GST Council in a dilemma as demand for rate cuts grows

SHISHIR SINHA
New Delhi, August 24

Ahead of GST Council meetings on August 27 and September 19, there is growing demand for tax rate cuts on a variety of items, ranging from automobiles to aerated drinks and handicrafts to hotel tariffs.

While the GST Council is expected to consider correcting the inverted duty structures for sectors such as textiles, officials say rate cuts, even for select sectors, may prove challenging. Experts are also not sure if a rate cut will boost demand.

The August 27 meeting has a single-point agenda — meeting the compensation requirements of States hit by revenue loss. On September 19, various proposals, including rate rationalisation and ways to boost revenues, will be taken up.

Tough balance
The meetings come at a time when GST collections have been slipping year-on-year: 28 per cent in April, 62 per cent in May, 91 per cent in June, and 86 per cent in July. Any proposal to lower rates, even for a brief period, will mean compromising on the revenue even more, said officials.

Concurs Parag Mehta, Partner at NA Shah Associates, saying that a rate rationalisation will prove onerous for the Centre amid plunging demand and GST collections.

“It is a Catch-22 situation for the authorities. If there is a rate rejig, collections will fall, and if the rates are not rationalised, it will be difficult for many industries to survive,” said Mehta.

“Even if the GST Council decides to offer a rate cut, it may set the expectation that the new rates will continue going forward,” said Nirmal Singh, Partner at Nangia Andersen LLP. “This can pose a different challenge to the Council in increasing the collection post return to normalcy.”

Demand angle
Is there any evidence to suggest that a rate cut will lead to a boost in demand?

Mehta doesn’t think so. A rate cut will reduce the price of a product by 5-10 per cent, but the balance 90-95 per cent will still have to be paid by consumers wary of spending, particularly on non-essentials. However, “in the current scenario, the government will have to take a chance by cutting GST rates and hope this will boost demand,” he added.

Singh said various factors, such as a reduction in spending power due to job losses/pay cuts, and a tendency to hold on to money in difficult times, also slowed economic growth.