GST Reforms

Why in news?

The Centre said it has released States' outstanding GST compensation dues of almost Rs. 87,000 crore.

What is GST?

- GST is an indirect tax for the whole nation, which will make India one unified common market.
- It is a single tax on the supply of goods and services, right from the manufacturer to the consumer.
- It is a destination based tax which will be collected at the state where the goods are sold instead of the manufacturing states.
- The 101st Constitution Amendment Act, 2016, introduced GST in India which was implemented from 1st July 2017.
- The GST council is devised in such a way that the centre will have 1/3rd voting power and the states will have 2/3rd and the decisions were taken by 3/4th majority.

Article 246A – *States have power to tax goods and services***.**

Article 279A *- GST Council to be formed by the President to administer & govern GST. Its Chairman is Union Finance Minister of India with ministers nominated by the state governments as its members.*

To know more about GST, click here

What does the Centre's move indicate?

- The move marks a shift in stance as the Finance Ministry had earlier signalled that States' dues pending for the last four months of 2021-22, will be released as and when adequate GST compensation cess collections accrue.
- By May 31, the Centre said there was about Rs. 25,000 crore in the GST compensation fund and forked out the balance from its own coffers to be adjusted from future GST cess levies on sin goods.
- The stated intent for this changed strategy is to help States manage their resources and ensure spending.
- The gesture to remit dues without waiting for cess accruals will also help cool the temperature of the Centre-States' fiscal parleys.
- For consumers, this could mean a further extension in the levy of GST compensation cess beyond March 2026.

What are the possible implications of the move?

- For consumers, this could mean a further extension in the levy of GST compensation cess beyond March 2026.
- The important implication is that over April and May, the gap between revenues and the assured level promised to States under the GST compensation compact has narrowed to less than Rs. 5,000 crore a month.
- The elephant in the room remains ignored i.e. high inflation which was hinted by the Government.

What has to be done?

- The government must acknowledge the high inflation and assess the level of economic activity.
- The GST Council can take a more nuanced call on the next steps to reform the GST system and sustain revenues.
- There must be an assessment whether the GST rate restructuring should be deferred or reoriented to lower inflation.

Reference

1. https://www.thehindu.com/opinion/editorial/a-critical-juncture-the-hindu-editorial-on-gst-reforms/article65488129.ece

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