Tweaking the GST Module

What is the issue?

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- The complexity of the GST process is hindering collections and diminishing potential economic benefits.
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- Certain reforms are needed to make the overall tax regime better.
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What are the recent trends in GST collections?

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- A member of the GST Council estimated a “shortfall” in the April-June quarter of this year at Rs. 43,000 crore, which is a cause for concern.
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- Further, lower number of returns have been filed under the Central GST (CGST), compared to the number filed under the State GST (SGST).
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- As both SGST and the CGST are applied at the same rate on the identical tax base, their revenue streams should’ve ideally been equal.
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- But the former has been yielding more revenue than the later consistently over the past several months, which is indicative of a lapse.
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- Also, since the beginning of this financial year (April), both CGST and SGST collections dropped and Integrated GST (IGST) collections are going up.
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What are the issues plaguing the current setup?

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- Insecure about loss of fiscal autonomy, the States succeeded in pressing a

GST that is made of two types of levies, the CGST and the SGST.
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- The GST is being levied at the point of consumption, not the factory gate, unlike many of the levies it had subsumed.
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- Given the limited territorial jurisdictions of States, the collection of the SGST poses a problem every time goods and services get sold outside its borders.
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- The solution that has been worked out to overcome this problem is the “Integrated GST”, which is imposed on inter-State sales.
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- Currently, an IGST alone that is equal to the total of CGST & SGST is levied for inter-state trade, and makes a clumsy apparatus for accounting.
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- Notably, even the exporters who are zero rated for tax actually pay IGST and then get their refunds later.
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What is the way ahead?

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- The recommendation for introducing a GST had first come in 2004 from a task force formed by the Vajpayee government under economist Vijay Kelkar.
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- The Modi government has consulted Mr. Kelkar on the GST, but has not accepted his recommendations on an alternative IGST system.
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- By these, the IGST would be simplified as a substitute for SGST in inter-State supplies, and exporters, will not be subjected to the IGST.
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- Here, it is to be noted that Collections are not necessarily proof of the success or failure of an indirect tax and it is more about its economic spill-over.
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- The complexity of the GST is making compliance difficult and is diminishing the potential benefits, which needs to be fixed.
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Source: The Hindu

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