

## **Problem with India's GST**

### **Why in news?**

Recently the 43rd meeting of the Goods and Services Tax (GST) Council is held to discuss the various issues concerning the state.

### **What is the policy behind the GST council?**

- The term cooperative federalism was phrased into India's political lexicon to justify the transition to GST in 2017.
- Cooperative federalism has a larger meaning and goes beyond fiscal federalism.
- It also entails cooperative political, administrative and governance federalism between the States and the Centre.
- Similarly other terms like Minimum government, maximum governance and Make in India was also used to support this.
- The sudden lockdown imposed by the centre with no consultations with the States threw millions of migrant workers in disarray.

### **How is the GST council functioning?**

- The GST Council is not an inanimate economic body but it is a compact of trust between the States and the Centre.
- Behavioural economists suggest that the twin attributes of trust and trustworthiness among heterogeneous participants in an economy will lead to the most optimal economic outcome.
- But the tragedy is that the GST Council is forced to function under the prevailing cloud of vendetta politics and according to the vagaries of elections leading to a caricatured body.
- It was mandated to meet at least once every quarter, but it had not met for two quarters.
- The 15th Finance Commission report formally acknowledges that GST has been an economic failure and did not deliver on its early promises.
- Three years after its launch and even before COVID-19, GST had failed on all those promises- economic efficiency gains, tax buoyancy, boosting GDP growth and formalisation of economy.

## What are the problems with GST?

- There is multiple rates structure with high tax slabs and there is complexity in the tax filings.
- Now, GST has a more fundamental problem — the erosion of trust and trustworthiness between the States and the Centre.
- The States has paid a huge price for GST in terms of loss of fiscal autonomy but the promised economic gains are not visible.
- GST has endured so far primarily because the states were guaranteed a 14% growth in their tax revenues every year to compensate the state for their loss of fiscal sovereignty.
- But this revenue guarantee ends in July 2022 which can affect the edifice on which GST stands today.

**Source: The Hindu**

