

## GST risks losing its idea of oneness

Last week finance minister Arun Jaitley confirmed what one so far has heard sotto voce: that the goods and services tax (GST) Council is considering bringing real estate under the purview of the new indirect tax regime.

As a destination architecture the move is very desirable and hence welcome; ideally even petroleum products should be brought under GST. But the more immediate concern is that in the nearly four months since GST was rolled out on 1 July—it has just crossed 100 days—some threats to its architecture are emerging. And tragically some of the efforts to tinker with the existing GST architecture are being masked as so-called relief measures—partly a knee-jerk response to the ongoing rhetorical political debate on the economy and the efficacy of GST.

Most worryingly they are challenging the core of the GST: 'One Nation, One Tax'. And unless the GST Council addresses this, any such expansion of the scope of GST to bring in more sectors will be risking this marquee piece of tax reform.

For one, it is apparent that the back-end of the GST manned by the GST Network (GSTN) is not operating optimally; a panel headed by Bihar's finance minister Sushil Modi is overseeing the fix, which insiders reveal is likely to be extensive.

Second, the Council in its wisdom has decided to suspend the nation-wide rollout of the e-way bill system till 1 April next year. The e-way bill, an electronic receipt that businesses and traders have to secure to transport goods beyond 10km, was to be operational by 1 October. This was supposed to replace the check-posts (notorious for delaying consignments and exchange of bribes) and allow for seamless movements of goods, consistent with the notion of one nation and creating competitive efficiency.

According to insiders there is strong pressure from some quarters within the GST Council to further delay the e-way bill. Most states had formally withdrawn the check-posts, but with the ensuing confusion there is word that they are making a slow comeback. This would be disastrous and strike at the roots of the principle of a unified market.

Similarly the GST Council has put on hold for six months the reverse charge mechanism (RCM) under which large entities were required to pay taxes on purchase from unregistered small and medium enterprises (SME) operating in the informal economy. Recognizing that this SME space doesn't have the wherewithal to comply with the GST rigour, the new tax regime had placed this liability on the large enterprises buying from them—in return they got tax credit for this sum.

The logic, very sound, was to bring the unregistered SMEs into the tax base (read formalizing the informal economy) without burdening them. Now the fear is that lobbying may further delay RCM; if indeed this does happen once again the GST architecture designed to widen the tax base may be compromised.

A similar fear surrounds active lobbying to tinker with the existing 'composition scheme' for taxpayers with up to Rs75 lakh annual sales. Under the scheme they were to be charged a levy instead of GST and hence not eligible for input tax credit and selling inter-state.

At the last meeting of the GST Council it was decided to raise the threshold to Rs1 crore and now lobbying is on to allow these taxpayers to also claim input tax credit and sell inter-state. If it goes through, insiders fear, not only will it open up an opportunity for misuse as taxpayers will prefer paying a levy instead of GST, but it will also encourage cash transactions and hurt the original

plan of extending the tax base to unregistered units—especially since RCM is on hold.

To conclude then, it is apparent that the GST experiment has done well in the first 100 days. Yes, there are some glitches which need to be fixed. But there is no need to panic, because although it opens the doors for opportunists to restore the status quo made up of large cash-based trade transactions outside the purview of the indirect tax system.

More importantly, it threatens the fundamental principle of GST: 'One Nation, One Tax'. The onus is on the GST Council, India's first federal institution.

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