



A democratic government is the only one in which those who vote for a tax can escape the obligation to pay it

Alexis de Tocqueville

INDIAN EXPRESS IS NOT AN INDUSTRY. IT IS A MISSION.

— Ramnath Goenka

## TAKE REGIONAL PARTIES ON BOARD, ALLAY FEARS ON SIMULTANEOUS POLLS

THE Union cabinet has accepted the recommendations of the 'One nation, one election' report prepared by the Ramnath Kovind Committee. A bill for the simultaneous holding of Lok Sabha and state assembly elections is likely to be introduced in the winter session of parliament. 'One election' has been one of the key poll promises of the ruling BJP. The party has argued against the country being in a permanent poll mode, which results in a huge financial burden and affects decision-making because of long periods under the model code of conduct.

There is no doubt that by cutting down electioneering, simultaneous elections would give governments more time to focus on governance. It could also diminish voter fatigue and encourage greater participation in the electoral process. The idea presents a transformative opportunity for economic efficiency and political stability. It could help save the billions of rupees spent on multiple elections. This money can be used for development projects and welfare schemes. Logistically, a unified election cycle would reduce the strain on the government and security machinery that are moved away from their primary responsibilities for election duty.

However, a large number of regional political parties have expressed their opposition to the idea, saying it would adversely impact the country's federal structure and undermine democratic diversity. The Union government needs to take the regional parties on board and allay their fears of local issues getting drowned in the cacophony of national campaigns. The states also need to be reassured that a unified election would not affect their linguistic and cultural identities. The states' criticism of the idea also underscores deep fears about the centralisation of power and dilution of their relevance. These concerns must be addressed and the doubts about the new arrangement being a threat to the delicate balance of the constitutionally-mandated federal system of power-sharing must be removed. The idea is also being opposed by national parties such as the Congress, CPI(M) and AAP on similar grounds. A wider consultation by the government will go a long way in removing the misgivings and demonstrating the benefits to the nation. It will also help the government gain support for the bill and pass it with a comfortable majority.

### NEW KEYS TO UNIVERSE IN GALAXY-KILLING FIND

THE GST was to be a 'good and simple tax' when introduced in 2017 after a decade in preparation. After the latest meeting of the GST Council, it is difficult to perceive it as such. Time was spent on reporting on new revenue collection from 'demerit' goods such as gambling, horse racing and the like, while reporting on rate rationalisation was relegated to an anticipated report from a group of ministers.

This reverse prioritisation of revenue over rates revealed that the GST has been misunderstood. The GST is not a tax whose foundation is revenue collection. It is a tax whose first objective is to minimise distortions in the market caused by high and multiple tax rates, achieve a large and uniform tax base, and guarantee that taxes paid on inputs are refunded to suppliers (producers and sellers) in the production-distribution process.

This ensures that any tax paid on inputs does not get embedded in its outputs, that is, there is no hidden 'tax on tax' or, in tax terminology, no 'cascading'. Without that, productive activity takes place through hurdles and obstacles that the suppliers of goods and services suffer.

Once the correct base and rate structure is set, automatically, the GST should become a good revenue generator. That is because it should reduce economic distortions as tax cascading is cut down when credit is given to any supplier for the tax he has paid on his purchases. The smooth supply chain thus generated should ensure economic growth with minimum market hindrances caused by taxes.

Selected changes in the base and rates were announced for an array of goods and services, such as exemptions for electricity charges and waiver of interest or penalty on tax demands for trade facilitation. While affiliation services by universities will continue to be taxed at 18 percent, it will be 5 percent on helicopter services and flying training services will be exempt. While affiliation services by CBSE remain taxable, those provided by government schools will be exempt. An intended reduction in the tax rate on insurance premiums was announced.

There was a bundle of other rate changes including that for namkeen and savouries to be brought down from 18 percent to 12 percent. These changes appear more like revenue collection through selective excises under the GST rubric. They also reflect micro-management and bargaining within the council over the minutiae of the GST's structure. Further, such specifications are usually

A simple rate structure with a broad base is crucial for a tax system. The GST Council must make the structure more stable and the administration friendlier to taxpayers

## WHY GST IS NO LONGER A GOOD AND SIMPLE TAX

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impossible to implement efficiently. For one, exempt and non-exempt goods tend to overlap in their classifications, as do goods and services. They also give rise to continued lobbying for lower rates.

Instability in rates is the Plassey of GST. Usually, a stable GST regime is set before it is introduced, as elaborated in the recommendations of the 2015 Tax Administration Reform Commission. A simple rate structure with a broad base is the crucial anchor of a GST. It should comprise a general rate, a lower rate for essential goods, and a higher rate for luxuries—that is, three rates, together with as broad a base as possible with the fewest exemptions. It may be claimed that the GST has achieved a structure similar to this, but the actual structure

remains much more complex. Only after meaningful simplification can it be called a genuine GST.

For the taxpayer, ease of payment and regularity of refunds are crucial elements in their willingness not to avoid the tax. The role of the GST Council should be to pore into easing the processes in GST administration that will truly convert it to a tax the taxpayer would be willing pay due to its simplicity and customer facilitation.

However, crucial gaps remain. One example is the institutional delays in making refunds after exports are made. International practices of advanced administrations are to make refunds immediately and, at the same time, to monitor and control illegal tax evasion.

Instead, the Indian tax administration requires various proofs before a refund. This makes export activity challenging and possibly leads to an incidence of tax avoidance, if not evasion, by a subsection of taxpayers. Consequently, the population of taxpayers suffers due to the illegal actions of a few.

Audit can be conducted either by the central or state administrations. Thus, a taxpayer in Bihar, importing goods from Bengaluru, Chennai, Kolkata or Mumbai, may be picked up by the administration of any of those states or by the central GST administration. Whether in practice that is happening or not—apparently, there is an unwritten division of jurisdictions among the administrations—there is a trepidation among taxpayers that must be curtailed. These are the array of issues the GST Council should address rather than a few rate changes and revenue gains.

There was the promise of simultaneously populating the GST output and input return forms. That is, once the output forms are filled, the input forms would get automatically filled in. This way, there would be no possibility of overclaiming input tax credit. This is a crucial instrument to check evasion and is employed in advanced GST and value-added tax administrations.

In its absence, the central and state GST administrations can prevaricate GST audit on all sorts of issues. Until successful implementation of this is achieved, the GST will remain without its automatic cross-verification characteristic. The council should ensure that this happens.

Finally, a reminder on the overall design of direct-versus-indirect taxes. The latter are based more on consumption and, therefore, on a higher portion of a poorer household's budget than that of a richer one. As an economy advances, the direct tax share, including all income and income-related taxes, increases in comparison with indirect tax including GST, selective excises and customs duties. Thus, the progressive income tax share surpasses the more regressive indirect taxes.

After steady attempts to expand the income tax base, India had achieved a 50-50 share. But in recent years, due to the lack of emphasis on expanding the base and direct tax rates, and the higher incidence of customs duties, the share of indirect taxes has been increasing. This moves India away from advanced-economy tax systems.

(Views are personal)