Stimulus mode: on GST rate cuts

Unveiling a mini-Budget of sorts in the middle of the financial year, the Goods and Services Tax Council has announced a **reduction in the tax rates** for over 85 goods. The applicable indirect tax rates on consumer durables such as television sets, washing machines and refrigerators, along with a dozen other products, have been slashed from 28% to 18%. The tax rate on environmentally friendly fuel cell vehicles has been reduced from 28% to 12%, and the compensation cess levied on them dropped. This leaves just about 35 products, including tobacco, automobiles and cement, in the highest tax slab of the GST structure. Rakhis without semi-precious stones, as well as sanitary napkins that attracted 12% GST, have been exempted from the tax altogether. Several other products have been placed in lower tax slabs, including those from employment-intensive sectors such as carpets and handicrafts. On the services front, too, there are important tweaks and clarifications. Overall, industry and consumers may consider these rate cuts, largely on products and services of mass use, as a stimulus to drive consumption ahead of the festive season. It is also a sign that the government has begun the groundwork to woo voters ahead of State and parliamentary elections.

Whichever way one looks at it, the GST Council's 28th meeting has significantly altered the course of the nearly 13-month-old tax regime. Given that GST rates on more than 200 items were already tweaked in past meetings, the original rate structure has been upended to a great extent. The actual impact of these changes on product prices and consumption demand will be visible soon, but the government's confidence in such a rate reduction gambit indicates it is now comfortable with revenue yields from the GST. Estimates of revenue losses from these rate cuts vary widely, but it's too early to fret about the impact on macro fiscal numbers. If implemented well, the revenue lost could be offset by higher consumption that may lead to more investments over time. Moreover, improvements in compliance can be expected from the Council's decision to further simplify paperwork for small and medium enterprises. But there are two major concerns. First, since the new rates are to kick in from July 27, companies may not have enough time to rework pricing strategies and replace existing market inventory, failing which they could face anti-profiteering action. Second, members of the Council have for the first time questioned its functioning and alleged that not all of the changes and rate cuts were placed on the agenda. For a tricky tax that is still a work in progress, distrust between the Centre and the States would make further rationalisation difficult. Such friction must be avoided in a system in which the States have so far worked in tandem with the Centre.

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