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SEPT 17 MEETING

Council to decide on GST aid for states beyond June 2022

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New Delhi, September 2

THE GOODS AND Service Tax (GST) Council will meet in Lucknow on September 17 to sort out the vexatious issue of whether and how to compensate states for any 'revenue shortfall' beyond June 2022, when the current such mechanism is designed to end.

According to sources, the all-powerful Centre-state council will also deliberate on the ways to boost revenues, amid a realisation that the average GST rate being much lower than the rate of assorted taxes that were replaced by the comprehensive indirect tax, is one reason why GST hasn't yielded the projected revenue growth.

The Lucknow session, which will be the first physical meeting of the Council after a gap of nearly one-and-a-half years, will also take a call on whether GST concessions for various Covid medicines and related medical equipment, which are to be valid till September 30, should be extended.

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The sources said the Council will likely debate on the 'streamlining' of GST rates correcting and inverted duty structures. Tightening of anti-evasion measures is also on the agenda as such initiatives, including the steps taken to bust the rackets cornering undue tax credits, have indeed borne fruit (despite the economic turmoil, GST revenues crossed the ₹1-lakh-crore mark for several months in a row till August 2021 (except in June).

The Union finance ministry will present various possible scenarios to state finance ministers regarding the compensation mechanism wit the pros and cons of each. Opposition-ruled states have been demanding that the assured compensation mechanism be continued for another five years from June 2022.

"A lot of things have been reset because of two years of unexpected macro risk and failure. I join with other states in the notion that the period of compensation should extend," Tamil Nadu finance minister Palanivel Thiaga Rajan said recently.

The Union government officials are of the view that dependence on the cess or borrowings to bridge the revenue shortfall might not be the right way forward. Union revenue secretary Tarun Bajaj has recently said that out-of-the-box thinking is needed to boost revenues.

It will take two-three years to repay the ₹1.1 lakh crore already borrowed by the Centre in FY21 to bridge the shortfall in the designated cess funds and another about ₹1.58 lakh crore is to be borrowed in FY22, to compensate states for the shortfall in assured GST revenues. These loans are to be repaid via cess proceeds. The cesses on demerit goods are being used for compensating states for revenue shortfall against the guaranteed annual growth of 14%. An extension of assured compensation mechanism might lead to fresh borrowings, creating additional liabilities requiring imposition of cess for much longer periods, hike in cess rates and/or imposition of cesses on more goods.

The basic issue is the structural infirmities of GST as introduced in July 2017. Auto fuels, alcohol for human consumption and assorted other items were kept out of the regime.

While the weighted average rate was significantly below the revenue-neutral rate estimated of 15.3% to start with, a series of rate cuts by the GST Council, including those aimed at boosting consumption and faltering economic growth, and the failure in plugging revenue leakages, widened the gap.

The weighted average GST rate at present is seen at around 11.5%.

Earlier, the fitment panel of the Council had recommended continuation of the process of correcting inverted rate structures that dented the government revenue. The proposal to correct the inversions in regard to GST rates on footwear, ready made garments and fabrics and their inputs such as man-made fibres and yarns, would likely be taken up.

Punjab finance minister Manpreet Singh Badal had earlier suggested to harmonise tax rates and exemptions so that opportunities of evasions are eliminated and tax credit chain simplified. Badal had also said discussions in the GST Council should take place on floor and band of rates within which states might be allowed to fix their respective SGST rates after June 2022.

On May 26, a group of ministers (GoM), led by Odisha finance minister Niranjan Pujari, was set up to examine the feasibility of levying GST on products such as pan masala and gutkha on the basis of the installed manufacturing capacity, rather than actual production/sales to check tax evasion.

The GST Council will also review the GST collection. The gross GST collections came in at ₹1.12 lakh crore in August (largely July transactions), up 30% on year but down 3.8% on month, signalling an ongoing economic recovery but suggesting that activities aren't picking up evenly across sectors. GST collections, after posting above ₹1-lakh-crore mark for eight months in a row, had dropped below ₹1 lakh crore in June 2021 due to the second wave of Covid-19.

Closer monitoring against fake-billing, deep data analytics using data from multiple sources including GST, income tax and customs IT systems and effective tax administration have also contributed to the steady increase in tax revenue over last few months. GST authorities have booked about 8,000 cases involving fake ITC of over ₹35,000 crore in FY21 alone.