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Good sense triumphs on the GST

Eleven years after it was first mooted in Parliament, the Rajya Sabha has finally adopted a goods and services tax. After the mere formality of its passage in the Lok Sabha for an approval of the amendments made, it will have to be considered and approved by a majority of State Assemblies before it can be sent to the President for assent. For now, Parliament's stamp is historic as the proposed tax will alter the powers of taxation that States enjoyed under the Constitution and usher in a uniform consumption-based tax structure across the land for almost all goods and services. Only potable alcohol is proposed to be excluded from the GST's ambit, according to Finance Minister Arun Jaitley, with petroleum products set to be pegged at a zero per cent rate till such time as the proposed GST Council reaches an agreement with the States and the Centre on an acceptable framework for taxation. That the two main players — the Bharatiya Janata Party and the Congress — were able to narrow their differences restores a degree of faith in the capacity of the political class to put the nation above petty self-serving interests. While it is a pity that consensus took so long to forge, both parties deserve a measure of credit for seeing the legislation through. The BJP for being accommodative in the face of reservations about specific provisions, which was accompanied by a much-needed change in tack in dealing with the Opposition. And the Congress, which became increasingly isolated on the issue and risked appearing cussedly obstructionist, for overcoming its desire to pay the BJP back in its own coin.

The GST will usher in a nationwide common market and subsume a multiplicity of Central and State taxes; but this is still some time and several smaller challenges away. Indeed, the Centre, the States, the yet-to-be-created GST Council and the vendor tasked with creating the IT backbone for the administration of the new tax regime have a clear challenge if they are to meet the April 1, 2017 deadline. Among the tasks ahead is the drafting of the specific Central and State GST laws that will again need to be passed in Parliament and State legislatures. Vital decisions, such as the setting of a proposed revenue-neutral standard rate, remain; these can have far-reaching cost and price implications for producers and consumers. These would also have revenue ramifications for governments. And while the Centre may be tempted to opt to speed up matters by moving the GST legislations as Money Bills to bypass any debate over specific provisions in the Rajya Sabha, it would be well-advised to avoid that path to see that the spirit of hard-won consensus is not frittered away in another round of political one-upmanship.

Taking on the IS in Libya

By launching airstrikes against Islamic State targets in Sirte, the United States has clearly scaled up its involvement in the Libyan civil war. The U.S. had previously conducted two standalone operations on specific IS targets in the North African country. This time, American warplanes are likely to stay longer, providing air cover to the forces of the Tripoli government in the battle for Sirte, a strategically important coastal town that has been under the control of the IS for more than a year. The group has some pockets of influence across the country, including Benghazi and Derna in the east and Sabratha in the west. The U.S.'s deepening involvement points to the rising threat perception from Libya. One concern is that the IS, under pressure from attacks in Iraq and Syria, will turn its focus towards Libya, and Sirte could become a transit haven. But the Libyan crisis is as complex as the Syrian and Iraqi conflicts. Even with U.S. air power, it may not be easy for the Libyan forces to defeat the IS. The key problem is that the country doesn't have a credible government. The forced ouster of Muammar Qadhafi threw it into chaos and anarchy. Today, there are two governments in Libya, one in Tripoli and the other in Tobruk. It is the interim body in Tripoli that is leading the offensive in Sirte. But the forces loyal to the Tobruk government, commanded by a Qadhafi-era General, Khalifa Haftar, are not part of this operation, and he has repeatedly denounced the interim government in Tripoli.

The U.S. and its European allies must share some blame for the country's present crisis. Qadhafi's regime, despite all its problems, was a unifying force among the country's diverse ethnic and tribal groups. When protests broke out in Benghazi against the regime in 2011, the major world powers could have pushed for a peaceful settlement. Instead, NATO launched a disastrous war, the after-effects of which are still felt in Libya. There was little effort on the part of the invaders to reconstitute the Libyan state after Qadhafi was killed. Instead, the Islamist factions among the rebels got support from Arab countries, while the Haftar militia was backed by the West. It is into this state of chaos that the U.S. is sending its warplanes. But Libya needs a strong single government that can lead both the fight against the terrorists and efforts to rebuild the state. The powers that bombed the country have the moral responsibility to work towards this goal. Unless Libya is stabilised, superior air power alone won't save it from the IS.

The age of GST dawns

As the most important indirect tax reform since 1947, it will create a single market and push competitiveness. It represents a historic political consensus, but there are potential implementation problems



AJIT RANADE

The introduction of a unified goods and services tax (GST) across the nation is the most important indirect tax reform since Independence. It has taken almost 16 years from the date of inception of the idea, formation of a task force, to passage in Parliament. It represents a Herculean, nationwide, multi-party consensus-building exercise which is finally bearing fruit.

The upside of GST

It has huge implications. First, it addresses a serious impediment to our competitiveness. Without the GST, there are multiple points of taxation, and multiple jurisdictions. We also have an imperfect system of offsetting credits on taxes paid on inputs, leading to higher costs. Further there is cascading of taxes — that is, tax on tax. Interstate commerce has been hampered due to the dead-weight burden on Central sales tax and entry taxes, which have no offsets. All this will go once the GST is in place. It will enhance the ease of doing business, and make our producers more competitive against imports.

Second, the adoption of the GST is an iconic example of what Prime Minister Narendra Modi has called "cooperative federalism". It represents a national consensus, an outcome of a grand bargain struck together by 29 States and seven Union Territories with the Central government. The States agreed to give up their right to impose sales tax on goods (VAT), and the Centre gave up its right to impose excise and services tax. In exchange they will each get a share of the unified GST collected nationally. The anticipated additional gains in efficiency, competitiveness and overall tax collections are what drove this bargain.

Third, once the GST is in place, it means a unified, un-fragmented national market for goods and services, accessible to the smallest entrepreneur. Companies need not maintain stock depots to avoid paying interstate taxes. This will free up some capital. All this will add to demand, and also efficiency. The Na-



ILLUSTRATION: SURENDRA

Unless a rate cap is adopted, the goods and services tax (GST) rate could easily drift higher, further hurting India's income inequality

tional Council for Applied Economic Research and others have estimated that national GDP growth can go up by one percentage point on a sustained basis.

Fourth, because the structure of claiming input tax credit is linked to having proof of taxes paid at an earlier stage in the value chain, this creates interlocking incentives for compliance between vendor and customer. No more questions from a vendor: "Would you like that with receipt or without receipt?" Because of this inherent incentive, the total taxes paid, and hence collected, may go up significantly. This provides buoyancy to the GST. In fact, a significant part of the black economy will enter the tax-paid economy.

The potential downside

All of this constitutes the upside of adopting the GST. Its roll-out represents a rare and historic political consensus. But that should not blind us to its potential downside, or the devil lurking in the details of its implementation. Here are some issues to consider.

First is the question of the uniform GST rate. What should it be? An early report of the

Finance Ministry from 2003 mentioned a rate of 12 per cent. Over the years this rate drifted higher, and the focal number being discussed now is 18 per cent. What determines this number?

The empowered committee of finance ministers uses a concept called "Revenue Neutral Rate" or RNR. The RNR is that uniform rate which when applied will leave all States with the same revenue as before. So no State should lose out by signing up to the GST. But this approach is faulty, since unless we try it for a year (or more) we won't be able to gauge the buoyancy of the GST. In trying to assuage the fears of States, the calculation of the RNR has been loaded by every possible existing tax (like entry tax, octroi, etc.). This has caused the RNR to steadily escalate upward. At one point, the National Institute of Public Finance and Policy mentioned 26 per cent. The higher the RNR (and hence GST rate), the more is its inflationary impact. This is a sure way of killing the golden egg-laying goose. A better approach is to keep the GST rate low initially, and promise to fully reimburse losing States by the end of the year. Everyone may be in for a pleasant surprise by GST buoyancy. But this tax buoyancy will stop working beyond a certain threshold (like say 18 or 20 per cent). The focus on the RNR is self-defeating.

Taxation and litigation

The second issue is that the GST is an indirect tax. By their very nature, indirect taxes are regressive because they affect the poor more than the rich. India's ratio of indirect to direct tax collection is 65:35, which is exactly the opposite of the norm in most developed countries. India's ratio of direct tax to GDP is one of the lowest in the world, and it badly needs to expand the direct tax net. Only 4 per cent of India pays income tax, but practically all Indians pay indirect taxes in one form or the other. Direct tax rates have been falling, and indirect tax rates rising. For instance, service tax (an indirect tax) used to be 5 per cent in the 1990s and is now more than 15 per cent. The Swachh Bharat cess, or frequent increase in excise duty on petrol and diesel are all recent examples of regressive indirect tax. Unless a rate cap is adopted, the GST rate could easily drift higher, further hurting India's in-

come inequality. To meet their fiscal needs, it is always tempting for governments to tweak indirect taxes higher, since the work of expanding the direct tax net is so much harder. This temptation must be curbed with a rate cap.

The third issue is of tax litigation. Approximately Rs.1.5 lakh crore is stuck in litigation related to Central excise and service taxes. On the other hand the State-level VAT is administered in a way that empowers tax officials to dispose of cases quickly. Disputes involving Central taxes go through an appeal and tribunal process, and can drag on for years. But empowered staff under the Sales Tax Commissioner can dispose of valid grievances of State-level VAT payers much faster. This difference is called the "review" versus "revise" approach to tax disputes. It is important that the GST approach leans towards the more efficient State-level model.

State of the States

The fourth issue in implementing the GST is the governance within the GST Council. It is a de facto council of States, along with representatives from the Union Finance Ministry. It seems that one State will get one vote, irrespective of its size. This seems unfair. An economically larger State, contributing a bigger chunk of the GST pie, should have a greater say. Similarly, the special needs of smaller States should also be heeded. For instance, the Northeast States had to be assuaged already with a lower threshold for GST exemption, because if a higher (uniform) threshold were adopted nationally, then nearly all businesses of the Northeast would become tax-exempt.

Finally, the issue of States' autonomy. India will be a unique large democracy that adopts a nationwide GST, with virtually no taxing powers to the States. In the United States, the States have power to impose sales and income taxes. Within the European Union (EU), each member country retains fiscal autonomy, and also the freedom to breach the fiscal deficit of 3 per cent of GDP. Indeed virtually all members of the EU have breached that limit. In India, what if a State wants to undertake a special spending programme to respond to a State-specific situation, such as a disaster? In 1982, the Chief Minister of Tamil Nadu upgraded a midday meal scheme which his opponents criticised as being an empty promise and fiscally reckless. In response he raised taxes on goods (not possible in a GST regime), and made the programme so successful that it is praised to this day, not just in India but also around the world. It achieved the double objective of better nutrition for children and better school attendance. Similarly in the drought crisis year of 1972, the Maharashtra government imposed a profession tax on city dwellers (not possible under the GST) to fund an innovative programme called the rural "Employment Guarantee Scheme (EGS)", which three decades later was acknowledged nationally as the inspiration behind the National Rural Employment Guarantee Act. The GST regime should remain sympathetic to this issue of States' fiscal autonomy. We have not even mentioned here what happens to the third tier, i.e. local bodies.

The GST is obviously not a panacea for all ills of India's economy. It is nevertheless a revolutionary and long-pending reform. It promises economic growth and jobs, better efficiency and ease of doing business, and higher tax collection. We hope that its imperfections and potential pitfalls will be sorted out as we roll it out.

Ajit Ranade is a Mumbai-based economist.

CARTOONSCAPE



LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

The debate on foetal life

With increasing instances of rape on the one hand and advancing technology in foetal anomaly detection and change in the mindset of young women on the other, I doubt if at any time in the future we may have a definitive answer to when to terminate foetal life. The window to detect most foetal anomalies is around 20 weeks, with some cases being found in between 22-24 weeks of pregnancy and the rest even beyond 26 weeks. We may not have legal answers for a mother who wants to discontinue her pregnancy when an anomaly is detected beyond 26 weeks. What may probably help is training the medical fraternity in early detection of anomalies and improving counselling methodologies besides a feasible change in existing abortion laws. The younger generation also needs to be educated to accept the fact that certain disabilities are a part of human life. Trying to create a "defect-free" society can only cause more intolerance.

Dr. Shanthi C., Chennai

It is a difficult issue if one considers the right of a foetus to be born as against the right of the woman to abort an unwanted pregnancy. But what are the rights of the foetus after it is carried to full term and is born to a raped/mentally challenged mother? A baby without a father, born to a teenage mother, without a home and a future? What about the rights of the teenager who was raped? Doesn't she have the right to live her life without having the responsibility of looking after a child? Finally, there has to be

stringent punishment for the perpetrators.

Anjali Sreekumar, Thiruvananthapuram

The root cause for opting for late abortions is the pressure a woman goes through while thinking about the future of the unborn child. It's important for our government to understand the need and the reason behind why a woman chooses such an option. Mandatory counselling for mothers for a few days might help them change their minds.

Chhavi Duggal, New Delhi

The existing upper gestation limit for medical termination of pregnancy in India is not scientific. Proposals to revise the limit from 20 to 24 weeks are underway if one considers that substantial foetal anomalies are detected at a later date. A training programme for non-allopathic doctors to qualify as service providers should be thought of. The concept of "abortion on demand" must be given importance as part of proposed amendments so that the right to abort should become the prerogative of the woman and not the doctor. The world must also shed its pseudo ethics as it is the mother who has to make the choice.

K.A.R. Reddy, Nellore

Legal and medical consequences aside, one must consider the future of the child and the mother should they live in stigma. There is also no guarantee that the law will help in adverse situations. So, the decision to abort or not is better left to the mother. Counselling by itself may

not be a proper option since bringing up a child is a lengthy, challenging process and the mother may, at some point in time, rue her decision not to abort.

V. Lakshmanan, Tirupur, Tamil Nadu

Trouble in Gujarat

The Bharatiya Janata Party captured power in 2014 not only because of a development agenda but also due to widespread disenchantment with the Congress party that was seen to be neck deep in corruption. The perception then was that the BJP would not be vigorous in pursuing its right-wing policies as its long spell in the Opposition might have chastened it to be secular. The Dadri and Una incidents have led many to suspect that the party remains Janus-faced in its treatment of the minorities and Dalits. Social disharmony is a deterrent to a country's economic growth. The assumption by a political party that public memory is short does not hold good (Editorial, Aug.3).

K. Jayanthi, Chennai

The recent agitation of Dalits to openly resist discriminatory and violent acts against the community is certainly an encouraging political trend. But it would be a pity if the matter is relegated to obscurity through a cosmetic change of the Chief Minister. Moreover, any BJP strategy that involves appeasing the Patidar community as a political quick fix would have to be foiled. Opposition parties as well as Dalit groups must see this wave of mobilisation through to its logical end by challenging the underlying

social pathologies and hate-driven political ideologies that have led to systematic violence against Dalits. It would also be great to see the BJP end its politics of silence and show some political courage to address the real grievances that the people of Gujarat have with it.

Richie Varghese, Pune

What's in a name?

In the past, we have seen Bangalore, Bombay and Madras and Trivandrum being renamed, with hardly a ripple as far as change for the better is concerned. At a time when West Bengal Chief Minister Mamata Banerjee has been given another chance to rule the State, she must focus on good governance, maintaining law and order, inviting investment and enabling social harmony rather than bother about inconsequential issues like changing the name of her State ("Mamata Cabinet wants State to be renamed as Bengal", Aug.3).

Bal Govind, Noida

Blood screening bill

The PML-N government of Pakistan has moved the Premarital Blood Screening (Family Laws Amendment) Bill which will now require couples to be screened to check the spread of transmissible diseases and check inherited blood disorders. This is a society with consanguineous marriages and where children suffer congenital disorders. The Bill encompasses the Muslim Marriage, Christian Marriage and Divorce Act and the Parsi Marriage Act. A marriage will

not be considered valid without this certified blood report. It is also expected to control HIV infections which grew at an average of 17.6 per cent a year during 2005-2015.

Zeeshan Nasir, Turbat, Pakistan

MP's behaviour

It was dismaying to read about the behaviour of AAP MP Bhagwant Mann who is said to attend Parliament in an inebriated state ("Three MPs want Mann sent to rehab", Aug. 3). The fact that even his party MP has complained to the Lok Sabha Speaker about "the smell of alcohol" and seeking a relocation of his seat shows the gravity of the issue. That he is a habitual offender is even more appalling. The institution of Parliament is sacrosanct and our elected representatives must remember this.

P.K. Varadarajan, Chennai

Source of Hillary's inspiration

Sycophancy has reached its nadir in Tamil Nadu politics ("Hillary's presidential bid inspired by Jayalalithaa: MLA", Aug.3). If at all Ms. Clinton could have drawn inspiration from someone, it may well have been Iron Lady Margaret Thatcher. But knowing Ms. Clinton, she does have a mind of her own. It would be interesting to see how she does react if she comes to know about the AIADMK MLA's "findings". I can be quite sure that the MLA is now eminently qualified to become a minister were there to be a cabinet reshuffle.

V.N. Gopal, Chennai