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A moderate tax rate is a win-win situation for all

A lower rate of tax will induce liquidity in the system, expand the market and create employment in India

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The Indian government implemented the Goods and Services Tax (GST) in 2017. The main objective of this economic policy was to eliminate the cascading effect in indirect taxation, moderation of tax rates, increasing the tax base, and integrating the tax system of the central and state governments. The government introduced GST with five slabs: 0%, 5%, 12%, 18% and 28%. In addition, some goods have also been subjected to state compensation cess. It was not easy to roll out the GST. While the GST council did its best to smoothen the process, enforcement has not kept pace with the speed of implementation. This has resulted in substantial leakages in revenue collection. This must be plugged.

To do so, policymakers must reduce the number of GST slabs. A beginning can be made by merging the 12% and 18% slabs and replacing them with a moderate 15-16% rate. The mindset of the policymakers has to move from the tax rates to the amount collected. To achieve this, tax has to be collected at a lower rate from a larger number of people by raising the level of compliance.

POLICYMAKERS MUST REDUCE THE NUMBER OF GST SLABS. A BEGINNING CAN BE MADE BY MERGING THE 12% AND 18% SLABS AND REPLACING THEM WITH A 15-16% RATE. THE MINDSET HAS TO MOVE FROM TAX RATES TO THE AMOUNT COLLECTED

The experiences of governments both in India and abroad have indicated that having a moderate tax rate is a win-win situation for the government and the citizens. In such a system, there is more generation of revenue as a result of enhanced compliance, resulting from the moderation of tax rates. A lower rate of tax, in addition, also induces liquidity in the system, expands the market and creates employment, thereby creating a positive spiral in the economy.

It has been seen that in the recent past, there is a spurt in the availability of products that have high incidence of the tax such as cigarettes via illicit channels. Out of 108 billions sticks sold in India, one fourth are of illegal origin. The loss according to the exchequer, according to Euromonitor, is about ₹13,000 crore. The result: an adverse impact on the legal industry and/or drop in consumption of luxury items because they have become unaffordable. The automobile sector is another example. Fake auto parts such as clutch, steering arms and brake linings are supplied to dealers, leading to road accidents. Due to these fake parts, the automobile industry lost approximately ₹10,500 crore in revenue in 2014 and the government lost nearly ₹3,200 crore the same year, according to the Ficci Cascade Report.

So it is important for policymakers to moderate taxes, focus on plugging the leakages/loopholes, reduce the number of slabs to simplify the tax structure, and eliminate evasion by unscrupulous elements who use the arbitrage opportunities.

There are huge expectations from the Modi 2.0 government, and everyone is anxiously waiting for him to kickstart the economy. The government needs to bite the bullet and take decisions that are good for the country in the long run. These decisions should have a medium- to long-term vision and the government should not get bogged down by only short term challenges.

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The views expressed are personal