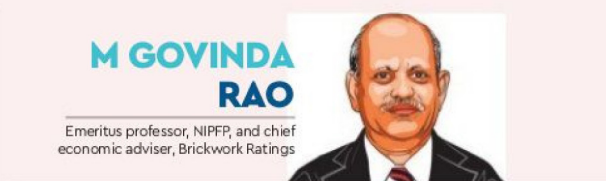


THE REFORM REMAINS A WORK-IN-PROGRESS; HOPEFULLY, THE NUMBER OF RATES WILL BE REDUCED AND REAL ESTATE & PETROLEUM PRODUCTS WILL BE BROUGHT UNDER ITS AMBIT

Celebrate GST, but with caution

AFTER YEARS OF confabulation, hesitancy, controversy and indecision, we have the GST at last. The implementation of the new tax was launched at midnight on Saturday with much fanfare in the Central Hall of Parliament in the presence of all those who matter. The launch of the new tax brought to the memory the famous speech of Pandit Jawaharlal Nehru on the eve of Independence, "Tryst with Destiny", in which he spoke of India "redeeming the pledge" and waking up to life and freedom when the whole world slept. Now, the economy will face the tryst with GST, and there is much hope that the 'one nation, one market, one tax' will bring freedom from tax tyranny. Taxes and death are inevitable, but the attempt always is to make them less painful.

It was Lord Keynes who stated, "...Ultimately, it is ideas, not vested interests that are dangerous for good or evil" and GST implementation is clearly the triumph of ideas. There is a long list of those who contributed to erecting the building blocks. The LK Jha committee recommended the conversion of excise duties into a manufacturing stage value-added tax in 1976 (Chelliah, a member of the Jha committee used to mention that when he mooted the idea, Jha commented that he only knew about VAT 69 and was not aware of this new animal!). Chelliah dealt with the issue of VAT at length in his Tax Reforms Commission reports in 1991/92. Amaresh Bagchi, in the seminar report Reform of Domestic Trade Taxes in India, recommended the conversion cascading type sales taxes into a value-added tax, and in this, Satya Poddar's contribution—having earlier worked on the Canadian GST reform—was significant. The taxation of services was introduced for the first time by Manmohan Singh on non-life insurance, stock brokerage and telecommunication in the 1994 Budget on at the advice of Chelliah. Over the years, the coverage of the tax was expanded and a specific entry (92 B) was inserted in the Union List after the 88th amendment in Constitu-



tion in 2004. The Expert Group on Taxation of Services chaired by Govinda Rao recommended the taxing on all services with a small negative list and integrating it with the excise duty by unifying the tax rates and giving input tax credit for goods against services and vice versa in 2001. It also recommended giving concurrent powers to levy the service tax to the states to enable them to levy the VAT on goods and services. I was called upon to make a presentation to the Task Force on Indirect Taxes Chaired Vijay Kelkar, which made the recommendation on the GST on similar lines and when a separate entry for levying service tax was inserted in 2004 the Union List, the Task Force on FRBM chaired by Kelkar recommended the retail stage GST by both Union and state governments. The rest of the history is well-known.

GST is a major tax harmonisation exercise and will significantly reduce the transaction-cost of doing business in India. It will unify multiple taxes into a single tax and reduce compliance and administrative costs in the long-term and do away with levies like Octroi and ensure a more unified market. It will reduce cascading on account of levies like Octroi, purchase tax and central sales tax and make the economy more export-competitive. More importantly, it might see a significant increase in revenue productivity of income tax as the seeding of PAN in GST registration will make it difficult for the businessmen to evade the tax. All these could contribute to acceleration in growth. To know when that will happen, we will have to wait and keep our fingers crossed.

However, there is palpable unease in the air, felt by all—the investors, traders, consumers and even governments. The

advocacy and the fanfare with which it is implemented has created considerable over-optimism on its favourable impact on productivity and revenue gains. This has built high expectations and if not realised, could lead to disappointments. The journey towards "one nation, one tax and one market" has just

begun, and there is considerable distance to traverse. It must be noted that non-inclusion of petroleum products in the base of GST will cause considerable cascading. The revenue from petroleum products contribute to 35-40% of indirect taxes in the country, and the cost escalation on that account could be considerable. The multiple rates of tax have robbed its simplicity. It will not only enhance administrative and compliance costs but also will alter the relative prices in unintended ways. This could also lead to arbitrary interpretations and classification disputes.

Much has been said about the productivity gains and growth acceleration, but with little empirical basis. In the short-term, implementation of GST will certainly lead to disruption in the economy, the magnitude of which remains to be seen

There are concerns about the anti-profiteering clause as well. Moreover, multiple rates are a sure invitation for lobbying. Despite the assurances given, there is considerable anxiety about the load bearing capacity of the technology. Above all, there is a palpable fear of the unknown—of the possible disruption coming just a few months after the chaotic experiences of demonetisation.

Speculations are rife on the impact of GST on the economy. Much has been said about the productivity gains and

growth acceleration, but with little empirical basis. In the short-term, implementation of GST will certainly lead to disruption in the economy, the magnitude of which remains to be seen. The extent of disruption depends on how well the transition is planned, the robustness of the technology platform and the speed at which economic agents will adjust to the new normal. The power loom sector is already up in arms as they see a hike in the rates of tax. The transporters will soon find that the tax paid them on fuel cannot be credited against the GST payable on the transportation services rendered by them. There are concerns about the rates of tax, mandated compliances and glitches in transition and investment activity is virtually at a standstill waiting to see how the reform pans.

All the same, this is an important reform, and both Union and state governments must be complimented for implementing it with a single-minded focus. The last few months have been busy for the GST Council and the officers of Union and state governments who had to deal with a plethora of issues. This is surely a major tax harmonisation exercise, and the Union finance minister must be congratulated for his leadership in spearheading it.

However, it must be recognised that it is still a work in progress. The much-vaunted productivity gains and growth acceleration may happen only in the long term. The statement by the Union finance minister that there could be short-term pains for long-term gains is very appropriate. To view this as a work-in-progress gives us hope that a roadmap will be laid to reduce the number of rates and bring in real estate and petroleum products within the ambit of the tax.

