Rationalisation of GST Rates

Why in news?

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Finance Minister recently said that the country is moving towards a single standard rate instead of the current 12% and 18% tax slab.

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What are the proposals?

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- Currently, of the 1,216 commodities which are used, broadly 183 are taxed at zero rate, 308 at 5%, 178 at 12% and 517 at 18%.
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- 28 items, including luxury and sin goods, auto parts, dishwashers, AC and cement remain in the highest slab of 28%.
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- It is now proposed that the 28% tax slab would soon phase out except for luxury or sin goods.
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- The country will eventually have a GST regime with slabs of only zero, 5% and standard rate.
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- The standard rate could be a mid-point between 12% and 18%.
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- Another proposal is to transfer cement (28%) into a lower tax slab.
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- All other building materials have already been transferred from 28% to 18% and 12%.
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- Also, the GST council has cut rates on 23 goods and services in the 31st Council meet held recently.
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- With this latest round of rate reduction, 97.7% of the 1,211 items under the GST now fall in tax slabs of 18% and below.
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Why is it significant?

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- In an effort to shore up revenue collections in the transition to GST, a large number of goods and services were over-taxed.
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- In the case of services, this amounted to an increase over the pre-GST levy of 15%.
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- Hence, the move to arrive at an intermediate rate between 12% and 18% makes sense for businesses and consumers.
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- Removing cement from the 28% bracket will boost the construction industry and the affordable housing programme.
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What are the drawbacks to be addressed?

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- **Council** - Rationalising tax rates on over 200 items since last November or so signals GST Council's responsiveness to stakeholders' representations.
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- However, it needs to be transparent about how it takes such decisions.
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- The Council should frame a policy governing changes in rates, so that it is not seen as susceptible to pressure groups.
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- **Facilitation** - The biggest gap in GST implementation remains the lack of a software solution to ‘invoice matching’.
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- Resultantly, there is no system of verification for tax credits claimed under the form GSTR 3B.
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- So the tax authorities remain suspicious that too much input tax credit is being claimed.
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- Ironically, businesses are harassed as a consequence of a measure that was introduced to ease the conduct of business.
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- **Others** - Claiming input tax credit has become less cumbersome for exporters, but delays persist.

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- Compliance costs for MSMEs have been falling, but slowly.
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- The turnover limit for allowing quarterly returns should be relaxed.
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- Also, it does not help the vast number of MSMEs that GST returns have to be done in English.
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- **IGST** - States continue to complain that IGST proceeds are not coming their way.
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- Some even threaten that they would go back to imposing octroi to make up their shortfall.
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What is to be done?

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- The Council members, both the Centre and the States, should be willing to lower rates.
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- A short-term revenue hit will be offset by gains from improved business activity.
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- Besides, the government should appropriately address the above concerns for a fair GST regime.
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Source: Indian Express, Business Line

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