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## Political cul-de-sac for GST: Tax reforms - no longer jindabad!

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### UNITY

among opposition parties, political thinkers often believe, is a healthy bulwark against the abuse of power by the ruling party or coalition. But, so far as the issue of the proposed Goods and Services Tax (GST) goes, it has mortally bruised the fiscal interests of the exchequers and also the greater cause of commerce in the country. What happened on Monday was beyond the latitude of expectations of most GST watchers. Although the cat had already jumped out of the bag that the members of the Empowered Committee on GST might not take up the issue of Constitutional Amendment Draft Bill but the final attendance reality turned out to be more shocking and disappointing for all stake-holders in the country.

**All the BJP-ruled States virtually boycotted the meet and probably whispered bon voyage to the GST-ship as if they had nothing to do with it or probably knew that it was destined to sink after sailing a few nautical miles away from the shore!**

Sources confided in TIOL that so pathetic looked the attendance at this meet that it did not require astrological domain knowledge to predict that the proposed indirect tax reform has finally hit against the walls of a blind alley. Only eight Finance Ministers attended it - some of them even walked away quite early. Besides BJP States, even major Congress-ruled States like Maharashtra did not send its representative. Out of eight, a couple of them were from very small States which generally prefer to be onlookers rather than an active participant.

This has happened close on the heels of the inconsequential Goa meet. Netizens may recall that before meeting on December 6 in New Delhi, a large number of State FMs had gathered at the golden sandy beaches of Goa, some of them even with their families, to discuss about the proposed reforms. But when no press statement was issued, the field was left open for the media persons to speculate what might have actually transpired at this inviting tourist destination!

Things began going astray or off the track right from the August 4 meet in New Delhi when the EC rejected the Draft Bill proposing the twin bodies of the GST Council and the Dispute Settlement Authority (DSA). This was the time when Mr Amit Shah, a Minister in the Gujarat Government, was arrested, and the BJP preferred trading charges against the Central Government. The EC led by the soft-spoken West Bengal Finance Minister was forced by the majority to reject the Draft Bill on allegations like lopsided distribution of power in favour of the Centre. Veto power proposed to be vested in the Union Finance Minister was played in shrill voice. The constitution of DSA was stated to be avoidable at that stage.

Soon, the North Block honchos rephrased the contention-brewing provisions and dispensed with the veto power provision. They proposed that the GST Council may be driven by the 'Doctrine of Consensus'. However, the Centre stuck to the need for a DSA. The EC promised to reconsider the same in view of the close deadline of the monsoon session of Parliament as the Draft was earlier planned to be tabled and then referred to the Standing Committee. But at the next meeting, a good number of States harped on the dilution of their fiscal autonomy and voiced concern against the 'hurried reform agenda'. They also came up with a strange but 'intoxicating' alternative proposal for introducing a **FLOOR RATE** and a **BAND RATE**. In simple words, they wanted certain floor rates of GST which meant no State could go below that rate. And for the Band Rate, they articulated that they should have the flexibility to increase the rates by one or two per cent as and when they wished so.

Predictably, their new proposal did not cut much ice with the Centre which kept on insisting on the approval for the Draft Bill before other dimensions of the GST roll-out could be discussed. Even as the Finance Minister, Mr Pranab Mukherjee, continued to exude optimism, Mr Asim Dasgupta sent him a letter proposing a new alternative model - **to allow States to collect Service tax on behalf of the Centre and the States in turn may allow credit for the same**, and once they collect VAT and Service Tax, it would be very close to the proposed GST minus the Central Excise duty. Mr Mukherjee did not even spare second thought to reject it with disdain.

Probably, having expected such a predictable response from the Centre, the sharply-divided house of EC just wanted to last its pre-determined longevity. And, thus it never took up the ponderable issue of Draft Bill and kept itself busy with the 'toying issues' like the Exemption List, the threshold limit and the GST rates which come much after the basic legal mandate to levy GST by both the Centre and the States is obtained. That is how the Goa summit did not produce even a facile statement on the issue. The same happened in Delhi where Mr Dasgupta had no news to share with the media. He would now be heading for the State polls, and the taxpayers need not expect anything much meaningful from the EC in the coming months.

Interestingly, the Draft Bill indeed appears to be a hurriedly worded document which was not blessed with the necessary thoughts and vision required for a healthy legislation. For instance, the Bill proposes

**to keep some of the commodities like the HSD, natural gas, motor spirit, ATF and alcohol, out of the GST net.**

**What fails to appeal to the common sense is the fact that why should a list of non-GST goods be made a part of the elaborate and contentious exercise of Constitutional amendment.** Why can't its makers simply leave it to the discretion of the GST Council which may notify or denotify certain goods from the basket of GST-levied goods. This way it would be simpler to remove or add certain goods in future rather every time when a consensus emerges to bring certain exempted goods within the ambit of GST, one would have to

**go back to the Parliament for the same elaborate exercise of amendment, and then the vetting of the two-third State Assemblies.**

Aside this issue, there are many other aspects which call for more decent planning by all the stake-holders. Although many of us may not like to believe that the proposed reform is dead but the fact remains that even if it is **recoupable**

, it may not happen in the remaining period of the UPA-II Government. The political landscape has to undergo a major change before the proposed GST could get some fresh cylinders of oxygen. Till then, let's hope against the hope and focus on reforming the present system of indirect taxation. The Union Budget 2011 is not far away, and it can be a cajoling precursor for major changes in the future. Let's hope Mr Mukherjee continues to retain his **aura of positivism** and do what is needed to be done to make our tax system more commerce-friendly.