Covid-19 & GST

Why in news?

Due to the Covid-19 pandemic, the Goods and Services Tax (GST) regime may face its toughest test in 2020-2021.

How is the GST performing?

- Faced with a high benchmark of 14% compound annual growth rate (CAGR), GST was very productive in the first 2 years.
- However, with the economy slowing down in 2019, GST could not remain insulated.
- Barring April 2019, no other month witnessed double-digit growth over.
- Moreover, the months of September, October and March 2019 saw negative figures.

What is the challenge now?

- In 2020-21, the toughest challenge for the GST Council would be to devise **ways to compensate the states**.
- The usual compensation cycle was delayed.
- The situation is not likely to improve anytime soon.
- The collection for the first two months of the current fiscal is at just 46% of 2019-20 levels.
- Clearly, it is time to take measures to prevent the states from slipping into a serious financial crisis.

How this challenge could be overcame?

- **Borrowing** - It would simply be deferring the crisis instead of solving it.
- **Tweaking GST rates** - GST was introduced with rates about 20% lower than the effective tax burden (all existing central and state levies).
- With a tax base of around Rs 60 lakh crore, a 1% increase in the tax rates would yield additional revenue of Rs 60,000 crore.

- **Re-arranging the GST rate structure** - This idea may be considered along with the rate hike, or even independently.
- The current GST rate structure is that 60% or 65% of the total tax on a commodity is the state component and the remaining is the centre's.

- For instance, the 18% GST rate could be 11% SGST and 7% CGST.
- The adjustments in the GST rates would yield additional revenue to the states, thereby bringing down the compensation burden.

Source: The Indian Express