

# Speech by the President of India, Shri Pranab Mukherjee at the Launch of Goods & Services Tax

Central Hall of Parliament: Jun 30, 2017

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1. In a few minutes from now, we will witness the launch of the Goods and Services Tax (GST), a unified tax system, in the country. This historic moment is the culmination of a fourteen-year long journey which began in December 2002, when the Kelkar Task Force on indirect taxation suggested a comprehensive Goods and Services Tax (GST) based on the Value Added Tax principle. The proposal to introduce GST was first mooted in the Budget Speech for the financial year 2006-07. Since the proposal involved restructuring and reform of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a design and a plan of action for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers which had been formed earlier for implementation of the Value Added Tax. The Empowered Committee released its First Discussion Paper on Goods and Services Tax in November, 2009.

Friends:

2. The introduction of GST is a momentous event for the nation. It is also a moment of some satisfaction for me because, as the Finance Minister, I had introduced the Constitution Amendment Bill on 22<sup>nd</sup> March 2011. I was closely involved in the design and implementation and had the occasion to meet the Empowered Committee of state finance ministers, formally and informally, as many as 16 times. I also met the Chief Ministers of Gujarat, Bihar, Andhra Pradesh and Maharashtra a number of times. I have a vivid recollection of those meetings and the various matters that were raised. Given the magnitude of the task, which spans constitutional, legal, economic and administrative spheres, it was not a surprise that there were many contentious issues. Yet, I found both in those meetings and in my many interactions with Chief Ministers, Finance Ministers and officers of States, that most of them had a constructive approach and an underlying commitment to the introduction of GST. I therefore remained confident that GST was a matter of time and it would eventually be implemented. My confidence stood justified when, on 8<sup>th</sup> September 2016, after the Bill was passed by both Houses of Parliament and more than 50 percent of State

Legislatures, I had the privilege of giving assent to the Constitution (One Hundred and First Amendment) Act.

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3. After the amendment of Constitution, the GST Council has been constituted as per the provisions of Article 279A of the Constitution. The Council, which is responsible for making all recommendations to the Union and States in respect of GST, such as model laws, rates, exemptions, is unique in our Constitution. It is a joint forum of the Centre and the States, where neither the Centre nor the States can, without the support of the other, take any decision. Though an elaborate voting structure has been built into the decision making process of the Council in the Constitution, it is remarkable that in the 19 meetings held so far, all decisions have been taken by consensus in the Council. I congratulate them. There were apprehensions whether the task of fixing rates for thousands of items could be accomplished by the GST Council, given the wide variations across states. The Council has pleasantly surprised everyone of us by completing its task on time.

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4. The new era in taxation, which we are about to initiate in a few minutes, is the result of a broad consensus arrived at between the Centre and States. This consensus took not only time but also effort to build. The effort came from persons across the political spectrum who set aside narrow partisan considerations and put the nation's interests first. It is a tribute to the maturity and wisdom of India's democracy.

Friends:

5. Even for a person like me who has been intimately involved in matters of taxation and finance, the scope of the change we are undertaking is truly breath-taking. Central excise duty has a long history. During my different tenures as Finance Minister, it has always been one of the largest contributors to the Central exchequer. Service tax is relatively new entrant but has grown very rapidly in revenue terms. Except for a few goods outside the purview of goods and services tax, both of these will now disappear along with Additional Customs Duty, Special Additional Duty of Customs and numerous cesses and surcharges. Central Sales tax on inter-state sale will cease for goods falling under goods and services tax. At the State level, the enormity of the change is no less. The major taxes being subsumed are Value Added Tax or Sales Tax, entry tax, taxes on advertisements, and luxury tax, along with state-level entertainment tax and numerous cesses and surcharges.

Friends:

6. GST will also make our exports more competitive and also provide a level playing field to domestic industry to compete with imports. Currently due to cascading, our exports still carry some embedded taxes, making them less competitive. Similarly, the hidden effect of cascading means that the total tax incidence on domestic industry is not transparent. Under GST, the tax incidence will be transparent, enabling full removal of tax burden on exports and full incidence of domestic taxes on imports.

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7. I am told that GST will be administered through a modern world-class information technology (IT) system. I recall that in July 2010, I had set up an Empowered Group for development of IT systems required for the GST regime under the chairmanship of Shri Nandan Nilekani. Subsequently in April 2012, a Special Purpose Vehicle, the GSTN (GST Network), was approved for creation by the government for GST implementation. This was to ensure that we lose no time, and as and when the legislative framework is in position, the technical infrastructure should be ready to take forward GST. I am told that a key feature of the system is that buyers will get credit for tax paid on inputs only when the seller has actually paid taxes to the government. This creates a strong incentive for buyers to deal with honest and compliant sellers who pay their dues promptly.

Friends:

8. GST is a disruptive change. It is similar to the introduction of VAT when there was initial resistance. When a change of this magnitude is undertaken, however positive it may be, there are bound to be some teething troubles and difficulties in the initial stages. We will have to solve these with understanding and speed to ensure that it does not impact the growth momentum of the economy. Success of such major changes always depends on their effective implementation. In the months to come, based on the experience of actual implementation, the GST Council and the Central and State Governments should continuously review the design and make improvements, in the same constructive spirit as has been displayed till now.
9. In conclusion, I would like to express by deep appreciation for all those who made tremendous effort in making this path breaking legislation.

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