

GST Has Increased India's Reliance on Indirect Taxes, Hurting the Poor

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Representative image. Photo: PTI

As India celebrates four years of the Goods and Services Tax (GST), it has emerged that its implementation has widened existing economic inequalities in the country, as it has put an additional burden of tax on the poor.

Under the GST regime, the country is relying more on the indirect tax, which is applicable to everyone who makes a purchase or uses a service. During the last four years, indirect tax as a share of gross revenue receipt has been increasing. In contrast, there is a decline in the proportion of corporate tax in gross tax revenue receipt of the Union government. Too much reliance on revenues from the GST will increase inequality in the future.

On July 1, 2017, the country adopted the GST. It was touted as the biggest tax reform in the country. This subsumed around 17 taxes and levies, which included the central excise duty, services tax, additional customs duty, surcharges, state-level value-added tax and Octroi.

Replacing the complex system of indirect taxes, GST simplified the tax by making it a destination tax. Commemorating this achievement, the Ministry of Finance [expressed its happiness as there has been a significant increase in the number of taxpayers](#). This has also significantly eased one of the most complex tax systems in India.

Yes, it's true that the tax system is made simpler and instead of a number of taxes, the GST regime has made the slogan 'one country and one tax' possible. On the other hand, however, it has also opened the windows towards inequality by bringing in a larger number of common people under the ambit of tax.

Share of direct and indirect taxes under GST regime

In the financial year 2017-18 when the GST was implemented, the share of direct taxes was almost more than half of the gross tax revenue receipt of the Union government. It was 52% of the gross tax revenue. It gradually declined to 47% during the financial year 2020-21. During the financial year 2021-22, it is estimated that the proportion of direct tax to the gross tax revenue would stand at 49%.

Similarly, revenue from corporate taxes as a percentage of gross tax revenue had declined during this period. It was 32% of the gross tax revenue during the financial year 2017-18, which decreased to 24% during 2020-21. In 2021-22, the proportion is at a slightly higher projection at 25%. This data shows that the dependency on indirect taxes has increased more than direct taxes.

Indirect taxes are regressive in nature. It affects the poor adversely and hence results in a rise in inequality. This effect could be neutralised if the increased revenue is used to increase the social sector expenditure, especially on health and education. But, the budget allocated for these two critical sectors shows that there has been a decline or minimal increase in the expenditure as a percentage of total Union budget expenditure.

In the pre-GST period, the 2016-17 Union budget had 2.04% of its money spent for the Ministry of Health and Family Welfare, which increased slightly to 2.21% during the year 2021-22. However, the budget for the Ministry of Human Resource Development (now the Ministry of Education), which takes care of primary, secondary and higher education, declined to 2.68% in 2021-22 budget estimate from 3.65% in the pre-GST period (2016-17).

Expenditure towards some of the crucial central government schemes has also declined — the MGNREGA had got 2.44% of the Union budget in 2016-17, but it declined to 2.10% during the year 2021-22. The National Health Mission has also got a lesser proportion in comparison to the pre-GST period; it declined from 1.2% in 2016-17 to 1.1% in 2021-22.

The current pandemic has shaken up the economy. India has witnessed a sharp rise in poverty due to the lockdown in the first wave of the COVID-19 pandemic. The second wave is further worsening the poverty in the country. Studies [show that around 230 million have been pushed into poverty](#).

The lives of millions can only be bettered by increased spending on health, livelihood and education. However, due to frequent lockdowns, the revenue collection of the country has been severely affected. Thus, there is a need to generate additional resources to bring the life of citizens back on track. Leaving the options for wealth tax and other direct taxes, any effort to generate additional resources through indirect taxes will doubly affect the poor and increase inequality.

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