



END OF A LEGACY

Indra Nooyi, former CEO of PepsiCo

Leading PepsiCo has truly been the honour of my lifetime. We've made a more meaningful impact in people's lives than I ever dreamed possible. I am positive that (Ramon Laguarta) will take PepsiCo to new and greater heights in the years to come.

● GST RATES

TAXING HIGHLY A PARTICULAR GOOD, BEING CONSUMED BY THE RICH, IGNORES THE FACT THAT INDUSTRIES PRODUCING THEM MAY HAVE HIGH EMPLOYMENT INTENSITY, BENEFITING THE POOR

A year from rollout, GST's roots get firmer

THE 13 MONTHS of experience with GST implementation have been eventful and the businesses are gradually getting acclimatised to the new tax. In hindsight, the question of the hype and hoopla preceding its implementation on the midnight of June 30, 2017, was really necessary. Indeed, the taxpayers have faced the tryst with destiny and continue to hope that the promised "good and simple tax" and the "one nation, one market, one tax" will be realised sooner rather than later. Of course, despite the glitches, the policymakers have been sensitive to the concerns of the taxpayers and, hopefully, the tax will take firmer roots.

Surely, indirect taxes were in need of urgent reform to reduce the complexity arising from a web of central and state indirect taxes, minimise cascading, impart greater export competitiveness and to ensure a common market in the country. The question is, how far have we progressed in these objectives? The common man is clearly confused. While the captains of industry have been euphoric about the reform—even before the structure was known—the small manufacturers, members of trade and industry and exporters continue to be confused. The political slugfest on the performance has not helped to clear the air either. While the ruling party celebrated the anniversary of the reform, claiming its achievement in stabilising the new tax, the Opposition alleges that the concept itself has acquired a bad name because of the way it was implemented. The truth perhaps lies somewhere in between.

The world over, GST has been a money-spinner and, not surprisingly, of over 160 countries that have adopted the reform, only five countries (Belize, Ghana, Grenada, Malta and Vietnam) repealed the tax after its imposition and reintroduced it later. Revenue productivity is an important criterion of success for the government and, in this, there has been a fair measure of success. This should repose enough faith in the

M GOVINDA RAO

The author is Emeritus Professor, NIPFP. He was a member of the 14th Finance Commission. Views are personal



reform and enough confidence in the GST Council to undertake greater simplification and rationalisation of both the structure and operational details of the tax. The average collection for the eight months in 2017-18 was ₹89,885 crore. Although after touching the high of ₹1,03,458 crore in April, the collections declined marginally in the first three months of the current fiscal and were ₹94,016 crore, ₹95,610 crore and ₹96,400 crore, respectively. The trend shows that there are reasons to be optimistic about the revenue collections exceeding the Centre's budget estimate of ₹6.54 lakh crore. Of course, although the all-state picture looks satisfactory, the collections in individual states need to be watched. There is a lack of clarity as the GST Network (GSTN) has not been able to allocate the IGST to individual states. Nevertheless, the promise of compensation at a 14% increase over the previous year's collections may not pose a difficulty for the next four years. More importantly, due to the linking of the income-tax permanent account numbers (PAN) with GST numbers, the buoyancy of income-tax revenue is also likely to increase substantially, as it has happened in many other countries. Hopefully, this will provide enough revenue space for further reforms towards simplifying the tax system.

There have been visible gains. The merger of several central and state taxes has made the system more transparent and reduced compliance requirements for businesses paying multiple taxes. With the inclusion of a number of taxes in GST, the input tax credit mechanism has become more comprehensive, and this should help both the manufactur-

ers and exporters. Further, merger of taxes like the central sales tax (CST) and Octroi has resulted in the abolition of check-posts to pave the way for the smooth movement of goods across the country, besides significantly reducing rent-seeking at the check-posts. Equally important is the change in supply chain management due to the abolition of CST. Businesses are not required to open branch offices and need not resort to consignment transfers, merely to avoid CST. The seamless input tax credit mechanism on inter-state transactions has helped to reduce the transaction cost substantially.

While acknowledging the gains from the implementation of GST, it is necessary to emphasise that it is still a work in progress. The most important concern with the current reform is the ill-prepared technology platform. The GSTN promised much, but delivered little and will have to address this issue with utmost urgency. Unless the system of matching invoices to confirm input tax credit is put in place, the system could be prone to abuse. It is imperative that inter-state transactions be settled through a clearing house mechanism to ensure the correct allocation of IGST among the states. Clarity of input taxes paid is necessary for zero-rating exports and the system of giving them *ad hoc* relief cannot continue forever.

The structure of rates has justly been criticised as being too complicated.

There are concerns with the mechanical way the fitment committee finalised the rates and this has carried forward some of the major shortcomings of VAT, such as the levying of lower rates of tax on inputs as compared to final goods. Under a VAT or GST, there is no case for levying lower rates on inputs as the system provides input tax credit. The second problem is the multiplicity of rates. Although levying the tax at one rate is a far cry, there is certainly no need for four rate categories, in addition to the low rate on precious metals and three different rates of cesses. With over 200 items already moved from the 28% rate category, there are only 50 items left in it. The recent decision of the GST Council to reduce the rate of tax on 88 items has pruned it further and the 28% category can easily be done away with. Equity arguments merely on the assumption that a particular good or service is consumed predominantly by the rich ignores the fact that the industries producing them may have high employment intensity and, in the end, instead of taxing the rich, we may end up taxing the

poor! With the passage of time, the 12% and 18% categories can be merged into the 15% category to simplify the structure further. Eventually, the objective should be to have just two rate categories. It is important to make the system broad-based and simple.

The progress in further rationalisation, understandably, will depend on the trend in revenue collections. Hopefully, the revenue collections will reach the expected levels to provide comfort to the GST Council, needed in order to bring petroleum products into the ambit of GST. Clearly, GST has taken roots, but remains a work in progress. Hopefully, by next year, we will see a much reformed GST that will be called a "good and simple tax".

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