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4 YEARS OF GOODS AND SERVICES TAX

Dancing the GST in Step

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With the goods and services tax (GST) entering its fifth year, there have been strident voices from some states about its very structure and design, about the tax being regressive, and of revenue of states getting impacted. In this context, the tumultuous journey of introducing GST in a federal set-up like India bears repeating.

It has been a long, bumpy ride: from the L K Jha Committee recommendations, through the Raja Chelliah Committee report, then the Vijay Kelkar Committee report, to the introduction of value-added tax (VAT) in states in 2005, to the budget announcement of 2006-07 setting an April 2010 deadline, the first discussion paper of the empowered committee of finance ministers in 2009 that set the template of many design elements and structure of GST as it stands today, to the standing committee on finance that examined the constitutional amendment, and, finally, the launch of GST in July 2017.

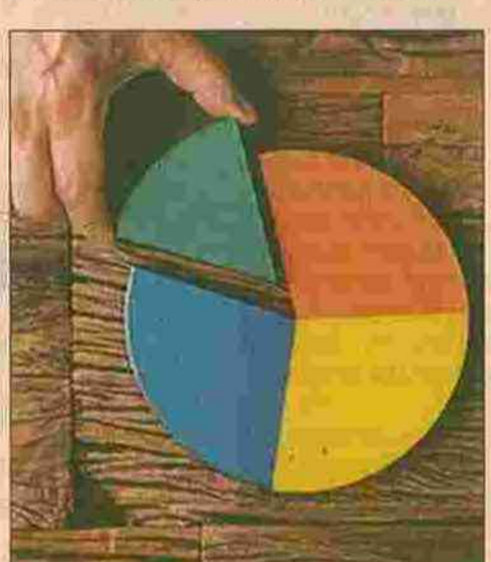
There were animated discussions and debates, and near-universal agreement at every stage that GST was the way to go forward. The process involved close cooperation and coordination with the states and, necessarily, compromises by all concerned.

The states, thereby, gave up their powers of taxation, as did the Centre, which also gave an unprecedented commitment — guaranteeing compensation to states for possible losses. The guarantee of compensation at the rate of 14% on the base year 2015-16 may have been — as Manish Gupta and Indira Rajaraman show in their study, 'Is the 14% Revenue Guarantee to States Justified? (Economic & Political Weekly, November 28, 2020) — unwarranted.

The guarantee resulted in imposition of a compensation cess to raise the funding to finance fulfilment of the guarantee. So, the design was compromised at the very outset, since GST was established to subsume the multiplicity of taxes and cesses, but readily agreed to by the states since it addressed their concerns.

All indirect taxes are regressive. The consumer bears the cost of the tax. What GST ensures is that the burden is reduced by facilitating credit on the earlier stages of the chain. This is not true for VAT imposed by the states. Tamil Nadu, for instance, collected VAT revenue from petrol, diesel and aviation turbine fuel (ATF) of ₹17,578 crore in 2019-20, which went up to ₹18,429 crore in 2020-21. The Centre is also guilty of imposing central excise on petroleum products, on which there is no credit, but which at least forms part of the devolution.

The bogey of state revenues having been negatively impacted is incorrect. In this regard, RBI's annual report on state finances (bit.ly/3hDPzRK) based on the study of state budgets for 2020-21 makes interesting reading.



Make a clean slice

The report has the states' own tax revenue data from 2004-05 to 2019-20.

Except for eight states that have shown a fall in revenue in 2018-19 when compared to 2017-18, all major states have an increase in revenue collections — for instance, Tamil Nadu's increase was from ₹96,472 crore in 2017-18 to ₹1,10,178 crore in 2018-19, Punjab's from ₹31,496 crore to ₹33,073 crore, etc. The loss, if any, in respect of the states is only when 14% assumed growth is calculated. So, all the states received compensation, although late. But to blame the loss on GST per se would be incorrect.

Going forward, it is essential that the tax base be expanded. The seductive appeal of excluding petroleum products because they yield high revenue is no argument. This reasoning can then justify the exclusion of all high-yielding commodities. Taxes, both of the Centre and states, constitute nearly 60% of the cost of petrol. Being out of GST's ambit adds to costs.

The Centre has imposed multiple cesses. This hurts the states, since these cesses do not get shared. As the 15th Finance Commission has pointed out, total cess and surcharge as a percentage of the gross revenue had grown from 12.2% in 2016-17 to 20.2% in 2019-20.

As has been suggested, the guarantee of compensation has lulled states into revenue complacency. The combined tax-to-GDP ratio of the Centre and states has to increase from the present of about 17%. Tax administration has to be strengthened. States will have to be alive to the very strong possibility that the Centre may not extend the guarantee of compensation beyond June 2022. They must gear up accordingly to meet the new reality.

Having said that GST is too important a tax reform to be allowed to fail, it is incumbent on the Centre and the states to work closely, iron out differences, and make GST work.

The writer is former chairman, Central Board of Indirect Taxes & Customs