The equity-complexity tradeoff in tax policy: lessons from the Goods and Services Tax in India

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Abstract: Developing countries often rely on consumption taxes, because these are broad, easy to administer, and harder to evade. However, the taxation system becomes inherently regressive. To counter this problem of regressive nature of consumption taxes, there is a temptation among policymakers to address equity concerns through a multiplicity of rates, making the consumption tax system complex. Here, complexity is considered the by-product, or companion to pursuing goals of equity. Complex tax systems, however, pose a different problem relating to equity. Assuming a minimum fixed cost of compliance imposed by a complex tax system, smaller firms and individuals face a much higher cost of compliance relative to larger firms and richer individuals. Oligarchic sectors dominated by a few large firms also find it easier to organize and lobby to get favorable rates compared to competitive sectors with small firms. Though complexity is considered a byproduct of several equity-enhancing measures, the Indian experience with its Goods and Services Tax reform serves as a cautionary tale and demonstrates the opposite, that there is a tradeoff between equity and complexity.

Keywords: India, Goods and Services Tax, VAT, regressive tax, consumption tax, complexity, compliance costs, rent seeking

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I. Introduction

This paper explores the question of the equity-efficiency trade off in taxation, using the cautionary tale of the Goods and Services Tax [hereinafter GST] reform in India. Indirect taxes targeting consumption, like the GST, are broad, easy to administer, and harder to evade. Because the poor spend a larger proportion of their income on consumption, changing the system to a value added tax (VAT) like the GST can make the overall taxation system inherently regressive (Ebrill et. al., 2001). To make the tax more equitable, policymakers create multiple rates and exceptions, with essentials at lower rates and luxury goods at higher rates. However, multiple rates and a complex tax structure results in high compliance costs, which can also be regressive. This is an important aspect to consider in the equity versus efficiency tradeoff in tax systems.

The standard concerns for equity and efficiency in taxation have dominated the conversation for decades. The famous "leaky bucket" analogy in which income redistribution from the top 5% to the bottom 20% of income earners, while desirable, never makes it in its entirety and is lost in transmission (Okun 1975) is well-known. This tradeoff is naturally context-dependent, and developed countries face quite different choices than developing countries (Burgess and Stern 1993).

There are many considerations of justice and equity in developing countries, in the creation of overall tax policy. Should the tax policy be focused on direct or indirect taxes i.e., should the policy tax labor or consumption? The problem is that consumption taxes tend to be regressive while taxing labor, especially highly skilled labor, can distort the labor market, lead to "brain drain" or human capital flight, and set countries on a lower growth path.

Focusing only on consumption taxes, another aspect of equity today is to punish those producing and consuming "sin" goods like guns, alcohol, tobacco, fatty foods, etc. to implement behavioral changes. On the other hand, consumption taxes also reward "green" goods like electric vehicles. These new goals are part of the larger goal of equity in society. However, this approach can also result in a regressive tax policy. Another issue is whether governments should tax wealth and property, or tax consumption and investment. Additionally, once we come to the specifics, like taxation on inheritance or on dividends, there is the additional temporal element - a tradeoff between imposing costs or benefits on the present versus future generations.

In each of these spheres of tax policy, instead of identifying and implementing one specific policy that would lead to equity, over the decades, most governments attempt to target multiple goals packaged as equity. As a result, tax policies have increased in complexity, and such complexity is justified to further the goals of equity. Equity is a buffet of policies – in addition to progressive versus regressive tax, there are issues of real income distribution, in federal states - the additional question of equity between states, nudging consumers away from addictive goods, punishing sin goods, and encouraging green goods, encouraging local producers, and so on. The consequence of pursuing these equity enhancing goals is complexity in the taxation system. The tradeoff between complexity and efficiency is clear. Complexity is a byproduct of some equity goals pursued by policymakers. There is also a tradeoff between complexity and equity, especially in developing countries with weak state capacity.

I argue that complexity in tax policy is regressive using the example of the GST reform implemented in India in 2017. The cost of compliance is higher for smaller firms and poorer individuals. There are three reasons complexity in the tax system like the GST is regressive – (1) the costs of compliance is regressive as smaller firms will spend a larger proportion of their income/revenue in compliance costs; (2) sectors that are oligarchic with few large firms will find it easier to collectivize and lobby for lower tax rates compared to sectors with large number of competitive firms; and (3) if the government favors some sectors but wants to still remain revenue neutral, it will increase taxes imposed on other sectors, typically those sectors which are unorganized and have a large number of small competitive firms . These aspects are evident in the case of India's GST as I shall elaborate in this paper. Where the tax policy is complex because of a multiplicity of equity goals, governments may achieve neither equity nor efficiency.

The GST reform took almost a decade, as all Indian states needed to form consensus over giving up their individual taxes levied within the state and actually move towards a uniform system of VAT. The Indian Constitution was amended to reflect the change. So, in addition to many federal and state taxes becoming a single GST, the effect of GST was to turn India into one large free trade zone, with a single tax rate. It was marketed to citizens, businesses, investors, and multilaterals as the "Good and Simple Tax."

However, by the time the reform was complete, it was neither good nor simple. Pursuing several different goals, all masked as increasing or furthering equity, GST has furthered interest groups seeking rents, tax concessions, and privileges. As a result, India now has eight different GST rates – 0%, 0.25%, 1.5%, 3%, 5%, 12%, 18%, and 28% and 21 different cesses in addition to GST. According to the World Bank India Development Update 2018, of the 115 countries with a GST regime, 40 countries use a single rate, and 28 countries use two rates. India is an exception along with Italy, Ghana, Pakistan, and Luxemburg - countries with four or more rates.

While the intention in India was to have a good and simple tax, the government gave up on an efficient single rate to ostensibly accommodate equity, levy higher tax rates on luxury goods as well as punish producers of sin goods. This proliferation of rates makes India's GST system extremely complex, and consequently, regressive.

In Section II, I describe the need for GST in India, and how it was an attempt to improve the existing taxation system. In Section III, I detail how the process of bringing consensus for the reform also meant a proliferation of rates. In Section IV, I argue that complexity in GST also makes it regressive, and therefore, there is a tradeoff between complexity and equity. In Section V, I conclude.

II. India's move to the Good and Simple Tax

Pre-GST, India's tax system was ineffective, expensive, complex, and full of exceptions. The GST effectively subsumed almost all existing indirect taxes - Central Excise Duty, Service Tax, VAT, Central Sales Tax, entertainment tax, Octroi, luxury tax, many cesses/surcharges and various other state and central levies on goods and services. The exceptions alone, as estimated by Subramanian (2015), cost the government about 2.7 per cent of GDP. While the VAT system in developing countries has been criticized (Emran and Stiglitz 2007), there is widespread agreement that it is an improvement over pre-2017 indirect taxation system in India. The original goal was to formulate a GST that would subsume all these different taxes into one single tax.

The advantage of shifting to GST was three-fold. The first advantage was in having a tax system that was easy to comply with. The central government alone had several indirect taxes – Central Sales Tax; Central Excise Duty; Additional duties of Excise levied under Medicinal & Toiletries Preparation Act; Additional duties of Excise levied under Textiles & Textile Products; Additional duties of Customs (Counter veiling Duties (CVD) and Special Additional Duties (SAD)); Service Tax; Surcharges; and Cesses. Simplifying this into a single tax would reduce compliance costs for individuals and firms, reduce administrative costs for the government, reduce tax and regulatory arbitrage, as well as increase tax buoyancy.

Second, unifying the state tax system and converting India into a single free trade zone with no differential levies while crossing state borders was a big advantage of switching to GST. Every state set its rates for the following kinds of taxes – State Sales Tax or in some states the State VAT; Purchase Tax; State Entertainment Tax; Luxury Tax; Entry Tax (All Forms); Taxes on lottery, betting & gambling; Surcharges & Cesses; Taxes on advertisements . There are two aspects to indirect state taxes. First, unifying the taxes within each state, would accrue the same benefits as unifying central taxes of reduced compliance costs, reduced arbitrage, and tax buoyancy. The second element of differential tax rates is the entry taxes imposed on inter-state trade. Such tax rates essentially fragmented the Indian economy and created tariffs for interstate trade that did not exist for intra-state trade. In other words, India was a single country with freedom of movement, but it was not a single free trade zone.

This caused enormous logistical delays and imposed high costs on any activity that was conducted across states. For instance, goods transporting trucks in India drive 280 kilometres per day compared to 450 kilometres per day in Brazil and 800 kilometres per day in the United States. Only 40% of the total travel time is spent on driving, while checkpoints and other official stoppages take up almost one-quarter of total travel time. Eliminating differential tax rates and entry fees, and thereby checkpoints would keep trucks moving almost 6 hours more per day, equivalent to an additional 164 kilometres (JPS Associates 2011).

Leemput (2014) shows that inter-state trade costs exceed intra-state trade costs by a factor of 7 to 16. Bringing India's inter-state trade costs down to the US level (i.e., reducing by a factor of 6) increases welfare by 15% and eliminating intra-state trade frictions raises welfare by 5%. 72% of all freight traffic in India moved on roads, and these border checkpoints imposed an enormous cost on Indian domestic trade. Unpredictability in freight transport requires manufacturers to hedge against possible delays by carrying higher levels of inventory. Including indirect effects on inventories and sales, logistics is 10-14% of the operating costs of manufacturing firms, by far the largest cost difference between them and services firms. Domestic freight performance is explained almost entirely by distance and state border- crossings. Adding two border crossings can add a week of uncertainty in shipments (GTCDR 2014). The World Bank (2015) estimated that about 20- 30% of the overall costs of domestic transport are because of taxes and can be expected to reduce with the introduction of GST and the elimination of border checkpoints.

The third advantage of switching to GST was the potential to reduce corruption and tax evasion. Given the proliferation of rates and limited state capacity, India's tax administration system is rife with corruption and Indian firms are notorious for evasion. However, the in-built governance processes that are part of the VAT system ensures tax credits are only given when the tax liability is disclosed. In other words, the administrative cost of collecting GST is reduced because of the self-policing incentive inherent to a VAT. In addition to incentive-aligned self-policing by firms, the

GST has an additional dual monitoring structure—by the state government and by the central government. Hence, there will be a greater probability that evasion will be detected.

The tax reform to switch to a single rate GST also received widespread support from economists within and outside government. Within the government, various committees addressed the question of the equity tradeoff with a single rate GST. The *Report of the Task Force on GST* (2009) argued in favor of a single rate on the grounds of improving efficiency and reducing corruption. The report also started that a single GST rate "to the extent, it enhances economic efficiency, it will also create new opportunities for employment which would obviously benefit the relatively poorer section of the society and improve equity." The *Thirteenth Finance Commission Report* also recommended a single positive rate on all goods and services and suggested that the government look to other welfare instruments to enhance equity.

For these three reasons, the GST reform in India had bipartisan support in Parliament, as well as support at the central government and state-level governments. In effect, this meant that most of the major political parties of India came together to implement the reform. But all the states, governed by different political parties, had to sign on to the reform and give up their ability to set their tax rates and decide based on the consensus formed in the GST Council. Since GST acts a trade treaty as much as a tax treaty – the benefits of a larger free trade zone with no differential tariffs and checkpoints were clear for all to see. Almost everyone anticipated that in the long run, states' share in tax revenue would increase. However, in the short run, some states might also see a drop in the revenue under the new GST system. And since these benefits would take some time to materialize, the compensation structure was created to ensure that short term costs do not hamper long-run benefits. The central government promised to make up the shortfall in revenues under a compensation structure for the first five years of the reform.

III. The road from Simple to Complex is paved with good intentions

The move to a GST in a federal system is no small feat. There is a constitutional tradeoff in implementing the GST. States would lose some more fiscal/federal autonomy, in an already centripetal fiscal structure. But in return, states would gain a larger market - the key to long-run prosperity - and hence larger revenues. But to make this entire reform possible, Parliament had to pass a constitutional amendment (the One Hundred and First Amendment of the Constitution of

India), as well as have half the states ratify the constitutional amendment since it amended the entrenched clauses in the constitution. (Article 368, Constitution of India).

Once this was accomplished the first question was - what goods and services will be included in the purview of GST. That battle for a broad system covering all categories of goods and services was lost on multiple margins. Five areas were excluded from GST altogether, mainly because the states did not want to let go of the control over revenues from these goods. Sale of land and real estate is notorious for the highest levels of corruption and tax evasion, but because so much of the land is either directly owned or controlled by political middlemen, including land and real estate in GST was a non-starter. Similarly, revenue from alcohol sales is one of the highest shares of state tax revenues and losing control over that was also politically difficult. This was further exacerbated by the fact that some states have complete prohibition over alcohol, while others consider it a sin good, and the third category of alcohol-producing states tax it at lower levels. Electricity, petrol, diesel, natural gas etc. were also left out of the GST system with separate taxes levied on them.

The other aspect of the reform, aside from consensus building, was the question of the tax rate. Various experts came up with different rates for a single GST. Consider the Report on the Revenue Neutral Rate and Structure of Rates for the Goods and Services Tax (Subramanian 2015). The Revenue Neutral Rate is the single non-zero GST tax rate that would preserve the revenue at the levels before the GST reform. The report estimated a 15% single GST revenue neutral rate. Most economists suggested a single or at best two rates, mostly along these lines. There were differences in methodology, on the effect of the new GST system on the tax base and revenue collection in the short run, but the idea was largely the same, to ensure a single rate at or above the revenue-neutral rate. Kelkar and Shah (2019) estimated the lower end of that range – arguing that applying a single 10% rate on 70% of the economy would yield 7% of GDP as tax revenues.

The report (Subramanian 2015) commissioned by the Ministry of Finance, anticipated the political considerations that had to be made. While the report strenuously recommended a single GST rate as a medium-term goal for India, it recommended a three-rate structure. First, a 12% GST for the goods consumed by the poor; second, the standard GST rate applied to most goods at 17-18%; and third, demerit goods (luxury or sin goods) at 40%.

There were a few roadblocks on the way to a single GST rate.

The main challenge in having a single GST rate across the country and all goods and services was perceptions of equity. The idea that a country with predominantly poor people would pay the same rate for their bread as the rich for their Mercedes, was politically and publicly untenable.

The problem was not just related to GST, but more fundamental. In India, the share of direct taxes in total tax revenue, for both the central and state governments, is only 35%. Indirect taxes, now unified as GST, are therefore inherently regressive because these tax consumption. The poor spend a larger share of their income, sometimes their entire income, on consumption relative to the rich, and therefore end up paying a larger proportion of their income in taxes relative to the rich. The rich, in India and across the world, tend to save a larger proportion of their income, which are not taxed. With GST imposed on most goods, and with higher tax rates, the inherently regressive nature of GST becomes more severe.

Right off the bat, there were two options under consideration – the first was to have a zero rate for essentials that the poor relied upon, and a high rate for everything else. But this would affect revenue collections, and having a single high rate, with everything else taxed at zero would deviate from revenue neutrality – perhaps the most important consideration for the government. The alternative was to have a revenue-neutral rate for most goods and services and have very high rates for luxury goods.

There was a stable and persistent coalition pushing for the latter to create multiple rates, not unlike the bootleggers and Baptists in the American south (Yandle 1984). If the pro-poor in India were the baptists, then the bootleggers were not far behind. Thus, enormous pressure came from different sectoral lobbies.

This was already a deviation from the general prescription of economists who have argued for a simpler tax system even before the GST reform. This comes from a larger literature on efficient taxation and multiple tax rates. The Ramsey rule states that under certain assumptions, the excess burden of excise taxes is minimized when goods are taxed in inverse proportion to their elasticities of demand. However, once the knowledge problems and incentive problems faced by government actors is acknowledged, the multiplicity of rates because of the Ramsey rule may no longer be efficient.

Buchanan (1975) noted that standard public finance assumes a benevolent dictator and that the standard analysis assumed different motivations for those in the public sector from those in the private sector. Buchanan uses the same behavioral assumptions for both private and state actors, i.e., they assumed to be utility maximizers who respond to the incentives they face and make use of the information available to them. State actors and decision makers who design taxes do not have sufficient information on demand elasticities to create a tax structure that conforms to the Ramsey rule, even if they want to. Armed with this kind of behavioral symmetry, and the incentives and information problems, the efficiency of multiple tax rates comes under question. Holcombe (2002) argues that if policy makers nominally try to implement the Ramsey rule, the incentives inherent in the political process will lead to non-optimal taxes and will result in a substantial amount of rent-seeking losses while doing so. This is also applicable to other kinds of taxes, including the GST in India.

In the context of import tariffs, Panagariya and Rodrik (1993) argue that while the case for uniform tariffs is not watertight, uniformity minimizes the pressures for favorable (higher) rates on some goods over others. The commitment to a uniform tax rate introduces a free-rider problem for industries to lobby for lower rates for themselves (since such lower rates are then extended to everyone).

This process of rent seeking began to unfold in India as soon as GST with multiple rates was announced. Given the proliferation of dozens of central and state rates and hundreds of exemptions over the decades in India, virtually every sector had some special tax concessions and provisions hard-won by lobbies. With a potential single rate GST and no exemptions, some goods and services would end up having their tax rate increase while other goods, especially luxury goods, would see the tax liability decrease. Every single lobby within the economy wants its tax rates to decrease and not increase. This is quite naturally impossible while moving towards a single rate. All well-organized sectors suddenly tried to prove their essential status or their contribution to the poor – either by showing consumption patterns, or in case of luxury goods, by demonstrating employment or the supply of essential infrastructure to the economy, etc.

State actors also have incentives to increase the number of rates. There are two sets of pressures, favoring different groups, but end up in rate proliferation. The first is with respect to the lobbying efforts of various sectors which tends to increase the number of rates and exceptions and decrease government revenues, since these lobbying efforts are to decrease the tax rates for their good. However, there is an opposing pressure, which is to remain revenue neutral despite the lobbying efforts. To mitigate the impact of the concessions given to favored industries, state actors will increase the tax rate on those goods and services that are relatively inelastic in the demand and belong to sectors that are relatively unorganized. Therefore, the kind of rent seeking and lobbying that leads to rate reduction for some special industries will also be accompanied by rate increases for other industries. Both pressures lead to frequent rate changes, increase in exceptions, and eventually rate proliferation.

Initially, most of the goods and services approaching the GST council listed in Appendix I managed to receive a rate reduction from the GST council. For instance, the 23rd GST council meeting reduced rates for over 150 goods and services from 28% to 18% with no clear guideline or criteria of equity. However, in the last year, as tax revenues have reduced, there is also a pressure to increase revenues or remain revenue neutral. This has come in two forms. The first is a rate increase for goods like woven fabrics, handmade matches, polythene sacks, caffeinated beverages, etc. Some of these goods are made by small firms in the unorganized sector and cannot lobby for favorable rates. The other method has been to increase the number and percentage of cesses imposed on "sin" goods like tobacco listed in Appendix II.

In addition to equity concerns, and rent seeking pressures, a third reason for rate proliferation is the attempt to use GST to bring about behavioral changes. One is by having high rates or "sin taxes" for goods like tobacco. And second by providing lower and favorable rates to "green" or environmentally friendly goods. For sin goods, like tobacco, the GST rate is the highest, at 28% and in addition, cesses are imposed. These cesses on tobacco products range from an additional 5% to 204% depending on the type of tobacco product (See Appendix II listing cesses).

Equity goals also get complicated with sin goods. Beedi, considered the "poor man's cigarette" is taxed at the highest rate of 28% GST. However, unlike cigarettes, no additional cess is imposed on beedis. This has led critics to call for a cess on beedis to help reduce tobacco consumption among lower income groups. Adding a cess to beedis would make GST more regressive, however, not adding the tobacco cess (intended to nudge behaviors and improve health) will treat lower income groups unfavorably, by not trying to reduce beedi sales through the tax instrument.

Similarly, for green goods, electric vehicles and electric vehicle chargers were encouraged through a rate reduction, while SUVs and diesel vehicles saw an increase in the tax rate because of an added cess. However, diesel engines for tractors saw a rate decrease to encourage farmers, especially small farmers. Taxing diesel vehicles at a higher rate to meet "green goals" can also have regressive effects because it is an input in agriculture, and small commercial vehicles.

The trouble with this kind of lobbying is that the government had to follow through with some consequences if the said industries and firms did not cater to the poor and tried to profit from the rate change. One bad idea led to the next, and the government announced that it will monitor the prices of goods and services before and after the tax rate reduction. To do this the government made provisions to set up an "Anti-profiteering Authority" to ensure that reduction in tax rates under GST results in a fall in prices of goods and services. (Section 171, Central Goods and Services Act, 2017).[1]

Finally, the pressure was to either have a single rate with a lot of exemptions, or alternatively, to have multiple rates applying to different goods, with the state carefully analyzing what kinds of goods qualify as essential, those used by the poor, luxury goods, sin goods, and so on. In the process, rates proliferated. From the original suggestion of a single non-zero revenue-neutral rate, the Indian GST system today has eight different rates. 0%, 0.25% (gemstones and diamonds), 1.5% (diamond work), 3% (gold), 5%, 12%, 18%, and 28%.

Most items consumed by the poor are taxed at a low 5% or 12%. The government claimed that most of the goods in the Consumer Price Index (CPI) grouping were taxed at these lower rates, or some goods like food grains, are completely exempt. The attempt was to tax the bulk of goods at 18% and have luxury goods taxed at 28%.

However, this also did not end up with the most progressive tax structure. For instance, biscuits are taxed at 18% under GST. Parle-G, a biscuit company that has existed for over a century in India, sells its smallest pack for five rupees (about 7 USD cents). This 7-cent pack of biscuits is famous for being carbohydrate-rich, and poor people, who live on less than a dollar a day, often have a pack of Parle-G biscuits when they cannot afford a meal. This is taxed at 18%. The rationale was that not all biscuits are consumed by the poorest groups, and giving an exemption to a single firm, though well known in its service to the poor, would be against the ethos of the GST system.

But on the other hand, gold jewelry, which is almost entirely held by the middle-class or rich, is taxed at only 3%. The rationale there was different – it is easy to evade taxes with gold holdings. This rate is so obviously regressive that even reports by government economists and experts have pointed out the hypocrisy. But this rate also proliferated. Initially, gemstones were taxed at 3%, but in July 2017, the GST on gemstones was reduced to 0.25%. The ostensible reason was to make the Indian gemstone industry more competitive abroad. But the actual reasons were political (Gaikwad

[1] **Section 171.** (*1*) Any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on to the recipient by way of commensurate reduction in prices. (*2*) The Central Government may, on recommendations of the Council, by notification, constitute an Authority, or empower an existing Authority constituted under any law for the time being in force, to examine whether input tax credits availed by any registered person or the reduction in the tax rate have resulted in a commensurate reduction in the price of the goods or services or both supplied by him. (*3*) The Authority referred to in sub-section (*2*) shall exercise such powers and discharge such functions as may be prescribed.

2017). India's demonetization had crippled India's gold and diamond industry, concentrated in Gujarat, and after the demonetization disaster, Prime Minister Modi assured the sector that they would receive GST concession in exchange for support in the election. This rate change happened in July 2017 with the state election in December 2017.

Whatever the ostensible and real reasons, poor people living on less than a dollar a day pay 18% on a 7-cent meal, while those buying gold and gemstones pay 3% and 0.25% respectively. This is a single example of well-organized industries getting special rates from the government.

If the government can reward well organized industries lobbying it in exchange for favors, it can also punish industries that are not as well organized or have fallen out of favor, or sectors where the demand for goods is relatively inelastic. Several such goods and services , like woven fabrics, or handmade matches, etc. saw an increase in GST rates.

In the last four years since the implementation of GST, there are hundreds of government notifications clarifying various aspects of the GST. Of these, 28 notifications specifically prescribe tax changes (10 in 2017; 7 in 2017; 6 in 2019; 3 in 2020; and so far, 2 in 2021). Across these 28 notifications, the government has announced a rate change for 500 goods and services categories. Each of these 500 changes is detailed in Appendix I. It is quite clear that various firms and interest groups are constantly seeking lower tax rates. Appendix-I details all the GST Council meetings where rate changes were announced, and the specific rate change for the goods or services. This appendix alone runs over 25 pages.

So, while there are "only" right rates, there is a lot of movement of goods within 4-5 rate categories (0, 5%, 12%, 18%, and 28%). Monopolistic and oligopolistic industries tend to be better organized and can better lobby their cause. As expected, larger firms benefit more from a proliferation of rates, because smaller and more competitive firms and industries may not be able to afford the cost of lobbying for lower rates.

IV. Complex tax systems are regressive

Section II highlighted the efficiency problems caused by multiplicity of rates once informational constraints and political incentives are considered. However, once we account for informational constraints and political incentives, there are also equity problems caused by multiplicity of rates.

One might think eight different rates is not so bad, especially given that the alternative is a single rate with hundreds of exceptions. At least that is how the 8-rate "simple" tax was sold to

Indians. The idea was that once there is a clear code of classifications, and people get enough time to get used to the new system, the GST system will subsist.

The government has a detailed list of classifications in the Harmonized System of Nomenclature (HSN) - an 8-digit code for goods classification - which tries to provide and stipulate a code for every conceivable product category. This was used over decades for the various indirect taxes and custom duties. One year into the GST regime, the HSN codebook for GST classification contained 18,306 entries in 438 pages. Even after doing such a detailed job (or maybe because of it), there is inevitable confusion. What happens when a good or service could fit in two different categories, and therefore be taxed at two different rates?

The Indian GST system encourages many to ask existential questions, "Is KitKat a biscuit or a chocolate?" is one such pertinent question, because biscuits were taxed at 18% while chocolates were taxed at 28%. Or should Pepsi's *Nimbooz* be classified lemonade (taxed at 28%) or as pulp juice (taxed at 12%)? Most firms provide an in-house cafeteria, but most firms also have the food prepared outside the premises, often by a third party. Should they be taxed at 5% or 18%, because cafeteria service is taxed at 5% while outdoor catering is taxed at 18%? In each instance, members of the industry reached out to the finance ministry and the GST Council to clarify the matter, and lobby for the lower rate.

The opposite problem also exists with multiple rates and classifications, where variations of the same good are taxed under different rates. In 2017-18, there was a dispute over *barfis* (Indian milk-based sweets). Plain *barfis* were taxed at 5%, but barfis with dry fruits could be taxed at 12%, and chocolate *barfis* could be taxed at 28%. The GST Council had to clarify that chocolate *barfis* would be taxed at 5% as *barfis* and not as chocolate.

If one goes to the GST Council website, there are several hundred notifications, more than one for each day of the law's existence. The central government alone has issued hundreds of such notifications since the implementation of GST in 2017. Each of the 28 states has, similarly, issued hundreds of notifications. There is a constant process of raising disputes and questions, and the government trying to clarify classifications and solve problems. And then there are the legal challenges in courts. And this is only about the current stock of goods and services in the economy. It does not account for new products and services that will surely enter the market in the future.

Some blame the government for not doing a good enough job of detailing and specifying various classifications. It has done a remarkable job, but that is hardly the point. The problem is that it is an impossible task. No matter how detailed the classification codebook, there will be disputes and confusion, because we live in a wonderful world with interesting, complicated, customized goods and services with many dimensions and serving many needs.

The problem is that the finance ministry and the GST Council are asking the wrong question. The question is not how best to classify each good, but to realize the impossibility of successfully classifying each good. Therefore, it is best to do away with the need to classify each good. A single GST for all goods and services needs no classification system. All individuals and firms simply pay the same rate, and the government and the legal system can use valuable time and resources resolving other disputes and problems.

Often, the argument used *against* simplicity in the GST system is the lack of uniformity in the real world. The economy comprises different individuals and firms which come together in a beautiful dance coordinated by the price system. When the individuals and firms are so different, is it fair to treat them equally? After all, the entrepreneur owning a small sweetshop is not in the same position as the entrepreneur owning a luxury car showroom, and fairness demands that the rich pay higher taxes. To make the system just , *barfis* are taxed at 5% while luxury cars at 28%.

One of the main advantages of the GST system is that it provides an incentive for all members in the supply chain to ensure that taxes have been paid at each level. In cases where the supplier has not paid the tax or is exempt, the receiver pays the tax. However, the more complicated the tax classification and rate system, the harder it is to understand the tax burden of all the inputs. For instance, the Diwali holiday gift basket, ubiquitous in India, requires different sweets and dry fruits, etc., as its inputs. If the *barfi* seller is unclear on whether he must classify a chocolate barfi as chocolate at 28% or as a *barfi* at 5%, then the seller creating the gift baskets is also affected. Either the *barfi* seller does not pay the tax, in which case it falls upon the gift basket sellers to figure out whether to pay 5% or 28% on the *barfis* and collect it from the *barfi* seller. Alternatively, the *barfi* seller pays the incorrect amount, affecting the tax payments and deductions of the gift basket seller. So, the more inputs required for any good or service, the higher the compliance burden created by the multiple GST rates. It is not enough to have clarity on one's tax classification, but this extends to every single input. This can get extraordinarily messy and costly.

All this can only be resolved by having a single GST tax rate. If there is no confusion over the tax rate for different inputs, it will help the incentive mechanism built into the GST system work more smoothly.

Complexity increasing the high compliance costs makes the GST regressive. Unfortunately, the intention to help the smaller and poorer firms using multiple tax rates, often makes them worse off. Though 5% is a lower tax burden than 28%, the complicated GST system with its eight different tax rates and myriad exceptions, poses a disproportionately high compliance cost on the sweetshop. The burden to comply with the GST is very similar for both small and larger firms. And because the compliance requirements and therefore the costs are similar, a small firm pays as much larger proportion of its earnings to deal with compliance, relative to a large firm. In this sense, a complicated tax system is regressive, because it forces the poor to spend a greater proportion of their earnings on compliance burden imposed by the tax. Creating complex systems to maintain a progressive tax can perversely create a regressive tax structure once compliance costs are considered.

It is the small firms, shops, and individual innovators and entrepreneurs who need simple rules the most. They need to use the scarce resources at their disposal to best serve their customers, instead of using those resources to pay professionals to help them understand complicated regulatory and tax requirements. The sweet shop owner potentially benefits more from simplicity than a luxury car business.

The GST compliance system has three parts to it. First, each taxpayer needs to figure out the classification and the rates applicable to their good or service. Second, each taxpayer must understand the classification and the rates applicable to their inputs. And then finally, the taxpayer must file returns and pay taxes. Each of these tasks is so complicated and costly under the present regime, that small firms and individual proprietors need to devote a significant proportion of their resources to understand and comply with the GST regime.

The classification system is quite clearly a mess, as briefly discussed above. Each taxpayer must navigate the 438-page long HSN code-book with its 18,306 entries to identify which of the eight tax rates apply to the good or service. Any additional cess, sometimes levied by individual states, must also be added. This is no small task, and there are disputes and notifications, to be tracked, almost daily, to even calculate the criterion for the tax burden under GST.

However, the compliance nightmare does not end there. Much has been said about the extremely cumbersome filing system, where taxpayers had to file monthly returns for central and for state GST. While a move has been made to reduce the frequency of filing returns, the process will be easier and more streamlined with a single rate. If there is no confusion over the tax rate, more businesses are likely to file and submit vouchers on the GSTN on time, which means it is easier for sellers to match vouchers for their inputs and meet their tax and filing requirement with ease and on time.

Now comes the question of equity. For smaller firms, typically categorized as MSME (Micro, Small, and Medium Enterprises), there are 3-4 different aspects that raise compliance costs. First is that both small and large firms must spend similar resources to understand the HSN classification system to determine the tax rates applicable for their goods and all their inputs. Second, both small and large firms have the same number of tax filings per year. Third, the reverse invoice matching system to receive the input credit is similar for small and large firms, which means smaller firms, especially informal firms or those firms sourcing inputs from the informal sector, will have high costs of compliance with invoice matching. And finally, a larger proportion of the working capital is tied up for small (relative to large) firms, while waiting for input credit. Since the GST is only 4 years old in India, of which 18 months has been during the pandemic, there are very few countrywide studies or estimates looking at the exact incidence of compliance costs on MSMEs.

Based on the experience of other developing countries, Emran and Stiglitz (2007) argue that "the regressive bias of compliance costs may be significant. A recent European Commission Staff working paper shows that the compliance costs of VAT are 2.6% of sales for small and medium firms, while it is only 0.02% of sales for large firms."

In India, this sector is large - MSMEs' contribute to a third of the GDP and almost half of all exports. The Finance Ministry's 2019 report (GST MSME Sector 2019) on MSMEs admits that with the imposition of GST "the compliance in terms of time, cost as well as energy is much higher for MSMEs vis-à-vis the bigger companies." Instead of simplifying the system and reducing compliance costs, the Finance Ministry has instead announced a number of relaxations, exceptions, and benefits to MSMEs "necessary in order to help them cope with sudden increase/change in compliance challenges." (p.1)

V. Conclusion

Equity and efficiency considerations in taxation are important everywhere, not just in developing countries. However, in developing countries, they take on different forms. One form discussed here is value added taxes on consumption, because they are broad, easy to administer in poorer countries, and harder to evade, the move becomes inherently regressive.

To counter this problem – the regressive nature of consumption taxes – countries start adding layers of equity enhancing goals and tools. In the end, tax rates proliferate, making the entire system complex. Here complexity is considered the by-product, or essential companion of equity.

Complex tax systems, however, pose problems of both inefficiency and equity. They are inherently regressive, because smaller firms and individuals face a much higher cost of compliance relative to larger firms and richer individuals. Complex tax systems are also prone to interest group capture, and monopolistic industries, with better organized lobbying, also end up at lower tax rates. And if the government favors some sectors but wants to remain revenue neutral, it will increase taxes imposed on other sectors, typically those which are unorganized and have a large number of small competitive firms, that are unable to get the reduced/favorable tax rates.

Though complexity is considered a byproduct of a number of equity enhancing goals, the Indian experience with its GST reform shows the opposite, that there is a tradeoff between equity and complexity.

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APPENDIX I: TIMELINE OF CHANGING GST RATES

16th GST Council Meeting (11th June, 2017)[2]		
Goods	**Old Rate**	**New Rate**
Bones and horn cores, bone grist, bone meal, etc.; hoof meal, horn meal, etc.	5%	0%
Cashew nut	12%	5%
Cashew nut in shell	12%	5% [under Reverse Charge Mechanism]
Raisin	12%	5%
Cereal grains hulled	5%	0%
Palmyra jaggery	18%	0%
Preparations of vegetables, fruits, nuts or other parts of plants	18%/12%	12%
Ketchup and sauces, mustard sauces	18%	12%
Curry paste; Mayonnaise and salad dressings; Mixed condiments and mixed seasonings	28%	18%
Bari made of pulses, including mungodi	18%	12%
Ice and snow	12%	5%
Salt, all types	5%	0%
Bio gas	12%	5%
Dicalcium phosphate (DCP) of animal feed grade	12%	0%
Insulin	12%	5%

[2] [Note- After the 16th GST Council Meeting on 11th June, 2017, (and a subsequent 17th Meeting on 18th June, 2017) the Government notified the entire GST rate schedule *vide* a notification on 28th June, 2017. Post this, rate changes have taken place through notifications.]

Menthol and menthol crystals, Peppermint (Mentha Oil), Fractionated/de-terpenated mentha oil (DTMO), De-mentholised oil (DMO), Spearmint oil, Mentha piperita oil	18%	12%
Kajal [other than kajal pencil sticks]	28%	Nil
Kajal pencil sticks	28%	18%
Agarbatti	12%	5%
Dental wax	28%	18%
All diagnostic kits and reagents	18%	12%
Plastic beads	28%	12%
Plastic tarpaulin	28%	18%
School satchels and bags other than of leather or composition leather; Toilet cases; Handbags and shopping bags of artificial plastic material, of cotton, of jute, vanity bags; Handbags of other materials excluding wicker work or basket work	28%	18%
Exercise books and notebooks	18%	12%
Kites	12%	5%
Children's picture, drawing or colouring books	12%	Nil
Coir mats, matting and floor covering	12%	5%
Headgear and parts thereof	28%	18%
Human hair, dressed, thinned, bleached or otherwise worked	28%	0%
Fly ash blocks	28%	12%
Precast concrete pipes	28%	12%
Salt glazed stone ware pipes	28%	18%
Glasses for corrective spectacles and flint buttons	18%	12%
Rough precious and semi-precious stones	3%	0.25%
Aluminium foil	28%	18%

Spoons, forks, ladles, skimmers, cake servers, fish knives, tongs	18%	12%
All goods, including hooks and eyes	28%	18%
Pawan chakki that is air based atta chakki	28%	5%
Fixed speed diesel engines	28%	12%
Rear tractor tyres and rear tractor tyre tubes	28%	18%
Rear tractor wheel rim, tractor centre housing, tractor housing transmission, tractor support front axle	28%	18%
Weighing machinery [other than electric or electronic weighing machinery]	28%	18%
Printers [other than multifunction printers]	28%	18%
Ball bearing, roller bearings, parts and related accessories	28%	18%
Transformers industrial electronics	28%	18%
Electrical transformer	28%	18%
Static convertors (UPS)	28%	18%
Recorder	28%	18%
CCTV	28%	18%
Two-way radio (Walkie talkie)	28%	12%
Set top box for TV	28%	18%
Computer monitors not exceeding 17 inches	28%	18%
Electrical filaments or discharge lamps	28%	18%
Winding wires	28%	18%
Coaxial cables	28%	18%
Optical fiber	28%	18%

Perforating or stapling machines (staplers), pencil sharpening machines	28%	18%
Baby carriages	28%	18%
Intraocular lens	18%	12%
Spectacles, corrective	18%	12%
Instruments for measuring length, for use in the hand	28%	18%
Bamboo furniture	28%	18%
Playing cards, chess board, carom board and other board games, like ludo, etc.	28%	12%
Swimming pools and padding pools	28%	18%
Muddhas made of sarkanda and phool bahari jhadoo	5%	Nil
Postage or revenue stamps, stamp-post marks, first-day covers, etc.	12%	5%
Numismatic coins	12%	5%
Braille paper, braille typewriters, braille watches, hearing aids and other appliances to compensate for a defect or disability [These goods are covered in List 32 appended to notification No.12/2012-Customs, dated 17.03.2012 and are already at 5% GST rate (Chapter 90)]	–	5%

18th GST Council Meeting (30th June, 2017)[3]		
Goods	**Old Rate**	**New Rate**
Mineral or chemical fertilizers- nitrogenous, phosphatic or potassic	12%	5%

20th GST Council Meeting (5th August, 2017)[4]		
Goods	**Old Rate**	**New Rate**
Tractor accessories like tyres, tube for tyres, diesel engine, bumpers, brakes, gear-boxes, transaxles, clutch assembly, steering wheels etc.	28%	18%

[3] Notification on 30th June 2017 [Notification No.18/2017-Central Tax (Rate)]
[4] Notification on 18th August 2017 [Notification No.19/2017-Central Tax (Rate)]

21st GST Council Meeting (9th September, 2017)[5]		
Goods	**Old Rate**	**New Rate**
Walnuts, whether or not shelled	12%	5%
Tamarind dried	12%	5%
Roasted gram	12%	5%
Grass, leaf or reed or fibre products, including mats, pouches, wallets	12%	5%
Cotton quilts of sale value not exceeding Rs. 1000 per piece	18%	5%
Cotton quilts of sale value exceeding Rs. 1000 per piece	18%	12%
Worked corals other than articles of coral	28%	5%
Broomsticks	5%	Nil
Rosaries, prayer beads and hawan samagri	18%	5%
Tableware and kitchenware of wood	18%	12%
Statues, statuettes, pedestals; High or low reliefs, crosses, figures of animals, bowls, vases, cups, etc.; Other ornamental goods essentially of stone	28%	12%
Pots, jars and similar articles	28%	12%
Tableware, kitchenware, other household articles and toilet articles	18%	12%
Tableware, kitchenware, other household articles and toilet articles, other than of porcelain or china	28%	12%
Statues and other ornamental articles	28%	12%
Bells, and the like, non-electric, of base metal; Statuettes and other ornaments, of base metal; Photograph, picture or similar frames, of base metal; Mirrors of base metal; Metal bidriware	18%	12%
Nozzles for drip irrigation equipment or sprinklers	18%	12%

[5] Notifications on 22nd September, 2017 [Notification No. 27/2017-Central Tax (Rate) and No. 28/2017- Central Tax (Rate)]

Worked ivory, bone, tortoise shell, horn, antlers, mother of pearl, and other animal carving material and articles of these materials, articles of coral	28%	12%
Kitchen gas lighters	28%	18%
Charkha for hand spinning of yarns, including amber charkha	Nil/18%	Nil
Computer monitors upto 20	28%	18%
Paper mache articles	18%	5%
Stone inlay work	28%	12%
Custard powder	28%	18%
Batters	18%	12%
Oil cakes	Nil for cattle feed 5% for other uses	5% [irrespective of end use]
Cotton seed oil cake	Nil for cattle feed 5% for other uses	Nil [irrespective of end use]
Dhoop batti, dhoop, and other similar items	12%	5%
Medical grade sterile disposable gloves of plastics	28%	18%
Plastic raincoats	28%	18%
Rubber bands	28%	12%
Rice rubber rolls for paddy de-husking machine	28%	18%
Duty credit scrips	12%	5%
Khadi fabric	5%	Nil
Corduroy fabrics	12%	5%
Saree fall	12%	5%
Textile caps	18%	12%
Idols made of clay	28%	Nil

Idols of wood, stones and metals [other than those made of precious metals]	28%	12%
Rough industrial diamonds including unsorted rough diamonds	3%	0.25%

[Note- The notification also specified a list of 'indigenous handmade musical instruments' that attract nil rate of GST]

22nd GST Council Meeting (6th October, 2017)[6]		
Goods	**Old Rate**	**New Rate**
Mangoes sliced dried	12%	5%
Khakra and plain chapati/roti	12%	5%
Food preparations put up in unit containers and intended for free distribution to economically weaker sections of the society	18%	5 %
Namkeens other than those put up in unit container	12%	5%
Medicaments, including those used in ayurvedic, unani, siddha, homeopathic or bio-chemic systems	12%	5%
Waste, parings or scrap of plastics	18%	5%
Waste, parings or scrap of rubber [other than hard rubber]	18%	5%
Waste or scrap of hard rubber	28%	5%
Recovered waste or scrap of paper or paperboard	12%	5%
Real zari thread (gold) and silver thread, combined with textile thread	12%	5%
Cullet or other waste or scrap of glass	18%	5%
E-waste	28%/18%	5%
Biomass briquettes	18%	5%
Sewing thread of manmade filaments	18%	12%
Synthetic or artificial filament yarns	18%	12%

[6] Notifications on 13th October, 2017 [Notification No. 34/2017-Central Tax (Rate) and No. 35/2017- Central tax (Rate)] and 18th October, 2017 [Notification No. 39/2017-Central Tax (Rate)]

Sewing thread of manmade staple fibres	18%	12%
Yarn of manmade staple fibres	18%	12%
Poster Colour	28%	18%
Modelling paste for children amusement	28%	18%
All goods other than:- (i) All goods of marble and granite; (ii) Statues, statuettes, pedestals; High or low reliefs, crosses, figures of animals, bowls, vases, cups, cachou boxes, etc.; Other ornamental goods essentially of stone	28%	18%
Fittings for loose-leaf binders or files, letter clips, letter corners, and similar office articles; staples in strips, of base metal	28%	18%
Parts suitable for use solely or principally with fixed speed diesel engines of power not exceeding 15HP	28%	18%
Parts suitable for use solely or principally with power driven pumps primarily designed for handling water	28%	18%
Plain shaft bearings	28%	18%
Duty credit scrips	5%	Nil

23rd GST Council Meeting (10th November, 2017)[7]		
Goods	**Old Rate**	**New Rate**
Chewing gum/bubble gum and white chocolate	28%	18%
Cocoa butter, fat and oil	28%	18%
Cocoa powder, not containing added sugar or sweetening matter	28%	18%
Chocolates and other food preparations containing cocoa	28%	18%
Malt extract; food preparations of flour, groats, meal, starch or malt extract, food preparations not containing cocoa or containing less than 5% by weight of cocoa calculated on a totally defatted basis	28%	18%
Waffles and wafers coated with chocolate or containing chocolate	28%	18%

[7] Notification on 14th November, 2017 [Notification No. 41/2017-Central Tax (Rate) and No. 42/2017 Central tax (Rate)].

Extracts, essences and concentrates of coffee	28%	18%
Food preparations not elsewhere specified or included	28%	18%
Other non-alcoholic beverages	28%	18%
Marble and travertine, other than blocks	28%	18%
Granite, other than blocks	28%	18%
Avgas	28%	18%
Artists' colours, modifying tints, amusement colours and the like	28%	18%
Perfumes and toilet waters	28%	18%
Beauty or make-up preparations and preparations for the care of the skin [other than kajal, kumkum, bindi, sindur, alta]	28%	18%
Preparations for use on the hair [other than hair oil].	28%	18%
Preparations for oral or dental hygiene	28%	18%
Cosmetic or toilet preparations like deodorants, after-shaves etc.	28%	18%
Organic surface-active products and preparations for washing the skin	28%	18%
Organic surface-active agents [other than soap]; Surface-active preparations, washing preparations, including auxiliary washing preparations and cleaning preparations	28%	18%
Lubricating preparations and preparations of a kind used for the oil or grease treatment of textile materials, leather, furskins or other materials	28%	18%
Polishes and creams, for footwear, furniture, floors, coachwork, glass or metal, scouring pastes and powders and similar preparations	28%	18%
Prepared explosives	28%	18%
Fireworks, signalling flares, rain rockets etc.	28%	18%
Ferro-cerium and other pyrophoric alloys; combustible articles	28%	18%
Anti-knock preparations, oxidation inhibitors, and other prepared additives	28%	18%

Preparations and charges for fire-extinguishers; charged fire-extinguishing grenades	28%	18%
Fibre board of wood or other ligneous materials	28%	18%
Plywood, veneered panels and similar laminated wood	28%	18%
Densified wood, in blocks, plates, strips, or profile shapes	28%	18%
Wooden frames for paintings, photographs, mirrors or similar objects	28%	18%
Builders' joinery and carpentry of wood, including cellular wood panels, assembled flooring panels, shingles and shakes	28%	18%
Wood paving blocks, articles of densified wood, parts of domestic decorative articles used as tableware and kitchenware	28%	18%
Wall paper and similar wall coverings; window transparencies of paper	28%	18%
Artificial flowers, foliage and fruit and parts thereof; Articles made of artificial flowers, foliage or fruit	28%	18%
Wool or other animal hair or other textile materials, prepared for use in making wigs or the like	28%	18%
Wigs, false beards, eyebrows and eyelashes, switches and the like	28%	18%
Setts, curbstones and flagstones, of natural stone [except slate]	28%	18%
All goods of marble and granite	28%	18%
Worked slate and articles of slate or of agglomerated slate	28%	18%
Articles of asphalt or of similar material	28%	18%
Panels, boards, tiles, blocks and similar articles	28%	18%
Articles of plaster or of compositions based on plaster, not ornamented	28%	18%
Articles of cement, of concrete or of artificial stone, whether or not reinforced	28%	18%
Fabricated asbestos fibres; Mixtures with a basis of asbestos or with a basis of asbestos and magnesium carbonate; Articles of such mixtures or of asbestos	28%	18%

Friction material and articles thereof for example, sheets, rolls, strips, segments, discs, washers, pads	28%	18%
Worked mica and articles of mica, including agglomerated or reconstituted mica	28%	18%
Articles of stone or of other mineral substances, including carbon fibres and peat	28%	18%
Blocks, tiles and other ceramic goods of siliceous fossil meals or of similar siliceous earths	28%	18%
Ceramic articles like flooring blocks and the like; chimney pots, cowls, pipes, pipe fittings, flags and paving, wall tiles, troughs, tubs, sinks, wash-basins and other ceramic articles	28%	18%
Cast glass and rolled glass, in sheets or profiles	28%	18%
Drawn glass and blown glass, in sheets	28%	18%
Float glass and surface ground or polished glass	28%	18%
Glass bent, edge-worked, engraved, drilled, enamelled or otherwise worked	28%	18%
Safety glass, consisting of toughened (tempered) or laminated glass	28%	18%
Multiple-walled insulating units of glass	28%	18%
Glass mirrors, whether or not framed, including rear-view mirrors	28%	18%
Glass envelopes, including bulbs and tubes, open, and glass parts thereof, for electric lamps, cathode-ray tubes or the like	28%	18%
Signalling glassware and optical elements of glass [other than those of heading 7015], not optically worked	28%	18%
Paving blocks, slabs, bricks, squares, tiles and other articles of pressed or moulded glass; Glass cubes and other glass smallwares; Leaded lights and the like; Multi-cellular or foam glass	28%	18%
Other articles of glass	28%	18%
Stoves [other than kerosene and LPG] ranges, grates, and parts thereof, of iron or steel	28%	18%
Radiators for central heating, air heaters and hot air distributors	28%	18%

Sanitary ware and parts thereof of iron and steel	28%	18%
All goods other than utensils i.e. sanitary ware and parts thereof of copper	28%	18%
Other articles of copper	28%	18%
Doors, windows and their frames and thresholds for doors	28%	18%
All goods other than utensils i.e. sanitary ware and parts thereof	28%	18%
Razors and razor blades, including razor blade blanks in strips	28%	18%
Other articles of cutlery, manicure or pedicure sets and instruments	28%	18%
Base metal mountings, fittings and similar articles; Base metal hat-racks, hat-pegs, brackets and similar fixtures; Castors with mountings of base metal; automatic door closers of base metal	28%	18%
Armoured or reinforced safes and the like, of base metal	28%	18%
Filing cabinets, card-index cabinets, and similar office or desk equipment, of base metal	28%	18%
Sign-plates, name-plates, address-plates and similar plates, numbers, letters and other symbols, of base metal	28%	18%
Concrete pumps	28%	18%
Air or vacuum pumps, air or other gas compressors and fans	28%	18%
Electric or electronic weighing machinery	28%	18%
Fire extinguishers	28%	18%
Fork-lift trucks	28%	18%
Other lifting, handling, loading or unloading machinery	28%	18%
Self-propelled bulldozers, angledozers, graders, levellers etc.	28%	18%
Other moving, grading, levelling, scraping, excavating machinery	28%	18%
Printers, copying machines, facsimile machines, ink cartridges	28%	18%
Other office machines	28%	18%
Automatic goods-vending machines	28%	18%

Machinery for preparing or making up tobacco	28%	18%
Passenger boarding bridges	28%	18%
Crank shafts for sewing machine	28%	18%
Gaskets and similar joints of metal sheeting	28%	18%
Static converters for example, rectifiers, and inductors	28%	18%
Primary cells and primary batteries	28%	18%
Electrical lighting or signalling equipment, windscreen wipers, defrosters and demisters	28%	18%
Portable electric lamps designed to function by their own source of energy	28%	18%
ISDN System, ISDN Terminal Adaptor, X 25 Pads	28%	18%
Single loudspeakers, audio-frequency electric amplifiers, electric sound amplifier sets, parts	28%	18%
Sound recording or reproducing apparatus	28%	18%
Parts and accessories suitable for use solely or principally with the apparatus of headings 8519 or 8521	28%	18%
Transmission apparatus for radio-broadcasting or television	28%	18%
Radar apparatus, radio navigational aid apparatus and radio remote control apparatus	28%	18%
Reception apparatus for radio-broadcasting	28%	18%
Parts suitable for use solely or principally with the apparatus of headings 8525 to 8528	28%	18%
Electrical signalling, safety or traffic control equipment for railways, tramways, roads, inland waterways, etc.	28%	18%
Electric sound or visual signalling apparatus	28%	18%
Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits	28%	18%
Boards, panels, consoles, desks, cabinets and other bases	28%	18%

Sealed beam lamp units and ultra-violet or infra-red lamps, arc lamps	28%	18%
Insulated, including enamelled or anodised, wire, cable and other insulated electric conductors	28%	18%
Brushes and goods under 8545, including arc lamp carbon and battery carbon	28%	18%
Insulating fittings for electrical machines, electrical conduit tubing and joints therefor, of base metal lined with insulating material	28%	18%
Goggles including goggles for corrective vision.	28%	18%
Binoculars, monocular, other optical telescopes, and mountings therefor	28%	18%
Photographic [other than cinematographic] cameras; Photographic flashlight apparatus and flashbulbs	28%	18%
Cinematographic cameras and projectors	28%	18%
Image projectors, other than cinematographic; photographic [other than cinematographic] enlargers and reducers	28%	18%
Apparatus and equipment for photographic [including cinematographic] laboratories	28%	18%
Compound optical microscopes	28%	18%
Microscopes other than optical microscopes; Diffraction apparatus	28%	18%
Liquid crystal devices, other optical appliances and instruments, not specified or included elsewhere in Chapter 90	28%	18%
Direction finding compasses; other navigational instruments and appliances	28%	18%
Surveying [including photogrammetrical surveying] instruments and appliances, excluding compasses; rangefinders	28%	18%
Electric or electronic balances	28%	18%
Apparatus based on the use of X-rays or of alpha, beta or gamma radiations	28%	18%
Instruments, apparatus and models, designed for demonstrational purposes	28%	18%

Wrist-watches, pocket-watches and other watches	28%	18%
Instrument panel clocks and clocks of a similar type	28%	18%
Time of day recording apparatus for example, time registers and time-recorders	28%	18%
Time switches with clock or watch movement or with synchronous motor	28%	18%
Watch movements, complete and assembled	28%	18%
Complete watch movements, incomplete watch movements, assembled; Rough watch movements	28%	18%
Watch cases	28%	18%
Cases for other than clocks, and parts thereof	28%	18%
Watch straps, watch bands and watch bracelets, and parts thereof	28%	18%
Other watch parts	28%	18%
Pianos and other keyboard stringed instruments	28%	18%
Other string musical instruments	28%	18%
Wind musical instruments	28%	18%
Percussion musical instruments	28%	18%
Musical instruments, the sound of which is produced, or must be amplified, electrically	28%	18%
Other musical instruments not falling within any other heading of this chapter	28%	18%
Parts and accessories of musical instruments; Metronomes, tuning forks and pitch pipes of all kinds	28%	18%
Seats whether or not convertible into beds, and parts thereof	28%	18%
Other furniture [other than furniture wholly made of bamboo or cane] and parts thereof	28%	18%
Mattress supports; Articles of bedding and similar furnishing	28%	18%

Lamps and lighting fittings, illuminated signs, illuminated name-plates and the like	28%	18%
Festive, carnival or other entertainment articles	28%	18%
Articles and equipment for general physical exercise, gymnastics, athletics	28%	18%
Roundabouts, swings, shooting galleries and other fairground amusements	28%	18%
Worked vegetable or mineral carving material	28%	18%
Date, sealing or numbering stamps, and the like [including devices for printing or embossing labels]	28%	18%
Cigarette lighters and other lighters	28%	18%
Vacuum flasks and other vacuum vessels	28%	18%
Tailors' dummies and other lay figures	28%	18%
Wet grinder consisting of stone as a grinder	28%	12%
Tanks and other armoured fighting vehicles, motorised	28%	12%

Goods	**Old Rate**	**New Rate**
All goods [except fresh or chilled], put up in unit container	12%	5%
All goods [except fresh or chilled], other than the above	12%/5%	Nil
All goods [except fresh or chilled], other than those put up in unit container	5%	Nil
Condensed milk	18%	12%.
Vegetables (uncooked or cooked by steaming or boiling in water), frozen other than those put up in unit container	5%	Nil
Manioc, arrowroot, salep, Jerusalem artichokes, sweet potatoes and similar roots and tubers	5%	Nil
Dried makhana, other than those put up in unit container	5%	Nil
Desiccated coconut	12%	5%

Flour of potatoes put up in unit container	18%	5%
Meals, powder, flakes, granules and pallets of potatoes other than those put up in unit container	18%	Nil
Guar meal	5%	Nil
Copra other than of seed quality	5%	5%
Hop cones	5%	Nil
Coconut shell, un-worked.	5%	Nil
Khandsari sugar	5%	Nil
All goods, including refined sugar containing added flavouring or colouring matter, sugar cubes [other those which attract are at 5% or Nil GST.]	18%	12%
Puffed rice chikki, peanut chikki, sesame chikki, til chikki, til patti, til revdi, sugar makhana, gajak, groundnut sweats, khaja etc.	18%	5%
Pasta	18%	12%
Other single cell micro-organisms, dead	18%	12 %
Curry paste	18%	12%
Mayonnaise and salad dressings	18%	12%
Mixed, condiments and mixed seasoning	18%	12%
Idli, dosa batter	12%	5%
Diabetic foods	18%	12%
Chutney powder	18%	5%
Uranium ore concentrate	5%	Nil
Fly ash	18%	5%
Medical grade oxygen	18%	12%
Inks	18%	12%
Leather further prepared after tanning or crusting; or metallised, patent or patent laminated	12%	5%

Composition leather with a basis of leather or leather fibre	12%	5%
Hand bags and shopping bags, of cotton or jute	18%	12%
Raw cotton, supplied by agriculturist to a registered person	5%	5% (under reverse charge)
Coir, cordage and ropes	12%	5%
Jute twine	12%	5%
Knotted netting of twine, cordage or rope; Made up fishing nets and other made-up nets, of textile materials	12%	5%
Products of coir	12%	5%
Narrow woven fabrics including Newar cotton	12%	5%
Worn clothing and other worn articles; Rags	5%/12%	5%
Hats (knitted/crocheted) or made up from lace or other textile fabrics	18%	12%
Fly ash bricks	12%	5%
Fly ash aggregate with 90% or more fly ash content	18%	5%
Bangles of lac/shellac	3%	Nil
Parts of agricultural, horticultural or forestry machinery for soil preparation or cultivation; Lawn or sports-ground rollers	18%	12%
Parts of harvesting or threshing machinery, including straw or fodder balers; Grass or hay mowers; Machines for cleaning, sorting or grading eggs, fruit or other agricultural produce	18%	12%
Parts of sewing machines	18%	12%
Frames and mountings for spectacles, goggles or the like, and parts thereof	18%	12%
Orthopaedic appliances, including crutches, surgical belts and trusses	5%	5%
Furniture wholly made of bamboo or cane	18%	12%
Fishing hooks	12%	5%

Specified parts of aircraft	18% / 28%	5%
(i) Scientific and technical instruments, apparatus, equipment (including computers); (ii) Accessories, parts, consumables and live animals (for experimental purposes); (iii) Computer software, Compact DiscRead Only Memory (CD-ROM), recorded magnetic tapes, (iv) Microfilms, microfiches; (v) Proto-types	18%/28%	5%

25th GST Council Meeting (18th January, 2018)[8]		
Goods	**Old Rate**	**New Rate**
Tamarind kernel powder	18%	5%
Mehendi paste in cones	18%	5%
Rice bran (other than de-oiled rice bran)	Nil	5%
Liquefied propane and butane mixture, liquefied propane, liquefied butane and liquefied petroleum gases (LPG) for supply to household domestic consumers	18%	5%
Scientific and technical instruments	18%	5%
Sugar boiled confectionery	18%	12%
Drinking water packed in 20 litres bottles	18%	12%
Fertilizer grade phosphoric acid	18%	12%
Certain biopesticides	18%	12%
Bio-diesel	18%	12%
Bamboo wood building joinery	18%	12%
Tableware and kitchenware of wood	18%	12%
Sprinklers; Drip irrigation system; Mechanical sprayers	18%	12%
Cigarette filter rods	12%	18%
Ghamella	-	18%

[8] Notification on 25th January, 2018 [Notification No. 6/2018-Central Tax (Rate), No. 7/2018- Central Tax (Rate) and No. 8/2018- Central Tax (Rate)]

Articles of straw, or of other plaiting materials; Basketware, etc.	12%	5%
Velvet fabric	12%	5%
Sanitary ware and parts thereof, of iron and steel	28%	18%
Buses for use in public transport which exclusively run on Bio-fuels	28%	18%
Precious stones [other than diamonds], ungraded precious stones [other than diamonds]	3%	0.25%
Diamond and precious stones	3%	0.25%
Synthetic or reconstructed precious stones	3%	0.25%
De-oiled rice bran	-	Nil
Cotton seed oil cake	-	Nil
Vibhuti	-	Nil
Parts and accessories for manufacture of hearing aids	-	Nil
Old and used, petrol liquified petroleum gases (LPG) or compressed natural gas (CNG) or diesel driven motor vehicles or vehicles exceeding engine capacity 1500 cc	28%	18%
All old and used vehicles other than the three mentioned above	28%	12%

28th GST Council Meeting (21st July 2018)[9]		
Goods	**Old Rate**	**New Rate**
Ethyl alcohol supplied to oil marketing companies	18%	5%
Ecaussine and other calcareous monumental or building stone alabaster	-	5%
Fertilizer grade phosphoric acid	12%	5%
Article of apparel and clothing accessories or cap/topi, knitted or crocheted, of sale value not exceeding Rs 1000 per piece	12%	5%
Bamboo flooring	18%	12%
Brass kerosene pressure stove	18%	12%

[9] Notification on 26th July, 2018 [Notification No. 18/2018-Central Tax (Rate)]

Hand operated rubber roller	18%	12%
Fuel cell motor vehicles	28%	12% (with n cess)
Slide fasteners and parts thereof	18%	12%
Paints and varnishes	28%	18%
Glaziers' putty, grafting putty, and other mastics; Painters' fillings; Non-refractory surfacing preparations for indoor walls, floors, ceilings etc.	28%	18%
Refrigerators, freezers and other refrigerating or freezing equipment, electric or other	28%	18%
Household or laundry-type washing machines, including machines which both wash and dry	28%	18%
Lithium-ion batteries	28%	18%
Vacuum cleaners	28%	18%
Electro-mechanical domestic appliances, with self-contained electric motor, other than vacuum cleaners	28%	18%
Shavers, hair clippers and hair-removing appliances, with self-contained electric motor	28%	18%
Electric instantaneous or storage water heaters and immersion heaters; electro thermic hairdressing apparatus and hand dryers.	28%	18%
Television set, including LCD or LED television, of screen size not exceeding 68 cm	28%	18%
Special purpose motor vehicles, other than those principally designed for the transport of persons or goods	28%	18%
Works trucks, self-propelled, not fitted with lifting or handling equipment, tractors of the type used on railway station platforms; Parts of the foregoing vehicles	28%	18%
Trailers and semi-trailers; Other vehicles, not mechanically propelled; parts thereof	28%	18%
Scent sprays and similar toilet sprays, and mounts and heads therefor; Powder-puffs and pads for the application of cosmetics or toilet preparations	28%	18%

28th GST Council Meeting (21st July, 2018)[10]		
Goods	**Old Rate**	**New Rate**
Sal leaves, siali leaves, sisal leaves	5%	Nil
Vegetable materials, for manufacture of jhadoo or broom sticks	5%	Nil
De-oiled rice bran	5%	Nil
Deities made of stone, marble or wood	5%	Nil
Khali dona; Goods made of sal leaves, siali leaves, sisal leaves,	5%	Nil
Rupee notes or coins when sold to Reserve Bank of India or the Government of India	18%/12%/5 %	Nil
Coir pith compost other than those put up in unit container	5%	Nil
Sanitary towels (pads) or sanitary napkins; tampons	12%	Nil
Rakhi	18%	Nil

28th GST Council Meeting (21st July, 2018)[11]		
Goods	**Old Rate**	**New Rate**
Handcrafted candles	18%	12%
Handbags including pouches and purses; Jewellery box	18%	12%
Carved wood products, art ware/decorative articles of wood, including inlay work, casks, barrel, vats	18%	12%
Wooden frames for painting, photographs, mirrors etc.	18%	12%
Statuettes and other ornaments of wood, wood marquetry and inlaid, jewellery box, wood lathe and lacquer work	18%	12%
Art ware of cork, including articles of sholapith	18%	12%
Solid bio-fuel pellets and biomass briquettes	18%	5%
Chenille fabrics and other fabrics	12%	5%

[10] Notification on 26th July, 2018 [Notification No.19/2018-Central Tax (Rate)]
[11] Notification on 26th July, 2018 [Notification No.19/2018-Central Tax (Rate)]

Mats, matting and screens of vegetable material, basketwork, wickerwork and other articles of vegetable materials	12%	5%
Articles made of paper mache	12%	5%
Coir articles	12%	5%
Toran, doorway decoration made from cotton yarn or woollen yarn and aabhala (mirror)	12%	5%
Handmade carpets, handmade textile floor coverings, lace, tapestries, braids, embroidered articles, shawls, not exceeding Rs. 1000	12%	5%
Handmade/hand embroidered shawls of sale value exceeding Rs. 1000 per piece	18%	12%
Carved stone products for example, statues, statuettes, figures of animals etc.	18%	12%
Stone art ware, stone inlay work	18%	12%
Tableware and kitchenware of clay and terracotta, other clay articles	18%	12%
Statuettes and other ornamental ceramic articles including blue potteries	18%	12%
Ornamental framed mirrors	18%	12%
Bangles, beads and small ware	-	5%
Glass statues [other than those of crystal]	18%	12%
Glass art ware	18%	12%
Silver filigree work	-	3%
Handmade imitation jewellery	-	3%
Art ware of iron	18%	12%
Art ware of brass, copper/copper alloys, electro plated with nickel/silver	18%	12%
Aluminium art ware	18%	12%
Bells, gongs and like, non-electric; Statuettes, and other ornaments; Photograph, picture or similar frames; and mirrors of base metal	18%	12%

Handcrafted lamps, including panchloga lamp	18%	12%
Furniture of bamboo, rattan and cane	18%	12%
Dolls or other toys made of wood or metal or textile material	18%	12%
Ganjifa card	18%	12%
Worked articles of ivory, bone, tortoise shell, horn, antlers, coral, mother of pearl, seashell other animal carving material	18%	12%
Worked vegetable or mineral carving, articles of wax, of stearin, of natural gums or natural resins or of modelling pastes	18%	12%
Hand paintings drawings and pastels	18%	12%
Original sculptures and statuary, in metal, stone or any other material	18%	12%

31st GST Council Meeting (21st December, 2018)[12]		
Goods	**Old rate**	**New rate**
Vegetables which are preserved provisionally but are not suitable for immediate consumption	5%	Nil
Cooked or uncooked vegetables which are steamed, frozen or boiled (branded)	5%	Nil
Music books	12%	Nil
Parts for manufacturing renewable energy devices[13]	-	5%
Natural cork, raw or simply prepared	12%	5%
Footwear of sale value not exceeding Rs. 1000 per pair	18%	5%
Fly ash blocks; Fly ash bricks or fly ash aggregate with 90 per cent or more fly ash content	12%	5%
Walking sticks, including seat sticks	12%	5%
Marble rubble	18%	5%

[12] Notification on 31st December, 2018 [Notification No.24/2018-Central Tax (Rate) and No. 25/2018- Central Tax (Rate)]

[13] This rate was prescribed in the meeting.

Agglomerated cork	18%	12%
Cork roughly squared or debugged	18%	12%
Articles of natural cork	18%	12%
Flexible intermediate bulk containers	5%/12%	12%
Movie tickets worth Rs. 100 or less	18%	12%
Premium on third party insurance on vehicles	18%	12%
Accessories for handicapped mobility vehicles	28%	5%
Power banks	28%	18%
Movie tickets worth more than Rs.100	28%	18%
Video game consoles, equipments used for billiards and snooker etc.	28%	18%
Lithium-ion accumulators [other than battery] including lithium-ion power bank	28%	18%
Retreated and used pneumatic rubber tyres	28%	18%
Colour television sets and monitors up to "32 Inches"	28%	18%
Digital and video camera recorders	28%	18%
Pulleys, transmission shafts, cranks and gear boxes	28%	18%

36th GST Council Meeting (27th July, 2019)[14]		
Goods	**Old rate**	**New rate**
Electric chargers	18%	5%
Electric vehicles	12%	5%

37th GST Council Meeting (20th September, 2019)[15]		
Goods	**Old rate**	**New rate**

[14] Notification on 31st July, 2019 [Notification No. 12/2019-Central Tax (Rate)]
[15] Notification on 30th September, 2019 [Notification No. 14/2019-Central Tax (Rate), No. 15/2019- Central Tax (Rate), No. 16/2019- Central Tax (Rate) and No. 20/2019- Central Tax (Rate)]

Plates and cups made of tree products	5%	Nil
Caffeinated beverages	18%	28%+12% cess
Supplies of railways wagons and coaches (without the refund of accumulated ITC)	5%	12%
Diamond job work	5%	1.5%
Other job work	18%	12%
Woven or non-woven polyethylene packaging bags	18%	12%
Marine fuel	18%	5%
Almond milk[16]	-	18%
Parts of slide fasteners	18%	12%
Wet grinders consisting of stone as a grinder	12%	5%
Dried tamarind	5%	Nil
Semi-precious stones- cut and polished	3%	0.25%
Specified goods for petroleum operation under Hydrocarbon Exploration Licensing Policy	Applicable rate	5%

38th GST Council Meeting (18th December, 2019)[17]		
Goods	**Old rate**	**New rate**
Sacks of polythene and polypropylene	12%	18%
State owned lotteries	12%	28%
State authorized lotteries	28%	28%
Woven and non-woven fabrics	12%	18%
Flexible intermediate bulk containers	12%	18%

16 This was a clarification by the CBIC.

17 Notification on 30th December, 2019 [Notification No.27/2019-Central Tax (Rate)] and 21st February, 2020 [Notification No. 1/2020-Central Tax (Rate)]

39th GST Council Meeting (14th March 2020)[18]		
Goods	**Old rate**	**New rate**
Handmade matches	5%	12%
Mobile phones	12%	18%
Other matches	18%	12%
Aircraft MRO services	18%	5% along with full ITC

43rd GST Council Meeting (28th May, 2021)[19]		
Goods	**Old Rate**	**New Rate**
Diethylcarbamazine	12%	5%

44th GST Council Meeting (12th June, 2021)[20]		
Goods	**Old Rate**	**New Rate**
Medical grade oxygen	12%	5%
Tocilizumab and Amphotericin B	5%	Nil
Remdesivir and Heparin	12%	5%
Covid-19 testing kits	12%	5%
Inflammatory diagnostic (marker) kits	12%	5%
Hand sanitizer	18%	5%
Helmets for use with non-invasive ventilation	12%	5%
Gas/electric/other furnaces for crematorium	18%	5%
Oximeter/high nasal flow canula device/oxygen generator/ventilators/BiPAP machine	12%	5%

[18] Notification on 25th March, 2020 [Notification No. 03/2020-Central Tax (Rate)] and 26th March, 2020 [Notification No. 02/2020- Central Tax (Rate)]
[19] Notification on 02nd June, 2021 [Notification No. 01/2021 – Central Tax (Rate)]
[20] Notification on 14th June, 2021 [Notification No. 05/2021-Central Tax (Rate)]

(i) Non-invasive ventilation nasal or oronasal masks for ICU ventilators (ii) Canula for use with ventilators	12%	5%
Temperature check equipment	18%	5%
Ambulance	28%	12%

APPENDIX II - CESS RATES ON VARIOUS GOODS AND SERVICES

S.No.	Goods	Rates
1.	Pan masala	60%
2.	Unmanufactured tobacco (with lime tube) – featuring a brand name	65%
3.	Unmanufactured tobacco (without lime tube) – with a brand name	71%
4.	Branded tobacco refuse	61%
5.	Cheroots and Cigar	21% or 4170 per thousand, whichever higher
6.	Cigarillos	21% or 4170 per thousand, whichever higher
7.	Cigarettes containing tobacco excluding filter cigarettes, of length not more than 65mm	5% + 2076 per thousand
8.	Cigarettes containing tobacco apart from filter cigarettes, of length more than 65mm and up to 75mm	5% + 3668 per thousand
9.	Branded 'hookah' or 'gudaku' tobacco	72%
10.	Chewing tobacco (without lime tube)	160%
11.	Chewing tobacco (with lime tube)	142%
12.	Pan masala (gutkha) containing tobacco	204%
13.	All goods, excluding pan masala containing tobacco 'gutkha', with the brand name	96%
14.	All goods, excluding pan masala containing tobacco 'gutkha', not bearing a brand name	89%
15.	Coal, ovoids, briquettes, and similar solid fuels manufactured from lignite, coal, whether or not agglomerated, excluding jet, peat (including peat litter), whether or not agglomerated	400 per tonne
16.	Aerated waters	12%
17.	Motor cars and other motor vehicles (including station wagons and racing cars) principally designed for the transport of persons (excluding motor vehicles for the transport of 10 or more persons, including the driver)	15%
18.	Petrol, liquefied petroleum gas (LPG) or compressed natural gas (CNG) driven motor vehicles of engine capacity not exceeding 1200cc and of length not exceeding 4000mm.	1%
19.	Diesel driven motor vehicles of engine capacity not exceeding 1500cc and of length not exceeding 4000mm.	3%
20.	Motor vehicles of engine capacity not exceeding 1500 cc	17%

21.	Motor vehicles of engine capacity over 1500cc, popularly known as Sports Utility Vehicles (SUVs) including utility vehicles.	22%