

# One Year On - GST is Succeeding and Growing



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It has been one year since the Goods and Services Tax (GST), the biggest tax reform in India since independence, was rolled out. I was always an enthusiastic supporter of this reform – and also served on the Select Committee on the Goods and Services Tax (GST) in 2015, which worked on and finalized the Constitutional Amendment Bill for GST. After several public consultations and deliberations through the summer of 2015 we submitted our report on July 22, 2015. After having advocated this reform and contributed to it as member of select committee, the launch of the GST in the historic Central Hall of Parliament on July 1, 2017 was one of the most satisfying moments in my political career.

Although one year is perhaps a short time to evaluate the performance of GST, it's still worth an assessment. I had predicted in these very pages almost a year ago that GST would result in - better tax compliance, the subsequent increase in tax revenues and increased ease of doing business – and that these would be the major gains of this critical tax reform.

## Better Tax Compliance

Within one year of GST launch, 48 lakh enterprises have been added as compared to the 66 lakh enterprises registered in all these years from Independence. This may be attributed to the simple procedures adopted under GST. Manufacturers, traders, service providers whose income is under Rs.20 lakh have been exempted from GST, thus creating a friendly eco-system for the small business. Those who have annual turn-over up to Rs.1 crore have simplified composition scheme with concessional rate.

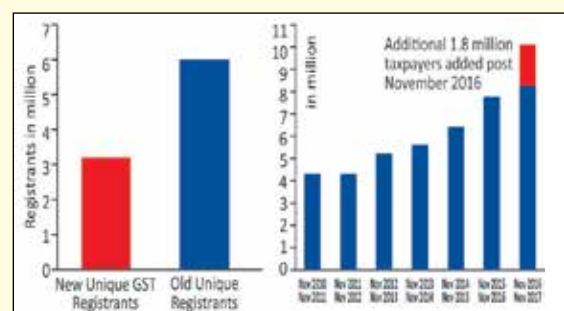
An analysis in the Economic Survey explains the reason for this phenomenal increase in indirect tax payers. Majority of the new registrants come from the Business-to-Business (B2B) segment and small enterprises who have voluntarily chosen to register - although they could have opted out because of their turn-over – as they can seek to get the benefit of input tax credit. This became possible because GST has integrated the entire value chain from raw material to retail.

According to Economic Survey there is a 50 per cent increase in unique indirect tax payers

under GST compared with pre-GST system. Similarly, there has been an addition of about 1.8 million in individual tax filers since November 2016, due to Demonetization and GST. This is a landmark achievement and proof that India is fast transforming from a tax non-compliant society to a tax-compliant society.

## Increase in tax revenues

Based on the first nine months of data, revenue collections for nine months stood at Rs. 8.2 lakh crore (Rs. 11 lakh crores annualized), yielding revenue growth of 11.9 per cent, compared with the relevant pre-GST numbers. The implied tax buoyancy (responsiveness of tax growth to nominal GDP growth) is 1.2, which is high by the historical standards for indirect taxes. The actual growth would be 14 per cent



Source: Economic Survey.

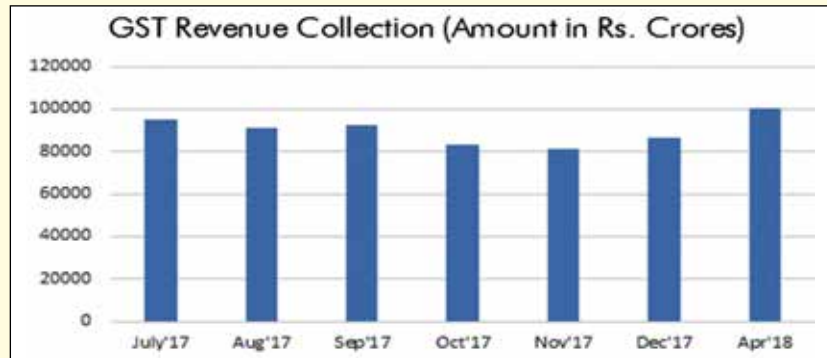
after allocating the Integrated GST (IGST) revenues and adjusting for both blocked transitional credit in the Central GST (CGST) and the unpaid export refund in the IGST revenues.

The initial concerns were of course born out of the roller-coaster nature of GST collections. But with Rs.1 lakh crore in April 2018, those concerns have been finally put to rest. Most of the States have participated in this revenue gain and have almost retained their pre-GST revenue shares in the total tax revenue. States can improve their revenue collection if they build capacity in their commercial tax departments by using advanced data analytics to identify leakages.

### Ease of doing business

The GST is a consumer and business friendly tax regime because it is heavily invested in technology—GST Network as a platform for compliance and filing—is another critical reform milestone, i.e. a new approach to tax administration without the inspector raj that consumers and businesses have grown to loath and detest.

With GST the intimidating task of complying with and paying around 17 different taxes has now been reduced to a State GST and a Central GST. This effect of the GST reform is a big deal for all businesses and consumers especially small businesses for whom the cost and effort of compliance with complex and often corruption ridden inter-state trade was intimidating and discouraging. This reduction in the cost of compliance is not trivial and has brought down the cost and increased the ease of doing business, directly benefiting small and big businesses. The creation



Source: Ministry of Finance

of one Indian market has created better competition and efficiency in our economy and has benefited consumers of goods and services around the country.

Apart from increased ease of doing business, the data generated by the GSTN provides deep insights about the economy. It would also provide data quickly to the policy-makers on various emerging trends in the economy. The usual rounds of statistical surveys provide data in a longer time cycle. Tax data is a quick and reliable indicator of the health of the economy and can be a handy tool for policy-making.

### GST Council – True Federalism

If there is one thing that differentiated the NDA Government's approach to GST compared to the UPA's approach, it was the approach of partnership with the State governments.

Prime Minister Modi has hailed GST as a great example of cooperative federalism, where all States decided to take a unanimous decision in the interest of the nation and all its people across all states. A complex and huge tax reform like the GST would not have been possible without cooperation of state governments and a decisive leadership at the centre. The GST

Council is India's first real federal institution and has lived up to its expectations so far and has responded proactively to transitional problems faced by industry and trade.

### Way Forward

As Max Weber puts it, "Reform is the slow boring of hard boards." Most Governments pushing reforms end up bearing the political costs upfront and early, with the benefits evolving over the medium term. That requires a certain determination and belief in the political leadership and PM Narendra Modi has certainly delivered that despite all the petty political potshots of Gabbar Singh Tax etc. As with real structural reforms, GST too is evolving and will grow and expand to include excluded items, especially, real estate and petroleum products, within its coverage. Inclusion of real estate will clean up the land market, which is one of the biggest generators of black money.

It is still early days for the full impact of GST to play out on our economy and business. But in coming years GST will live up to the Prime Minister's description of Good Simple Tax and our expectation that it would expand the indirect tax net and revenues and therefore the Economy.