Critique of Dialectical Reason to Welcome GST in India

DR.N.PAKSHI RAJAN
Assistant Professor of economics, V.O.Chidambaram College, Thoothukudi, India.

Abstract - Goods and Services tax (GST) is an indirect tax on goods and services. It laid emphasis on one tax rate across the nation that paved the way for cooperative federalism. The author's musings on GST reform is critically analyzed in this article in the context of Indian economy. Under the new tax regime, GST in India has four tax rates: 5%, 12%, 18% and 28%. Economic think-tank believe hopes that the GST integrates the 2 trillion economy with 1.3 billion customers into a single entity. The benefit of GST is minimal cascading tax effect, tax compliance and it gives the degree of certainty and unambiguity. GST may be counted as a proportional tax (same tax rate) as the tax rates are expressed in terms of percentage rather than income. There is an exempted list of over 80 essential commodities ranging from meat, egg, milk, salt, bread to plastic bangles under GST. The tax revenue from the petrol, alcohol and part of real estate (ready-to-move-in apartments with completion certificate) that prove to be a cash cow for the government, not under the ambit of GST. The GST will bolster GDP growth in the longer term, despite teething-problems in the initial phase.

Index Terms: Specialisation, Goods and services Tax, regressive tax, proportional tax, transaction value, economic growth, marginal tax rate, average tax rate

Recalls David Ricardo's ideas of division of labor, specialisation and distribution that attributed to the implementation of Goods and Services Tax (GST). He opined that the creation of wealth with a means of division of labor and specialisation stops one-third of children dying before their 5th birthdays. The trade is the way in which we can distribute the output that may lead to increase in production. The greater the division, specialisation and distribution to a larger mass, the richer we shall be. In India, until the GST, each state, was relatively poorer, behaved and treated one another much more like a separate country than as a single unit in trade terms, resulted in less internal trade and distribution. GST paved the way for cooperative federalism - 'One Tax, One Market, One Nation'.

After more than a decade of filibustering, The 122nd constitutional amendment bill, 2014', sets the wheels in motion for a new indirect tax (on goods and services) reform - GST. It got going from July 1st, 2017. This provided a paradigm shift in the operational and organizational structure of old tax system, by having drawn up the swathe of central and state indirect taxes and subsumed them into one.

GST is paid for 'transaction Value', meaning that paid at the final point of purchases of goods and services. This transaction value or actual paid price includes packing cost, commission, and all others expenses incurred for their sales.

The fabled GST has already been existing in France, the U.K and Canada.

In India, it combined the then 17 state and central taxes besides 23 ceases into one levy to create one nation, one tax. The levies such as Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty known as Countervailing Duty, and Special Additional Duty of Customs; State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax(CST) (Levied by the central and collected by the states), Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling had been rolled into one single unit of a new tax regime with the introduction of GST.

The GST in India Kick-started way back in 2000. The former Prime Minister Atal Bihari Vajpayee set up a committee headed by the then finance minister of West Bengal, Asim Dasgupta to give a blueprint for GST.

For the 14th Lok Sabha, Dr. Manmohan Singh was at the helm - the congress-led-UPA government outstripped the ruling BJP-led NDA government in the 2004 general election. In February 2006, the then Finance Minister P.Chidambaram was on the same page with the previous government vis-a-vis GST and proposed a GST rollout by 1 April 2010. Though 80% of the task was completed, Asim Dasgupta resigned as the head of the GST committee as The Left Front gave in the election fight to Trinamool congress in the Eastern Indian state, West Bengal, for the first time since 1977.

Economic think-tank believe hopes that the GST integrates the 2 trillion economy with 1.3 billion customers into a single entity. After GST, the consumers enjoy the benefits of the removal of draconian cascading tax effects - a tax on tax, meaning that after manufacturing CST is levied on an amount inclusive of excise duty.

Under the new tax regime, GST in India has four tax rates: 5%, 12%, 18% and 28%; whereas most countries have one GST rate, a few have two. Even the service tax is now divided into four as it used to be one. It is extremely complex because of the
number of tax rates levied and each tax is treated as separate tax jurisdiction. The one GST rate is simple and easy.

In Singapore, as a case for defense in keeping a single GST rate and negation of GST tax on necessities such as sugar and rice proposal, The Singapore Ministry of Finance replied (at 2009 Budget Feedback process) that as the bulk of GST revenue from basic necessities comes from the higher income and foreigners, exempting these taxes would be giving relief to those who actually do not need help, and that it is far more advisable to keep a single GST rate on all goods, and use part of the revenue collected to provide targeted assistance to lower-income families through the offset package. Whereas, India has the most number of people (224 million) who live below the international poverty line of $1.90, in India’s case the 0% tax rate on essentials is defendable.

Before GST, an entrepreneur who was having business interests in five different states across the country had to deal with five different tax authorities along with five different tax rates in VAT paid by him. After GST, the same entrepreneur with the same scenario of interests and places, for filing GST he has to do only two types of registration: 1. state GST and 2. Central GST, following brings down the logistics cost for him as the GST tax rate is same.

GST is a completely IT-driven tax administration and compliance system that has been developed for and a large taxpayers of 8 million. Given the system and execution process, it gives the degree of certainty and unambiguity, with no checks on state borders, less tax evasion and most importantly, it keeps a check on corruption and harassment at hands of officers, results in economic efficiency. However, GST poses a challenge for all businesses and tax officials, as it requires a robust IT interface to be set up to all taxpayers across India, wherein only 26% of internet users of total population (including non-tax payers), ranked 127 in the world.

The online shopping has become slightly expensive as the e-commerce websites such as Flipkart and Amazon.in collect TCS (tax collected at source-section 52 of the CGST/SGST Act, 2017) at a fixed 1% rate, and pay this collection to the sellers listed on their websites.

Indian GST exempted a list of over 80 essential commodities ranging from meat, egg, milk, salt, bread to plastic bangles. As essentials are exempted from GST, there arises a situation to make up for the loss of revenue through a higher GST rate on other goods and services, which lower-income households also have to be borne. For example, some two-third of Indian households saving is done into real estate and gold just because of ‘culture’. The new GST rate on gold pushed up to 3% from 2%. It is entirely a new tax slab of 3% for a single item- gems and jewellery - in addition to the four tax slabs decides for all the other items. On a macroeconomic health perspective, savings into gold is just dead money while saving into financial instruments like shares, bonds and others is what finances investment elsewhere.

GST tax is regressive as it takes a greater percentage of income from the poor than rich- the Average Tax Rate (ATR) is higher than Marginal Tax Rate (MTR). Nevertheless, GST may be counted as a proportional tax (same tax rate) as the tax rates are expressed in terms of percentage rather than income. In this case, a situation of Pareto optimality may be achieved by equating MTR= ATR.

The tax revenue from the petrol, alcohol and part of real estate(read) ready-to-move-in apartments with completion certificate) that prove to be a cash cow for the government, not under the ambit of GST. With the exception of Gujarat, Nagaland, Mizoram and Manipur, where liquor is officially prohibited. For most of the states, up to one-fifth of their state budgets are funded by alcohol revenue. After all, Tamil Nadu has turned it into alcohol economy - ranked eighth in HDI(in 2015), increasingly becoming dependent on liquor revenue to fund their schemes, earned maximum revenue of Rs 29,672 crore (2015-16), among all states. The union government revenue from petroleum products went up from Rs 88,000 crore in 2013-14 to Rs 1.99 lakh crore in 2015-16.

The mood music coming from the general public about GST is as sacred as motherhood -and-apple-pie. It is the order of the day for today and tomorrow so much so that to change the shrunken fiscal face of the economy that counts on income tax revenue only from 1.5 % (1.9 cores) of the total population of 125 cores.

The teething troubles in the initial phase is on a large scale: a) the government of India could be forced to cut spending on key infrastructures such as railways and highways as the tax collection is lower than expected ., b) Without spending cuts, the fiscal deficit gets bigger to 3.5% of GDP, from the target of 3.2% set for 2017/18., c) India's GDP growth has slowed to 5.7% in the April-June quarter from 7.9% a year earlier., d) Under a GST deal, the central government has to compensate states in their receipts fall below an annual growth of 14% in taxes (assumed 2015-16 value-added revenue as base) for the next five years., and e) over 1400 registered trademark brands(flower mills) surrendered their
licenses to come out of the tax net because nil duty on loose and registered but without trademark. However, the GST will bolster GDP growth in the longer term. The GST offers significant opportunity for productivity. According to Fitch rating, it will become much quicker and less costly to move goods across the country now that trucks will not be held up at checkpoints at state borders. Smoother logistics should reduce retailers' need for working capital and allow them to operate centralized warehouses, rather than in every state. Fitch said the GST would create an ecosystem where supply chains can extend and encourage specialisation since there would be less incentive to source goods within state borders.

The British brokerage HSBC said, in over the next ten years India will likely surpass Germany and Japan to become the third largest economy in nominal USD and the transition will happen even more quickly on a purchasing power parity basis. GST is the acme of doing business across India with ease, promoting transparency and hassle-free to reach such zenith.

Before winding up, Jacques Ranciere (French Philosopher) thought jogged my memory: "Happily, it is possible to hope for [India] less absurd and more just than todays - GOOD and SIMPLE TAX".

REFERENCES

[1] Economics Times


[3] India Today


[5] Lee, Chan-Sik Park, Hyun-Su
https://adamsmith.wordpress.com/2010/05/22/is-gst-a-regressive-tax/


