

# Business Standard

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## The next challenge

Govt must now focus on making GST work

**T**he long political stalemate over the launch of the goods and services tax (GST) regime in this country is not yet over, but the number of Rajya Sabha members opposed to the current structure of GST is no longer as formidable as to defeat the passing of the Constitution amendment Bill required to give the new tax system a green signal. The Congress seems to be still opposed to some of the provisions of the Constitution amendment Bill on GST that was passed by the Lok Sabha earlier this year. But given that most major political parties, except the Congress and the All India Anna Dravida Munnetra Kazhagam, have given their assent to the proposed GST framework, it is likely that the government will succeed in getting the Constitution amendment Bill passed in the Rajya Sabha by the first week of August. The debate on GST, therefore, should ideally move to the more substantive issues of how efforts should be made to remove as much as possible the imperfections in the present proposal and address the technical issues pertaining to the new taxation law to make its implementation free from glitches. Three areas in the proposed GST framework would need special attention from policy makers.

One, the Centre and the states must put in place an efficient technology platform on the basis of which the new taxation system can operate. The GST law is not just about levying taxes at the point of consumption, but is also about ensuring a fool-proof system of setting off taxes paid by a chain of intermediate producers or providers of goods and services. This will require a robust technology backbone that can seamlessly allow such payments and set-offs across India, so that the dream of converting the entire country into a single market can be realised. Early and trouble-free refunds of taxes paid at the intermediate stages of the value chain will be a key requirement. It has been reported that the GST network is ready, but testing it on a national scale to remove glitches would require about six months. Not much time, therefore is left, if indeed the government wishes to introduce the GST from April 2017.

The second issue that the government must address is to resolve the differences that have arisen between state revenue departments and their counterparts at the Centre. These differences are largely over jurisdictional issues — state revenue departments are keen on not relinquishing their control over units below an annual turnover of ₹1.5 crore, while the revenue department in New Delhi is worried that agreeing to such a suggestion might result in lower revenue collections for the Union government from units below that threshold. Such disputes must be resolved keeping in mind the need for ensuring efficient and hassle-free collection of duties. Who has a larger control over collection of taxes should hardly be the government's concern. The political leadership must step in to ensure that bureaucratic ambitions do not come in the way of a smooth and efficient tax collection system. A functioning GST Council, with due representation from the states and adequate voting strength, should help.

The larger question to be addressed now is the GST's revenue neutral rate. There is a broad agreement that this rate should not be capped in the Constitution amendment Bill. But a more important issue is to keep the overall rate as low as possible. This can be achieved by keeping to a minimum the list of goods kept outside the purview of the GST. Fewer the number of excluded items, the greater are the chances of a lower revenue neutral rate. That goal will also be easier to achieve if the government can remove the few excluded items like petroleum products that have been mandated in the Constitution amendment Bill. Keeping the excluded items in the Constitution amendment Bill is risky as amending it later would require huge political efforts to mobilise support in both houses of Parliament and half of the state assemblies. It still may not be too late to remove from the Constitution amendment bill the goods that would be excluded from the GST. Exclusions can instead be placed in the notifications or the GST bills that have to be moved subsequently.

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