GST GAINS

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 consideration, hesitation, 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 were involved in its conceptualisation. GST is being hailed as a major tax reform that will simplify the tax structure and reduce the number of tax rates.

Govinda Rao
Emeritus professor, NIRF and chief economic adviser, Brickwork Ratings

In 2004, the Expert Group on Taxation of Services chaired by Govinda Rao recommended the taxing of all services with a small negative list and integrating it with the excise duty rates. The Government was also recommended giving concurrent powers to levy the tax on services and goods.

The government has made the right decision to bring in a single tax structure and reduce the number of tax rates. However, the implementation of the GST has not been without its issues. There have been concerns about the complexity of the new tax structure and the impact on businesses and consumers.

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 backlash for the business community.

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 powerloom 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 on fuel cannot be recovered from 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.

The GST has been hailed as a major tax reform, and both Union and state governments must be complimented for implementing it with a view to simplifying the current tax structure in India. However, the impact of the GST will be felt in the long term.