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THE RATE RESET: THE HINDU EDITORIAL ON SLASHING GST SLABS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Since its onset in 2017, the GST regime to subsume multiple State and Central levies was criticised for far too many tax rates that were amenable to creating complications instead of simplifying taxation. The Government had hinted that rates could be reviewed once the system stabilised. Now, with GST in its fifth year, the Government has assessed it is about time to consider a reboot, partly because revenues are falling short of expectations, despite healthy monthly collections. Next month, a Group of Ministers set up by the GST Council is expected to propose changes, including merging slabs, with a road map for immediate, short- and medium-term changes. This mandate marked an expansion of its initially stated task of rationalising tax rates to bolster revenues. To recap, there are eight effective GST rates, including zero on essential goods, standard rates of 5%, 12% and 18% for most goods and services, and a 28% tax plus GST Compensation Cess on sin or demerit goods. Special low rates are specified for jewellery, precious stones and supplies to exporters.

The effective tax rate under GST has slipped from the original revenue-neutral rate of 15.5% to 11.6%, which Finance Minister Nirmala Sitharaman said occurred due to rate cuts effected across categories since 2017. Quite a few stemmed from the GST's hasty beginning and errors in the initial rate-setting. The Council continues to resolve genuine hardships this created for industry segments, but the constant tweaks have also altered the original revenue dynamics envisaged. The 18% tax rate, levied even on insurance premium payments, now accounts for the largest taxable turnover, as a National Institute of Public Finance and Policy (NIPFP) paper points out. Reducing the 18% rate or merging it with the 12% slab will thus entail revenue losses that would have to be offset by hikes in the lowest and/or highest rates. The NIPFP has suggested a structure of 8%, 15% and a 30% rate for sin goods, to protect revenue concerns while minimising the need for a sharp hike at either end of the spectrum and leaving special rates untouched. This may be less contentious than raising rates on bullion, reportedly proposed to the GoM, which could only spur tax evasion. Sequencing the implementation of new rates and avoiding far-too-frequent rethinks would be critical to minimise disruptions and engender investor confidence. The Council must also urgently address data limitations flagged by the NIPFP. For several months this year, the Government did not reveal returns filed by taxpayers even as it claimed GST collections reflect recovery and improved compliance. Also, many GST rate cuts that triggered the current resource worries were aimed at pandering to regional considerations ahead of critical elections. With key State polls soon, the Government's resolve to carry out a hard reset on GST rates now may be tested.

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