Module on

Tax Policy and Reforms in India including GST

Reference:

Tax Policy (http://www.oecd.org/investment/toolkit/policyareas/41890309.pdf)

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Tax: Public Revenue

I. A tax is:

- a payment in money
- required by a government that is **unrelated** to any specific benefit or service received from the government
- a financial, mandatory, non-equivalent, non-specific charge or other levy imposed on a taxpayer by a state.
- The tax is implemented by law.
- The failure to pay taxes is punishable by law.
- The taxes can be paid regularly or occasionally based on certain conditions stipulated by the tax legislation.

II. The three criteria necessary to be a tax are

- the payment is required (by the law)
- imposed by a government
- not tied directly to the benefit received by the taxpayer.

III. Sources of finance

- Tax = Main Source
- User charges
  - Prices charged for the delivery of certain public goods and services
  - Examples: Toll roads, public swimming pools
- Administrative fees
  - Definition of service/benefit
  - Examples: Liquor licences, parking tickets
- Borrowings

IV. The Main Issues of Tax Theory

There are two main issues related to tax theory:

- **Normative**: How to design taxes to promote social welfare in terms of the public interest in efficiency and equity
- **Positive**: The economic effects of the various taxes that governments use
  - What effects do taxes have on people's desires to consume, save, supply their labor, or on firms' desire to invest?
  - Who bears the burden of various taxes?

- Public officials need to be able to answer these questions to design taxes that promote social welfare

V. Tax Principles

Economists believe that any broad-based tax should possess five characteristics:

1. Ease of collection
2. Ease of compliance
3. Flexibility
4. Promotion of economic efficiency
5. Promotion of end-results equity

VI. Six Main Taxes

1. **A personal income tax**
   - Tax on income received by individuals
   - Typically collected from firms who withhold pay
   - Tax liability calculated once a year and refund or extra payment made depending on whether enough was withheld
2. **A payroll tax**
   - Tax levied on the wage and salary component of income
   - Half tax collected from employers / half from workers
   - Earmarked for Social Security in US
3. **A corporate income tax**
   - Tax levied on accounting profits of corporations
4. **A property tax**
   - Tax on value of items of wealth – usually residential, commercial and industrial properties
   - Levied on owner of property
   - Value assessed periodically by tax authorities
5. **An excise tax**
   - Tax on the sale of a single product (e.g. gasoline, alcohol, cigarettes)
   - Designed to reduce consumption of good
6. **A value-added tax**
   - Tax on value added of firms (which is the difference between sales revenue and input purchases)
   - Levied on firms

Principles of Taxation

A good tax system must fulfill certain principles if it is to raise adequate revenue and fulfill certain social objectives. Adam Smith had explained four principles of taxation which he thought a good tax must fulfill.

These four principles are of

(1) Equality; (2) Certainty; (3) Convenience; and (4) Economy

These are still regarded as characteristics of a good tax system. However, there have been significant developments in economic theory and policy since Adam Smith wrote his book 'The Wealth of Nations' and the activities and functions of Government have enormously increased. Now, the Governments are expected to maintain economic stability at full employment level, they are to reduce inequalities in the income distribution, and they are also to perform the functions of a Welfare State.

Above all, they are to promote economic growth and development, especially in the developing countries, not only through encouraging private enterprise, but by undertaking the task of production in some strategic industries. Thus, in order to devise a good tax system, these objectives and functions of Government's economic policy must be kept in view. Similarly, any tax reforms must lead the system towards these principles.

It may be noted that Adam Smith was basically concerned with how the wealth of nations or, in other words, production capacity of the economy can be increased and he thought that private enterprise working on the basis of free market mechanism would ensure efficient use of resources and, if left unfettered would bring about rapid economic growth.

His ideas about public finance were influenced by his economic philosophy of virtues of free private enterprise. In proposing the above-mentioned Principles of taxation, he was guided only by the sole objective that Government should be able to raise sufficient revenue to discharge its limited functions of providing for defense, maintaining law and order, and, public utility services.

Both the objectives and functions of modern Governments have increased necessitating large resources. Therefore, the modern economists have added other principles or characteristics which taxation system of a country must satisfy if the objectives of modern Governments are to be achieved. In what follows, we shall spell out in detail the principles and characteristics of a good tax system starting with the explanation of Smith's principles of taxation.

1. **Principle of Equality**

The first principle of a good tax system emphasised by Adam Smith is of equality. According to the canon of equality, every person should pay to the Government according to his ability to pay, that is, in proportion of the income or revenue.

Thus, under the tax system based on equality principle the richer persons in the society will pay more than the poor. On the basis of this canon of equality or ability to pay Adam Smith argued that taxes should be proportional to income, that is, everybody should pay the same rate or percentage of his income as tax.

However, modem economists interpret equality or ability to pay differently from Adam Smith. Based on the assumption of diminishing marginal utility of money income, they argue that ability to pay principle calls for progressive income tax, that is, the rate of tax increases as income rises. Now, in most of the countries, progressive system of income and other direct taxes have been adopted to ensure equality in the tax system.

It may, however, be mentioned here that there are two aspects of ability to pay principle. First is the concept of horizontal equity. According to the concept of horizontal equity, those who are equal, that is, similarly situated persons ought to be treated equally. This implies that those who have same income should pay the same amount of tax and there should be no discrimination between them.

Second is the concept of vertical equity. The concept of vertical equity is concerned with how people with different abilities to pay should be treated for the purposes of division of tax burden. In other words, what various tax rates should be levied on people with different levels of income, A good tax system must be such that it can ensure the horizontal as well as vertical equity.

2. **Principle of Certainty**

Another important principle of a good tax system on which Adam Smith laid a good deal of stress is the canon of certainty. To quote Adam Smith, 'The tax which each individual is bound to pay ought to be certain and not arbitrary.

The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person. A successful function of an economy requires that the people, especially business class, must be certain about the sum of tax that they have to pay on their income from work or investment.

The tax system should be such that sum of tax should not be arbitrarily fixed by the income tax authorities. While taking a decision about the amount of work effort that a person should put in or how much investment should he undertake under risky circumstances, he must know with certainty the definite amount of the tax payable by him on his income. If the sum of tax payable by him is subject to much discretion and arbitrariness of the tax assessment authority, this will weaken his incentive to work and invest more.

Moreover, lack of certainty in the tax system, as pointed out by Smith, encourages corruption in the tax administration. Therefore, in a good tax system, "individuals should be secure against unpredictable taxes levied on their wages or other incomes; the law should be clear and specific; tax collectors should have little discretion about how much to assess tax payers; for this is a very great power and subject to abuse."

Indian tax system violates this canon of certainty as under the Indian income tax law a lot of discretionary powers have been given to the income tax officers, which have been abused with impunity. As a result, there is a lot of harassment of the tax payers and corruption is rampant in the income tax department.

3. Principle of Convenience

According to the third canon of Adam Smith, the sum, time and/manner of payment of a tax should not only be certain but the time and manner of its payment should also be convenient to the contributor. If land revenue is collected at the time of harvest, it will be convenient since at this time farmers reap their crop and obtain income.

In recent years efforts have been made to make the Indian income tax convenient to the tax payers by providing for its payments in installments as advance payments at various times during the year. Further, income tax in India is levied on the basis of income received rather than income accrued during a year. This also makes the income tax system convenient.

4. **Principle of Economy (Tax Buoyancy)**

The Government has to spend money on collecting taxes levied by it- Since collection costs of taxes add nothing to the national product, they should be minimized as far as possible. If the collection costs of a tax are more than the total revenue yielded by it, it is not worthwhile to levy it.

More complicated a tax system, more elaborate administrative machinery will be employed to collect it and consequently collection costs will be relatively larger. Therefore, even for achieving economy in the tax collection, the taxes should be as simple as possible and tax laws should not be subject to different interpretations. It must be assigned to the central government. The cost of tax collection should be minimum similarly; there should be no scope for fraudulence and evasion of taxes. Double and multiple taxation should also be avoided.

In addition, there are more principles which be added to the list, though not originally provided by Adam Smith

5. **Flexibility**

It should be possible to change the tax if economic activity changes or government aims change. The revenue from some taxes changes automatically to offset economic booms and slumps. For instance, tax revenue rises from income tax and sales tax, without any change in the rates, when there is an economic boom. This is because more people will be employed, incomes will rise and people will spend more. Such a rise in tax revenue may slow down the rise in aggregate demand and prevent inflationary pressure building up. The resources of each unit should be adequate to meet the immediate needs of the present and should be elastic enough as well, to meet the growing needs of the future.

6. **Efficiency**

A tax should improve the performance of markets or at least, not significantly reduce the efficiency of markets. For instance, an extra one-off tax, sometimes called a windfall tax, imposed on high supernormal profits of banks may encourage banks to reduce the charges they impose on customers. Tax on pollution may result in a cleaner environment. Income tax rates should not be set so high that they discourage effort. In practice, it is unlikely that a tax will have all of these qualities. For example, income tax can score high on equity and flexibility but not on certainty and buoyancy, if a number of tax allowances are given.

Tax Policy & Administration

A country's tax regime is a key policy instrument that may negatively or positively influence investment. Tax Policy in the PFI relates to the formulation of a tax strategy which is supportive to investment. It covers the advantages and disadvantages of alternative tax policy choices in meeting the twin goals of offering a tax system attractive to investment, while at the same time raising revenues to support the key pillars of a business-enabling environment, such as infrastructure. A poorly designed tax system, where the rules and their application are non-transparent, overly complex or unpredictable, may discourage investment adding to project costs and uncertainty. Systems that leave excessive administrative discretion in the hands of tax officials tend to invite corruption and undermine good governance objectives fundamental to securing an attractive investment environment. Policy makers are therefore encouraged to ensure that their tax system imposes an acceptable tax burden that can be accurately determined, and which keeps tax compliance and tax administration costs in check.

This chapter seeks to assist countries like India in understanding the bottlenecks within their current tax system and to propose changes to improve the efficiency of the system in terms of its ability to mobilize revenue on the one hand and attract the right kind of investment on the other. It identifies the nine most important questions relevant for judging the effectiveness of a country's tax policies and practices and offers specific guidance in formulating a tax policy strategy which is supportive to investment.

Source: (http://www.oecd.org/investment/toolkit/policyareas/41890309.pdf)

Tax Policy for Developing Countries like India

Why do we have taxes? The simple answer is that, until someone comes up with a better idea, taxation is the only practical means of raising the revenue to finance government spending on the goods and services that most of us demand. Setting up an efficient and fair tax system is, however, far from simple, particularly for developing countries that want to become integrated in the international economy. The ideal tax system in these countries should raise essential revenue without excessive government borrowing, and should do so without discouraging economic activity and without deviating too much from tax systems in other countries.

Developing countries face formidable challenges when they attempt to establish efficient tax systems. First, most workers in these countries are typically employed in agriculture or in small, informal enterprises. As they are seldom paid a regular, fixed wage, their earnings fluctuate, and many are paid in cash, "off the books." The base for an income tax is therefore hard to calculate. Nor do workers in these countries typically spend their earnings in large stores that keep accurate records of sales and inventories. As a result, modern means of raising revenue, such as income taxes and consumer taxes, play a diminished role in these economies, and the possibility that the government will achieve high tax levels is virtually excluded.

Second, it is difficult to create an efficient tax administration without a well-educated and well-trained staff, when money is lacking to pay good wages to tax officials and to computerize the operation (or even to provide efficient telephone and mail services), and when taxpayers have limited ability to keep accounts. As a result, governments often take the path of least resistance, developing tax systems that allow them to exploit whatever options are available rather than establishing rational, modern, and efficient tax systems.

Third, because of the informal structure of the economy in many developing countries and because of financial limitations, statistical and tax offices have difficulty in generating reliable statistics. This lack of data prevents policymakers from assessing the potential impact of major changes to the tax system. As a result, marginal changes are often preferred over major structural changes, even when the latter are clearly preferable. This perpetuates inefficient tax structures.

Fourth, income tends to be unevenly distributed within developing countries. Although raising high tax revenues in this situation ideally calls for the rich to be taxed more heavily than the poor, the economic and political power of rich taxpayers often allows them to prevent fiscal reforms that would increase their tax burdens. This explains in part why many developing countries have not fully exploited personal income and property taxes and why their tax systems rarely achieve satisfactory progressivity (in other words, where the rich pay proportionately more taxes).

In conclusion, in developing countries, tax policy is often the art of the possible rather than the pursuit of the optimal. It is therefore not surprising that economic theory and especially optimal taxation literature have had relatively little impact on the design of tax systems in these countries. In discussing tax policy issues facing many developing countries today, the authors of this pamphlet consequently draw on extensive practical, first-hand experience with the IMF's provision of tax policy advice to those countries. They consider these issues from both the macroeconomic (the level and composition of tax revenue) and microeconomic (design aspects of specific taxes) perspective.

Tax Policy Challenges for Developing Countries like India

Developing countries attempting to become fully integrated in the world economy will probably need a higher tax level if they are to pursue a government role closer to that of industrial countries, which, on average, enjoy twice the tax revenue. Developing countries will need to reduce sharply their reliance on foreign trade taxes, without at the same time creating economic disincentives, especially in raising more revenue from personal income tax. To meet these challenges, policymakers in these countries will have to get their policy priorities right and have the political will to implement the necessary reforms. Tax administrations must be strengthened to accompany the needed policy changes.

As trade barriers come down and capital becomes more mobile, the formulation of sound tax policy poses significant challenges for developing countries. The need to replace foreign trade taxes with domestic taxes will be accompanied by growing concerns about profit diversion by foreign investors, which weak provisions against tax abuse in the tax laws as well as inadequate technical training of tax auditors in many developing countries are currently unable to deter. A concerted effort to eliminate these deficiencies is therefore of the utmost urgency.

Tax competition is another policy challenge in a world of liberalized capital movement. The effectiveness of tax incentives—in the absence of other necessary fundamentals—is highly questionable. A tax system that is riddled with such incentives will inevitably provide fertile grounds for rent-seeking activities. To allow their emerging markets to take proper root, developing countries would be well advised to refrain from reliance on poorly targeted tax incentives as the main vehicle for investment promotion.

Finally, personal income taxes have been contributing very little to total tax revenue in many developing countries. Apart from structural, policy, and administrative considerations, the ease with which income received by individuals can be invested abroad significantly contributes to this outcome. Taxing this income is therefore a daunting challenge for developing countries. This has been particularly problematic in several Latin American countries that have largely stopped taxing financial income to encourage financial capital to remain in the country.

Source: (https://www.imf.org/external/pubs/ft/issues/issues27/)

Tax Policy in India- Union, State & Local Governments

Taxes in India are levied by the Central Government and the state governments. Some minor taxes are also levied by the local authorities such as the Municipality.

The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Central and the State. An important restriction on this power is Article 265 of the Constitution which states that "No tax shall be levied or collected except by the authority of law". Therefore, each tax levied or collected has to be backed by an accompanying law, passed either by the Parliament or the State Legislature.

Article 246 of the Indian Constitution, distributes legislative powers including taxation, between the Parliament of India and the State Legislature. Schedule VII enumerates these subject matters with the use of three lists:

- List - I entailing the areas on which only the Parliament is competent to make laws,
- List - II entailing the areas on which only the State legislature can make laws, and
- List - III listing the areas on which both the Parliament and the State Legislature can make laws upon concurrently.

(Source: https://www.unescap.org/sites/default/files/apdj-7-2-3-rao.pdf)

Tax Reforms in India

Tax Reforms in India before 1991:

The first comprehensive attempt at reforming the tax system was by the Tax Reform Committee in 1953. This provided the backdrop for the generation of resources for the Second Five Year Plan (1956-60), and was required to fulfil a variety of objectives such as raising the level of savings and investment, effecting resource transfer from the private to the public sector and achieving a desired state of redistribution. Since then, there have been a number of attempts, most of them partial, to remedy various aspects of the tax system. The expenditure tax levied on the recommendation of the Kaldor Committee in 1957-58 had to be withdrawn after three years as it did not generate the expected revenues. The attempt to achieve the desired state of redistribution caused the policy makers to design the income tax system with confiscatory marginal rates. The consequent moral hazard problems led the Direct Taxes Enquiry Committee in 1971 to recommend a significant reduction in marginal tax rates. On the indirect taxes side, a major simplification exercise was attempted by the Indirect Taxes Enquiry Committee in 1972. At the state and local level, there were a number of tax reform committees in different states that went into the issue of rationalization and simplification of the tax system. The motivation for almost all these committees was to raise more revenues to finance ever-increasing public consumption and investment requirements.

On the recommendation of the Direct Taxes Enquiry Committee, the marginal tax rate was brought down to 77 per cent in 1974-75 and further to 66 per cent in 1976. Similarly, the highest wealth tax rate was reduced to 2.5 per cent. On the indirect taxes front, the most important reform before 1991 was the conversion of the union excise duties into a modified value added tax (MODVAT) in 1986.

Tax Reforms in India after 1991:

The efforts to reform India's tax system began in mid-1980s when the government announced a Long-Term Fiscal Policy, 1985. This policy recognized that the fiscal position of the country is going downhill and there was a need to make changes in the taxation system. In that decade, a technical group to review and rationalize the central excise duties was established and this led to introduction of Modified System of Value-

Added Tax (MODVAT) in 1986. To rationalize the custom duties, the harmonized system (HS) of the classification of goods was introduced.

- **Raja Chelliah Committee**

The Government appointed a Tax Reforms Committee under Prof Raja Chelliah to lay out agenda for reforming India's tax system. This TRC came up with three reports in 1991, 1992 and 1993 with several measures, which can be summarized in these points:

1. Reforming the personal taxation system by reducing the marginal tax rates.
2. Reduction in the corporate tax rates.
3. Reducing the cost of imported inputs
4. by lowering the customs duties.
5. Reduction in the number of Customs tariff rates and its rationalization.
6. Simplifying the excise duties and its integration with a Value-Added Tax (VAT) system.
7. Bringing the services sector in the tax net within a VAT system.
8. Broadening of the tax base.
9. Building a tax information and computerization.
10. Improving the quality of tax administration.

The tax reforms that began with the Chelliah Committee recommendations are still going on. Later on, government appointed the Vijay Kelkar Committee in 2002 which further provided direction to the tax reforms in the country.

- **Vijay Kelkar Committee**

The latest Impetus to direct tax reforms in India came with the recommendations of the Task Force on Direct & Indirect Taxes under the chairmanship of Vijay Kelkar in 2002. The main recommendations of this task force related to the direct taxes related to increasing the income tax exemption limit, rationalization of exemptions, abolition of long-term capital gains tax, abolition of wealth tax etc. Its key recommendations were as follows:

Administration of Direct Tax

- The taxpayer services should be extended both in quality and quantity and taxpayers should get easy access through internet and email.
- PAN (Permanent Account Number) should be expanded and it should cover all citizens.

- Block assessment of search and seizure cases should be abolished.
- To clear the backlog, the department should outsource the data entry work.
- All returns and issue of refunds should be completed in a four-month period. Dispatch of refunds should be outsourced.
- Government should establish a Tax Information Network to modernize, simplify and rationalize tax collection, particular TDS and TCS.
- Abolish the requirement of Tax Clearance Certificate on leaving the country.
- Empower CBDT with appropriate administrative and financial powers.

Personal income tax

- Increase in exemption limit to Rs.1 lakh for the general categories of taxpayers and further exemption for senior citizens and widows.
- Rationalize income tax slabs, eliminate surcharge on personal income tax.
- Incentivise home loans by providing interest subsidy on home loans @2%.
- Increase deduction under Section 80CCC for contribution to pension funds.

Corporation Tax

- Reduce the Corporate tax to 30% for domestic companies and 35% for foreign companies.
- The listed companies should be exempted from tax on dividends and capital gains.
- Increase rate of depreciation for plant and machinery.
- Abolish Minimum Alternate Tax.

Wealth Tax

- Abolition of wealth tax.

The above recommendations were made 13 years ago. Today, we see that many of them have been implemented. The DTC and GST have been so far biggest reforms initiated by the Government in direct and indirect tax regime respectively. However, DTC has never arrived and government does not seem to go seriously after it because most of its provisions are already incorporated in the Income Tax Act. GST came into force from July 1, 2017.

Key Direct Tax Reforms

- **Tax Information Network (TIN)**

On behalf of the Income Tax Department, the National Securities Depository Limited (NSDL) established Tax Information Network (TIN). This is a source of the countrywide tax related data. The basic idea behind establishing TIN was to modernise collection, processing, monitoring and accounting of direct taxes using information technology. TIN has three subsystems viz. ERACS, OLTAS and CPLGS.

- **Electronic Return Acceptance and Consolidation System (ERACS)**

ERACS consists of a system for interface with the taxpayers (TIN Facilitation Centres that is TIN-FC) and an internet supported system for upload of electronic returns of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) and Annual Information Return (AIR) to the central system of TIN.

- **Online Tax Accounting System (OLTAS)**

OLTAS is used for upload to the central system the details of tax deposited in numerous taxes collecting branches across the country every day.

- **Central PAN Ledger Generation System (CPLGS)**

It is the central system that merges the details of TDS/TCS and advance tax into the PAN.

- **e-TDS & e-TCS**

TDS refers to Tax Deduction at Source. The third parties deduct tax at source and then deposits it at pre-determined bank branches. Since 2004–2005, it has been made mandatory to file TDS returns electronically for both the operators, the Government as well as corporate sector. Further, the Income Tax Act, 1961 states that when tax is collected at source by the seller from the buyer, it is named TCS (Tax Collected at Source). Under the scheme named ‘Electronic Filing of Returns of Tax Collected at Source Scheme, 2005’, the corporate and Government deductors have to pay electronically or physically to NSDL.

Other Initiatives in Direct Taxation

- **e-Sahyog initiative : Paperless Assessments**

Information Technology has made the life of tax payers easy as they don't need physically go to banks to deposit bank challans and present the case and documents to assessing officers. To make further simple, the CBDT recently came up with a proposal paperless income tax assessment over emails. This would save the taxpayer to pay a visit to IT office, particularly in case of small amounts. Pilot projects in this direction have been launched in Mumbai, Delhi, Chennai, Bengaluru and Ahmedabad.

- **Sevottam: Efficient grievance redressal**

To bring new life to the sluggish grievance redressal system, the department is using 'Sevottam' platform that connects all income tax offices in the country. The idea is to address the queries and grievances in real time.

- **Faster refunds**

The IT department is working towards processing and sending tax refunds within 10 working days. The initiative to verify Income Tax Return (ITR) by Aadhaar or bank database has been taken.

- **Pre-filled ITR forms**

Despite of online forms, many people still use offline downloaded forms for tax purpose. The Department is now taking an initiative to offer pre-filled forms which automatically populated with user / taxpayer data and are downloaded with most information filled already.

- **PAN camps**

To increase coverage of the PAN, the government has been conducting PAN camps across India. There is also a proposal to launch Income Tax Business Application-Permanent Account Number (ITBA-PAN) portal, through which anyone can apply for PAN online and get it within 48 hours.

- **Indirect Tax Reforms**

First Indirect Tax Reform occurred in India when the Modified Value Added Tax (MODVAT) was introduced for selected commodities in 1986 to replace the Central

Excise Duty. It was gradually extended to all commodities through Central Value Added Tax (CENVAT). The states also followed the suit and enacted the VAT acts to replace the sales tax with Value Added Tax. Following are the key indirect tax reforms done.

- **Reduction in Custom Duties**

In 1990, the custom duty on non-agricultural products was around 128%. It was brought down gradually. Currently, the average custom duties are 11-12%, however, they range from 0 to 150%.

- **Central Excise**

Central Excise duties were first replaced with MODVAT and now CENVAT is applicable. The number of different types of duties was cut down.

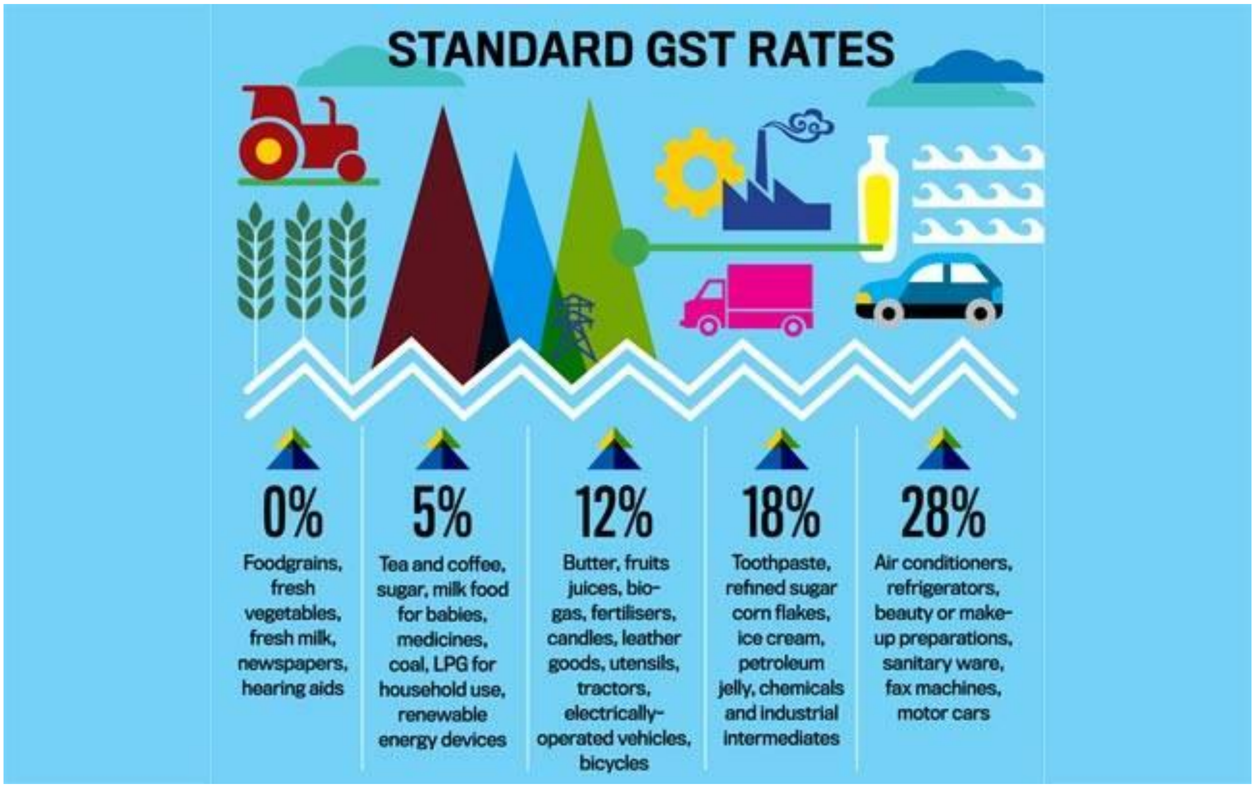
- **Service Tax**

Service tax was first introduced on some limited services in 1994-95 at 7%. The rate was gradually increased and so was the number of taxable services. Currently, we pay 14% service tax on around 100 services.

(source: https://www.gktoday.in/gk/tax-reforms-in-india/)

- **Goods and Services Tax**

The Goods and Services Tax (GST) is so far the biggest tax reform in the country. India has replaced its numerous federal and state taxes with the Goods and Services Tax (GST), designed to unify the country into a single market. The historic overhaul of the existing tax legislation was carried out at a special midnight session of parliament. India believed introducing GST will cut red tape and increase tax revenues, fueling economic growth. Then-Finance Minister Arun Jaitley says the reform will help the economy grow by 2%. But businesses have been asking for more time to implement changes, worried that they are not ready for the move to the new system. Many do not even have a computer to register on the GST network.



Why India's GST is one of the world's most complex tax reforms?
"No country of comparable size and complexity has attempted a tax reform of this scale," Hari Shankar Subramanian, of Ernst and Young **previously told the BBC**. Under the new system, goods and services will be taxed under four basic rates - 5%, 12% 18% and 28%. Some items like vegetables and milk have been exempted from GST, but will still be subject to existing taxes. The price of most goods and services are expected to increase in the immediate aftermath of the tax. Analysts expect economic growth to slow down over the next few months, but say it should pick up after the tax is fully implemented.

(Source: https://www.bbc.com/news/world-asia-india-40453774)