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# GST: Old wine in a new bottle?

*For a large and diverse economy such as India, in order to accommodate all points of view and interests is a challenging if not daunting task, and it is not surprising that the Council could not reach a consensus on this topic.*



***Ranjeet Mahtani*** *(Partner at Economic Laws Practice, Advocates & Solicitors)*

All steps in last six months, taken towards embracing GST, an example of "cooperative federalism" at work, appear to stand diluted with the recently shortened meeting of the all-important Goods and Services Tax Council (GSTC) (https://www.thedollarbusiness.com/news/goods-and-services-tax-council-consisting-of-specified-members-sl146/48127).

At the meeting of the GSTC earlier this week (which was to last for three days, and had on the agenda for this session the sensitive issue of rates), the Centre proposed a four-tier rate structure: with a lower rate of 6%, two standard rates of 12% and 18%, and a higher rate of 26%, besides a 4% rate for precious metals. In addition, it has been proposed to levy a new Cess on a small set of products (luxury or demerit goods) – even the GST regime (https://www.thedollarbusiness.com/news/gst-council-agrees-on-five-areas-set-to-meet-again-this-month/48119) is not able to shed the love for Cess!



The next meeting of the GSTC in early November 2016 is expected to finalise the recommendations on the rates, even while the Central Government (especially the Finance Minister and the Revenue Secretary) continue to remain optimistic about meeting the 22nd November deadline to finalise the draft legislations and rate structure.

Some of the key reasons for the proposed rate structure are: a) by appropriately classifying various goods under different bands, avoid an inflationary impact on the economy especially for goods in the Consumer Price Index basket, b) to enable States to generate sufficient revenues, c) to provide for compensation to States' if losses are to occur in the GST regime, d) potential implications of a flat rate structure (thus higher taxes) on the forthcoming elections including general elections in 2019.

For a large and diverse economy such as India, in order to accommodate all points of view and interests is a challenging if not daunting task, and it is not surprising that the Council could not reach a consensus on this topic.

With some of the States' representatives in the GSTC having critiqued the rates proposed (including that the highest rate should be higher), one needs to appreciate that the proposed structure of rates for goods is now seen as contrary to "one nation, one tax" conceptualisation of GST, more likely than not to result in high compliance costs, that could result in classification of disputes (first imagine the scramble of lobbyists to be in the lower rate bracket, and then the issue of interpretation of what a particular band includes or not, besides, what may be a luxury item for one may not be for another). No wonder then that the imminent GST is thus being called by the oft-engaged adage "old wine in a new bottle".

Perhaps, some compromises are inevitable, including the plurality of rates for goods (and thus a consensus) in order to enable India to first embrace GST and reform its indirect taxation landscape. This initially may imply dilution of the full potential of the reforms that GST is, however, for a tax that has been in the making for more than a decade it may be a tolerable concern.


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*Sheela Mamidenna - Oct 22, 2016 12:00 IST*

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