Analysing the GST Regime

What is the issue?

\n\n

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

\n\n

What does the statistics say?

\n\n

\n
- 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.
\n
- Despite problems of return filing and global headwinds, the promise of better tax compliance and buoyancy is already producing results.
\n
- **Registered Entities -** Prior to GST, about 65 lakh entities were registered with “Central excise, service tax and VAT” in total (without double counting).
\n
- Under GST, registrations now stand at 110 lakhs, which is a 70% increase.
\n
- This happened because smaller units that had the option to opt out (due to low turnovers), voluntarily registered themselves.
\n
- 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.
\n
- 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.
\n

- This is a direct consequence of the complete value chain integration from raw material to retail that GST has ushered in.
\n
- **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.
\n
- This means that the "revenue buoyancy" (explained below) is 1.14 as against the historical buoyancy of indirect taxes of about 0.9.
\n
- 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.
\n
- The gains could still go up if states restructure their commercial tax departments and use data analytics to identify tax gaps.
\n
- Specifically, states like "Punjab, Haryana, Uttarakhand and Jharkhand", which are not familiar with service taxation, need support to enhance collections.
\n

\n\n

What are institutional strengths of GST?

\n\n

\n
- **GST council -** One very significant feature of the GST regime is the institutional robustness demonstrated by the "GST Council".
\n
- Debates in the council have been vigorous, informed and largely free off political partiality.
\n
- This has made it possible for the GST Council to respond promptly to transitional problems faced by trade and industry.
\n
- **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.
\n
- 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.
\n
- These actions argue well for a simpler duty structure in future, that will reduce the number of duty slabs.
\n
- 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.
\n
- **GST Network (GSTN) –** The robustness of GSTN that provides technology support to the GST project is another major success of the regime.
\n
- The data generated by the GSTN can provide deep insights about the economy and has already emerged as a strong statistical aid.
\n

\n\n

What are the domains that GST needs to extend into?

\n\n

\n
- 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.
\n
- Inclusion of electricity will make Indian manufacturing more competitive by providing for electricity “input tax credits” for manufacturers.
\n
- 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.
\n
- Bringing it under GST would give the ailing civil aviation industry much-needed relief and it would enhance air connectivity initiatives.
\n
- 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.
\n

\n\n

\n\n

Quick Facts:

\n\n

Revenue Buoyancy:

\n\n

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

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

\n\n

\n\n

Source: Business Line

\n\n

\n\n

\n

