

# GST's next big hurdle

First, it was politics that stood in the way of a countrywide goods and services tax (GST). For almost a decade, Opposition political parties created many hurdles in building a consensus on such a critical indirect tax reform. Once that consensus was somehow built and the Constitution amendment Bills were passed and notified in September 2016, it seemed the remaining process would at least be free of any further uncertainties. That expectation, however, has been completely belied.

The second big jolt to GST came not from politics, but from an unexpected quarter — the tax administrators, aided and abetted by state politicians who suddenly feared loss of power. In spite of several experts recommending that the GST structure should avoid multiplicity of tax rates and reduce as much as possible the list of exempted goods and services, the blueprint that the GST Council approved was far from satisfactory. With as many as seven effective rates (if you include the zero rate, the cess rate and a special rate for bullion in addition to the four slabs of five, 12, 18 and 28 per cent), hopes of a game-changing tax reform took a severe knock. Instead, the proposed structure revived scary prospects of unending classification disputes, rising lobbying by vested interests and a fillip to a discretionary and inspector regime.

If legislators delayed the launch of GST for about a decade, now it was the turn of the executive — the tax bureaucracy and state government representatives who lobbied hard and successfully to retain their discretion and even haggled over widening their jurisdiction. Mercifully, the GST Council negotiated these twists and turns after limiting the dam-

age to the basic structure of the new tax as much as possible. At least the hope of a GST regime in April, however imperfect, was still somehow alive.



---

## NEW DELHI DIARY

---

A K BHATTACHARYA

But even that slender hope seems to have evaporated with the government's demonetisation move on November 8. That action has so far caused huge dislocation to economic activities. Predictably, this has also shifted the government's focus away from GST. With the government machinery busy tackling the fallout of demonetisation, many Opposition political parties that had till early November given their support to the GST regime have changed their tune.

Some of them have argued that demonetisation has com-

pletely upset their estimates of revenue loss arising out of the roll-out of GST. Thus, they have put a new condition: The Centre must provide for higher compensation if GST has to roll out from April. Other Opposition political parties, smarting under the shock of demonetisation, have complained of a lack of trust in the Union government's intent on GST. Demonetisation has thus turned the political environment against GST. The new environment seems unwilling to accept one more big change in the taxation system.

Worse, even economists and experts have begun voicing their concern over the government's ability to handle the impact of demonetisation in the coming months along with the challenges of rolling out the GST system. The advice, therefore, is against taking on the additional challenge of rolling out GST from April, which would be no less disruptive, though hugely beneficial for the economy in the medium to long term. Initially, Union Finance Minister Arun Jaitley sounded confident of sticking

to the April 2017 target of rolling out GST. Subsequently, however, the tone has changed somewhat. Mr Jaitley is now talking about the need for rolling out GST between April and September 2017, noting that the earlier it could be done the better it would be for the economy.

If indeed the launch of GST is postponed, there are several adverse implications of the delay that those endorsing such a deferment should keep in mind. It is after considerable political hard work of building consensus that the country has come so close to launching the much-awaited indirect tax reform. A momentum for GST has been built painstakingly in the last few months and this could be lost if the target date is shifted to September. India's politics is formidable and its ability to thwart changes to the system should not be underestimated. It would, therefore, be naïve to seek comfort in the belief that politics would not be able to postpone the launch of GST beyond September 2017 because that is the deadline mentioned in the notification for the Constitution amendment to usher in the new tax system. When it comes to the crunch, politicians of both the Opposition and ruling parties would not waste much time in approving necessary legislative proposals to give the nation a new deadline for launching GST.

Consider also the hit India's reputation will take as a country that fails to honour its own deadline on key reforms. International investors and rating agencies are betting on the launch of GST in April. They would not be amused if the launch of GST is postponed and the possibility of even a longer delay is not ruled out. An adverse rating action will be quite likely.

Another administrative problem arising out of a postponement of GST would pertain to the Budget for 2017-18. If GST were to be launched from April 2017, the coming Budget could have become a relatively simple exercise focusing more on government outlays and changes in direct taxes and Customs duty. But with the postponement of GST, the next Budget would still have to worry about excise and service tax rates at least for half of the coming year. That is yet another reason why the government should try hard to stick to the April 2017 target of rolling out GST.