GST Reform

Why in news?

As GST turns five, its metamorphosis into a truly Good and Simple Tax needs greater Centre-States dialogue.

What is GST?

- Any tax that is presently being levied by the Central or State Government on the supply of goods or services is going to be converged into GST.
- GST is proposed to be a dual levy where the Central Government will levy and collect Central GST (CGST) and the State will levy and collect State GST (SGST) on intra-state supply of goods or services.
- The Centre will also levy and collect Integrated GST (IGST) on inter-state supply of goods or services.
- In order to implement the tax reform, Constitutional (122nd Amendment) Bill was introduced in the Parliament and came into effect from July 1, 2017.
- **Significance**
    - This tax reform will lead to creation of a single national market, common tax base and common tax laws for the Centre and States.
    - The input tax credit will be available at every stage of supply for the tax paid at the earlier stage of supply mitigating the cascading or double taxation in a major way.
    - Extensive use of Information Technology [through Goods and Services Tax Network (GSTN)] will lead to greater transparency in tax burden, accountability of the tax administrations and improve compliance levels.
    - Introduction of GST would instantly spur economic growth and can potentially lead to additional GDP growth in the range of 1% to 2%.

What is GST Council?

- As per **Article 279A**, the GST Council which will be a joint forum of the Centre and the States, shall consist of the following members:
    - Union Finance Minister - Chairperson
    - The Union Minister of State, in-charge of Revenue of finance - Member
    - The Minister In-charge of finance or taxation or any other Minister nominated by each State Government - Members
- As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like exemptions from GST, model GST Laws, etc.

What are the key takeaways from the recent 47th GST Council meeting?

The goods and services tax collection was above ₹1 lakh crore mark for the 11th month running in May, offering a big reprieve to the central government.

- **Small online sellers-** From January 1, 2023, online sellers with an annual turnover of Rs 40 lakh or Rs 20 lakh (in case of small and select states) will be exempt from mandatory registration under GST.
- Currently, small offline sellers are exempted from compulsory registration.
- **Valuation of taxation**- While reports suggested that there could be a 28% GST on online gaming, casinos and horse racing, treating them on par with gambling, the council decided to further deliberate on the tax rate and the method of valuation of taxation on such services.
- **Rationalization of tax rates**- The council has not taken up the issue and a ministerial panel has been given three month time to submit its report.
- Compensation to states- The Centre's decision to compensate the states for any loss of revenue from the new tax for five years ends on June 30.
- Several states have been demanding extension of GST compensation, citing two years of pandemic but the GST Council did not take any call on it.
- **Correcting the inverted duty structure**- The council has also accepted the recommendation by the group of ministers on correcting the inverted duty structure.
    - For instance, LED lamps, ink, knives, blades, power-driven pumps, and dairy machinery will attract 18% GST, higher than the existing 12%.
- **Withdrawing tax exemptions**- The GST council has proposed to withdraw tax exemptions for few items along with rate changes for few others.
- **Reduced GST**- It gave relief to the transport sector as it slashed rates on transport by ropeways and renting of truck/goods carriage where cost of fuel is included.
- **E-way bill regime**- On whether to bring movement of gold and precious stones under the e-way bill regime, the council has allowed states to decide on the threshold above which e-way bill can be generated.
- **Ministerial panel**- The GST council has also decided to set up a ministerial panel to address various concerns raised by the states on the GST appellate tribunal.

What can be inferred from the recent meeting?

- **Constructive deliberations**- The deliberations were constructive, especially amid the brewing trust deficit between the Centre and States in the past few meetings and the prolonged pause since it last met.
- **No reference to SC order**- Not a single member raised the recent Supreme Court order that some States believed had upheld their rights against 'arbitrary imposition' of the Centre's decisions in the Council.
- **Not driven by party whips**- Even Ministers from BJP-ruled States spoke up to seek the continuance of GST Compensation for some years thus enriching the quality of dialogue and outcomes.
- **Heard by Centre**- The Centre heard them out and left the issue open, unlike the last Council meet when its response was akin to an outright 'No'.

References

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