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A GST that could get better with time

The imperfections in the current GST structure and relaxations in procedures have ensured a relatively disruption-free roll-out

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Much to the government's relief, the first few days after the roll-out of the goods and services tax (GST) have seen very little disruption in economic activity. Yes, traders in some cities and towns have gone on strike, but those have not lasted beyond a day or two. Supplies of goods and services have remained uninterrupted, though a few buyers have reported unavailability of some products. But there is certainly no disruption of the kind that was feared by most people.

Why has this been so? A big change of this nature, collapsing 17 taxes and 23 cesses into one tax, was likely to have caused major upheaval and disruption. But no such thing has happened so far. Perhaps these are early days and disruptions may still take place after September, when the deadline for the filing of the first returns expires. Yet, it has to be conceded that both trade and industry, large sections of which had serious reservations about the new system, have embraced it without creating any roadblocks.

Here is an attempt at understanding why the feared disruption did not upset the GST party. One, the fear of disruption that the GST could cause was largely triggered by the kind of dislocation another big move of this government had caused in November 2016 — demonetisation. Many experts had even likened the GST to demonetisation and this had given rise to fears of disruption. But the fact is that the GST, measured by its impact, should not have been compared with demonetisation. There are several dissimilarities between the two.

The preparations for rolling out the GST had been made months in advance. No such preparations had preceded demonetisation. There was no secrecy around the GST move but in the case of demonetisation, the action plan had been kept under wraps for obvious reasons. And finally, the impact of the GST was to be felt mostly on the eight million economic entities engaged in the sale and supply of goods and services, while demonetisation touched the lives of almost every Indian, who had anything to do with cash. The GST's comparison with demonetisation was thus flawed and gave rise to an irrational and unjustified fear of a post-GST disruption quite similar to what was witnessed in the first few weeks after demonetisation.

The second reason for why the roll-out so far seems to have been smooth is the structure of the GST as adopted by the GST Council, helped as it has been by the procedural changes introduced for complying with the new tax system. Both these factors have contributed to reducing the potential for disruption in the first few days after the roll-out. It is true that these decisions made the GST imperfect, but it also made it largely disruption-free.

Consider what all the GST Council had agreed to in reaching its goal of a GST roll-out by July 1, even though purists and simple economics had decried such a direction. Forget about the exclusion of petrol, diesel and potable alcohol that meant a large chunk of the tax base was kept out of the GST. A large number of items in the food basket that accounts for about 49 per cent weight in the consumer price index were also kept in the exempted category. The original idea was to have a maximum of three rates — a standard rate, a peak rate for luxury and demerit goods and a concessional rate for essential items. But the exigencies of keeping the new rates as close to the pre-GST rates (the goal being minimal price shocks and disruption) and providing for compensation to states for their revenue losses prompted the GST Council to settle for six to seven different rates for different commodities and services.

Procedural relaxations were also in plenty. Instead of a monthly schedule, taxpayers were allowed to file their first return as late as by September for their transactions in July. A composition scheme was announced under which traders, restaurants and manufacturers with an annual turnover of up to ₹75 lakh could opt out of the GST and pay duties at the rate of one to five per cent of their turnover once in three months. Retailers were given more time to print the new post-GST maximum retail prices on their products. The whole purpose was to let industry and trade ease themselves into the GST system without any immediate adverse consequences in terms of higher prices, disruption in economic activity and unavailability of products and services.

The irony of it all is that the price of ensuring no disruption after rolling out the GST seems to be an imperfect GST with many relaxations in its compliance norms. Hopefully, these imperfections will go away over time and the procedures will be streamlined gradually as taxpayers get used to the idea of the GST.