PRESS MONITOR
Economic Times , Delhi
Wednesday, 7th July 2021; Page: 14
Width: 25.99 cms; Height: 20.74 cms; a3r; ID: 24.2021-07-07.91

This Steel Frame is Holding Up

Sushil Kumar Modi

Any new system generally stabilises within five years, if all other things behave normally. However, the goods and services tax (GST) has had to face unprecedented challenges as it enters its fifth year. First, it had to contend with a minor global economic slowdown in 2019-20. And then, just as it was emerging out of it, the Covid-19 pandemic struck.

GST, however, has made outstanding gains. Average monthly revenue from GST (till February 2020) grew at a compound annual growth rate (CAGR) of more than 9% — despite the effective weighted average tax burden coming down around 4 percentage points. Checkposts went. Multiple and complex compliance burdens became redundant (17 different taxes merged into one, and two statutes replaced about 150 different ones).

One return format replaced about 100 different return forms, a largely semi-manual tax reporting system across the country gave way to a single online core reporting system. The number of registered taxpayers more than doubled during four years, despite an almost two-fold increase in the registration threshold. And inter-state fiscal barriers came down substantially.

Any one of the above would constitute a major reform in a country as vast and varied as India. To think all of it happened with GST makes it probably the biggest reform measure undertaken anywhere in the last 60-70 years. GST may have done to the Indian economy what Sardar Patel's political integration had done to the Indian polity.

The humongous effort that went into building consensus on every issue, large or small, is borne out by the fact that the GST Council has not witnessed voting, except on one occasion, in its 43 meetings so far, and every state has been an equal participant to the proceedings. Despite this, murmurs remain about the very structure and design of GST.

However, not only was the essence of GST distilled, after protracted deliberations, in a very diverse and representative environment democratically put in place, but the nuts and bolts of GST were also cast in the same dispensation. India's GST is the only true dual GST in the world.

Australia has a national GST, Canada has an agreement-driven harmonised GST, while the European common system of value-added tax (VAT) runs on multiple statutes. Thus, the concurrently levied dual Indian GST is unique to India's federal structure.

Other aspects of GST in India — place of supply rules, input credit mechanism, threshold and treatment of small taxpayers — are, by and large, in accord with internationally prevalent good tax practices. The integrated GST (IGST) is a unique Indian construct that ensures transfer of tax to the destination jurisdiction with GoI in the role of a 'partner-depository', whereby it not only collects its portion of the dual GST but it also mediates the transfer.

The GST structure and design is, thus, the steel frame around which the entire GST ecosystem has been built. Any alteration to it may endanger the very tax itself. Of course, it can be — and should be — refined with experience. But there is no occasion to build it from scratch.

The biggest challenge now is to compensate the states adequately during these difficult times. The borrowing mechanism devised by the GST Council is probably the only practical way out of the current imbroglio. The borrowings during 2020-21, together with the likely borrowings for the period till July 2022, are estimated to be about ₹3.2 lakh crore. Even if the cess collection were to grow by 10% year-on-year, the amount borrowed looks likely to be repaid only by 2024.

This would still leave an almost equal amount to be paid to the states by way of arrears of compensation for the period of FY2021-22 onwards. Even if cess collection were to grow normally, it would not be before FY2026-27 that these would be paid out. But compensation at an assured CAGR of 14% (compared to the average 9-10% growth in sales tax collections in the three years preceding GST) can't be a solution to the ever-growing needs of the states.

The solution lies in strengthening GST, undertaking a review of the rate path, making it simpler to comply with, focusing on in-built, system-driven validations, designing risk-based administration and an effective mechanism for compliance verification.

It is time to overhaul the tax rates by gravitating towards a three-rate regime, with the 12% rate being merged into the standard rate, or have some similar schema. This may reduce litigations and the motivation to evade or avoid. On the administrative front, there should be greater focus on credit validations and correct reporting of liability. e-Invoicing can help a great deal. Further, enhanced compliance verification measures and effective auditing can plug leakages.

It's time to reform, refine and strengthen GST, not rewrite it.

GST 4 YEARS

The tax with superpowers

The writer is Rajya Sabha MP and former deputy chief minister, Bihar