concerns.

• Chairman holds periodical video conferences to get updates on feedback and issues pertaining to GST. It has been indicated that urgent issues which require intervention at Board level may be brought to notice.

• Updating of knowledge base and watching the GST ki Master Class has been indicated to officers and staff.

• 'GST Rates Finder' mobile app has been developed by department officer and it is available in Android/IOS platform for download and use. It features all rates for goods and services based on the rate notifications issued and is handy ready reckoner for use by one and all.

• Confusion among the exporters regarding exports under Bond/ Letter of Undertaking (LUT) without payment of IGST was clarified by department and any difficulty in implementation of the instructions contained in the circular may be brought by officers into notice of the Board.

• Notification has been issued which liberalizes the conditions for exporters, extending the benefits of LUT to all kinds of exporters, whether manufacturers, merchants or service providers.

• Commissioners of GST & Central Excise have been asked to review the GST SewaKendras, interact with the trade to address their grievances and issues, and to ensure that the trade/common man is not distressed in any way.

• Chairman has indicated to senior officers to ensure impeccable integrity while assessing the taxpayers.

• She informed that at the end of second week of GST roll out, no major problems were reported.

• However, on receiving grievances on delays in facilitation of exporters, Chairman indicated that it must be ensured that every exporter, whether registered in Central Excise or Services Tax in pre-GST regime, should be facilitated to the maximum extent possible. Every Assistant/Deputy Commissioner has been made aware of the intent and objective of the Government on this issue.

• On 26th July, 2017, the Commissioner (GST), CBEC has circulated a detailed note on all such export related issues which may be gone through thoroughly and complied with by all officers and staff dealing with export issues.

2. Minimising litigation

• On the GST awareness front, it has been indicated to continue with the various outreach programmes with the same fervour as before the roll-out to ensure continue education amongst trade, industry and general public.

• Litigation in the Department is a matter of grave concern.

a. Around 93.27% of the departmental cases identified for withdrawal from the High Courts and CESTAT have been withdrawn so far.

b. Chairman has emphasised that a concerted effort needs to be made to ensure that 100% of the cases identified for withdrawal are positively withdrawn within a precise timeframe.

c. All Commissioners will monitor disposal of pendency of Commissioner (Appeals) to ensure that all legacy cases are disposed of by 31st December, 2017.

d. In this regard, a detailed guideline is being issued which should be followed strictly.

3. Disseminating information

• All Commissioners have been asked to share success stories and best practices in GST implementation in various zones, which can be replicated throughout the country.

• Officers are publishing articles in Journals and newspapers regarding implementation and impact of GST. This will provide the reader with some clarity on several issues and also act as a part of outreach campaign.

• The GST West Delhi Commissionerate has come up with its own website, as it is a one stop information centre for the assessees.

• Commissionerates can adopt this in their respective Commissionerates, if not already in place. Once in place, the websites must be regularly updated and upgraded.

4. CBEC notification on final timeline for filing tax returns for July-August

• Over 71.30 lakh excise, service tax and VAT payers have migrated to the GSTN portal and over 15 lakh new assessees have registered on the platform.

• In the interim period, businesses have to file GSTR-3B, which is a summary of self-assessed tax liabilities with consolidated details of outward supplies and input credit.

• Regarding GSTR-3B, the GST Network portal has started the facility for filing of July returns from August 5. The last date for filing the GSTR-3B for July 2017 is August 20, while the same for the month of August 2017 is September 20.

Table 2.1.**Final timeline for filing of tax returns (July-August)**

Forms	**Original date for filing return**	**Revised dates for filing return**	
		For July Month*	**For August Month#**
GSTR-1	10th of next month	September 1-5	September 16-20
GSTR-2	15th of next month	September 6-10	September 21-25
GSTR-3	20th of next month	September 11-15	September 26-10

*Recently, the government had extended the due dates for filing of GSTR-1, 2 and 3 to 10th October 30th November and 11th December, 2017 respectively.
#to be announced.

Annexe 3

Changes made at 20th GST Council meeting on 5.8.2017

S. No.	Description of service	From	To
1.	Job work services in respect of the textiles and textile products	18%/ 5%	5%
2.	Services by way of printing of newspapers, books (including Braille books), journals and periodicals: ➢ where only content is supplied by the publisher and the physical inputs including paper used for printing belongs to the printer. ➢ using physical inputs owned by others (including an unregistered publisher/supplier)	18% * 18% *	12%* 5%*
3.	Works contract services provided to Government, local authority or governmental authority and in respect of post-harvest storage infrastructure for agricultural produce, mechanized food grain handling system.	18% *	12%*
4.	Margin/commission payable to Fair Price Shop Dealers by Central/ State Governments	18% *	Nil
5.	Admission to planetarium	28%*	18%*
6.	Rent-a-cab service	Allowed option of 12% GST with full ITC. 5% GST with no ITC will also continue.	
7.	Goods Transport Agency Service (GTA)	Allowed option of 12% GST with full ITC under forward charge. 5% GST with no ITC will also continue.	

*with full Input Tax Credit (ITC)