

GST will result in economic gains

The new tax regime will burnish the PM's reformist credentials

Earlier this morning, India moved to a new Goods and Services Tax (GST) regime that unifies the country into a common market. As expected of a disruptive reform — GST definitely qualifies as one — this change will cause some disruption. Some experts have said the move has been rushed and that various pieces of the infrastructure required for the new tax regime aren't fully ready. Truth is, no one can or will ever be fully prepared for something like GST. The change could have been **ourtake** set for September 1, and people would still be asking for more time. In its purest form, GST, experts said, would add between 1 and 2 percentage points to India's growth rate. That's between \$20 billion and \$40 billion added to the country's Gross Domestic Product. The regime that India has just moved to isn't as pure as it was originally visualised. It was in the interests of the states to ensure their revenues were protected. And it was imperative, as far as the Centre was concerned, that the new regime did not translate into higher prices (that would have been political suicide). The result is a compromise — a far-from-simple structure replete with multiple rates. Worse, there are exemptions. And still worse, there are cesses (taxes on the tax). Finally, it has also meant the creation of an anti-profiteering body that is straight out of the Licence Raj era.

There is no denying that even in this flawed form, the GST regime will be simpler than the old, and, consequently, will result in some economic gains, but it is difficult to ignore what could have been. Still, the new tax regime does unify the country into one market, and taxes final consumption rather than intermediate use. The hope now is that the government will, over time, bite the bullet on some of the exemptions and cesses and simplify the structure further.

The most significant collateral benefit of GST is what it has done to the government's reformist credentials. Not since Manmohan Singh went all out to ensure the clearance of the Indo-US civil nuclear deal has a government shown the kind of purpose the NDA has in ensuring the passage of the GST laws. Over the past few weeks, it has also moved rapidly ahead with what many consider an impossible task — the privatisation of the State-run Air India. Not many would have bet on a new indirect tax and a decision on AI's privatisation happening in the same week.