

## WHAT

# The lowdown on the Goods and Services Tax



**WHAT IS IT?** It's the new system proposed to be rolled out from July 1 this year for taxing all goods and services that you consume. The Goods and Services Tax or GST will replace the myriad local, State-level and Central taxes that are built into the price you pay for products, and the service tax as well as cesses that are dovetailed to your outgoes when you dine at a restaurant or pay your mobile phone bills. India may be a \$2-trillion-plus economy

with a large, booming domestic market, but is a nightmare for compliant businesses, thanks to multiple Central and State-level indirect taxes, such as sales tax, excise duty, Central value-added tax (VAT) and State VAT. The alphabet soup of taxes, differing regulations across 29 States, and difficulties in inter-State trade which often involve hours of highway snarls at border checkpoints to collect octroi and check documents, are a recipe for inefficiency and a proven incentive for tax evasion by sticking to the informal sector. As a single tax that would replace all such duties and cesses, the GST will make India a unified market with a common tax structure, instead of 29 fractured markets. One last thing worth noting: petroleum products and alcohol are being kept out of the GST net for now.

**HOW DID IT COME ABOUT?** Nine years after the Indian economy was opened up in 1991, the Atal Bihari Vajpayee government first floated the idea of a simple, transparent and efficient

GST regime to substitute the multiple Central and State taxes and cesses. But, like several critical (and often inevitable) reforms in India, the GST took a tortuously long route to reach the cusp of reality – a route marred by resistance, flip-flops and political expediency. April 1, 2010 was the first official target date for kicking off the GST announced by the then Finance Minister P. Chidambaram in the Union Budget for 2006-07. That date was pushed back by a year and later abandoned as certain Opposition-ruled States, including Gujarat, stymied the tax reform. However, when Gujarat Chief Minister Narendra Modi became the Prime Minister in 2014, the GST got a fresh lease of life and constitutional amendments necessary to implement it were cleared by the Lok Sabha within Mr. Modi's first seven months in office. The Rajya Sabha's approval for these changes, however, could only be clinched last August. Since then, a co-operative governance body called the GST Council, with representatives from the States and the

Centre, has thrashed out the nitty-gritty of the new regime, including five rate slabs (zero, 5%, 12%, 18% and 28%) and an additional cess on top of the highest GST rate on sin goods, such as luxury cars and tobacco.

**WHY DOES IT MATTER?** Unlike income tax, which just a small segment of India's mammoth 1.3 billion-plus population end up paying, virtually everyone, including the poorest of the poor, pay indirect taxes on products and services, be it a shampoo sachet or a mobile phone recharge.

Besides improving tax compliance from traders, the GST regime is expected to boost economic growth by a percentage point or two, despite the risk of an initial blip, the government and industry bodies reckon. Investors, often put off by India's complex taxation structure, should find it easier and more attractive to do business in the country and create an important by-product for India's fast-growing, young workforce – jobs.

**WHAT NEXT?** With President Pranab Mukherjee signing off this week on four enabling GST laws cleared by Parliament, the legislative action will shift to the Assemblies to pass the State GST laws. Over the next month, officials hope to complete another cumbersome task – fitting the different GST rates onto thousands of products and services. Congress leader Veerappa Moily summed up the essence of this challenge eloquently – “Is Kitkat a chocolate or a biscuit? Is coconut oil considered hair oil or cooking oil?” We will know soon as the GST Council will take up these minutiae at its next meeting in Srinagar in the third week of May. That will leave industry with little over a month to prepare for the transition by tweaking pricing, accounting and supply chain management strategies in the middle of a financial year. Look out for a pre-GST spurt in sales as savvy consumers will try to stock up on goods that may attract a higher tax after July 1.

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