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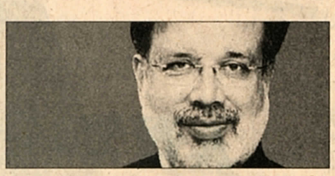
Midsummer Night's Dream: No GST Nightmare Please!

The Needle's Eye



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Midnight has an eerie and slightly occult hold on our imaginations. It is the hour when magic is supposed to take place, when the old falls away and a new day arrives with one twitch of a clock's minute-hand. Midnight also has a sinister ring to it – it is the 'witching hour' when bad things happen, or when the knock on the door heralds the assassin or the secret police or the gang of abductors. Or, as Eliot wrote, midnight's lunar incantations "Dissolve the floors of memory/And all its clear relations,/ Its divisions and precisions".

Midnight figures all too often in a reporter's life, whether it is the People's Liberation Army (PLA) tanks rolling into Beijing's Tiananmen Square on June 4, 1989, or the cataclysmic earthquake that struck just after midnight GMT off Sumatra on December 26, 2004.

I remember sitting in my Hong Kong apartment exactly 20 years ago, at midnight on June 30, 1997, peering at dim images on my television screen of PLA trucks rolling across the border into the about-to-be-former British colony. Hong Kong had been handed over to the People's Republic of China, and would thenceforth be called a Special Administrative Region.

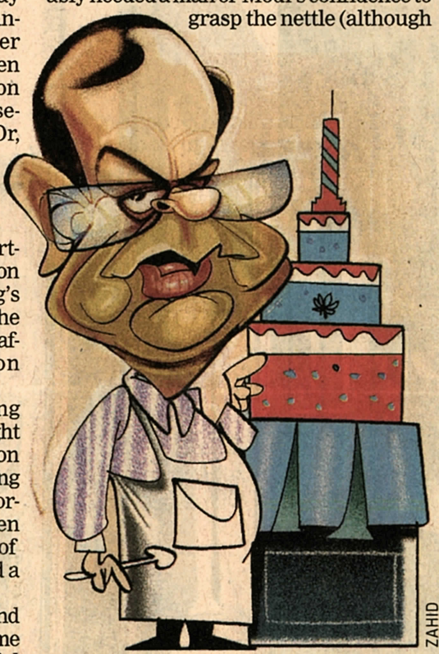
Just over 24 hours later, on July 2, Thailand devalued its baht by about 20% and became the first economy to keel over in the financial crisis that quickly engulfed South-east and East Asia.

Six weeks afterwards, at midnight on August 14/15, I sat in the visitors' gallery of the Central Hall of India's Parliament, watching and listening to celebrations of a half-century of independence. It was rather chaotic, and security was lax (this was four years before terrorists struck at Parliament itself). Jawaharlal Nehru's Tryst with Destiny speech was played, Lata Mangeshkar and Bhimsen Joshi sang. The mood was subdued: the economy wasn't booming, politics was in ferment, and PM IK Gujral wouldn't last even a year in office.

It will be quite different at midnight on June 30 this year when PM Narendra Modi has called a special Central Hall session to launch the Goods and Services Tax (GST). On February 1, when he unveiled the budget for the 2017-18 fiscal year, finance minister Arun Jaitley extolled the GST and last November's shock demonetisation as "tectonic policy initiatives" and said GST would "(spur) growth, competitiveness, indirect tax simplification and greater transparency". GST would also fit into Modi's vision of a tax administration that could, in our acronym-laden governance, be described as RAPID (revenue, accountability, probity, information and digitisation).

But this "epoch-making" transformation in our indirect taxes has been anything but rapid. To be clear, Modi and Jaitley are standing on the shoulders of several PM-FM pairs of reformers: Rajiv Gandhi and VP Singh in 1985 (when MODVAT was introduced); Atal Behari Vajpayee and Yashwant Singh in 2000 (when CENVAT was introduced); and Manmohan Singh and P Chidambaram in 2005 (when we finally moved to a national Value Added Tax, or VAT).

But we continued to be bedeviled by a khichdi of state and central taxes – excise, customs, service, entertainment, lottery, and octroi, which HM Patel condemned as an "obnoxious levy" back in 1978. Many enlightened civil servants and economists (LK Jha, Raja Chelliah, Vijay Kelkar and Parthasarathi Shome, to name a few) have mapped a path out of this jungle. It probably needed a man of Modi's confidence to grasp the nettle (although



NEEDS TO BE FIXED

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he himself, and other obstreperous state governments, had blocked GST during the UPA years).

On the positive side, Modi and Jaitley have been tireless evangelists for GST, and this time not post-facto as in demonetisation when the pain and disruption had already set in. This is not to say GST will trigger widespread suffering. On the contrary, it means that thousands of businesses that slipped through the tax cracks (the pukka and kutcha tradition of splitting receipts into taxed and unaccounted portions, for instance) will finally be disinfected by the sunlight of transparent registration and digitisation.

Despite the positive propaganda, a lot of misinformation about GST is swirling in markets and homes. Shops are trying to cash in with pre-GST clearance sales, although they can claim 'transition credits' on tax they have already paid on their inventories when GST kicks in. Registered businesses are living in fear of having to file three GST returns a month, but Jaitley says after the first lot are loaded on the GST Network, the technology platform, two of the three returns will be 'self-populating' and require little work. Most of all, there is fear that GST will raise prices across the board. Plane tickets and luxury cars will certainly cost more, but the government swears the majority of goods will cost as much or less than they do now. Chief Economic Adviser Arvind Subramanian said on June 1: "It is like a tax cut which will both reduce prices and increase consumption."

Will GST boost gross domestic product (GDP) as has been touted? Tax experts I spoke to estimate that in the first year, the government could actually suffer total revenue losses of about ₹2 trillion, half of it in lower tax collections and the other half in transition credits. This could jeopardise Jaitley's pledge to keep the 2017-18 fiscal deficit at 3.2% of GDP. It will come on top of the still-unknown final cost of demonetisation.

Both Jaitley and Subramanian admit that there will be teething problems, and July is likely to be a roller-coaster ride. Already, the GST Council of finance ministers has relaxed deadlines for the filing of returns as well as for the deduction and collection of tax at source.

Of course, the government loses no opportunity to paint things in political colours, rather than with the broad brush of public good. At a long Q&A on Tuesday, Jaitley complained that critics will not cease cavilling. "I think some people like to create controversies," he said. "In 2014 they complained that our reforms are incremental, not big-bang. That argument has been demolished by big-bang reforms like GST, demonetisation and the insolvency and bankruptcy law. Now they say there are reforms, but no job creation." He said a lot of jobs are being created outside the formal sector, as in self-employment.

It is precisely these self-employed, informal-sector contributors to our economy who were hit by demonetisation. They will not be able to absorb a second body-blow if GST is not flawless.

There are flaws to be considered, starting with the multiplicity of rates and the granularity of goods and services. Exporters have been promised tax refunds on imported raw materials used in their products. "Why impose a tax if you are going to refund it?" asks tax lawyer Arvind Datar. Real estate and alcohol, two of the biggest sources of states' revenues as well as black money, are excluded from GST.

Satya Poddar, tax advisor at accounting firm EY, told me the manner in which GST was being implemented was paternalistic. "The government is telling me what to drink and what not to drink, what to buy and what not to buy. It is impositng its own value judgements on the ordinary citizens. I found it very offensive. I should have the freedom of choice as a consumer. The government is free to punish me if I drink too much alcohol or smoke too much tobacco. But for all other commodities, government should not be in my kitchen, it should not be in my bedroom."

Strong words, but no reform is painless or truly altruistic.

Asked if reforms were carried out with an eye on elections, Jaitley said: "We will reform and we will fight elections. I believe good governance blends with good politics. India is the only country in the world where structural reforms are taking place today." We live in hope.

113 Economic Times 29 29 June 2017