

FM's speech at meeting of Empowered Committee of State Finance Ministers on GST on 10th Nov.09 at Delhi

“Dr. Asim Dasgupta, Chairman, Empowered Committee, Shri Sushil Modi, Deputy Chief Minister of Bihar, State Finance Ministers and friends!

It gives me great pleasure to be here on this occasion when the Empowered Committee under the dynamic leadership of Dr. Asim Dasgupta is releasing its First Discussion Paper on the proposed Goods and Services Tax (GST). At the outset, let me whole-heartedly congratulate all of you for giving shape and form to an idea whose time, I believe, has truly come.

We have indeed travelled a long way from the time the announcement was first made in 2006 by the then UPA Government to launch a comprehensive GST in the country by the 1st of April, 2010. At that stage, many of you were preoccupied with the challenge of switching over to the Value Added Tax (VAT) while others were settling down with that tax. The introduction of GST then would have looked like a distant event. But now all of you are richer by the first-hand experience of the benefits that the shift to VAT has brought both to your Governments and the business community leading to improvement in the economies of your States. That may be the reason why I have felt a sense of excitement and enthusiasm in the pace and spirit with which the Empowered Committee has worked over the last couple of months to carve out the design and structure of GST. I commend all of you and your teams for working tirelessly to put together the First Discussion Paper which reflects your collective wisdom on the subject.

At this stage, it is important to recall the benefits that this long-awaited reform in our indirect taxation promises to all of us. Our current structure of indirect taxes is driven by a multiplicity of taxes- some levied by the Centre and others by the States. Each of these taxes applies to a narrow base both in terms of the economic activity it covers e.g. manufacture, sale, entry, entertainment etc. and the range of goods and services it applies to. While the base for many of these taxes overlaps, each is an island in terms of flow of input credit. The output tax is allowed to be adjusted against tax already paid on inputs only in a few cases. Then, there is a variety of exemptions meant to serve multiple socio-economic objectives. As a consequence, high rates of tax are required to be imposed to generate a given amount of revenue.

As tax collectors, we may draw comfort from the fact that we manage to generate the targeted revenues. But there are questions that beg an urgent response. First, are collections made in the most efficient manner and do they match the potential? Second, what is the hidden burden of taxes in the form of cascading and double taxation? Third, why is our tax structure so complex and prone to disputes and litigation? These questions cannot be side-stepped any longer as they have implications for the robustness and growth of the very base that yields our tax revenues.

The merits of GST are well-known. It will re-distribute the burden of taxation equitably between manufacturing and services bringing about a qualitative change in the tax system. With the minimisation of exemptions, it will broaden the tax base and lower the tax rates. By switching to the destination principle, the distortions will be reduced fostering a common market across the country. The compliance cost will come down and our trade and industry will become more competitive leading to an increase in exports and lower prices for domestic consumers.

The proposed Goods and Services Tax (GST) can deliver on all these promises only if it has the following essential features:

- (i) It is comprehensive in scope and applies to as large a range of goods and services as possible by minimizing the number of exemptions to a small list of essential items which impact the common man. To the extent possible, the exemption lists of the States and the Central Government are in alignment;
- (ii) The rates of tax of CGST and SGST taken together are moderate;
- (iii) The rates of tax of SGST and exemptions from SGST are uniform throughout the country so that a given set of goods and services invites the same tax treatment in every State;
- (iv) The input credit chain is seamless covering the entire value chain from manufacturing to retail without breaks regardless of whether goods or services are supplied within a State or across State boundaries;
- (v) As far as possible, every transaction in the tax net bears both CGST and SGST;
- (vi) The tax treatment of goods and services is similar;
- (vii) The Central and State levies are fully neutralized in the case of exports (out of India); and
- (viii) The procedures are simple and harmonized between the Centre and the States.

I am confident that the model proposed in the First Discussion Paper prepared by the Empowered Committee has taken all these concerns on board. Detailed discussions with all stake-holders which will begin with the release of the documents today will help us to refine the design and concepts further.

I notice that significant progress has been made in developing a consensus on various issues. Now we must ensure that settled issues are not re-opened and we move forward at a fast pace. Once we decide on the rate structure and agree on the list of exemptions there should be no deviation in the pursuit of short-term interests. All of us will have to keep the long-term interests of the economy in view by taking carefully thought-out decisions in consultation with each other before making any deviations. This spirit of co-operative federalism is the essence of GST and the only feature that would ensure that a national market with free movement of goods and services across State boundaries develops, in the true sense. There is a view that insistence on strict adherence to mutually-agreed rates would impact the fiscal autonomy of States. To begin with, the canvas of fiscal policy is much wider than taxation and goals of public policy are as effectively met through the expenditure side of the budget. Even within the realm of taxation, the belief that the only degree of freedom available to us for enhancing revenues is by changing the rates of tax is a somewhat limited view. There is enormous scope for augmenting revenue collections by improving our tax collection machinery and the delivery of taxpayer services. There is ample evidence to show that lower taxes lead to better compliance and higher revenues. GST gives us an opportunity to bring together the machinery of the Centre and the States to jointly work for better enforcement.

To improve the quality of our taxpayer services, we have to focus more closely on the

benefits of working collaboratively with the taxpayer community to improve our outreach and assist them in the due discharge of their tax liability. This is an area where the policy options are many and the freedom to make a difference immense.

Amongst the administrative actions that are critical for the success of GST is the creation of a strong Information Technology Infrastructure both for the Centre and the States. Many of the issues I have mentioned earlier are easily amenable to IT-based solutions. Besides, such an infrastructure is required for reducing the physical interface between the taxpayer and the department so that compliance costs are curtailed. Some other measures for improving internal efficiency within tax departments include quick & timely exchange of data between the Centre and the States for risk-profiling, audit etc.

With these words, I once again commend all of you for the hard work you have put in and hope that the Discussion Paper generates a robust and informed public debate across the length and breadth of the country so that the ownership of GST is a given as and when it is introduced. On our part, I assure you that the recommendations and suggestions made in the Discussion Paper would receive our in-depth and meticulous attention so that we are able to jointly finalize the structure and design of GST at the earliest.”