

# Critical to get GST right

That's the only way India's low tax efficiency will rise

**F**INANCE MINISTER ARUN Jaitley was being optimistic when he said that buoyant indirect tax collections in April and May were a sign that previously undeclared goods and services were coming into the tax net. Manufacturers and service providers, the argument goes, know that once GST stabilises, it will not be possible for them to hide their output from the taxman—so, Jaitley said, they had already started coming into the tax net. That seems a bit hasty since, for one, GST has not been introduced as yet and, more important, if the experience of the post-demonetisation amnesty scheme is anything to go by, the tax thief is made of sterner stuff.

Unlike demonetisation, though, GST is more sophisticated because of its invoice-matching. So, if Firm A declares sales of X to Firm B, then B cannot be declaring X/2 of inputs—and B's output, in turn, is C's input. This invoice-matching is crucial because, right now, India's tax collection effort is very poor. While central tax-to-GDP has fallen from 11.9% in FY08 to 11.2% in FY17, excise-to-manufacturing GDP fell from 18.5% in FY07 to 17.2% in FY17. Indeed, as the GST report prepared by chief economic advisor Arvind Subramanian points out, India's tax-collection efficiency is a mere 43%—this is the tax collection efficiency for excise, service tax and VAT which, together, comprise GST. That is, if the real tax base is ₹100, the tax-man is able to tax only ₹43 for a variety of reasons including corruption. This collection efficiency, in the case of emerging market economies, averages around 57% and rises to 60% in the case of rich nations. How unclear what the size of the tax base is can be seen from the numbers in the report. While the macro estimate gives you a tax base of ₹59.9 lakh crore for FY14, this is a much lower ₹39.4 lakh crore based on data on indirect tax collections and a more robust ₹58.2 lakh crore based on direct tax data.

While the Subramanian committee worked on a tax base of ₹46.2 lakh crore for purposes of its calculations, one of the first things that GST will provide, once it stabilises, is an idea of just how big India's tax-base is. Thanks to the invoice-matching across millions of shops and establishments and manufacturing outlets, done by a computer 24x7, chances are the size of the taxable base will be much larger than most imagined. In which case, the dividend that the government failed to realise from its demonetisation drive may well be made available through the implementation of GST. Given its potential to transform India, though it seems a bit over the top at first, the government's plan to usher GST in through a midnight session of Parliament does make sense.