

GST - Challenges and Impact



**AMIR ULLAH KHAN
MANUU**

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INSTITUTE OF OBJECTIVE STUDIES**

Why GST



- One tax
- Simplification
- Destination tax
- Tax on value added
- Tax credits

Timeline



- The debates on tax collection - Direct Vs Indirect
- 2000
- 2002
- Vijay Kelkar
- 2009

Timeline



1986: V P Singh's budget for 1986-87. excise tax reforms

2000 Vajpayee asks Asim Dasgupta to design a GST model.

2003: The Vajpayee government forms a task force under Vijay Kelkar to recommend tax reforms.

2004: Kelkar recommends GST to replace the existing tax regime.

2006: PC sets April 1, 2010 as deadline for GST implementation.

Timeline



2008: Empowered Committee of State Finance Ministers constituted. The Empowered Committee submits a report titled ‘A Model and Roadmap Goods and Services Tax (GST) in India’ to the government

2009: Empowered Committee submits a discussion paper in the public domain on GST welcoming debate.

Timeline



- 2009: Finance Minister Pranab Mukherjee announces basic structure of GST as designed by Dasgupta committee; retains 2010 deadline.
- BJP opposes GST basic structure.
- 2010: Finance Ministry starts mission-mode computerisation of commercial taxes in states, to lay the foundation for GST rollout.

Timeline



- Pranab Mukherjee defers GST to April 1, 2011.
- 2011: UPA-II tables 115th Constitution Amendment Bill in the Lok Sabha for bringing GST.
- 2011: GST Bill referred to Parliamentary Standing Committee on Finance led by Yashwant Sinha.
- Asim Dasgupta resigns, replaced by the then Kerala Finance Minister KM Mani.

Timeline

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- 2012: P Chidambaram holds meetings with state finance ministers; decides to resolve all issues by December 31, 2012 for GST rollout.
 - 2013: In his Budget speech makes provision for Rs 9,000 crore to compensate states for losses incurred because of GST.
 - 2013: Parliamentary standing committee submits report to Parliament. GST Bill gets ready for introduction in Parliament.

Timeline

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- 2013: Gujarat Chief Minister Narendra Modi opposes GST Bill saying state would incur losses worth Rs 14,000 crore every year due to GST.
 - 2014: GST Bill cleared by Standing Committee lapses as Lok Sabha dissolves; BJP-led NDA government comes to power.
 - 2014: Cabinet approves 122nd Constitution Amendment Bill to GST.

Timeline



- 2014: Finance Minister Arun Jaitley introduces the Constitution (122nd) Amendment Bill in the Lok Sabha; Congress objects.
- 2015: Jaitley sets April 1, 2016 as deadline for GST rollout.
- 2015: Lok Sabha passes GST Constitutional Amendment Bill. The Amendment Bill presented in the Rajya Sabha.

Timeline



- 2015: Government fails to win the support of Opposition to pass the bill in the Rajya Sabha where it lacks sufficient numbers.
- 2016: Centre opposes capping GST rate at 18%; gets states around.
- 2016: Rajya Sabha passes the Constitution Amendment Bill by two-thirds majority.

Impact



- Tax collection will go up enormously.
- Tax compliance will improve.
- More and more enterprises will start filing taxes and tax returns.
- Prices will come down

Political process



- Constitutional amendment
- State Council
- Why some states protested?
- How did they agree

Long term

- Bullying various states and pushing them into a GST regime
- The impact on consumption and markets will be profound.
- Tax collection will definitely go up in the long run but will impact the small scale sector negatively.
- After demonetisation, this step also is one that underlines the manner in which our government gets into a dictatorial mode where democratic decision making is ignored and expert opinion is bypassed.

The Telangana example

- Not only is the industry unprepared it is obvious that the government also is way behind on its preparations. GSTN?
- The Telangana CM is the first to have realize that GST will cause distress.
- Sought exemption for works covered under beedi and granite industries and works under irrigation and drinking water projects.
- Has argued that that thousands of workers sustain on the beedi industry and imposing excess taxes on the industry will adversely impact the beedi workers.

Billing



- Multiple exemptions
- Filing uncertain
- Spices 5%
- Processed food 10%
- Oil/computers/mobiles - 18%
- White goods and cars 28%

Demerit goods

- With more than 1,400 commodities that will have to be fitted into the five slabs – zero, 5 per cent, 12 per cent, 18 per cent and 28 per cent, the tax department has its hands full.
- It has still not decided what to do with sin products where we need to fix special cesses on demerit goods that are now capped at 15 per cent for aerated drinks and luxury cars, and at 135 per cent for pan masala, and 290 per cent or Rs 4,170 per 1,000 sticks for cigarettes.

Fitment



- Most items therefore will be fit into the existing VAT scheme.
- However at the moment, each state differs so much that actual fitments will involve intense lobbying by states.
- This will be followed by businesses who will start their own lobbying.
- The danger is that we return to the age old system of business lobbyists using all means possible to get their produce into the lower slabs

Price monitoring

- National Anti-Profiteering Authority
- Has the powers to force a company to lower its prices, refund money to consumers or deposit it in the Consumer Welfare Fund.
- It can also impose a penalty and even go the extent of canceling the registration of the company.
- If any corporate body is going to explain why it has changed prices of its commodities to three levels of bureaucracy, there can be no ease of doing business.
- This will happen even as the firm is threatened by the body that it will cancel its registration any time.

NAPA



- This NAPA will have a three-tier structure, including a Standing Committee on Anti-profiteering, State-level Screening Committees, and a National Anti-Profiteering Authority.
- A central monitoring committee of 15 secretary-level officials will meet every Tuesday to review the GST rollout, including issues such as prices and supply.
- While a number of companies such as auto makers and mobile phone companies have changed prices based on the new tax incidence, there is still a lot of confusion over prices of most items.

Registration at centre and state

- The other major problem with GST is that those supplying goods or services worth Rs 20 lakh and more must register both with the central government and all state governments and Union territories to do business across the country.
- This will mean having to deal with more than 30 tax authorities and not one as the GST dreamt of.
- Each of these tax administration machineries is mired in corruption and for all firms to deal with each individually is going to be very complicated and with such uncertainty on the concept of GST itself.

One rate



- There are now different rates for different goods.
- Everywhere else in the world there is one rate.
- 5, 7 and 10 per cent
- There is an added problem in the Indian rates, Implementing a multiplicity of rates on simple items has added unnecessary complexity. E.g. different rates for frames, lens, glasses (frame and lens) and sunglasses.

VAT to GST



- The transition from the VAT regime for both those who paid VAT and those who did not and wish to be under GST is a very detailed process and for those with large inventory particularly of multiple products is tedious.
- The real impact of GST will be visible when this is done and input credits start taking effect.
- At the moment what is being seen is the fact that invoices in restaurants have started charging GST.
- The chain where this GST will get paid and where refunds come in will make the tax reform successful

SMEs, new taxes

- Small enterprises are getting to bear much of the burden. SMEs will slowly lose cost advantage. GST will push for sourcing from registered vendors only so that firms don't have to pay reverse charge.
- Systemic and operational inefficiencies that could occur from filing the returns and resultant losses to the Government should not trigger off another cess regime.
- The tendency to include new taxes and cesses will have to be curbed, both by the states and the centre.

