Q1

Enumerate the indirect taxes which have been subsumed in the goods and services tax (GST) in India. Also, comment on the revenue implications of the GST introduced in India since July 2017.

UPSC Civil Services Mains 2019 · GS III · 10 marks · Government Budgeting

Government Budgeting.

Core demand of the question

- Enumerate the central and State indirect taxes subsumed in the Goods and Services Tax from July 2017
- **Comment on revenue implications:** collections, compensation to States, buoyancy, and remaining gaps
- Keep a 10-mark length

Revision summary

GST from 1 July 2017 subsumed central excise, service tax, CVD, SAD, VAT, CST, entry tax, luxury tax and related cesses.

Petroleum products, alcohol for human consumption and electricity stay outside.

Compensation Act 2017 gave States a 14 per cent floor over the 2015-16 base for five years.

Early collections were uneven; later compliance rails raised monthly GST.

Revenue will thicken if slabs shrink and petroleum enters GST in a phased way.

Introduction

The **Goods and Services Tax (GST)** began on **1 July 2017** under the **101st Constitutional Amendment. It replaced a stack of Union and State indirect taxes with a destination-based levy: Central GST, State GST and Integrated GST**. The design aimed to end cascading and to create one national market. Revenue, however, is a separate test from legal subsumption.

Body

Indirect taxes subsumed

- **Central taxes** that went into GST include **Central Excise Duty** on most goods, additional excise duties (including medicinal and toilet preparations and specified textile duties), **Service Tax**, **Additional Duty of Customs (countervailing duty)**, **Special Additional Duty of Customs**, and Union **surcharges and cesses** linked to supply of goods and services.
- **State taxes** subsumed include **Value Added Tax / sales tax**, **Central Sales Tax**, **purchase tax**, **luxury tax**, **entry tax** in all forms, **entertainment and amusement tax** except where a local body still levies it, taxes on **advertisements**, taxes on **lotteries, betting and gambling**, and related State **surcharges and cesses**.

- **Not subsumed:** petroleum crude, high-speed diesel, petrol, natural gas and aviation turbine fuel (until the Council notifies them), **alcoholic liquor for human consumption**, electricity duty, stamp duty, and most local property taxes.
- **Tobacco** still carries a residual Union excise in addition to GST. Compensation **cess** on specified luxury and sin goods funds State compensation, not the old VAT stack.

Revenue implications since July 2017

- Cascading fell because of **end-to-end input tax credit**, and **e-way bills** plus later **e-invoicing** raised the audit trail, which is a revenue gain through formalisation.
- The **GST (Compensation to States) Act, 2017** promised States a **14 per cent** annual increase over the **2015-16** protected base for five years, paid from compensation cess. That showed the Union expected a **transition shortfall**, especially for manufacturing States.
- Early years saw **uneven** **monthly collections**, inverted duty structures, delayed **refunds** to exporters, and **GST Network** teething problems. Several States needed compensation; the **GST Council** repeatedly tweaked rates, which cut some buoyancy even as the base widened.
- After the first shock, collections recovered and later crossed the **one-lakh-crore-a-month** mark on a sustained basis, which supports the claim that GST is **revenue-productive** once compliance rails work. Tax-to-GDP for GST still sits below the original ambition of a simple two-rate tax with petroleum inside the base.
- **Fifteenth Finance Commission** treated GST as the new State tax reality and flagged compensation design after June 2022. **Way forward**: fewer slabs, a working **GST Appellate Tribunal**, including petroleum in a phased way, and faster refunds so credit does not become a hidden tax.

Flow diagram

Old Union and State indirect taxes -> GST from July 2017

GST from July 2017 -> CGST SGST IGST

GST from July 2017 -> Petroleum alcohol still out

CGST SGST IGST -> Credit trail and e-way bill

Petroleum alcohol still out -> Compensation cess to States

Credit trail and e-way bill -> Buoyancy after teething

Compensation cess to States -> Buoyancy after teething

Conclusion

GST subsumed the main Union and State indirect taxes on goods and services, leaving petroleum, alcohol and a few local levies outside. Revenue first dipped and needed a 14 per cent compensation floor; later, formalisation and e-way bills lifted collections. The next revenue gain is fewer rates and a wider base, not another cess.

Facts & figures

Taxes subsumed

Union: excise (most goods), service tax, CVD, SAD and related cesses. States: VAT, CST, purchase, luxury, entry, specified entertainment and advertisement taxes, lottery/betting taxes.

Compensation Act 2017

Guaranteed States 14 per cent annual growth over 2015-16 tax for five years, funded by compensation cess.

GST Council

Union-State body that sets rates and rules; repeated rate cuts in the early years traded buoyancy for political buy-in.

Monthly collections

After a weak start, GST later sustained months above one lakh crore, showing a wider formal base rather than only rate hikes.