

Four Years Later, The Good Times

GST takes that much time to stabilise, anywhere

It has been four years since India moved to the goods and services tax (GST) and, given the experience of other countries that switched to a value-added tax, it is time for the tax to have stabilised and the good times to roll. Overall, the experience of GST, which has subsumed a cascade of central and state taxes and cesses, has been encouraging despite some uncertainty on the rates. Revenues from GST have stayed over ₹1 lakh crore for eight consecutive months of dented growth during the pandemic. We can reap the full benefits of GST by completing the chain, assiduously following up the audit trails, and data crunching. GST helps formalise the economy, making companies pay tax and report their workers and enrol them in their provident fund. Formalisation widens the direct tax base, besides the indirect one. Of course, the case to make GST truly simple and efficient is compelling now.



Both the rates and the structure need an overhaul. The levy's coverage must be universal to include petrofuels, electricity, real estate and alcohol. GST on energy prices will usher in transparency and reduce power theft. Fewer and lower rates—a central rate for a vast majority of goods, a merit rate and a demerit rate—will boost revenues. Instituting a reverse charge for all purchases by big buyers would lengthen the audit trail and spare small producers working capital and paperwork. Exemptions break the GST chain, and must go. The GST Council, which has done a good job in challenging times, must act.

About 1.28 crore taxpayers are now registered with the GST Network, the IT backbone for taxpayers to pay tax, file returns and claim refunds, without having to interface with a tax official. It must work flawlessly. Raising efficiency of collections to achieve a tax-to-GDP ratio comparable to the OECD average of about 34% (Centre and states combined) must be the goal. The Centre must honour its obligation to make good the deficit in state collections of GST. A devolution bonus for excess collections might incentivise the states to do better.