

GST: Waiting for the Gorilla?

M. Govinda Rao

Surprisingly, unlike in the last few years when there was considerable budget eve debate on the introduction of goods and services tax (GST), there is only a muted reference to the reform this year. In part, this is due to the realization that considerable work and negotiations between the Centre and states on the one hand and among the states on the other will have to precede the implementation of the reform. Agreements will have to be on a variety of issues relating to the structure, implementation and administrative aspects of the of the tax. Given that these have to be finalized through negotiations, the GST finally implemented will substantially deviate from the "flawless GST" which the 13th Finance Commission recommended. It is not clear when and in what form the reform is likely to fructify. After all, it took 10 years of negotiations to implement the value added tax (VAT) and considering the divergence of interests involved in moving over to a destination based GST from a predominantly origin based VAT and considering the uncertainty faced by the states in regard to the size of the new tax base and the fact that they have to compete with the centre for the same tax base, the negotiations will surely be protracted.

What holds the GST implementation? Indeed, industry definitely wants it and the trade bodies have not expressed any serious opposition to this. The fact that the introduction of VAT was successful and that the GST is only an incremental reform which will enhance revenue productivity, impart greater neutrality to the tax system, reduce compliance problems and cost and pave the way for seamless trade across the country, the implementation of reform should have been relatively easy. Some people would like to believe that that the problem is only political, but that is too simplistic a view. If that was the case, passing on the stewardship for leading the reform to the deputy Chief Minister of Bihar should have solved the problem. Even as there is a realization of the desirability of the reform by political parties, carrying out reform is not easy because of the divergence of interests of the centre and states and of different states. It is important to demonstrate that the long terms interests of the states lie in adopting the GST and the centre should provide insurance for any loss of revenue to the states on account of abolition of central sales tax and ensuring seamless commerce across the country.

Of course, there are some positives in the move towards reform. The fact that all the states continue to discuss the issue in the Empowered Committee and, in principle, see the desirability of the reform is important. The second important development is the entrusting the task of developing the common GST portal to the NSDL which is in the process of developing the information system for administering the GST and creating the platform for dealing with inter-state transactions. Another notable development is the election of Mr. Sushil Kumar Modi, the Deputy Chief Minister of Bihar as the Chairman of the Empowered Committee. The deep understanding and rich experience of the Chairman will help to take pragmatic view in negotiations besides helping in the political convergence on many a contentious issue.

There are a number of issues to be settled before the GST is implemented. First is the Constitutional amendment to enable the centre to levy the tax beyond the manufacturing stage and to empower the states to levy the tax on services. The second issue relates to fixing of the threshold. The states have a low turnover threshold, in many cases Rs. 5 lacs though up to Rs. 40 -50 lacs, a simple turnover tax is payable and the VAT cycle starts only thereafter. In contrast, the centre has the turnover threshold of Rs. 1.5 crore. The states would prefer that the centre continues to keep the threshold at the present level to avoid small

dealers being burdened with higher taxes and two tax administrations. Centre, in contrast would like to lower the threshold to expand the tax base and agreement on this issue is important. The third important issue pertains to the structure of rates. In this, the issue mainly pertains to the determination of revenue neutral tax rates. Although it is agreed that the states could levy two rates on goods and one rate on services, agreement on the actual rates is yet to be reached. Of course, the revenue neutral rates which the states and the centre propose to apply will depend on the list of exemptions and the threshold adopted. There is also a view among some states that the Empowered Committee should only fix the floor rates and the individual states should have the autonomy to levy the tax at rates above the floor rate. Fourth, agreement on the appropriation of revenues from taxes on services with inter-state jurisdiction is necessary. Although some general principles have been discussed, it is important to have clearly defined rules for determining the right to tax and allocation of revenues from the transactions in such services. Fifth, there are issues relating to tax administration. Having both the centre and states to levy the tax will increase the compliance cost. If that is the way forward, then there must be a clear mechanism to ensure uniformity in rules, forms and procedures. Finally, the mechanism to enforce the tax system agreed upon and to resolve inter-state conflicts will have to be put in place. The proposal by the centre to have a tribunal has been opposed by the states and they would prefer to continue with the present practice of persuasion in the Empowered Committee.

Accomplishing all these within a short period of time is a long order. However, at least the centre can do everything possible to eliminate the trust deficit and remove the irritants that pervade the centre-state relationships. The first action on this front should be to agree to compensate the loss of revenue to the states due to the reduction in CST without any rancour. The reform of this nature involving both Centre and States is an experiment in co-operative federalism. This implies (i) it would be futile to wait for the Gorilla called the "flawless GST" and (ii) reform of this nature requires the leaders to rise to the stature of statesman and the question is will they?

(The author is Director, NIPFP. Views are personal).