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GST is more than just a tax reform

In its 4th year, the tax regime has, fiscal buoyancy apart, created a national common market, boosting cooperative federalism

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n recent times, the world over, countries have been convulsed by agitations for _sub-national autonomy -Scotland from Great Britain, Catalonia from Spain, and Quebec from Canada. India has bucked these trends by launching the GST (Goods and Services Tax) in July 2017, in which the Centre and the States voluntarily relinquished their unilateral rights of fiscal sovereignty and opted for an arrangement of pooled sover-

It was an audacious fiscal arrangement done in the hope that

pacity of the country. After four years of implementation of the GST, it appears that the toxins of transition are slowly yielding to the nectar of greater revenues. Fiscal buoyancy has returned largely due to better compliance, facilitated by matching of supplier and buyer invoices and more rigorous rules of granting registrations.

This has brought down the volume of fraudulent input invoices and enhanced the cash-tocredit ratio in the total duty payable. There is some evidence to show that the traditional 20:80 cash-to-credit ratio may be moving to a level of 25:75. This means

collection of ₹1.25-lakh crore instead of the usual ₹1-lakh crore. This buoyancy in GST revenues can be further boosted if the incidence of duty is raised from the current level of 11.8 per cent to 14 per cent which, according to the IMF study cited in the Fifteenth

Finance Commission report, would be the revenue neutral rate. This requires a slew of policy measures, including rationalisation of GST rates and merger of the slabs suggested by the Fifteenth Finance Commission.

> The other measures would include phasing away exemptions and bringing in more excluded items into the GST net like electricity and real estate.



The integration of State and Central indirect taxes in the GST led to the abolition of entry tax and the Central Sales Tax (CST). This has had important spillover effects on the economy. The abolition of

> entry tax has reduced trip times on the major road corridors leading to cost benefits for the manufacturers.

A GST impact study conducted by EY-World Bank for the Ministry of Road Transportation and Highways found that due to the removal of commercial tax check-posts by

States post implementation of the GST led to the reduction in trip time by around 17.45 per

Also, phasing away of the CST has led to a major churning in the warehousing sector. Instead of having multiple warehouses in each State to avoid payment of CST through stock transfers, large companies are creating bigger warehouses located either near

the production sites or the consumption centre depending on the demands from the sector.

We are also seeing the phenomena of transport companies morphing into larger

logistics players providing a whole range of transportation, storage and distribution services. But the impact of GST reform is not only confined to fiscal buoy-

The abolition of entry tax has created a national common market by breaking down physical barriers at State borders.

Further, the introduction of GST has led to the implementation of destination-based tax in which large poorer consumption States like Bihar and Uttar Pradesh are likely to benefit, resulting in greater fiscal equity.

Finally, we have also been able to create a truly federal institution in the form of a GST Council where States and Centre participate in joint indirect policymaking – a

fine example of cooperative federalism.

This experiment can be replicated in other sectors like health, agriculture and transportation and will enrich policymaking.

Tax administration

In order to further capitalise on the gains of the GST reforms, the States need to restructure their tax administration around key business processes, namely, 'registration', 'return filing', 'payment of duty', compliance verification, dispute resolution, and so

on. The administrative arrangements for compliance verification must critically distinguish between the prongs of compliance verification system, namely, 'return scrutiny', 'audit' and 'intelligence-

based investigations'.

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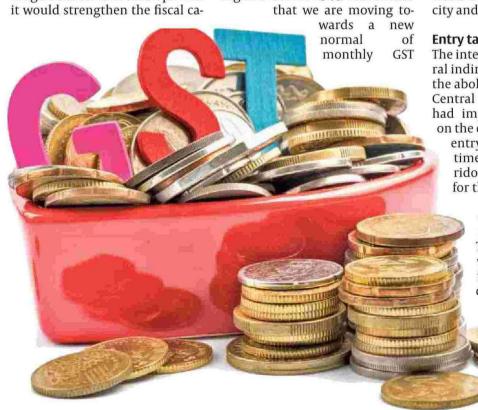
There is also the need for the States and the Centre to collaborate in capacity building of officers, especially in the areas of services taxation where the States require more hand-holding.

In conclusion, one can say that the GST reform has had an impact going well beyond fiscal buoyancy and extending into the political economy. In the GST journey, we have created an enduring institution like the GST Council.

We can create similar institutional forums for Centre-State dialogue, realising the goal of cooperative federalism envisioned by our Constitution makers.

To paraphrase, CLR James' famous lines from his book Beyond the Boundary, what do they know of GST, who only GST know.

The writer is National Leader, Tax & Economic Policy Group, EY India. Views are personal



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