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A long road ahead for GST

The govt has to draft the GST Act and put in place the IT architecture and administrative mechanism to manage it

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In a milestone for the Indian indirect tax structure, the Constitution (122nd Amendment) Bill, 2014, commonly known as the GST or Goods & Services Tax Bill, was passed by the Lok Sabha on May 6. Indian industry compliments the finance minister and the Empowered Committee of state finance ministers for successfully undertaking the challenging task of working out the modalities of the Bill and for steering it through the Lok Sabha.

One of the most critical reform measures for the Indian economy today, the GST has been eagerly anticipated by industry since 2007 when it was first mooted as a progression of the Value-Added Tax. It has many advantages for the economy as a whole as well as for different sections of society, including consumers, manufacturers, traders, and the central and state governments. Bringing it to this stage was not an easy process and required long and intense discussions among the central and state governments as it represents a fundamental change to the way the federal taxation structure was laid out in the Constitution.

The Indian market is considered to be among the largest in the world, and as such offers huge opportunities for a demand-driven growth strategy. However, the current indirect tax regime includes multiple central, state and local taxes such as excise duty, service tax, central sales tax, Octroi, value-added tax, entertainment tax, purchase tax and so on, leading to different taxation structures in different states. The national market thus is fragmented and goods travelling from one part of the country to another face many hurdles at the state borders, making transportation costlier, delayed and inefficient.

The GST aims to replace multiple taxes on goods and services, except alcohol for human consumption. Petroleum products shall not be subject to levy of GST till notified at a future date on the recommendation of the GST Council.

Through GST, India would transition to a single unified market. Inter-state barriers to trade would be dismantled, leading to faster movement of goods across the country, with no long queues at state checkpoints. For domestic manufacturers, this would be a big boon as it would lower costs, reduce time taken to destination and ultimately greatly add to competitiveness of Indian manufactured goods. Such efficiency would also sharpen our edge in the global markets and facilitate higher exports.

GST will reduce the cost of compliance and litigation as also broaden the tax base. It would enable producers and traders up and down the supply chain to pay taxes only on the value added by them. With the availability of seamless credit through the value chain, the cascading of taxes on cost of goods and services would be obviated.

In addition, since the GST would be placed on the IT infrastructure termed as the GST Network, tax administration could become more transparent and time-bound.

For state governments, the Integrated Goods and Services Tax (IGST) system as proposed means ease in tax collections. The IGST would be levied and collected on supplies in the course of inter-state trade by the Centre, and would then be allocated to the destination states. To protect the interest of the states, provision has been made in the Bill to compensate for loss of revenues, if any, by the Centre, to the tune of 100% for the first three years, 75% for the fourth year, and 50% for the fifth year. We in CII believe that the GST introduction is the most important tax reform for the economy. Our expectation is that GST alone could add as much as 1.5–2 percentage points to the GDP rate of growth in due course, placing India on track to attain double digit growth rates in the medium term. Moreover, it would give huge impetus to the manufacturing sector, which is the key option for creating the large number of jobs required by the country as its workforce expands by 10-12 million young persons each year. Industry has been continuously engaging with the central and state governments to highlight these economic advantages over the years.

The finance minister has stated in the Lok Sabha that the GST rate would be below the 27% currently being mentioned, and this offers much comfort to industry. Another issue addressed by the finance minister was the non-cascading nature of the origin based tax of 1% that is proposed to be imposed on inter-state trade to allay the concerns of manufacturing states. This is welcome and must be reflected in the final document. Tax on petroleum products should also be included in GST at a later stage.

The road ahead is still long. The GST Bill has to be passed by the Rajya Sabha and at least 15 state governments. The government simultaneously has to work on drafting of the GST Act, putting in place the information technology architecture for the GST network, and institute the administrative mechanism for managing the GST. Industry too would need to gear up within a short timespan for GST. However, with the commitment of lawmakers, industry is hopeful that the challenging tasks ahead would be effectively completed and the GST would be instituted by April 1, 2016 as targeted.

Indian industry believes that the GST, as the biggest indirect tax reform, would be an economic game changer and set the stage for a new era of rapid growth and transformation of the country.

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