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PAUSE, REFRESH: ON THE GST COUNCIL'S FOCUS ON MSMES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Taxation & Black Money

The Goods and Services Tax Council met last Saturday for the second time within a fortnight. However, this time it refrained from further rate rejigs. While the new indirect tax regime has expanded India's tax base and brought more firms into the formal economy, revenues have slipped somewhat after peaking at 1.03 lakh crore in April (for taxes accrued in March) this year. The first three months of this financial year have yielded 94,016 crore, 95,610 crore and 96,483 crore, respectively — this is well short of the 1.lakh crore revenue target a month for 2018-19. The steep rate cuts effected on several items in the last Council meeting were to kick in from July 27, so their full impact on revenue collections may take more time to unfold. Moody's Investors Service reckons that the revenue loss from the most recent tax cuts may be 0.04-0.08% of GDP annually. This is marginal at best, and could be offset by stronger consumption-led growth and better tax compliance. But it is in this context of revenue concerns that the Council's dedicated focus at its latest meeting on issues facing micro, small and medium enterprises (MSMEs) is a creditable move.

Setting up a ministerial group to look into the problems faced by MSMEs since India moved to the GST regime last July is a signal that the government is not brushing aside the implementation issues that still trouble smaller players. Firms with an annual turnover of less than 5 crore constitute 93% of the registered taxpayers under the GST. At its previous meeting, the Council had decided that such businesses need no longer file cumbersome returns every month, but only on a quarterly basis. There may be more room for the ministerial panel to recommend further easing of compliance for micro firms with turnover far below 5 crore and enhancing the 50,000 threshold for mandatory use of e-way bills to track movement of taxable goods. A deeper dive to understand why 1.7 million taxpayers had registered under the GST by December 2017 although their operations were below the taxable limit could also yield some pointers. The Council meeting has also, wisely, returned to a consensual approach on decisions. While a few States had reservations about the rate cuts at the last meeting, this time their concerns on a proposal to push digital payments by offering a cash-back to consumers using RuPay cards or the UPI platform have been incorporated. Now, States will volunteer to run a pilot on these lines and a final decision will be taken after a detailed system-wide evaluation of such incentives. This indicates the Centre's keenness to retain a cooperative approach with States that has generally marked the Council's functioning.

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