

From Gold, Silver & Tobacco to GST....

In the guest column of last month's maiden Newsletter of SA, Mr Suresh Nair, briefed you all about the genesis of SA. In this second Newsletter, I thought I would kick start the voyage slowly into the ocean of taxation, with sharing my thoughts on GST, without bothering you much about the sections, provisos, clauses and sub-clauses.

Many of you who receive this Newsletter may be working in indirect tax departments of various organisations. Your job is mainly to ensure tax compliance of the company and assess the impact of the changes in the tax structure and to follow the developments in tax laws as a part of your professional responsibility. But, have you ever approached these developments in the commodity taxation from the perspective of an ultimate consumer?

Just see how the tax on goods and services makes an impact on your daily life. You get up in the morning and **brush** your teeth, take a bath using a **soap** and **shampoo**, make a **call** to your friend on your **mobile phone**, leave for office in your **car**, fill in some **fuel** en route, use your **laptop**, access the **internet** through the **USB modem**, have a **coke** or **smoke** in the lunch break....the list is endless. Our daily life is so inextricably linked to taxation that we pay taxes on almost all our spending. Whenever any tax sops are announced on personal income tax front, however small it may be, they hit the headlines but we do not pay the same attention to the changes in the indirect tax by assuming it as something that matters only the industrial houses.

The magic of indirect taxes is that the end customer who bears the burden may not be knowing at all that he is paying taxes, leave alone the magnitude. As a consumer we pay multiple taxes imposed by the Central and State Governments like central excise duty, VAT, octroi, entry tax to name a few. According to the reliable estimates, the aggregate tax burden on commodities is around 25% in India, which is perhaps the highest in the world. This is a result of what is popularly christened as cascading effect. Or taxes on taxes. The best example is if an item is worth Rs 1000/- at the factory where it is manufactured, we need to pay Rs 100/- as central excise duty at the rate of 10%. Assuming the VAT rate at 4%, we need to pay this 4% on Rs 1100/- . Thus, we end up paying 4% VAT on excise duty of Rs 100 also, in addition to the 4% on the value of the item of Rs 1000/-.

GST aims to eliminate this cascading effect. There will be only one value for central tax as well as state tax. In the above example, the total taxes under GST would be Rs 140/- instead of Rs 144/- Not only this, several multiple taxes are proposed to be subsumed in GST. With the result, the tax burden on consumer will be reduced without much loss of revenue to the Government. But how this can be possible?

In the olden days, if you remember goods like air conditioners / refrigerators, considered as affluent goods were taxed at the rates as high as 100%. The idea was, since these goods are consumed by the rich, they could afford to pay more to the tax kitty. But, this model, over a period of time gave way to the concept of decreasing the tax rates and increasing the tax base, which could result in more consumption and eventually, more revenue to the Government.

This is more or less akin to the "Fortune at the Bottom of the pyramid" theory of renowned management guru Coimbatore Krishnarao Prahalad who passed away recently. This theory provides us with startling facts like:

- A company could make a bigger profit by focusing on the market share consisting of people who earn less than \$2 per day.

- The world's fastest growing market is at the bottom and not at the top of the fortune pyramid.
- Nine countries-China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa, and Thailand - collectively have a GDP of \$12.5 trillion, larger than the GDP of Japan, Germany, France, Italy, and the UK combined.
- 60% of handheld mobiles sold across the world are sold in China and India
- Poor in Bangladesh spend as much as 7% on their income on connectivity.

So, what is true to the companies is also true to the Government. With elimination of cascading effect, reduction in duty rates, goods and services become cheaper. Thus the bottom of the pyramid participates in the markets. This triggers the consumption which leads to increase in demand, resulting in more production, more employment, more revenue and the cycle goes on. Thus, hopefully with GST in place, it will be a win-win-win situation for the Government, the consumers and the corporates.

To achieve this objective, it is necessary for the industrial houses to take the call and facilitate the switching over to the GST smoothly. Reportedly, the number of assesseees in the GST regime will be huge and automation is the pre-requisite to handle such large numbers. The first step could be using the e-facilities of the department to the fullest extent in filing e-returns and making e-payment. It should not be seen as an obligation, which if not performed will attract penal provisions. It should be other way round. The assesseees should insist on only e-filing and for any return that could not be validated properly because of any reason; the assessee should be given incentive equal to the present penalty that could be imposed for non-filing of e-returns. This will ensure 100% compliance as both sides will be equally serious in removing the initial glitches. Let us all join hands in welcoming this new GST from the department that was seen in early days as the one concerned with stopping illicit import of Gold, Silver and collecting tax on Tobacco, or the erstwhile **GST**.