Jus Corpus Law Journal

Open Access Law Journal – Copyright © 2025 – ISSN 2582-7820

Editor-in-Chief – Prof. (Dr.) Rhishikesh Dave; Publisher – Ayush Pandey

One Nation, One Tax? Rethinking India's Fiscal Future

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Received 20 February 2025; *Accepted* 21 March 2025; *Published* 25 March 2025

The Goods and Services Tax (GST) was introduced in India in 2017 to unify the nation's indirect tax system. However, multiple tax slabs continue to challenge its efficiency and compliance. This paper critically examines the feasibility of a single-rate GST structure in India, drawing comparisons with international models such as Singapore and New Zealand, which have successfully implemented uniform tax rates. It explores classification disputes, economic disparities, and revenue considerations that make a single-rate GST structure impractical for India. The study highlights the concerns raised by taxation experts, including Vijay Kelkar, who advocates for a streamlined GST system, and Arvind Subramaniam, who argues for a three-tier structure instead. The findings suggest that while a single-rate structure aligns with the original vision of "One Nation, One Tax," India's diverse economic landscape necessitates a rationalized multi-tiered approach. The paper concludes with recommendations for GST reform, focusing on administrative simplicity and revenue optimization while ensuring equity across income groups.

Keywords: *gst, single rate, classification, indirect tax, Singapore, New Zealand, compliance.*

INTRODUCTION

Since the dawn of time, the indirect tax structure in India has undergone a series of changes but one element has always been consistent, the multiple slab rate structure. It can be the service tax regime before 2017 or the Goods and Service Tax (GST) regime after the indirect tax overhaul in 2017. The GST regime has been a transformative tax regime streamlining multiple indirect taxes into a single and unified taxation system. However, India has not followed the same approach in the tax structure with multiple slab rates. It is to be analyzed whether India can efficiently adopt a single-rate GST structure.

The single rate structure has been one of the primary agendas of the government and Finance Commission. One of the architects of Indian tax reforms and a former Chairman, Vijay Kelkar has been attempting and persuading the government to implement a single rate GST structure to ensure resolving classification disputes.[1]

Currently, in India, we follow an 8-slab structure which is 0%, 0.25%, 3%, 5%, 12%, 18%, 28%, and 28% plus cess.[2]. The 0.25% and 3% slabs are lesser known as they are used for specific industries solely like rough-cut diamonds. In the GST Composition Scheme, there are fewer rates, however, for this proposition, we will comprehend the standard scheme.

CLASSIFICATION CONCERNS

All goods and services are placed into a classification code. These are infamously known as the HSN codes and SAC codes. The HSN code is the Harmonized System of Nomenclature which is an 8-digit code with headings in 4 digits and subheadings in 6 digits. They have been used in the service tax as well as the GST regime for goods.

The SAC codes are the Service Accounting Codes which is used to classify services which is a 6-digit code. They are specific for services and were used both in service tax and GST regime. These codes classify goods, and then a rate is set depending on the classification code and category from the slab rates stated above. However, even after the classification of up to 8-digit codes, there have been issues every day with the GST authorities and the taxpayers regarding the rates for goods or services. There is disparity even among a similar set of goods. We can

[1] Vikas Dhoot, 'Next government must urgently fix 'unnecessarily complex', counter-productive GST: 13th Finance Commission chair' *The Hindu* (07 April 2024) <https://www.thehindu.com/news/national/next-government-must-urgently-fix-unnecessarily-complex-counter-productive-gst-13th-finance-commission-chair/article68039736.ece> accessed 25 January 2025

[2] 'GST Rates' (*Ministry of Finance,* 25 January 2025), <https://cbic-gst.gov.in/gst-goods-services-rates.html> accessed 25 January 2025

consider the example of education. When education is done by a recognized educational institution for a recognized degree is exempt under GST. However, when there is a course of digital learning that is similar to education attracts a rate of 18%[3].

In the case of Re: Dabur India Ltd[4], the dispute was concerning the classification of ODOMOS. The two contested headings were mosquito repellent which attracts 18% and medicament which attracts 12%. The appellant prayed for it to be held under the category of medicament as it performs the function of the same. The AAR of Uttar Pradesh did not agree with the contention. It applied the common parlance test which states that a product must be understood as it is in the market by a reasonable person. It also stated that the advertisement of ODOMOS is done as a mosquito repellent and though it can be classified as a medicament, a specific category takes precedence over a general category.

In the case of CCE, New Delhi v M/S Connaught Place[5], New Delhi the classification issue reached the Apex court for clarification regarding soft serve. The case is of the pre-GST regime to show that classification concerns have been prevalent before the GST regime as well. The two contested headings were Ice cream and other edible ice and Other dairy produce which is not specifically included anywhere. The case was similar to the last one where the Supreme Court adopted the common parlance test. The Court observed that when a person purchases a soft serve, it is with the intent of buying ice cream. It further held that classification cannot be determined solely based on the ingredients used in the food item; rather, the market identity of the product serves as the primary criterion in resolving classification disputes.

INTERNATIONAL COMPARISON

These multiple slab rates cause such issues which lead to delays in proceedings and the functioning of the revenue department and thus it is understandable that when a single rate structure is adopted all these issues will be clarified once and for all leaving no grey area for anyone. It sounds good in a utopia but it is imperative to determine whether such a structure

[3] Annapoorna, 'Taxation of Educational Institutions under GST' (*Clear Tax,* 22 January 2025) <https://cleartax.in/s/gst-educational-institutions> accessed 25 January 2025
[4] *Re: Dabur India Ltd* 2019 (8) TR 1230
[5] *Commnr. of Central Excise, New Delhi v M/S.Connaught Plaza Rest. (P)Ltd. New Delhi* AIR 2012 SC 597

will be viable in India. For this, we must draw international comparisons with countries that adopted single tax rates.

Singapore: Singapore implemented GST in the year 1944 and has ever since followed a single rate structure. The rate has gradually increased over the years from 3% in 1994 to 9% in 2025. In Singapore, GST as verified by the Island Revenue Authority of Singapore contributes to 21% of the country's revenue from taxes in the financial year 2019-2020. There is also an exempt slab with this tax rate. The Singaporean model of taxation is often cited as a model for simplicity and efficiency. Singapore was the most ahead in research conducted by UNSW Sydney and KPMG which focused on the compliance requirements and administrative burden regarding VAT and GST.[6]. It has been efficiently administered and this is why many experts in taxation have called for the adoption of the Singaporean tax model as an ideal start for the single-rate tax structure in India.[7]

New Zealand: New Zealand has one of the widest and broadest tax bases. It was introduced in New Zealand in 1986 in conjunction with a reduction in personal income tax rates and excise duties. Due to it being such a broad tax base, GST makes up a significant portion of the total tax collected by Inland Revenue. In 2022 GST revenue was $24.7 billion and accounted for 25% of New Zealand's taxation revenue.[8]

Some key features behind the rationale for the implementation of a single-rate GST were limiting consumer distortions, preserving market competition revenue, and minimizing compliance costs. The Inland Revenue is the administrative authority for taxation in New Zealand. The rate of GST was first implemented at 10% and has now reached a standard rate of 15% with some

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[6] Preety Agarwal, 'Goods and Services Tax in Singapore' (*Taxo,* 2021) <https://taxo.online/latest-articles/goods-and-services-tax-in-singapore/#> accessed 25 January 2025

[7] 'Experts suggest Singapore GST model ensure ease of compliance in India' *Business Standard* (06 November 2019) <https://www.business-standard.com/article/pti-stories/experts-suggest-singapore-gst-model-to-ensure-ease-of-compliance-in-india-119110600807_1.html> accessed 25 January 2025

[8] Allan Bullot, 'Is GST a bread and butter issue?', (*Deloitte,* 01 March 2023) <https://www.deloitte.com/nz/en/services/tax/perspectives/is-gst-a-bread-and-butter-issue.html> accessed 25 January 2025

zero or nil-rated goods and services as well.[9] The approach by New Zealand is similar to Singapore with a higher tax rate and an efficient administrative taxation system.

INDIA: SINGLE OR NOT

We have taken two countries that follow a single rate structure from two different regions to explain and compare using multiple structures with different rates and incomes. There are reasons why India cannot follow a single-rate tax structure.

India is a country populated with approximately 142 crores and in 2022-2023, the income of nearly 50% of the population was at an average of INR 71,000 (Indian Rupees Seventy-One Thousand)[10]. The population of New Zealand and Singapore combined stands at just 100 Lakhs. This shows the two countries' disparity in income would be inequitable to that of India due to nearly 1/100th of the population of India. A Gini Coefficient is a statistical unit that measures the disparity in income in a certain country. It can be simplified as the disparity between the richest and the poorest. Singapore's Gini Coefficient is the lowest it has been in 2023[11]. The economic practices of India are not similar to that of Singapore or New Zealand. It would thus be easier to follow a single tax structure where economic disparity is less. If luxurious goods are taxed similarly to consumer and durable goods, this disparity is only going to broaden. Former union minister, Mr Arun Jaitley stated that a single rate structure can only work in a country where the entire population has a similar and high capacity to spend[12].

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[9] 'New Zealand GST Guide for Businesses' (*Taxback International,* 2022) <https://taxbackinternational.com/country-vat-guides/australia-new-zealand-gst-guides/new-zealand-vat-gst-guide/> accessed 25 January 2025

[10] Akchayaa Rajkumar, 'Top 1% in India holds 40.1% wealth, says World Inequality Lab report' *The News Minute* (29 May 2024) <https://www.thenewsminute.com/news/top-1-in-india-holds-401-wealth-says-world-inequality-lab-report> accessed 25 January 2025

[11] Grace Yeoh, 'CNA Explains: What's the Gini coefficient and what does it say about inequality in Singapore?' *CAN* (21 February 2024) <https://www.channelnewsasia.com/singapore/inequality-cna-explains-gini-coefficient-4132316> accessed 25 January 2025

[12] 'India can't have single rate GST, 3-slab structure possible: Arvind Subramanian' *The Economic Times* (18 July 2018) <https://economictimes.indiatimes.com/news/economy/policy/india-cant-have-single-rate-gst-3-slab-structure-possible-arvind-subramanian/articleshow/64952714.cms?from=mdr> accessed 25 January 2025

This will also impact the GST revenue of India. The GST revenue in India is from the slabs as discussed above. The 18% slab contributes nearly 70% and the 28% slab contributes nearly 15%[13]. The two highest slabs of India's indirect system earn them nearly 85%. In the case of a single-rate tax structure, the proposed rationalized rate would be 15% or 15.5%[14]. This would dramatically curtail the revenue as they are losing their two highest earning slabs in such a single rate structure. This proposed rate of 15% is higher than the current rate of Singapore at 9% and similar to the rate of New Zealand which is 15%. Every country adopting a single rate structure has increased it over the years and if the starting point is 15%, it can be anticipated that the Indian government will increase the same.

One of the factors behind placing a high-end slab of 28% is the discouragement of demerit goods. Tobacco products are charged at a rate of 28% with an additional cess.[15] To demoralize consumers as well as suppliers for such products. In India, 40% of the population which keeping in mind is significantly more than 40% of the population of Singapore or New Zealand, has consumed tobacco in some form. This number drops down to 20% in Singapore.[16] And further to 11% in New Zealand[17]. This just shows India's need for a higher slab rate to discourage. If a median rate of 15% is attached, the number of consumers will increase gradually and be a health hazard for the country as a whole.

IS IT AS PROBLEMATIC AS IT SEEMS?

Is It That Bad?

These are comparisons with other countries. It cannot be said however that it is all bad.

[13] 'Up to 75 pc of GST revenue comes from 18 pc slab: MoS Finance' *The Economic Times* (02 December 2024) <https://economictimes.indiatimes.com/news/economy/indicators/up-to-75-pc-of-gst-revenue-comes-from-18-pc-slab-mos-finance/articleshow/115901155.cms> accessed 25 January 2025

[14] 'Rationalisation of GST Rate structure', (*Next IAS*, 06 May 2022) <https://www.nextias.com/ca/editorial-analysis/06-05-2022/rationalisation-of-gst-rate-structure> accessed 25 January 2025

[15] 'GST Rate & HSN Code for Tobacco and manufactured tobacco substitutes - Chapter24' (*Clear Tax*, 2017) <https://cleartax.in/s/chapter-24-tobacco-manufactured-substitutes-gst-rate-hsn-code> accessed 25 January 2025

[16] 'Country Factsheets' (*Tobacco Atlas*, 2022) <https://tobaccoatlas.org/factsheets/singapore/> accessed 25 January 2025

[17] *Ibid*

The preliminary or primary objective when the overhaul came with GST enactment was 'One Nation, One Tax'. This sounds good as there were many taxes like sales tax, excise duty, and Value Added Tax (VAT) to one tax. Yet still, the issue of the multiplicity of taxes is not eliminated. This multiple slab rate is incompatible with the core objective of GST. Thus, a single rate structure would align with the intention of the government, which was thought of during the GST enactment.

A common theme observed in the tax regimes of Singapore and New Zealand is that the transition to a single-rate structure led to a marked improvement in administrative efficiency, particularly in terms of compliance. It is because the issues we saw of misclassification would be removed completely. This results in simplicity in the administrative system and would also lead to better compliance by the people. GST would not be complex to understand for a common man as there are certain commodities in the exempt nil or zero rated and the rest of the commodities at the rationalized rate as decided by the government. It would also be helpful for people who try to place their products in the lower tax category by lobbying for such products.

KELKAR v SUBRAMANIAM

Vijay Kelkar is a key architect of the Indian tax reforms as discussed above. Thus, he called upon the government to bring simplicity into the GST regime. Mr Kelkar suggested a single tax rate of 12% with a system of sharing revenues between the local governments and municipal corporations. The 13th Finance Commission Chair, Mr. Kelkar who was operational from 2010-2015 appointed a task force under his tenure known as the FC-XIII Task Force had also provided a similar single tax rate of 12% which had an estimated tax base of around INR 31,00,000 crore (Indian Rupees Thirty-One Lakhs Crores)[18]. It also showed a revenue-neutral rate with 5% CGST and 7% SGST to be levied on all goods and services except exports.

Arvind Subramaniam is the Former Chief Economic Advisor for the Government of India for a tenure of 2014-2018. He firmly resisted the idea of Mr Kelkar of India being viable for a single-rate tax structure. He has often recommended that the argument should transition from Why not one to Why not three? This argument, as shown above, is in concurrence with former Union

[18] 13th Finance Commission, *Report of the Thirteenth Finance Commission (2010-2015)* (Government of India, 2009) para 5.42

Minister, Arun Jaitley, specifying India cannot adopt a single rate structure. Mr. Subramaniam emphasized three structure rates with a low rate of 12%, a median rate of 18%, and 40% for demerit and luxury goods. He also stated that GST is in implementation and is not a completed work yet. He expects further simplification of rates, fewer exemptions, and simpler policies, which is why adopting a three-rate structure should be considered.

BACK TO THE FUTURE OF GST

The future of GST is yet to be decided upon by the government. India as a country is a diverse nation with the most population in the whole world. The economy and populace of the country is a prey to significant income disparity. The legislation is aware of the situation regarding the GST regime and has been consistently focusing on policy decisions for the GST regime. What should be expected and what can be done for the same?

The government must focus on the simplification of GST. There is a difference between compliance simplicity and conceptual simplicity which is easy to understand. The focus should be on ease of compliance. Conceptual simplicity, though sounds nice, which is in line with the goal of a single-rate GST structure, the same is not required in a country with such economic variation. The idea of a tax rate for every product for the rich and the poor is unpleasant from the political optics and equity. Thus, governments must ensure smart and efficient policy decisions.

It is clear that evident that India cannot adopt a single rate. But how about a 3-rate structure instead of the multiplicity structure that causes these issues? Mr. Subramaniam is not incorrect to say to work on a three-rate structure with rate rationalization. There is a low rate, an average median rate, and a higher rate for luxurious and demerit goods. The low rate should stand at around 5% to 7%. The median rate should be a rationalized rate of around 15% merging the 12% and 18% slab as suggested before. India has the highest GST rate in the world at 28% and looking at the pre-GST era this rate was never reached either. Mr Subramaniam suggested a 40% rate as the highest rate but that would be too high. Thus, a rate of 20 to 25% would be best suitable as the highest tax rate to bring it more in line with international standards.

CONCLUSION

The above-mentioned points are merely recommendations, and it is ultimately within the discretion of the authority in tenure to develop a simplified and efficient framework. At present, India is not in a position to implement a single-rate structure. As previously stated, this is a work in progress, and the implementation of a three-rate structure should precede any move toward a unified single-rate system. Recently GST Council constituted a group of ministers for rate rationalization convened by the Bihar Deputy Chief Minister. The GST regime has undergone multiple amendments since its implementation with a balance of catering to the public and ensuring a stable revenue for the government. It has been 7 years since the implementation of the GST regime, and in every tenure of the GST council, significant changes are seen in the regime. The aim of this article was an attempt to analyze the ongoing debate regarding the single rate structure using international comparisons. The future of GST is much more than just this debate. The Indian government will strive to ensure the balance of revenue and public always remains while keeping on pace with international standards.