

Comments on Indian GST Reform 2016

Contributed by: Ravi Singhanian | 13 Oct 2016

- I. Undoubtedly the passing of the GST Constitutional Amendment Bill by Rajya Sabha is a landmark in the annals of India's fiscal reform after independence. It is bigger than the tax reform by Raja Chelliah and Manmohan Singh, and the introduction of VAT in 2004. The Goods and Services tax unifies the Indian market for goods and services into a single market with a common tax code and hopefully a single rate (18 % RNR) on a pan India basis. It removes the barriers to the movement of goods and services within India.
- II. The tax system and administration will also be based on a superior tax design and uniform threshold limits for covering the maximum units of tax payers in the system to expand the tax base to support lower and moderate tax than an extortionate tax system. Hopefully India will hold fast to a moderate tax regime to curb the inflationary impact of a higher GST rate. To make the Indian export in the global market competitive this is a must. This has been a selling point for the GST reform which can be a game changer only if it makes our export internationally competitive.
- III. Services which constitute over 50 % of the GDP are bound to become more expensive with a higher rate of GST and this is a forbidding thought for consumers of services both at an industry and individual level. The actual impact is difficult to express at this stage.
- IV. On the contra side, a poorly administered GST with the state-machinery working at cross-purposes would defeat the purpose of a single code and single rate and uniform interpretation. The dual system of GST which means a two tier Central and State assessments and collection and initiation of audits and refund processes, is fraught with the risk of local distortion in individual States and the tax payer may yet suffer from an inefficient, untrained and corrupt tax administrators. The pain of transition to a new system has been felt in Malaysia which also adopted GST recently, and the Indian experience may be hit by our own unique set of problems.
- V. The GST operates through an IT Infrastructure which is likely to be implemented and go through trial runs only after the legislations have been finally passed by the States. This is a critical component and how quickly the tax paying companies and other entities doing business can mesh their own systems into GSTN is a question of adopting new systems all across the country. One can only be optimistic and hope for the best at least in the short to medium term.
- VI. Finally, the entire ecosystem in the manufacturing and service supply chain has also to fit into the requirements of GST and how quickly this is done by all the stakeholders will be a challenge that should not be underestimated for the smooth transition and implementation of the GST.

VII. It is best to avoid euphoria and to prepare for a checklist of what can go wrong so that all the players, and above all the Central and State governments, are willing and ready to intervene when bottlenecks and hurdles are encountered. This is a huge experiment on a huge scale and tax administration must be prepared to assist tax payers without the old suspicions of the past and in a genuine spirit of understanding. Remember, implementation is the key as industry and business would need a period of trial and error to adapt their systems and unless approached in the right spirit, businesses may suffer.



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