

# India imposes regressive nationwide sales tax

**Kranti Kumara**  
18 August 2017

With great fanfare, Narendra Modi's Hindu supremacist, big business BJP (Bharatiya Janata Party) government has imposed a nationwide Goods and Services Tax (GST).

Inaugurated July 1, the GST has been touted as an attempt to "modernize" India's sales tax regime and create a single consumer market.

The rationale provided by the Modi government and its supporters in the press is that the GST will replace and/or harmonize the myriad of taxes that hitherto have been levied separately by the central and state governments depending upon the good or service. This, in turn, or so the argument goes, will ease the "cost of doing business," attract new investments and, thereby, boost economic growth.

Under India's federal constitution, the state governments were given the exclusive right to raise revenue through sales taxes on goods and services, with the central government permitted only to impose a Central Sales Tax (CST) on goods that had been transported across state lines. A constitutional amendment was therefore required to grant sales-tax powers to the central government before the GST could be approved by parliament.

In the case of intra (within) state commerce, the GST is comprised of two components, termed CGST (Central GST) and SGST (State GST). Commerce between India's states is subjected to an Integrated GST, from which revenue payments are made to the central government and the exporting and importing states. All these taxes are ultimately off-loaded onto, and extracted from, the final consumer.

This "big-bang" tax-reform is part of a larger program of "pro-market" policies the right-wing Modi government has single-mindedly enacted since coming to power in May 2014. These are aimed at making India still more "investor friendly" and pushing the full brunt of the world capitalist crisis onto India's workers and rural toilers.

The International Monetary Fund has given its full-throated endorsement of India's GST, claiming it will

propel the country's GDP growth rate above 8 percent. The GST will aid in "efficient" movement of goods and services across the country, the IMF declared.

In reality, the GST is clearly structured to benefit big business at the expense of small traders and the working masses. It is part of a worldwide push to lower taxes on big business and the incomes of the rich, and, in the name of preferencing taxes on "consumption" over those on "productive investment," to place an ever greater share of the burden of financing the state, including its burgeoning military and repressive apparatus, onto working people.

While the political establishment and corporate media hailed the adoption of the GST, its implementation was greeted by widespread protests across the country organized by associations representing big and small traders.

In a blow to Modi, who, as the Chief Minister of Gujarat, drew substantial political support from small traders, textile traders in Surat, the state's second largest city, commenced an indefinite "strike" or shutdown prior to the GST announcement. They are demanding a total exemption from the GST for textiles, since a significant part of the textile sector is small-scale cottage industry production. The protest resulted in the shutdown of the textile industry for close to a month, with tens of thousands of workers laid off and left without any means of support.

The textile industry in Gujarat had already been hard hit economically by the Modi regime's demonetisation drive, which saw 85 percent of the country's currency withdrawn overnight last November. (See, Indian government's demonetisation causes mass hardship and economic chaos)

Barring a few food basic items and books and newspapers, all goods and services are now being taxed at rates of 5, 12, 18 and 28 percent.

There is little logic to the various taxation rates. A significant number of goods defined as "luxury," and therefore subject to the highest tax rate, are in fact broadly used. For example, motorcycles with engines of 350 cc or

greater are taxed at 28 percent, although they clearly bear no comparison with the SUVs, sports cars, and private aircraft purchased by the rich and super-rich.

Similarly, it is punitive for the state to impose a 28 percent tax on electrical wires and television cables and, in the name of curbing the consumption of “sinful goods,” on beedis, the cheap cigarettes smoked by indigent workers.

While the government has widely popularized the claim that the top tax rate is 28 percent, there are in fact, some items that are being taxed at even higher rates. These include many “recreational” goods such as “pan-masala,” a chewable mélange of various items that Indians consume after meals to aid digestion.

The BJP and the media have claimed that the introduction of the GST will not result, on balance, in the average taxpayer paying more for goods and services, but this is patently false. Already there have been significant unexplained increases in the prices of many day-to-day items, like shampoo. Even the Firstpost website conceded the claim that the tax burden is not being increased is “greatly dependent” on whether companies “actually pass on to the end-consumers the benefits” of the input credits they are to receive under the GST regime.

The GST council responsible for setting the tax, comprised of the Finance Ministers of the central and state governments, is essentially oblivious to the massive social consequences of its actions.

The informal sector, where an estimated 70 to 80 percent of Indian workers are employed, has been hit especially hard by the GST since many of the goods they make have significantly increased in price. This has caused deep shock to the populace who have reacted with a mixture of indignation, anger and confusion. Whereas certain items were previously exempt from central excise taxes, which were imposed directly on the manufacturer, these exemptions have either been removed entirely or significantly curtailed under the GST.

Additionally, whereas merchants were exempt from the old central excise, now even petty merchants have to impose GST on the goods they sell, and file sales data monthly. Many, however, lack a computer to access the tax-filing system.

The GST will adversely impact Small and Medium Enterprises (SMEs) in the manufacturing sector since their tax liability will rise substantially. SMEs are defined by the Indian government as those enterprises which have a capital investment of Rs 2.5 million to Rs. 100 million (\$38,000 to \$1.5 million). SMEs employ 40 percent of

India’s workers.

The GST’s adverse impact is compounded by the low wages that prevail across India. According to official Labour Ministry data, the average daily wage in 2014 was a miserable Rupees (Rs.) 272 (US \$4.25). Moreover, hundreds of millions of Indians eke out their existence on less, even far less, than this.

The argument that the GST is essential to create a single national market is disproven by the example of the United States, where sales taxes are imposed by states and counties, which are subdivisions of states.

Successive Indian governments have been attempting to enact this “tax modernization” for over a decade. The Modi government expended considerable political energy to overcome opposition from several state governments, which feared that their finances would be severely impacted by giving up their sole constitutional prerogative to collect sales taxes.

The GST is strikingly regressive in nature. Some countries, including Canada, make payments to low-income people to partially offset the magnified negative impact of GST-style consumption taxes on those whose incomes are so small that they must forego all pension and other savings. But from the start, the BJP’s GST scheme, like that of the Congress Party-led government that preceded it, made no provision for any such offset for the poor.

Nonetheless, the GST garnered enthusiastic support from across the political spectrum, including from the two main Stalinist parties, the CPM (Communist Party of India, Marxist) and the CPI (Communist Party of India).

The opposition to the GST, such as it was, focused almost entirely on technical details surrounding its implementation, such as how the states would be compensated for any loss of revenue. The Congress Party, with the support of the CPM, did call for a constitutional limit on the maximum GST rate of 18 percent, but when the BJP ruled this out of hand, quietly dropped the proposal.



To contact the WSWS and the Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**