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Seal GST With A KISS

'Keep It Simple, Stupid' should be the watchword for GST reform

GR Gopinath

Late finance minister Arun Jaitley had announced in December 2018 that the sun would soon set on the 28% GST slab, except for luxury items. The country could look forward eventually to only two slabs, 5% and a standard rate between 12% and 18% (apart from exempt items). But he made haste slowly and tragically death overtook him prematurely in less than a year. He could not fulfil his assurances.

GST is still a complicated tax regime with varying slabs, not easy to comprehend or comply with, and open to interpretation, harassment and avoidable litigation. Finance ministry officials can be reminded of the KISS principle again.

KISS – Keep It Simple, Stupid – is a well-known acronym and an accepted credo in business. Attributed to Lockheed aircraft engineer Kelly Johnson, it was to urge his engineers to keep aircraft design so simple that even a stupid person should be able to repair the aircraft with ordinary tools on the combat field.

Bureaucracy, the world over, is usually oblivious to the KISS principle. An Amazon ad boasts that it sells more than a crore different products, besides myriad services, with more categories added every day. In this context, asking bureaucrats to identify and categorise all products and services for differential tax slabs in the GST regime is the surest way to get into a muddle.

Empirical data from across the world on the benefits of a unified single tax is incontrovertible. So, an unambiguous directive to the bureaucracy is necessary to come up with just two categories: Goods eligible for zero tax, and all the rest to come under a single rate, say 10% or 12% or even lower. That means everything, except those specifically exempt, is taxed.

This needs bold and clear reformist thinking at the political level. Take the so-called 'sin' taxes. They make no sense and are at cross purposes with government's overarching policies of generating growth and creating jobs under the much touted 'Make In India'.

A typical 300-room five star hotel generates direct employment for around 500 people, 90% of whom are waiters, housekeeping staff, front desk and concierge staff, besides cooks, chefs, managers, financial and clerical staff. There are a host of others employed in associated services such as the spa, gift shops and swimming pool.

The hotel also generates indirect employment in ancillary areas: It buys bed linen, furnishings, rugs and carpets (that are periodically replaced, generating employment in textiles), air conditioners, cutlery, electrical fittings, furniture ... and consumes enormous quantities of food produce. All these generate jobs and income for farmers, construction contractors, artisans and other manufacturers.

Five star hotels also generate foreign exchange by attracting rich tourists and visitors and have a direct bearing on FDI. So, it's unwise to tax these hotels to death. It's the same warped view that has high taxes on air conditioners, air conditioned restaurants, chocolates or luxury cars. They create an economic ripple effect downstream, in a complex web of businesses that have symbiotic relationships reaching down to the bottom of the employment pyramid.

Chad Crowe

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One must figure out how to rev up the economy by making the rich and upper middle class spend, and to move more people up the value chain to buy more chocolates and ACs and automobiles, instead of designing a tax system that keeps these products out of the new consumer class's reach.

Similarly, in a roadside bakery for example, officials have excelled in the art of creating confusion – bread is zero tax, but the vegetable sandwich is in the 5% tax slab, hitting the vegetable grower directly. Bun is zero but bun with a few raisins is 5%. And cakes and chocolates are 18%! It's the same with taxes on wine, rum and beer, which generate large scale employment and are the backbone of grape and sugarcane farming and the cocoa industry.

Take for example the curious case of the GST dispute between the popular startup ID Fresh Food, which is in the business of ready to eat foods like chapatis, rotis, parotas and sells various types of idli and dosa batters. They were selling parotas along with rotis and chapatis and charging 5% GST. A clever tax sleuth came up with a brilliant finding and slapped 18% GST, arguing that chapati and roti are flat breads whereas parotas are layered breads and hence do not qualify for the lower tax slab.

Can a country aspire to be a $5 trillion economy if its taxmen turn gourmet chefs and get bogged down into researching distinctions of dough making, while startups struggle to make dough? The low-cost airline model is successful because of the KISS principle: elimination of all frills – food, water, freebies, assigned seats, etc – single class seating, point-to-point travel with no code sharing, direct internet booking, no middlemen ... It's an Udupi self-service hotel in the sky.

The FM, instead of moving gingerly as has been the case till now, should take a cue from the PM who hinted at major reforms in the aftermath of Covid, and do away with all the confusing tax slabs in one fell swoop. She can then usher in a truly single low tax rate along with a list of exempt items. That will ensure compliance, widen the tax net, improve ease of doing business, boost the economy, create jobs and increase tax collection as witnessed in many countries – a move that will be both populist and well-regarded by economists.

It is well to remember Winston Churchill's famous quip: "A nation trying to tax itself into prosperity is like a man standing in a bucket and trying to lift himself by the handle."

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