News: GST Council, the federal indirect tax body, is set to make changes in tax rates of goods and services a yearly affair, moving away from frequent rate revisions to remove ‘uncertainty’ for businesses and the government.

Reason behind the move

Rate revision every three months brings in uncertainty. Frequent changes in GST rates have led to an inverted duty structure, where the raw materials ended up becoming costlier than the finished product, in some cases which also created problems with tax refunds.

Impact of frequent GST rate revisions

- When the rate of tax of one item is brought down, a whole lot of other ripple effects are created. With that ripple effect, refund is affected.
- As a result, businesses claimed that they are not able to plan how much they need to keep aside for taxation in a whole year. Similarly, governments (states and Centre) are not able to make an assessment of what they will earn from GST in the whole year.

Benefits

- Yearly revision of rates is a great approach as rates will be stable for at least a year and as a result it will be less cumbersome for businesses as they will not have to track rates after every GST Council meeting.
- However, there could be problem in case there is any urgent need to revise rate or fix anomalies.
Background

- This is the first time that the Centre has spoken about going slow with the frequency of GST rate cuts. There have been more than half a dozen rounds of rate cuts since the implementation of GST from 1 July 2017, which also impacted the Centre’s revenue. Besides, being a sensitive issue, rate cuts would often snowball into a political issue, putting pressure on government to revise rate, ahead of the elections.

- In December 2019, Finance Minister who also heads the GST Council said the government is working on streamlining the GST regime to eventually have three slabs.

- Currently, there are four key tax slabs—5%, 12%, 18% and 28%. Besides, there have also been discussions on increasing tax rates on some items. However, in the last meeting in December 2019, the Council abstained from raising rates, after official data showed that consumer goods output had shrunk 18% in October, its fifth straight month of contraction. Several state ministers also said the time was not right for raising GST rates.

Inverted Tax Structure in the GST regime

The term ‘Inverted Tax Structure’ refers to a situation where the rate of tax on inputs purchased (i.e. GST Rate paid on inputs received) is more than the rate of tax (i.e. GST Rate Payable on outward supplies) on outward supplies.

Refund in case of Inverted Duty Structure under GST

A registered person may claim a refund of unutilized ITC (Input tax credit) on account of Inverted Duty Structure at the end of any tax period where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies.

Exceptions where refund of unutilized input tax credit shall not be allowed in these cases:
1. Output supplies are nil rated or fully exempt supplies except supplies of
goods or services or both as may be notified by the Government on the
recommendations of the Council.
2. If the goods exported out of India are subject to export duty.
3. If supplier claims refund of output tax paid under IGST Act.
4. If the supplier avails duty drawback or refund of IGST on such supplies.

**Tax period:** A tax period is a period for which return is required to be furnished.