



# Noble neoliberalism? Anxieties about India's 'clean' tax reform

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**July 12, 2017**

On 1 July 2017 India embarked on its biggest tax reform since independence. Although countless questions continue to surface about whether the nation's infrastructure is 'ready' to embrace such a radical alteration in its tax regime, experts, policymakers and businessmen alike have long been clear about the necessity of modifying the existing taxation system. The new system, known as the Goods and Services Tax (GST), was originally proposed some sixteen years ago, but has ever since been victim to competing political interests as different political parties have come to power in the central government. Since Modi's ascension as Premier in May 2014 he has pushed lawmakers to approve the tax bill as part of his reform agenda – ironically, this is the very same bill that he allegedly opposed when he was Chief Minister of Gujarat and the Congress-led central government was pushing the reform. Now, with Modi spearheading the bill, the tables have turned and the Congress party has become the main opposition, delaying the process for many months. But in spite of the political infighting about the GST bill, it has now been passed by all the states and union territories (except Jammu and Kashmir), finally making it possible for the system to come into effect. The biggest impediment to the implementation of the new tax structure is the long discussion between the states and the central government on the segmentation of revenue.

So how exactly is the new GST different from the old taxation system? At present, taxes in India are levied by both the central government and the state government. For example, the central government has the authority to levy service tax, customs and excise duties, while the state government has the power to levy value added tax (VAT), octroi tax, etc. Thus, a business has to be registered with multiple tax authorities, maintain separate sets of paperwork and file tax returns with several authorities.

GST is designed to replace the existing patchwork of multiple indirect taxes and consolidate them into a single unified framework that is applied consistently across the entire nation. All businesses will now have to be registered with, and report to, a single entity. The new taxation

system replaces about a dozen different taxes with GST, which consists of two categories, Central GST (CGST) and State GST (SGST). For inter-state supplies of goods and services a single integrated GST (IGST) will be applicable. By contrast, according to the current system for inter-state supply, a product or service is taxed multiple times at different points and at different rates as parts are assembled and items are moved between states. At state borders, one can often see miles of vehicles filled with goods lining up to pay entry duties, and for vehicles that have to cross multiple states the process is even more time consuming. What makes GST radically different from the previous system is that now goods and services will be taxed at the endpoint of consumption rather than production. This is supposed to prevent the cascading taxes that need to be paid under the previous system, but it also seems likely that states with a weak manufacturing base but a strong consumer base (like West Bengal and Bihar) will benefit impressively from the system.

Proponents of the scheme, namely the central government in power, have emphasised two outcomes they expect from GST. Firstly, by replacing the previous tax system, which is known for fragmenting the market due to its regional inconsistencies, GST will create a unified single market for 1.3 billion consumers. Secondly, unifying the jurisdiction of state entities into a common taxation environment will speed efforts to curb the deep-rooted practice of easing formal processes through informal intervention via bribery. To this end, the system will be digitalised so that taxpayers will not necessarily be required to interact with assessing officials or the tax department, thereby limiting the scope for corruption.

Unification and digitalisation of taxation schemes under the GST act will likely affect businesses of different sizes differently. This is where I find the GST particularly interesting: what is its possible impact on small businesses in particular? It is widely speculated that GST will be logistically efficient for larger enterprises, as it would set a common framework for all companies and reduce overhead. But it will give small-scale enterprises (particularly semi-formal and informal ones) a hard time. For example, apart from the obvious infrastructural compliance cost, many formal small businesses (which still use manual bookkeeping practices such as ledgers and invoice *challans*<sup>1</sup>) will have to get acquainted with a predominantly digital system in accordance with the GST. Besides this, small businesses in the informal sector, where transactions mostly go un invoiced, will face a challenge maintaining their existing base of formal-sector customers. This is because, in the GST system, companies will have an incentive to make sure that their suppliers have paid their share of taxes, since companies will be able to claim a deduction on taxes paid by their suppliers. Purchasing from businesses outside the range of taxation thus might transpire to be counterproductive for formal-sector businesses. When I was in the field in 2016, people seemed quite aware of the fact that a major tax reform was on its way, though very few were well-informed about the topic. One quite palpable prediction was that once GST comes into effect, it wouldn't be easy

for the businesses to continue their informal dealings. One of my informants, a company manager, admitted that GST might remove any leeway for common practices such as unaccounted purchasing, under-invoicing, and more.

Amidst the speculations overflowing the media, I called one of my businessmen informants a day before the GST implementation came into force, to gather information on his experiences at ground zero. He felt torn between hope and apprehension for the future and mentioned that no one seemed to really know yet how things are going to pan out in reality. He had attended two seminars and each painted completely different pictures of what to expect: the private tax consultants gave him the impression that GST is going to complicate things further, laws are going to be stringent, and the slightest noncompliance might incur a penalty, while the government representatives suggested that everything is going to be much easier after GST. But no one could give him a clear idea about what kind of technical changes he should prepare himself for; as he put it, "I think the officials don't know themselves yet, so I guess we have to wait until they get clear instructions from above". He guesses that the taxation at the point of purchase will block a lot of working capital for businesses like his that are involved in export. He also feels disoriented, as he fears the regime change will deprive him of his 'experience capital', the knowledge he has gathered over the years through time and effort on how to most effectively navigate the existing tax regime while complying with the legislation. But with GST coming into effect, the entire legislative system is in an upheaval and he fears unknowingly making a mistake and being penalised for it. To him the immediate future is still murky, and to play it safe he has decided to put a hold on his purchases and sales for the first few days after GST is implemented until clearer details are available on how to prepare invoices for the new tax regime.



Women sorting labels in a typical small scale enterprise. Maharashtra, India.

Notwithstanding his doubts and uncertainties, he thinks the step itself is noble, as it inches towards a 'cleaner' economy which will contribute to making a better society. But one must remember that behind such a view is the way the Modi government is pushing its ideals, bringing a sense of déjà vu that harks back to the time of demonetisation<sup>2</sup> in November last year. Just as on the previous occasion, the government is swaddling its neoliberal agenda in the rhetoric of morality and patriotism with slogans like "One nation, one tax" and promises to

eradicate corruption. The government emphasises that goods of mass consumption and subsistence are either exempted from taxation or kept in the lowest tax slab of 5%, affirming that it is still aware of its social commitments amidst its neoliberal vision. The Modi government has had its fair share of criticism for the poor implementation of demonetisation, in which the (supposed) priority of fighting against black money and corruption eventually became side-lined and the focus shifted to the financial inclusion of the masses in the banking system as well as the propagation of a digital cashless economy – qualities conducive to a neoliberal economy. The Modi government's pursuit of a seamless economy consisting of cashless exchanges, recorded transactions, and tax compliant businesses suggests that the informal sector is at odds with the government's vision of an ideal free-market India; however, one ought not forget that in a country like India where over 80% of the workforce is employed informally<sup>3</sup>, informality is not an anomaly but a basic reality. This is one of the reasons why, unlike the West, India fared quite well during the economic crisis in 2008. If a person loses his or her formal salaried job due to a crisis, this sector provides an alternative. A formal structured economy will definitely take India higher up the ladder as an alluring destination for investments, but the government should be careful not to disrupt the very base of India's economy in its experiment with ushering in a neoliberal vision of prosperity. For now, the world stage keenly awaits to see how the nation reacts to the new situation post-implementation.

## Notes

<sup>1</sup> A *challan* is a paper receipt, typically adhering to a standard format with fields that need to be filed in.

<sup>2</sup> I talk about it in this blog post: <https://goo.gl/f47rsB>

<sup>3</sup> The International Labour Organization (ILO) estimates that 92% of the employed work force in India are informal workers (defined as 'unorganized sector workers plus informal workers in the organized sector'). For more details see <https://goo.gl/Fc5tBi>