Two Years After GST

Arun Jaitley · Monday, July 1, 2019

Today, the Goods and Services Tax regime enters its third year. The monumental restructuring of one of the world’s clumsiest indirect tax system was not an easy task. The challenges to implement the GST were compounded by some outlandish and exaggerated comments of the not so well-informed. It would, therefore, be only fair to look back the last two years and analyse the implementation and the impact/consequences of the GST.

The pre-GST regime

In a federal structure, both Centre and States were entitled to impose indirect tax on goods. The States had multiple laws which entitled them to impose taxation at different points. There were twin challenges. Firstly, to get the States to agree because some of them felt they were losing their fiscal autonomy to tax and, secondly, to develop a consensus in the Parliament. The States were scared of the fear of the unknown. The critical point which enabled the Government to persuade the States was to cushion them with a 14% annual increase from the tax base of 2015-16 for a period of five years.

The GST merged all these seventeen different laws and created one single taxation. The pre-GST rate of taxation as a standard rate for VAT was 14.5%, excise at 12.5% and added with the CST and the cascading effect of tax on tax, the tax payable by the consumer was 31%. The entertainment tax was being levied by the States from 35% to 110%. The assessee had to file multiple returns, entertain multiple inspectors and additionally face the inefficiency - trucks being stranded at the State boundaries for days altogether.

The GST changed this scenario completely. Today, there is only one tax, online returns, no entry tax, no truck queues and no inter-state barriers.

Consumer and assessee friendly

After two years, one can confidently argue, without fear of contradiction that GST proved to be both consumer and assessee friendly. The high taxation of pre-GST era pinched the consumers’ pocket and acted as a disincentive against tax compliance. The last two years have seen each of the meetings of the GST Council reducing the tax burden on consumers as the tax collections improved. An efficient tax system certainly leads to better compliance. The 31% tax, which was temporarily 28%, has seen the largest single reform. Most items of consumer use have been brought in the 18%, 12% and even 5% category. Only luxury and sin goods remain in addition to some white goods. A sudden reduction of all categories can lead to a massive loss of government revenue leaving the government without resources to spend. This exercise had to be done in a gradual manner as the revenues increased. The Cinema tickets, earlier taxed at 35% to 110%, have been brought down to 12% and 18%. Most items of daily use are in the zero or 5% slab. The loss to the revenue on account of this reduction collectively has been more than Rs.90,000 crore annually.

Widening tax base and higher revenue

The assessee base in the last two years has increased by 84%. The number of assessees covered by the GST were around 65 lakh. Today, they are at 1.20 crores. This obviously leads to higher revenue collections. In the eight months of 2017-18 (July to March), the average revenue collected per month was Rs.89,700 crore per month. In the next year (2018-19), the monthly average has increased by about 10% to Rs.97,100 crore. The fear of the States today is that for
the first five years they get a guaranteed 14% increase. The lurking doubt is as to what will happen after five years? Every State has been paid its share of tax as also from the compensation fund, if necessary. We have just completed two years of GST. Already after the second year, twenty States are independently showing more than a 14% increase in their revenues and the compensation fund in their case is not necessary.

Simplification and compliance
Businesses upto an annual turnover of Rs.40 lakh are GST exempt. Those with a turnover upto Rs.1.5 crore can make use of the composition scheme and pay only one percent tax. There is now a single registration system which works online and the procedures for the trade and business are reviewed and simplified regularly.

A response to certain misconceived ideas

Many warned us that it may not be politically safe to introduce the GST. In several countries, governments lost elections because of the GST. India had one of the smoothest transformation. Within the first few weeks of the implementation, the new system settled down. There were a few protests in Surat. The issues were resolved. The BJP won all the Assembly seats in the Gujarat poll in Surat. In 2019, the BJP won the Surat seat by the highest margin in the country.

Those who argued for a single slab GST must realise that a single slab is possible only in extremely affluent countries where there are no poor people. It would be inequitable to apply a single rate in countries where there are a large number of people below the poverty line. The direct tax is a progressive tax. The more you earn, the more you pay. An indirect tax is a regressive tax. In the pre-GST regime, the rich and the poor, on various commodities, paid the same tax. The multiple slab system not only checked inflation, it also ensured that the Aam Aadmi products are not exorbitantly taxed. Illustratively, a Hawai chappal and a Mercedes car cannot be taxed at the same rate. This is not to suggest that the rationalisation of slabs is not needed. That process is already on. Except on luxury and sin goods, the 28% slab has almost been phased out. Zero and 5% slabs will always remain. As revenue increases further, it will give an opportunity to policy makers to possibly merge the 12% and 18% slab into one rate, thus, effectively making the GST a two rate tax.

The Role of the GST Council

The GST Council is India’s first statutory federal institution. The Centre and the States jointly sit and decide. Both have pooled their fiscal rights in a collective forum to create one common market. My own experience of two years while chairing the GST Council, was that Finance Ministers’ of States, notwithstanding the political position their parties take, have displayed a high level of statesmanship and acted with maturity. The Council worked on the principle of consensus. This has added to the credibility of the decision making process. I am sure this trend will continue in future.