

GOODS AND SERVICE TAX (GST) BILL

The Government has announced that the Goods and Service Tax (GST) Bill is to be implemented from 1st July 2017. However structure of 5, 12, 18 and 28%, depending on commodities such as lowest for essential items and the high for luxury and de-merits goods that would also attract an additional cess, this structure needs to be relooked as we feel that GST should be structured around 5, 12 and 18% as the 28% rate even for sin goods is on the higher side.

As compared to the developed economies, the tax average in Asian countries is at an 8.5% whereas in the European Union and the world over average VAT is 14.9% and does not exceed 16%. Hence it is suggested that the GST limit in India should not be above 18%, even in case of luxury goods and at the start the maximum should be 15% to 16%. We are of the opinion that on all other commodities GST should not exceed 16% and the tax structure should not exceed 3 rates for different types of commodities.

If we initiate the 28% tax ceiling, than India will be known as one of the highest taxation country a label that will be a huge deterrent for Foreign Direct Investors - FDI in our country. This also will result in unfair practices and leakages in view of the high tax rates. And will enhance the previous practices of fudging resulting in revenue loss to the exchequer and can have a cascading effect on economic growth and business.

This would also give rise to inflation as certain commodities which do not have competition would be very costly and beyond the reach of the consumer. Such situation would back fire on the Indian manufacturing industry which would develop a large inventory of goods subject to non performance in sale of the same and would defeat the purpose of doing business. Considering the extrapolations of the studies surveyed it is very clear that India has a large consumer base and as such this needs to be considered.

Although in the recent meeting of the Goods and Services Tax (GST) Council, States and the Centre may have come to a consensus on the issue of the division of control over taxpayers. Yet the decision of dual monetary control still remains a point of contention specially for processes that include refunds, export rebates, remission and recovery of arrears. This could also result in more complications giving rise to multiplicity of agencies, losses and rates being increased impacting GST and thus would defeat the purpose of the entire GST system leading to inflation.

A major disadvantage under this system is of not having cross empowerment for the entire value chain under the proposed indirect tax regime would result in the taxpayer not knowing which administration to approach in case of difficulty. Also, in this case the Centre will find it difficult to verify credit flows across the entire value chain of GST transactions and as a consequence will incur higher compliance costs and result in uncertainty for the taxpayer.

The Indian economy stands apart from the world economies on the basis of its power of domestic consumption. It has withstood the ravages of depression thanks to the wide consumer base which absorbs much of the goods produced domestically which is one of the best salient features of this economy.

Besides in developing countries GST is not applicable on educational purpose like cess on schools, colleges and institutions, also on garments for children below 10 years. The Government should consider these pertinent issues.

Hence it becomes vital that a definite revenue neutral rate (RNR) and structure should be ensured so that it is not a burden for the industry and is advantageous for the revenue of states it should also ensure that simultaneously the incidence of tax on the consumer is significantly reduced.

The RNR will also add to a better investment climate and could be beneficial to bringing in investors and business confidence.

Also any type of tax introduced has always raised fears of loss. In the past too when MODVAT and VAT was introduced the fear was that there would be a loss of revenue collection instead the collections have always grown. And so we feel in the case of GST too the fears are just momentary and collections will rise with time.

Also Dates and deadlines for implementation of the GST does not make a major difference. The Government should comprehensively review the concerns raised before putting in effect the GST tax system.

Moreover what really needs to be looked into at the moment is that rules are simplified, implementable and rationale. It should also take into account that powers vested in officials are reduced to the bare minimum, moreover the GST system should be structured in a manner that there should be only a minimum interaction between assessing officers and industry.

More important the Government needs to first keep in mind that the GST regime should not offset the very objective for which it has been proposed i.e. strengthening the promotion of Indian industry and services and ease of doing business in India.