GST regime may undergo 2 major reforms this year

IN THE OFFING Three slab rates instead of four; correcting duty distortions for some sectors

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NEW DELHI: The Goods and Services Tax (GST) regime is expected to see two major reforms in its fourth year—rationalisation of tax rates based on prudence rather than political considerations, and further easing of compliance—people aware of the matter said.

The people said three-slab GST rates instead of four could be considered—8%, 18%, and 28% in place of current slabs of 5%, 12%, 18%, and 28%. They said the GST Council is also considering correcting duty distortions for sectors like textile, furniture, and fertiliser, where taxes on inputs are more than the finished goods.

“Both the reduction in tax slabs and correction of inverted duty structure would lead to both increase and decrease in tax rates of some items. As the economy is still recovering from the lockdown, the council may take a decision on rate rationalisation so that both businesses and consumers would not be adversely affected. Ease of compliance is an ongoing process and it would continue,” one of the persons said on condition of anonymity.

GST was launched in 2017 as India’s biggest-ever tax reform to replace more than a dozen federal and state levies. Officials said it has stabilised with a robust system; 10 million GST returns are filed and almost 1 trillion crore is collected monthly. They added the time has come to fine-tune it so that tax collection increases and the system is more accessible for taxpayers. “The matters will, however, be decided by the GST Council,” the person said.

The Union finance minister-led GST Council is an apex federal body that decides all matters related to the indirect tax. State finance ministers are the council’s members and its decisions have conventionally been unanimous. Experts, businesses, and some council members have said GST appeared to be complicated for the taxpayers even three years after it was introduced.

West Bengal finance minister Amit Mitra on Wednesday told CNBC TV18 that it was difficult for a common businessman to comply with GST as about 140 circulars and 161 forms related to it have been issued in three years. He added they have 24 returns to fill. Mitra’s comments coincided with GST’s third anniversary.

A second person cited above said the indirect tax reform was massive that brought uniform structure after merging a plethora of local levies. “It is the ease of compliance for taxpayers. Yes, it is a dynamic system that is constantly improving. Therefore, [there is a] need to issue circulars, which are issued as per the direction of the GST council. Hence, no state member should say that the decision was imposed on them,” the person said, requesting anonymity.

“In fact, everything pertaining to GST is an outcome of collective decisions. Therefore, the responsibilities are also shared. Even West Bengal has issued 127 circulars. In one of the council meetings, it was decided that states will also issue circulars similar to the Centre. So whenever a circular is issued, the Centre shares it with them.” The finance ministry did not respond to queries related to the matter.

Commenting on the third anniversary of GST, Abhishek Jain, a tax partner at consultancy firm EY India, said the government has achieved two basic objectives—uniformity and elimination of cascading impact of taxes.

Mahesh Jaising, a partner at Deloitte India, said, “Starting with the fourth year of GST, the regime now embarks on the next phase of maturity. The largely faceless, contactless, and cashless indirect tax regime has been a classic example of how technology-driven policy or system makes a regime effective and efficient,” said Jaising.

“It is paramount that a more simplified assessment and audit framework emerges, as we move to the phase of tax audits by tax authorities. We expect a fine relook into the categorisation of commodities and GST rate rationalisation to meet the challenges arising out of the new economic order or say, the new normal,” he said.