Towards a single low tax regime

Why in news?

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, and India would eventually have just two slabs: 5% and a standard rate between 12% and 18%.

Why is the tax regime complex and confusing?

- 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.
- Bureaucracy, the world over, is usually oblivious to the keep it simple, stupid (KISS) principle.
- Asking bureaucrats to identify and categorize all products and services for differential tax slabs in the GST regime is the surest way to get into a muddle.
- 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.
- 'Sin' taxes, for instance, are at cross purposes with the government's policy of generating growth and creating jobs under 'Make in India'.

A case study approach

- 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.
- **Household necessities:** 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.
- **Food:** The 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.
- **Automobiles 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.

What are the items that are exempt from the GST?

- Petrol, diesel, and 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.

What are the ways to overcome the complexity?

- The plan must be to figure out how to rev up the economy.
- It can be done by making the rich and upper-middle-class spend and moving more people up the value chain.
- This can be done 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.

What is the way forward?

- **KISS model:** The low-cost airline model is successful because of the KISS principle.
- Single class seating, point-to-point travel with no code sharing, direct Internet booking, and no middlemen. etc. have sustained this model.
- 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.
- 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.

Reference

1. https://www.thehindu.com/todays-paper/tp-opinion/towards-a-single-low-tax-regime/article65555922.ece

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