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TO SUCCEED, GST MUST BE A WIN-WIN FOR ALL

The Goods and Services Tax (GST) regime is finally here, with a mixed bag of optimism and apprehensions. The rollout has rekindled hope that India's reform programme is regaining momentum and the broader economy can only get better from here. On the other hand, there remain fears of disruption, rooted in what's seen as a hurried transition that might not serve the interests of a majority of India's 1.3 billion consumers.

Whether hope will triumph over scepticism will be determined by how well Prime Minister Narendra Modi's government fares in making the GST a "good and simple tax". The rationale behind replacing the complex maze of local tax systems across 29 states and seven Union Territories with a unified tax regime has been that it will be a win-win for all. Producers and sellers will benefit from transparent rules, fewer tax filings

and less-cumbersome book keeping; consumers will pay less for goods and services; and the government will earn more in revenues as leakages are plugged and the economy grows faster on the back of better-off producers and consumers.

A bold beginning has been made with the GST rollout at a midnight mega show in Parliament's central hall, but its current form and shape remains far from making it a "win-win for all".

Let's start with the consumer, who will now pay tax at a higher rate for most of the services she consumes. A majority of daily consumption goods now attracts a higher or the same tax rate. A higher tax rate doesn't necessarily mean the consumer spends more on the goods and services bought, as finance minister Arun Jaitley rightly argued. She could even spend less, provided the producer is willing to pass on the benefits

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from lower input costs and improved productivity. But our past experience suggests, fewer producers actually do that. And when they do, they rarely pass on the benefits in cost reduction fully to the consumer.

Moreover, the GST implementation comes with a cost of compliance. In today's context, it appears to be high and prohibitive for most small scale producers and traders, which is why they are protesting. They will be forced to price their goods even higher, let alone extract any benefit from the new system or pass it on to consumers. That is also the reason why large-scale manufacturers and retailers are not complaining. They stand to benefit – because, given their scale the cost compliance is more than offset by productivity gains. Also, they get an edge in all such segments of the market where they are competing with small and medium-sized enterprises.

There were expectations that the GST would not only mean lower tax rates, but also fewer tax slabs. All

such countries where the GST has helped reform the economy, there are either two or three rates – one mean rate, a lower rate for essential (merit) goods and a higher rate for luxury (demerit) goods. We still have five slabs, within which there could be as many as three rates – a central rate, a state rate and an integrated rate. Over and above these, there is a cess levied. The fear of revenue loss has kept the government from making on lower or fewer rates. Had the economy been doing well, the story would have been different.

That said, the new system can and will evolve as we go along. It is for the government to see how to make amends, and make them fast.

On priority, the government needs to address capability building among the lesser-endowed stakeholders, such as small scale producers and retailers. The finance minister must find ways to lower the cost of compliance. He must keep in mind lessons learnt from demonetisation and not let his ministry officials resort to ad-hocism while making rules. The GST council will have to meet more frequently to review rules and rates so that India's taxation system comes on par with those in the developed world.

And most importantly, carry the Opposition and the states along.