THE HINDU BusinessLine
SATURDAY, JULY 1, 2017

Our sui generis GST

The new 'national' tax is a triumph of India's federal spirit and commitment to reform

The implementation of GST with effect from today marks the biggest reform step in exactly 26 years — July 2017 is as epochal as the July of 1991 when import controls and the licence raj were abolished. GST has taken 17 years in coming, beginning with former BJP prime minister Atal Bihari Vajpayee setting up an empowered committee under the leadership of former West Bengal finance minister and CPM leader Asim Dasgupta — a canny and statesmanlike move that set the tone for political consensus from the word go. Dasgupta played a key role in giving shape to GST laws as they exist today, preparing concept notes and discussion papers for a decade. In this spirit of cross-party collaboration, it was only natural that discussions in the empowered committee were not thrown off-course by changes in governments at the Centre and the States, or by serious political differences. Reflecting this spirit, the GST Council has been accommodative of requests with respect to rates and fitment of goods and services. Such openness augurs well for ironing out future glitches.

From today, a maze of levies and cesses will be replaced by a single 'goods and services tax' for a product or service, broken up into Central and State shares. This change, along with the fact that goods and services now attract same levy across regions, will make sourcing, movement and stocking of goods easier. The omnibus GST rate has by and large been pegged at close to the sum of erstwhile levies, and not lower; this is meant to compensate States for any revenue loss over the next few years. The GST Council should lower rates over time, once the revenue concerns of States are addressed. India has arrived at a *sui generis* model of GST, in keeping with its socio-economic diversity. States' reservations over loss of fiscal space have been taken into consideration by keeping alcohol, electricity and petroleum out of the GST net, something which detracts from its efficacy and needs to be addressed in the long run.

However, apprehensions remain. These pertain to the workings of the GST Network and the new rules on filing of returns and claiming input credit. Small businesses need to learn the ropes. The bureaucracy could have done better in its outreach efforts. The Anti-Profiteering Rules should have clearly defined how windfall gain is calculated. Ambiguities will provide scope for harassment by officials. Smoking out the evaders is all very well, but the big idea behind GST is to create a friendly — and not punitive — tax regime, boosting both tax collections and growth.

SUKIYAKI

MANJULA PADMANABHAN

Great Step Taken for a unified market

GST will enhance transportation and warehousing efficiencies, enabling internal trade to grow by leaps and bounds

RAGHU DAYAL

After endless polemics and skirmishes stretched over some 17 years, the much-awaited GST, hailed as India's transformational indirect tax reform, has become a reality.

However, there is little appreciation of immense palpable benefits that will accrue from GST for the country's logistics sector. Imagine the disappearance of serpentine queues of cargo-laden trucks at ubiquitous check-posts, , and entry points, when GST is implemented as envisaged. Constituting around 14-15 per cent of India's GDP vis-à-vis some 8 per cent in OECD economies, India's inefficient logistics sector impairs its cost competitiveness.

Single economic unit

Article 301 of the Constitution aimed at India functioning as one single economic unit without barriers, promoting free flow of trade and commerce. But, for seventy long years, post-independence, the country has indeed been a fiscally 'disunited union of States'. As Finance Minister Arun Jaitley says, GST will add buoyancy to India's economy by developing a common market and reducing the cascading effect on the cost of goods and services. Like post-World War II Europe successfully forging a common market, tearing asunder inter-country customs barriers and other check-posts, GST hopes to push India in that direction.

The Republic unified through the indirect tax law being enacted now will in a way be analogous to the 1833 Zollverein, German Customs Union, forged as a coalition of German states to overcome hundreds of customs barriers where shipments were inspected.

Analysing the cost of not completing European Community's internal market integration, the Paulo Cecchini Report, *The European Challenge, 1992* concluded that the border and associated administrative procedures cost 1.8 per cent of the value of goods traded within the Community, that the integration process could result in 4.5 per cent increase in GDP over six years, in addition to consumer prices declining to the extent of 6 per cent. The European integration which commenced with the 1986 Single European Act and the 1992 Maastricht Treaty endowed Europeans with a single market. Under the rubric of a common market, continental politicians pushed for harmonised tax bases and fiscal coordination — a route towards deeper integration. With GST belatedly becoming a reality, India too would hope to reap a similar harvest.

Spends and cuts

A joint survey, 2011-12 by Transport Corporation of India and Indian Institute of Management, Calcutta, revealed an annual loss of about ₹27,000 crore to the economy owing to detention to road vehicles at check-posts and en route for documentation, physical checks of vehicles, drivers, and cargo by RTO/police, and payment of highway toll and taxes, as well as harassment and corruption.

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Industry estimates that 30-40 per cent time trucks lie idle at various check posts during their delivery schedules. The on-road stoppage expenses including illicit payments amounted, on average, to 15 per cent of total trip expenses. Additional fuel consumption due to delays and slow speed of vehicles led to annual cost of ₹60,000 crore.


Not so remote In the new era of 'one nation, one market' AFP

Considering the cascading impact of country's panoply of complex, inefficient and multiple taxes and user charges, National Council of Applied Economic Research found that the current transport pricing system is a result of multiple taxes and user charges established at different points of time. Each of India's 29 states currently taxes goods, which move across their borders, at different rates.

The Centre levies indirect taxes in the form of union excise, import duty, and service tax whereas State governments levy sales tax/VAT, motor vehicle tax, and passenger and goods tax. Within the road sector, about two-thirds of total tax revenue is collected by the State governments. The average tax burden is around 16 per cent in aviation and road sector and 14 per cent in water transport sector.

As the *Economic Survey* 2016-17 explains, India's internal trade is about 1.7 times its international trade, and the current structure of domestic taxes as well as area-based tax exemptions might actually bias economic activity towards more internal trade. GST will eliminate the distortions leading to a normalisation in internal trade. The GST Network (GSTN) will have an audit trail of the movement of goods across the state boundaries. This will lead to optimisation of delivery schedules and operational costs of transporters.

The way ahead

India's logistics sector has four main components: transportation (60 per cent), warehousing (25 per cent), freight forwarding (10 per cent), and value added services (5 per cent). According to Crisil, implementation of GST in the logistics industry will diminish logistics costs by up to 30 per cent over a period of three or four years.

Besides facilitating seamless inter-state flow of goods, rationalisation of paper work for road transporters and reduction in delivery time would lead to reduction in distribution costs. GST presents an opportunity for industry players to transform production-distribution infrastructure. The current sub-optimal scattered and fragmented warehouses would yield place to strategically located large logistics parks conducive to economies of scale, efficient use of multi-modal transport, and availability of value added services under one roof.

As the 'organised' logistics firms gain competitive strength vis-a-vis the unorganised sector, the post-GST competitive intensity will perforce rise. Again, as the large organised entities benefit from the requirement of scale and cost-efficient solutions, smaller companies will strive to focus on specialised niche segments. Certainty of tax and better compliance would attract interest from international logistics players through FDI, JVs or acquisitions, thus propelling Indian logistics industry to global standards.

Simultaneously, it is of paramount importance that nothing is done to let the pernicious inspector raj to sneak in the new regime. Why should it be considered necessary, as contemplated by State governments, to even randomly check at the toll posts the e-permits issued to transporters? Why must the service providers be obliged to register in every State?

Service providers having to register in every State they operate will end up filing multiple returns annually. Again, raising an e-way bill (with vehicle details) for consignments valued at over ₹50,000, and when transferring goods from one vehicle to another at every interchange point, would appear to be contradictory to the GST spirit. Based on inadequacies or inefficiencies, GST would have to keep evolving to yield optimal gains for the economy.

The writer was formerly CMD of Concor

The albatross of Brexit over Britain

The EU is in no mood for half measures, as initial negotiations suggest. A soft Brexit is only a slim posssibility

DAVID LEA

Philip Larkin once began a poem comparing his day job as a university librarian to a toad, squatting on his life and preventing him from having fun. In the UK in 2017, the toad is Brexit, and the election held on June 8 has ensured that it will not budge from its position on top of politics, business, daily life for quite some time to come. The Queen's speech on June 21, at the opening of the parliamentary session after the election, showed that legislation enabling Brexit will take up a huge portion of parliamentary time — other issues can quite simply wait.

The poll that boomeranged

Prime Minister Theresa May called the election in the hope of a ringing endorsement for her view of how the UK should proceed, a 'hard' Brexit — a swift separation with no transitional arrangements and no continued membership of EU structures. The campaign saw little talk of this issue, however, with the Conservative Party focusing almost totally on May personally, and the fact that she would be able to offer 'strong and stable leadership'.

Poor personal performance and a confused, complacent manifesto made the Conservative campaign anything but stable, and far from boosting her majority to three figures, as many had hoped, the result saw May lose, finishing with 318 seats in Parliament, short of the 326 needed to win an overall majority.

This result caused a frenzy of political intrigue, and more questions than answers. Could May remain in office? Would she have to tone down her Brexit stance? Would she instead double down in the knowledge that as the main opposition Labour party have no clear policy on the issue either?

This frantic questioning calmed down in the tragic circumstances of the Grenfell Tower fire. But negotiations with the EU on the terms of the UK's departure began as scheduled on June 19, with David Davis, the minister in charge of the Brexit process, sitting down opposite the EU's chief negotiator Michel Barnier, with a strategy note in his folder that said 'hard Brexit' and not much else.

What matters to the EU

In reality, the idea that a larger domestic majority would strengthen May's hand in terms of the Brexit negotiations was always misplaced. Nobody in Brussels, Berlin or Bratislava cares what the make-up of the House of Commons is, and how this affects the government's confidence in its own position.


Weary load Brexit consumes the UK BLOOMBERG

Barnier and his team will have the interests of the remaining 27 EU member states and the Union as a whole in mind when they sit down for future sessions, not the domestic politics of the country that wishes to leave. The UK still clings to the idea that it is the most significant player in any story.

The first big decision of the talks came in the first session. The UK had demanded the process be expedited, so discussions on the future relationship between the UK and the EU be held in parallel with those on the terms of the separation. The EU side never saw this as practical from anyone's perspective, given the complexity of both major issues, and urged the UK to think again. The UK entered the talks still aiming for parallel sessions, but left them having agreed to deal with the two big themes sequentially — a first symbolic win for the EU side.

The EU27's leaders are all firmly on-message — they would rather the UK were not leaving, but if it is determined to do so, the terms must be as undamaging to the EU as possible. This itself is a blow to those who see a possibility of a 'soft' Brexit — with the UK perhaps remaining in the customs union or the single market — the EU27 are not fond of this idea.

Granting the UK this special status without a huge annual fee (which the UK could not politically agree to pay) would be out of the question. The longer the discussion goes on, the clearer it is that Brexit is either hard or not at all.

Unyielding stakeholders

Domestically, the key moment in political risk is when compromise is made with the EU. The more Europhobic wing of the Conservatives will howl at the prospect of anything that could be interpreted as delay or as a climbdown from the Brexit goal. Any protection of the UK's key industries — financial services, biotech, high-value low-volume manufacturing — will be seen as surrendering to the EU.

This opinion has wrested control of the mandate given in the June 2016 referendum (for leaving the EU, only by 52-48) and can portray any opposition to their ultra-hard Brexit goal as undemocratic. With predictions of banks leaving for Europe, the economy declining and universities struggling to attract students, this conflict between the idealism of Brexit and the practicality of a negotiation process will squat on British politics for at least the scheduled two-year period before departure in March 2019.

The writer is a senior analyst at Control Risks

LETTERS TO THE EDITOR

Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

Tryst with GST

At the outset, it must be made clear that "Tryst with tax" is no more than a pale imitation of "Tryst with destiny". To equate a big bang tax reform with Independence is to go a little too far. To cast Narendra Modi in the mould of Jawaharlal Nehru is an ambitious exertion; but then a turkey does not make a peacock. "One nation, one tax, one market" is okay by us. But "One nation, one religion, one language" is unacceptable. Hence this tax reform cannot be a precursor to everything else.

GST roll-out is not a substitute for the radical reforms needed to lift the masses out of endemic impoverishment. The limited point is that the tax revamp will not make any material difference to the material circumstances of the impoverished masses. It will not mitigate mass poverty and mass joblessness. It is not a game-changer that will lead to the creation of a New India, as made out to be. This is not to deny the multiple benefits that four-tier GST structure holds out.

How the government prioritises how it is going to expend the huge rise in tax revenue will matter a lot. The GST launch could have been kept a low-key affair at a time when farmers are driven to commit suicide and citizens are lynched to death. The nation is in no mood for celebrations.

G David Milton
Maruthancode, Kanyakumari

Unfazed Modi

As the world sleeps, India will wake up to a new tax regime – anxious, uncertain and unprepared. It requires tremendous showmanship and verve to copycat a tax reform launch moment – significant no doubt – with India gaining Independence 70 years ago. Now instead of the late Nehru, Modi will make the speech. Unfazed by the stinging criticism of his previous 'demonetisation', Modi has displayed the same kind of self-righteousness to take the plunge, regardless of the consequences.

The fervour and fanfare with which the rollout is envisaged will not just be symbolic; it signifies the country's economic integration and in a way complements the unification of its post-princely states, accomplished 70 years ago.

Some experts have said the move has been rushed and that various pieces of the infrastructure required for the new tax regime aren't fully ready. Truth is, no one can or will ever be fully prepared for something like GST.

P Arihanth
Secunderabad

A watershed moment

The Modi government's decision to keep the tryst with GST despite all odds is a watershed moment. The single biggest tax reform in the history of the nation has in one stroke eliminated the need for a host of taxes that we had to put up with.

The move not only ushers a new dawn in Indian taxation history but also makes India join the league of advanced economies that thrive on "one nation, one tax". The GST, besides, unifying India's economy and its people into a common market will also bring in greater transparency, curb corruption, bring down prices and simplify the way we approach and pay our taxes. However, the Government needs to address concerns of small businesses.

NJ Ravi Chander
Bengaluru

Bad move

This refers to 'Congress to boycott GST event' (June 30). It is being described as historic and path-breaking reform/decision to bring single taxation structure across the nation. This has taken a long time in coming. Hence, it is unfortunate that Congress wants to miss the Special June 30 midnight meeting to herald the GST. After several rounds of confabulations, both the government and the Opposition parties have agreed in principle to roll out GST; it is only proper that all political parties participate in the midnight meeting to make it memorable.

HP Murali
Bengaluru

Erratum

■ In 'With fertiliser/pesticide prices set to rise, Punjab, Haryana farmers seethe" (June 30), the quote, "I expect their cost of cultivation to go up by roughly ₹1,000 per acre", was wrongly attributed to Bahadur Ram, Chief Area Manager of IFFCO. The statement was made by a senior farm leader present in Ram's office at the time of the meeting. The error is regretted.

Published by N. Ram at Kasturi Buildings, 859 & 860, Anna Salai, Chennai-600002 on behalf of KASTURI & SONS LTD., and Printed by D. Rajkumar at Plot B-6 & B-7, CMDA Industrial Complex, Maraimalai Nagar, Chengleput Taluk, Kancheepuram Dist., Pin: 603209. Editor: Raghavan Srinivasan (Editor responsible for selection of news under the PRB Act). ISSN 0971 - 7528