Concerns with Goods & Service Tax

What is the issue?

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It has been a year after GST roll out, there are various short comings with the reform.

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What are the concerns with GST?

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- **Tax structure -** The tax rate structure (0%, 5%, 12%, 18% and 28%) also adds to the complexity, Then there are different rates for gold and jewellery.
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- The multiplicity of tax rates and exemptions means that the cascading effect continues.
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- **Implementation Challenges -** The IT functioning of the Goods and Service Tax Network (GSTN) has been unsatisfactory due to problems or inordinate delays in access because of the volume of traffic.
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- The complexity of the system became apparent when businesses had to file one form by the 10th of the month, check the next form by the 15th and file the third form by the 20th.
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- Small businesses were not permitted to make inter-State sales so that their market became limited in case they were at the border of the State.
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- **Economic Impacts -** GST has also contributed to inflation due to higher service taxes the rate has risen to 18% from 15%.
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- The Input Tax Credit which was supposed to lower the cost to businesses and reduce cascading effect (and thereby lower final prices) has not worked.
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- Businesses have not yet experienced ‘ease of doing business’ though some have adjusted to it.
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- Even though essential goods are exempt under the GST, as basic goods and services prices rise, all prices increase.
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- All prices rise even if they are exempt under the GST, examples being the cost of cereals and vegetables.
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What is the overall summary of GST outcomes?

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- India does not have a full GST which is applicable from raw material to the final good/service.
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- The chain is broken in many places, this partial GST is a result of trying to fulfil many policy objectives.
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- The GST is not bigger than the policy changes introduced in 1991 and hence not the biggest reform.
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- It is not yielding more revenue to enable governments to spend more on services for the poor.
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- Further, by damaging the unorganised sectors, it has set back output and employment in the economy rather than leading to a higher growth rate.
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- These problems emanate from introducing a very complex tax in a complex economy.
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- In brief, while there are a few gains, the economy is not headed in the right direction because of the faulty design of the GST.
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Source: The Hindu

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