Analysing the GST Regime

What is the issue?

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- It has been a year since the rollout of GST and hence a good time to evaluate the preliminary phase of the tax regime.
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- Revenue buoyancy, better compliance and the institutional strength of the tax regime are some of the positives of the current regime.
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What does the statistics say?

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- While 1 year is too short a time for all facets of GST to manifest itself, it is nonetheless a good time to make a reasonable assessment.
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- Despite problems of return filing and global headwinds, the promise of better tax compliance and buoyancy is already producing results.
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- **Registered Entities -** Prior to GST, about 65 lakh entities were registered with "Central excise, service tax and VAT" in total (without double counting).
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- Under GST, registrations now stand at 110 lakhs, which is a 70% increase.
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- This happened because smaller units that had the option to opt out (due to low turnovers), voluntarily registered themselves.
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- Bulks of these small businesses operated in the "business to business" segment and hence were seeking to benefit from "input tax credits" on the avail.
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- Interestingly, small units were entering the GST not just because they sell to big businesses, but also because they were sourcing GST taxed goods as inputs.
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- This is a direct consequence of the complete value chain integration from raw material to retail that GST has ushered in.
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- **Revenue -** GST revenue growth so far is 11%, and this will go up to 14% if "Integrated GST" (IGST) revenue, and other transitional credits are included.
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- This means that the "revenue buoyancy" (explained below) is 1.14 as against the historical buoyancy of indirect taxes of about 0.9.
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- Interestingly, most of the States have participated in this revenue gain and have roughly retained their pre-GST revenue shares in the total tax revenue.
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- The gains could still go up if states restructure their commercial tax departments and use data analytics to identify tax gaps.
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- Specifically, states like "Punjab, Haryana, Uttarakhand and Jharkhand", which are not familiar with service taxation, need support to enhance collections.
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What are institutional strengths of GST?

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- **GST council -** One very significant feature of the GST regime is the institutional robustness demonstrated by the "GST Council".
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- Debates in the council have been vigorous, informed and largely free off political partiality.
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- This has made it possible for the GST Council to respond promptly to transitional problems faced by trade and industry.
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- **Major decisions -** The council has made a large number of duty changes and has brought many items from the 28% slot to the 18% slot.
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- Going forward, it would be possible to combine the 12 and 18% rates to 16% and slowly phase out the items which fall under the 28% slot.
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- These actions argue well for a simpler duty structure in future, that will reduce the number of duty slabs.
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- In its recent meeting, the council also decided to change the current "three

return” format to a single return system, for making return filings simpler.
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- **GST Network (GSTN) –** The robustness of GSTN that provides technology support to the GST project is another major success of the regime.
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- The data generated by the GSTN can provide deep insights about the economy and has already emerged as a strong statistical aid.
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What are the domains that GST needs to extend into?

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- GST is still a work in progress and the next important step would be to bring the excluded items like “electricity, and petroleum products”, within its ambit.
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- Inclusion of electricity will make Indian manufacturing more competitive by providing for electricity “input tax credits” for manufacturers.
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- On the petroleum front, while it may be difficult to bring diesel and petrol under GST for revenue reasons, aviation turbine fuel is a low-hanging fruit.
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- Bringing it under GST would give the ailing civil aviation industry much-needed relief and it would enhance air connectivity initiatives.
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- Real estate is another major domain that is outside GST, the inclusion of which will clean up the land market and will help in curbing black money.
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Quick Facts:

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Revenue Buoyancy:

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- This is a measure of responsiveness of the taxation regime to the growth

metric of the economy (or GDP).
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- If growth is high, then revenue should increase accordingly, and if there is a recession in the economy, taxation needs to ease.
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- Such buoyancy will act as an automatic stimulus to propel the economy.
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Source: Business Line

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