

## TIOL Awards 2022: GST turned out to be elephant in the ballroom!

TIOL - COB( WEB) - 843  
NOVEMBER 24, 2022

**By Shailendra Kumar, Founder Editor**

**AT**

the TIOL Tax Congress 2022 and also TIOL Awards 2022, a fortnight back, the goods and services tax (GST) was accorded the stature of an elephant in the ballroom by several speakers! TIOL Knowledge Foundation also contributed a bout of warmth to the rising temperature by releasing a special print publication - "5 Yrs of GST - The Buggy chugs on" and also my book titled "5 Yrs of The Cob(Web) on GST - Threading the Needle". Then followed an eye-roll time! The racing pulse was set by the Chairman of the PMEAC, Dr Bibek Debroy, when he said while delivering his Special Address at the Tax Congress that India needs to spend about 23% of GDP on education, health, infrastructure and defence but our tax mop-up by the Centre and the States clubbed together is only about 15% of the GDP! While bypassing coyness to rain praises on GST as a shining example of Centre-State cooperation, he ended up stirring a hornet's nest by proposing a single GST rate in India. Though it may sound utopian and even dystopian to many, he recalled that when it was projected to spur GDP by 1 to 1.5 percentage point prior to its introduction, the naive assumption was that all goods and services would be covered under the GST radar!

He further intoned that the taxpayers tended to differentiate between the nature of goods as being elitist or of mass consumption, which mothered different rates for GST. This was, in turn, hammered by subjective interpretations - finally, ending up spewing lots of litigations!

The 'droplets' of Dr Debroy's utopian proposition were widely reported in the national media and the same was picked up by the Member of the Rajya Sabha and former Chairman of various GoMs set up by the GST Council, Mr Sushil Modi. From the 'drum tower' of TIOL Congress, he asked - Is it possible to have a single GST rate in India? Will it be legitimate, he further asked? He decided to talk turkey and said that GST has been implemented in over 160 countries with over 40 sub-variants. When EU with 27 member-countries has not gone for a single rate, how is it possible for India to even experiment with such a proposition! He pointed out that the standard rate in EU oscillates between 17% to 27% - 7 rates in France, 3 in Ireland and Poland; 5 in Italy and two in UK. As many as 9 EU countries have four slabs. In this backdrop, he wondered how can a country like India which has so majestic diversity in socio-economic profiles of its people, can afford a single GST rate.

I personally feel that there is nothing like perfection in any GST system! It is merely a romantic idea for economic philosophers! As the truism goes, perfection is a polished collection of errors, India would also be inching closer to 'perfection' of two slabs in the years to come! But, a single GST rate would always be crowning the illusory throne of idealism!

As rightly put by Mr Modi that India has a good swathe of population known for their slender means and their day-to-day living needs to be cushioned by the welfarist state. Secondly, the baskets of commodities also represent sprawling diversity - many goods are produced and consumed only by the elite and the moneyed class such as expensive cosmetics, watches, iPhones! Taxing such goods at the rate being levied on essential goods is certainly not a radiant idea! It can at best be only an *idÀe fixe*

! Apart from blunting the facet of inequality, different rates also help shovel larger revenue for the Exchequer. Dialing back exemptions granted to social and medical sectors and imposing a single rate on all goods and services would never qualify as a progressive face for a regressive form of taxation that indirect tax is by nature and characteristics!

Mr Modi further took pains to recall that there were as many as 20 different tax rates in the sales tax era. When the GST was introduced, the revenue neutral rate was computed to be around 15.5% but the present rate is only about 11.6%. This goes to rebuke the theory in some quarters that the tax rates have increased after GST! He cited examples of several essential and durable goods on which the present buckets of tax rates are lower than what they used to be during the VAT regime. On the issue of hacking exemptions, Mr Modi referred to the recent case of imposition of 5% levy on pre-packed and labelled but not branded goods. Though it was approved on the basis of GoM's recommendation and the GoM also had members from non-BJP ruled States but the Central government alone was chided and lambasted. In other words, he hinted at the conspicuous absence of conducive political climate in the country to undertake such reforms.

He further rationalised the heightened expectations about tinkering with the tax rates in the near future when the zombie of inflation continues to whip the economy. He was realistic enough to air his view that he does not see any rise in the tax rates at least for the next two years!

On the compensation front, he advised the States to quickly learn the art of living without it. Even a mid-sized State like Punjab has run into a shortfall of about Rs one lakh crore in 2022-23. This indeed throttles the breathing pipe of the State. Mr Modi said that the Cess rates cannot be upticked as it is already at its peak nor can it be imposed on new items as there is no more item left in the basket! So, the message for the States is to live with this deficit. So, what is the way out? He said that the answer is wrapped in rate rationalisation, review of exemption, plugging of leakages, audit and scrutiny of returns, control and validation of registrations and preventing frauds. I completely agree with Mr Sushil Modi for his empirically viable solution. A combination of all these measures would help keep under check consumer demand which needs to be monitored against the broken supply chain, giving rise to inflation in the economy. The present time is indeed not good to loosen fiscal purse which may prove counterproductive for the monetary measures taken by the RBI.

While talking about GST, the Finance Minister of Tamil Nadu, Dr P Thiaga Rajan, opined that emphasis should be given more on fair implementation of the new regime and how outcomes are delivered. He said that though he had some gripes, initially, but they now stand addressed. Yet, he suggested that there is a need to dedicate a right mix of human and technological resources to make GST system better. He further added that while the GST Council did honour its ethos of being a shining example of cooperative federalism, the Council ought to meet more frequently, in order to enable more exchange of ideas. He also pointed his fingers towards multiple Groups of Ministers (GoMs) by the Council but they are not meeting regularly.

I have also noticed a marked dip in the frequency of Council meetings albeit the Business Rules of the Council mandate at least one meeting every quarter. Consistency in holding quarterly meeting would be emblematic of functioning features of cooperative federalism and it needs to be heeded more seriously by the Council's Secretariat. In case of GoMs, greater onus falls on the conveners to hold regular meetings. When Chief Ministers are made conveners, their consent should be taken with a word of commitment that they would be following a strict business regime to submit their reports within the timeline. Since Chief Ministers are generally saddled with huge political saddle-bags in every State, the GST Chairperson should prefer a senior State Finance Minister for this job who could allocate more time to produce quality recommendations for the Council members.

At the Tax Congress, one of the Technical Sessions was - "Automated Tax Compliance - Managing Big Data". While speaking at this Session, the CEO of the GSTN, Mr M K Sinha, urged the businesses to attune their thinking about compliance at the stage of taking business decision itself. The GSTN data is now triangulated with the CBDT data and there is also a provision in the GST law for third party reporting. He added that there would be a lot more data going forward from various sources which would indicate likely turnover as well as likely ITC availability. He said that pre-filled form with a facility to edit the data are going to be the norm in the future. At present AI and ML are being used in the ITC flow process and there would be greater use of such tools in the future.

In his presentation on "Canvas of Taxes by 2047", Mr V K Garg, called for AEO (Authorised Economic Operator) kind of system even under the GST as its outcomes on the Customs side are quite gratifying. More importantly, he raised the point - Is there any fundamental difference between income tax and GST if income inequality is dealt through Direct Benefit Transfer. Income tax is a tax on profits while GST is a tax on value addition which equals profit plus finance costs plus own labour cost! His vision is to see a Single Tax which would efface the room for compliance under multiple taxes which eats into the global competitiveness and efficiency of businesses.

Indeed, a weighty point to pencil in and ponder with nonchalance! Time to wire one's jaw and apply one's mind to this issue carrying solid girth and tantalising possibility! Bloody-mindedness may help! But, can a political power let the fiscal space ebb away from their hem of influence?

I will come back to you with more incisive thoughts shared by different speakers at the TIOL Tax Congress 2022, next week! Till then - ***ciao!***