Rationalisation of GST Rates

Why in news?

Rationalisation of GST rates should wait until the threat to inflation abates.

What is GST?

- GST is an indirect tax for the whole nation applied on the supply of goods and services, right from the manufacturer to the consumer.
- It is a destination based tax i.e will be collected at the state where the goods are sold instead of the manufacturing states.
- In India, GST Council was established by Constitutional (101st Amendment) Act, 2016.
- The provisions are -

1. Central GST to cover Excise duty, Service tax etc, State GST to cover VAT, luxury tax etc.
2. Integrated GST to cover inter-state trade. IGST per se is not a tax but a system to co-ordinate state and union taxex.
3. **Article 246A –** States have power to tax goods and services.
4. **Article 279A** - GST Council to be formed by The President to administer & govern GST. It's Chairman is Union Finance Minister of India with ministers nominated by the state governments as its members.
5. The council is devised in such a way that the centre will have 1/3rd voting power and the states will have 2/3rd.
6. The decisions will be taken by 3/4th majority.

- **Exemptions**

  - Custom duty will be still collected along with the levy of IGST on imported goods.
  - Petroleum and tobacco products are currently exempted.
  - Excise duty on liquor, stamp duty and electricity taxes are also exempted.

To know more about GST, click here

What is the need for rate rationalization?

- The aim of rate rationalisation should be to simplify the GST rate structure and not to garner additional revenues for the government.
- One of the stated objectives of the GoM is to review current tax slabs and recommend changes which will lead to higher revenue.
- A lower Revenue Neutral Rate (RNR) of GST shows that the indirect tax burden on taxpayers has moved lower over the last four years.
- Despite the reduction in rates, growth in GST collections has been the highest ever in 2021-22.
- The higher collections prove that the reductions in rates have helped tax collections and the government is at an ideal point in the Laffer Curve.

The Laffer Curve is a theory formalized by economist Arthur Laffer to show the relationship between tax rates and the amount of tax revenue collected by governments.

- **Concerns**- Tampering with the exempt list of essential items of daily consumption used by the economically backward will be far from ideal at a time when the less privileged section is yet to recover from the impact of the pandemic.
- The concern being raised about the revenue neutral rate of GST moving lower from 15.3 % to 11.6% also appears misplaced.

Why is rationalisation of GST rates difficult?

- Implementing any change to GST rates will not be an easy task, given the opposing impact of such rate changes being felt on different industries.
- This was evident when the Council attempted to address the inverted duties in the textile sector.
- The changes proposed by the Council were not acceptable to some stakeholders and had to be rolled back.
- The Council has to be careful about not adding any inflationary burden on the economy, especially at a time when crude oil and other commodity prices are hitting the roof.

What are the steps taken by the government regarding GST?

- Streamlining the GST return filing mechanism
- Implementing e-invoicing
- Gradually moving towards invoice matching
- Greater surveillance and containment of fake invoices and shell companies

Reference

1. https://www.thehindubusinessline.com/opinion/editorial/not-now/article65207823.ece

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