

Financial Recourse to Kerala Disaster Loss

Why in news?

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At the recent GST Council meet, it was decided to set up a seven-member Group of Ministers to decide on financial recourse to meet Kerala flood disaster loss.

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What are the proposals?

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- The State government proposed to levy Calamity Tax, a special tax or cess to raise additional resources on the State GST component.

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- But the Centre is of the view that it will be operationally difficult to implement.

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- The Centre thus suggests the levy of a small disaster cess for some items across the country for a limited period.

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- The GoM will decide either on levying a disaster cess or allowing Kerala to levy an additional SGST.

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- Both these options are proposed on only a few products and for a short duration.

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What are the limitations?

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- Cesses are supposed to be for a short term and should be removed once the purpose of the levy has been fulfilled.

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- However, in the past, many cesses have continued well beyond their proposed period.

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- There was no evidence to confirm that they were used for the purposes for which they were levied.
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- Taxpayers would also be cess-averse as they cannot claim input tax credit on cesses paid.
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- This distorts the supply chain architecture which GST is supposed to protect.
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- Also, levy of a cess will need a change in laws and the government may need to bring in an ordinance to provide for it.
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- Besides, the constitutional validity of a cess has been challenged in the Supreme Court.
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- So the GST Council has to wait for the verdict before levying it.
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- On the other hand, the additional Kerala SGST levy option has a limited scope.
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- It may not be able to make a substantial contribution to the finances of the state.
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What could be done?

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- Essentially, what is needed is a short-term levy that could contribute a significant sum to the GST kitty.
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- So the e-way bill system could be considered as a tool to garner the funds, through a change in rules and possibly an ordinance.
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- The e-way bill platform has been structured to handle up to 75 lakh e-way bills daily.
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- The GST Council can propose a token fee of Rs. 100 for every e-way bill generated on the portal.
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- Taxpayers will not worry over the lack of input tax credit on an amount of Rs. 100.
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- Assuming that 65 lakh e-way bills are generated daily, the levy of Rs. 100 for four months would yield a revenue of Rs. 7,800 crore which is a significant sum.
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- Nevertheless, the key is to stop the levy once the target has been reached.
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Source: BusinessLine

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