

DOES GST IMPLY “GREEN” AND “SUSTAINABLE” TAX?

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The Indian economy has entered the Goods and Services Tax (GST) regime from July 1, 2017. Hailed as the biggest fiscal reform in the post-liberalization era, GST signifies a single tax across the value-chain on the supply of goods and services. Credits of input taxes paid at each stage available in the subsequent stage of value addition make the final consumer bear the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. This implies that the plethora of taxes at various stages of the commodity value chain is eliminated, thereby bringing about three important benefits: better understanding of the oft-not-understood commodity value chain (largely true for agri-commodities), rationalization of the commodity value-chain including the services, and market integration.

The harmonization of the tax base will bring in transparency, raise compliance, and will boost growth figures. Across the value chain, it is hypothesized to have a positive impact by increasing consumer surplus, easy compliance and enhanced competitiveness for producers, gain to manufacturers and exporters, and ease of tax collection for the government complying with an important canon of taxation. So far so good! Yet, the question that we intend to raise in this article is the implication of this tax on the concerns of sustainability and equity, which have hardly been raised so far in the policy discourse.

BACKWARD LINKAGES WITH VALUE-CHAIN

At the outset, one needs to understand that the commodity value chain is inextricably linked to a more fundamental production process: the ecological production process. This is where essentially the value chain of a commodity originates. These are called ecosystem services: goods and services provided for free to human communities. The Millennium Ecosystem Assessment of 2005 enhanced human understanding of the fact that the ecosystem functions in its own inimitable ways to provide ecosystem services (benefits) in the form of various provisioning services (e.g., food, raw materials, genetic resources, water, minerals, medicinal resources, energy, etc), regulating services (e.g., carbon sequestration, climate regulation, pest and disease control, etc), cultural services (tourism, religion, etc), and supporting services necessary for production of all other ecosystem services (e.g. nutrient recycling, gene-pool protection, soil formation, etc). Recent scientific assessments like The Economics of Ecosystems and Biodiversity (TEEB), published in 2010, recognised that these ecosystem services are “GDP of the poor”, as the poor’s incomes and survival are dependent on the ecosystem. An all-pervasive taxation structure like the GST that changes the market dynamics can therefore have an impact on the ecosystem through the backward linkages with the commodity value-chain.

IMPACTS OF GST

While implementation of GST paves the path for a national-level agricultural market, inter-state trade grows with trade barriers in the forms of the state-specific taxes being removed. This will bring about more transportation of goods and demand for infrastructure. If road infrastructure growth brings about plausible land use conversions without factoring in ecological concerns, the net result may not be ecologically favorable.

However, the sad part of the story is that diesel has not been brought under GST. Bringing diesel under GST would have brought down diesel prices and would have an all-pervasive impact, especially on poor, by flattening the overall price-levels. While diesel is not clean fuel, and a further 5% GST on road transport escalates the prices of fuel, there is no alternate tax/ subsidy structure inbuilt in the present regime to promote a cleaner fuel mechanism like CNG that may emit lower carbon.

Rather, the present situation is quite the opposite. If the 5% tax on solar and wind energy is implemented, then the costs of solar energy will go up by 1% and that of wind energy by 4%. On the other hand, the carbon tax (or coal cess), which was thought to be a source of funding for clean energy projects through the National Clean Energy Fund, will now feed the GST Compensation Fund - a fund meant to compensate various state governments for any loss in revenue arising out of the goods and services tax. With the costs for coal projected to fall by almost 7 percent, the GST regime clearly moves the “terms-of-trade” in favour of coal from the cleaner sources of energy.

On the other hand, a 12% GST on fertilizers, up from the 4-8% rates escalates the prices of fertilizers. As per certain estimates, the prices for urea, the most commonly used fertilizer, may increase by Rs 300 to Rs 400 per ton. At the same time, the retail prices for other fertilizers such as di-ammonium phosphate (DAP) can increase as much as Rs 3,000 per ton in states such as Punjab, Haryana and Uttar Pradesh, where there are no taxes at present on the farm nutrients. As most states did not levy any value-added tax (VAT) on micronutrients, organic manure and bio-fertilizers, the 12% GST rate will mean a rise in retail prices of these minor fertilizers. The problem will be elsewhere. This will go to the extent of modifying the nitrogen-phosphorus-potassium (NPK) ratio in fertilizer use, the net result of which might not be too conducive for productivity of land in future.

The GST imposed on commodities that are pivotal to livelihoods for forest tribes in India might not be too beneficial for the value-chain either. The tax on tendu leaf, a Minor Forest Produce (MFP) used to roll beedi, which is the financial lifeline of many tribes of Central India, is now set at 18%. With such a high rate of tax, it is often hypothesized that the traders, who get the tender from state corporations to collect tendu leaves, will pay even less to the tribals despite getting input tax credits, resulting in a decline in the profits to the “Gram Sabha”. Ideally, when the government has already imposed 28% on finished beedi with the health concerns with tobacco consumption looming large, the 18% GST on collected tendu leaf selling goes against the fundamental essence of equity under which Forest Rights Act (FRA) of 2006 exempted incomes obtained from sale of non-timber forest products from taxation. GST on tendu leaves is akin to taxing ecosystem services, which provide livelihood to poor.

However, one also needs to note the positive impacts of GST on sustainability concerns as efficiency in value-chain can boost corporate profitability. While under the Companies Act 2013, companies need to spend 2% of their net profits in CSR, profit increase will mandatorily release more funds for sustainability and development purposes. Whether these will outweigh the negative impacts remains to be seen.

SUMMING UP ...

Like any new intervention, the proposed GST structure is not unblemished. Australia has shown the way through how a nation-wide single tax can be implemented taking into consideration the critical sustainability and equity concerns. However, in India, given its heterogeneity and size, one single tax rate might not be feasible at this stage. Despite that, the policy discourse cannot be oblivious of the important ecological and sustainability concerns, as raised in this article.
