GST Council Meet - Highlights

Why in news?

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- Recently, the GST Council held its 23rd meeting and announced a range of changes with regard to the GST.
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- Click here to know the highlights of earlier GST council meet.
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What are the highlights?

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- **Rates** - The council has placed around 200 items in lower tax bracket than they were originally.
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- This has left only 50 products under the highest 28% slab.
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- **Small business** - The GST Council has come out with a string of deadline relaxations and lowering of penalty for delayed filing of returns.
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- Companies with turnover up to Rs 1.5 crore have been allowed quarterly filing of returns.
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- **Composition scheme** - The immediate increase in the composition limit for small businesses will be Rs 1.5 crore from the earlier Rs 1 Crore, benefitting a wider group.
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- However the maximum composition upto Rs 2 Crore will be made through an amendment in the law.
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- Tax under the composition scheme will now be 1% irrespective of whether they are traders or manufacturers.
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- The scheme has also been opened up for the services sector, but it can be availed of only by those who provide services up to Rs 5 lakh.

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- **E-commerce** - Traders supplying goods from ecommerce platforms will now not be required to register if their turnover is below Rs 20 lakh.
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- This move will ensure a level playing field and bring in parity with their offline peers.
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- **Restaurants** - Earlier there were different tax rates based on whether restaurants were air-conditioned or not.
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- Now, all standalone restaurants will be taxed at 5 %.
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- With this change in the tax rate, restaurants have now been denied the benefit of input tax credit (ITC).
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- Earlier, restaurants were found to be not passing on the benefit of input tax credit to consumers.
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What are the continuing flaws?

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- The recent changes have certainly tackled some debated, controversial provisions.
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- **Structural** - However, they have done little to address the basic design flaws with the GST regime.
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- The rate reductions for a range items will hardly do anything to simplify the complex and complicated structure of taxation in GST.
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- E.g. the non-inclusion of petroleum, real estate and alcohol, as well as the large number of items taxed at 0 percent continues.
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- **High rates** - The above is also one of the reasons why the rates are needed to be kept high.
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- As, it is a well-accepted principle that more items in the tax net allow for lower rates and vice versa.
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- **Items** - Even with the latest changes in tax rates, there seems to be a lack of logic in decision to tax certain items lower than the other.

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- E.g. Marble and certain sanitary fittings that are optional are taxed lower than cement which is a basic requirement for any proper construction.
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- Also, taxing of the same kind of products under different slabs without any proper reasoning continues.
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- **Administrative** - Frequent and piecemeal changes with rates create procedural cost and business uncertainty, and also create scope for lobbying.
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- State finance ministers have little incentive to address the structural problems of GST.
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- This is because the blame for any poor implementation or in other words the whole responsibility lies with the central government.
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- Also, the states don't suffer because even if the flaws lead to revenue loss, they are going to be compensated for the first five years.
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- The complicated rate structure persists also due to the fact that every state has its own pet products/service that it wants either exempted or taxed at a lower rate.
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What lies ahead?

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- The economy may get an overall boost from the likely consumption boost and possibly witness a better tax compliance.
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- But for a sustainable transformation, India needs to move towards a two-slab structure and the reductions if any in future will have to be a step in that direction.
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- The Council must institute a transparent system with an explicit rationale for any rate changes in the future.
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- It is also suggested to have an annual review of GST rates instead of the ongoing frequent changes.
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- This is provided that any decision so taken will have to be a well thought out and logical one.

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- Also, the political dominance should be reduced, and outside experts should be involved in any attempt to fix the fundamental/structural flaws in the GST.
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Quick Fact

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Composition scheme

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- Firms under the composition scheme can pay tax at a low 1-2% and file 4 returns a year unlike the regular 18% and 37 returns a year.
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- In the earlier meet, the threshold of annual aggregate turnover was raised from Rs. 75 lacs to Rs. 1 crore.
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Source: Economic Times, FirstPost

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