Syllabus subtopic: Government policies and interventions for development in various sectors and issues arising out of their design and implementation

Prelims focus: about GST, GST Council

Mains Focus: About various challenges in implementing GST, Concerns raised by the states and govt’s efforts to address them.

News: As talks of a hike in goods and services tax (GST) rates gain momentum, there is a sense of disquiet among states regarding any major tinkering of the slabs, especially the lower tax slab and exempted items. The Council meeting of December 18, coming in the backdrop of the Centre’s struggles on the revenue side sets the stage to reverse the direction of rate cuts.

About the issue

The emerging view is that revenue gain from any such rate hike has to be substantial and not cause inconvenience to the common man, though they are of the view that ways need to be found to narrow the widening revenue gap.

Concerns raised and Suggestions by the States

- Knee-jerk reactions such as a cut in GST rates before elections and a hike in rates in times of revenue slowdown are not needed and GST needs to be looked afresh and a “holistic overview” needs to be taken.

- The scope to increase rates is very “limited”, especially of exempted items and 5 per cent slab. Making changes in the lower slab of 5 per cent is not going to yield much revenue. This is a sensitive issue and all states need to be on board. It is to be seen what will help in raising revenues without hurting the sentiment of the common man. Every state would want that revenues should also go up, tax compliance improves and cess pool also improves.

- Raising tax rates in times of slowdown has a repercussion and maybe the states could consider bringing in more items under the ambit of cess or increase cess rates for existing items. Not much scope to raise cess on automobiles, but maybe it can be increased for aerated drinks, tobacco.

- The revenue gap has to be filled; it’s not related to one state, every state wants compensation at 14 per cent. How to do it, what can be done, this is a difficult exercise.
Any such rate change exercise needs to be done slowly, with due inputs from officers and ministers of all states and after a thorough perusal by the fitment committee.

States are of the view that hardly any luxurious or high-end items are there in the list of exempted items at present, so taking out items from that list may not be feasible.

Also, a merger of 12 per cent and 18 per cent slabs may not result in revenue gain on a net basis.

Kerala FM Thomas Isaac has spoken against tweaking rates for lower slabs and suggested tinkering with items in the higher slabs of 18 per cent and 28 per cent. “In the last GST Council meeting Union FC (Finance Commission) Chairman suggested states should revisit the compensation package in the context of decline in tax collection. All state ministers irrespective of politics rejected it. Now Centre is bringing it back to the agenda by forcing a dispute,” he tweeted.

Present scenario

Over 50 per cent of the total items are under the 18 per cent slab under GST, around 20 per cent are in the 12 per cent slab and about 23 per cent of the items are in the lower slab of 5 per cent. 25 per cent of the items are in the peak 28 per cent slab, while 13 per cent of the items are in the zero category.

So far, the GST Council, since the GST rollout from July 1, 2017, has held 19 meetings in which it has undertaken around 10 rounds of rate cuts. Any rate hike decision would be the first such move under the indirect tax regime.

About GST Council

The Goods and Services Tax (GST) is governed by the GST Council. Article 279 (1) of the amended Indian Constitution states that the GST Council has to be constituted by the President within 60 days of the commencement of the Article 279A.

According to the article, GST Council will be a joint forum for the Centre and the States. It consists of the following members:

1. The Union Finance Minister will be the Chairperson
2. As a member, the Union Minister of State will be in charge of Revenue of Finance
3. The Minister in charge of finance or taxation or any other Minister nominated by each State government, as members.

Note: For an in-depth analysis about GST and other issues related to it, click on the link below: