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TOWARDS A SINGLE LOW TAX REGIME

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Union Finance Minister Nirmala Sitharaman addresses a news conference after a GST Council meeting in New Delhi. | Photo Credit: SHIV KUMAR PUSHPAKAR

In December 2018, the late Finance Minister, Arun Jaitley, announced that the 28% GST slab, which he called the “dying slab”, would be phased out, except for luxury items. India, he said, would eventually have just two slabs: 5% and a standard rate between 12% and 18% (apart from exempt items). Tragically, he passed away less than a year before fulfilling his assurances.

Simplicity is not easy to achieve. Great sages, artists and designers have preached simplicity. It was the mantra of Henry David Thoreau, who influenced Mahatma Gandhi.

The introduction of a uniform GST was a watershed moment in India since the country’s earlier regime of taxes and cesses, both at the Centre and the States, was a big barrier to free trade and economic growth and was a cesspool of corruption.

However, GST is still a complicated tax regime with different slabs. It is not easy to comprehend or comply with, and is open to interpretation, harassment and avoidable litigation. To simplify it, Finance Ministry officials must be reminded of KISS.

KISS (Keep It Simple, Stupid) is a well-known acronym and an accepted credo in business. Attributed to Lockheed aircraft engineer Kelly Johnson, it was meant to urge engineers to keep aircraft design so simple that even a stupid person would be able to repair the aircraft with ordinary tools on the combat field.

Editorial | The rate reset: On slashing GST slabs

Bureaucracy, the world over, is usually oblivious to the KISS principle. An Amazon ad boasts that it sells more than a crore of different products, besides myriad services. More categories are added every day. In this context, asking bureaucrats to identify and categorise all products and services for differential tax slabs in the GST regime is the surest way to get into a muddle.

Empirical data from across the world on the benefits of a unified single tax is incontrovertible. So, an unambiguous directive to the bureaucracy is necessary from the ruling dispensation to come up with just two categories: goods eligible for zero tax and goods that will fall under a single rate, say 10% or 12%. That means everything except those specifically exempt, is taxed.

This needs bold and clear reformist thinking at the political level. Imposing a high GST in some areas does not make sense. ‘Sin’ taxes, for instance, are at cross purposes with the government’s policy of generating growth and creating jobs under ‘Make in India’. A typical 300-room five-star hotel generates direct employment for around 500 people of whom 90% are waiters, housekeeping staff, front desk staff, security and concierge staff, besides cooks, financial and clerical staff. There are a host of others employed in associated services such as the spa, gift shops and swimming pool. The hotel also generates indirect employment in ancillary areas: it buys bed linen, furnishings, rugs and carpets, air conditioners, cutlery, electrical fittings and furniture, and consumes enormous quantities of food produce. All these generate jobs and income for farmers, construction contractors, artisans and other manufacturers. Five-star hotels also generate foreign exchange by attracting rich tourists and visitors. So, it’s unwise to tax these hotels to death.

Similarly, high taxes on air-conditioners, air conditioned restaurants, chocolates and luxury cars create an economic ripple effect downstream, in a complex web of businesses that have symbiotic relationships. The effect finally reaches down to the bottom of the employment pyramid.

The plan must be to figure out how to rev up the economy by making the rich and upper middle class spend and move more people up the value chain in order that more chocolates and ACs and automobiles are bought by them, instead of designing a tax system that keeps these products out of the new consumer class’s reach.

Instead, the current regime is plain confusing. At an Iyengar Bakery, GST on bread is zero, but the vegetable sandwich is in the 5% tax slab, hitting the vegetable grower directly. The GST on buns is zero, but buns with a few raisins fall in the 5% slab. The GST on masala peanuts, murukku and namkeen is 12%. And the GST on cakes and chocolates is 18%. The same lack of logic applies to taxes on wine, rum and beer, which generate large-scale employment and are the backbone of grape and sugarcane farming and the cocoa industry. The ancient art of toddy tapping in villages, a large employment generator and income booster in rural areas, was killed by unthinking politicians and bureaucrats and replaced with Indian-made foreign liquor. Imagine killing the wine industry in France? It would be sacrilege.

In the automobile sector, the GST on electric cars, tractors, cycles, bikes, low-end and luxury cars ranges anywhere from 5% to 50%. The sale of automobiles is the barometer of an economy.

The confusion has given rise to several disputes. ID Fresh Food, for instance, which makes ready-to-eat foods like chapatis, rotis, parotas and sells various types of idli and dosa batter, appealed against a GST ruling of the Authority for Advance Rulings (Karnataka bench). The ruling had called for a distinction between rotis and parotas and had subjected parotas to a higher GST rate of 18% since the food item did not fall under the category of “khakhra, plain chapati, or roti” (which fall under the 5% slab) and needed to be processed or heated for further consumption. Can a country aspire to be a $5 trillion economy if its taxmen turn gourmet chefs and get bogged down by researching the differences between various kinds of food items prepared with dough?

Then there are items that are exempt from GST. Petrol, diesel, aviation turbine fuel are not under the purview of GST, but come under Central excise and State taxes. Central excise duties and varying State taxes contribute over 50% of the retail price of petrol and diesel, probably the highest in the world barring banana republics. There is distrust between the States and the Centre on revenue sharing. There is also anger at the Centre for riding roughshod over the States’ autonomy and disregarding the federal structure of the Constitution. Opposition-ruled States point fingers at Prime Minister Narendra Modi, who ironically accused the United Progressive Alliance regime of trampling on the rights of the States while he was Gujarat Chief Minister.

The low-cost airline model is successful because of the KISS principle. All the frills such as food, freebies and assigned seats are dispensed with. Single class seating, point-to-point travel with no code sharing, direct Internet booking, no middlemen. etc. have sustained this model. It’s an Udupi self-service hotel in the sky.

The Finance Minister should take a cue from the Prime Minister, who hinted at major reforms in the aftermath of COVID-19, and do away with all the confusing tax slabs in one fell swoop. She can then usher in a truly single low tax regime along with a list of exempt items. That will ensure compliance, widen the tax net, improve ease of doing business, boost the economy, create jobs, increase tax collections and reduce corruption as witnessed in many countries – a move that will be both populist and well-regarded by economists.

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