

Proposed Structure of GST

Why in news?

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- The new rates of GST are not inflationary.

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- The Council should fix lower rates for textiles and stiff rates for gold when it meets next.

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What is the background of the issue?

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- The GST Council has finalised the rates for almost all the commodities, as well as the rates for services.

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- The Council has approved five-tier structural rates 0, 5, 12, 18 and 28% for both goods and services.

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- One message that emerges clearly is that the broad rate structure especially on the goods side, far from being inflationary, may encourage a downward movement in prices.

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- This combined with already low levels of CPI inflation and strengthening of the rupee provides space for a looser monetary policy regime.

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- This will afford considerable relief to the private corporate sector and stimulate private investment.

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What are the Interesting decisions taken by GST?

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- The GST council has approved a levy of 5% GST on unmanufactured tobacco in the hands of the purchaser.
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- This is an important measure as it recognises that from the health point of view, all tobacco needs to be treated uniformly for tax purposes without discriminating between product categories.
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- The measure will also bring in discipline in the tobacco auction market and create an audit trail of transactions which will reduce non-compliance in sectors such as bidi, chewing tobacco and cigarettes.
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- It may also bring in much needed revenue to the extent it finds use in the exempted product category.
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- Other decision was fixing a duty rate of 12% for works contract relating to construction of residential/commercial buildings when the full value of the land is included in the taxable base.
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- Full input duty credit has been allowed whereas previously no credit was given on input goods.
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- This will bring the full value chain in the real estate segment within the GST which until now was restricted only up to the construction stage.
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- It will remove the present artificial distinction in services taxation between works contract and services rendered in relation to construction of residential/commercial buildings.
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- This will help clean up the land market and reduce the generation of black money income by bringing in greater transparency in transactions.
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What are the decisions on gold and textiles?

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- The Government's Jan Dan Yojana has given the poor greater access to credit, and their financial inclusion will make gold less attractive.
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- For all these reasons, this is probably the appropriate time to raise the duty on gold and gold jewellery to at least 5%, if not more.
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- This is only the headline rate and the effective rate may be lower if

embedded credits of taxes in the supply chain are available post GST.

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- Regarding textiles, a great opportunity presents itself to clear up the multiplicity of rates.

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- A uniformly low rate of duty of, say, 5% across the value chain would remove the existing distortions and allow the rapid growth of the sector.

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- The textile industry is a good example of how wrong policies adversely affected the growth of the sector.

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- An opportunity presents textile sector for simplifying and lowering the rates and maintaining fibre neutrality.

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What is the way forward?

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- Historical experience shows us that indirect taxes are not a good instrument for achieving socio-economic objectives

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- The best way to ensure that the well-to-do contribute their share to tax revenues is by bringing them into the tax-net and subjecting income tax payees to a graded tax system based on income.

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- The recently created 'Tax Policy Research Group' is probably well placed to look at the relative roles of direct and indirect tax revenues in the macro-economic scenario.

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- The conventional wisdom has been that goods consumed by the rich should be taxed higher than goods consumed by the poor. While this argument appears attractive on the surface, in fact it may have an adverse effect as many of the products consumed by the rich are produced by the poor.

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- There is no doubt GST is a transformational tax reform and a fine example of the concept of pooled sovereignty.

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- A good GST can become a great GST with some additional policy measures.

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Source: The Hindu

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