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GST and its negatives

Why in news?

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- In about a month, India’s new indirect tax system will be rolled out which has been described as the biggest reform in indirect taxes.
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- The origins of the GST go back almost two decades and are also found in the reports of the Kelkar Committee on Tax Reforms, written at the turn of this century.
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What are its negatives?

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- First, with five slabs of 0%, 5%, 12%, 18%, 28% plus cess, GST have increased the chance of classification disputes, discretion and litigation.
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- The high rates encourage tax evasion, distort decisions, and promote wasteful resources into tax avoidance.
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- As the GST Task Force of the Thirteenth Finance Commission has said, multiple rate slabs exacerbate the problem of bracket creep and classification disputes.
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- A rational tax system should have very few rates and low rates.
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- Before the introduction of this GST, the service tax had just one rate that was 15%, applicable to all services.
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- While now GST have multiple rates and the chances of disputes and legal battles have increased.
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- Items consumed by the poor are taxed at low rates and luxury goods are taxed at higher rates.
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- But this classification itself is problematic especially in a diverse, fast-evolving economy.
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- For instance, perfumed hair oil may be a luxury item in Bihar but not in Tamil Nadu.
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- It is far too complex to classify goods rigidly as those consumed by the poor and the rich distinctly.
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- Multiple rates also increase cost and complexity.
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- As the task force also pointed out, the cost of auditing the classification of exempt, low rate and high rate slabs across every stage of production, distribution and consumption is very high.
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- Single or few rates are easy to comply with and involve much lower disputes.
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- By keeping most of the goods consumed by the poor (as identified by their consumption basket) and having multiple rates, the hope is that inflation will be in check.
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- But almost 60% of India’s GDP is from services, and the rate is moving from 15 to higher, it is quite likely that inflation will inch up.
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- This is especially evident in the financial, telecom, hospitality and trade services.
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- Since the IT systems are not fully in place and refunds are not instantaneous, the benefit of tax credit to be given to many sectors will be delayed.
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- This cost of delay and consequent cost of working capital too introduces an inflationary element.
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- Potable alcohol, crude oil, natural gas, aviation fuel, diesel, petrol, electricity and real estate are currently out of GST, and States will levy their own taxes on these.
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- Taxes paid on these will not be able to be offset against the GST.
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Source: The Hindu

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