

It's been four roller-coaster years of GST

The Goods and Services Tax should be a 'good and simple tax', eschewing multiple rates

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It has been four years since the Goods and Services Tax regime was launched. The indirect tax reform was initiated by then Finance minister VP Singh with the introduction of MODVAT and it was further accelerated by Yashwant Sinha with the implementation of Cenvat and State-VAT.

P. Chidambaram initiated the process of adopting GST when he was Finance Minister. However, it was Arun Jaitley, the then Finance Minister, who converted the idea into a reality and introduced GST on July 1, 2017. GST courted controversy right from the start. Some of the problems encountered include determining the tax rate or the tax bracket, assessment of payment of compensation to the States, and delay in the release of the amount. Even today, there is scope for improving the GST system.

The Task Force calculated the total collection of the Central and the State governments from the taxes which were subsumed under GST was ₹3.46 lakh crore (₹1.58 lakh

crore of the central government and ₹1.88 lakh crore of the state governments) for 2007-08. The Arvind Subramanian committee report states that the revenue forgone by India has been ₹6.97 lakh crore (the Centre: ₹3.28 lakh crore and the States: ₹3.69 lakh crore) for 2015.

It was necessary for GST revenue to at least be equal to the pre-GST revenue level. For the first year, the government did not fix any target for the GST collection. Later, the government revised the estimates and fixed the amount of ₹4.45 lakh crore for the GST collection in the 2018 Budget. However, the actual GST collection was ₹4.43 lakh crore, which was almost 99.5 per cent of the revised target.

In FY2019, the government had made a budget provision of ₹7.44 lakh crore. The target was revised downward to ₹6.44 lakh crore in the 2019 Budget. But the actual collection was also reduced to ₹5.82 lakh crore — 78 per cent of BE and 90 per cent of RE. The government has budgeted an estimate of ₹7.61 lakh crore for the GST revenue collection for FY20. It was about 18.2



GST Need for revamp ISTOCK

per cent higher than the RE and 2 per cent higher of BE of FY19. The target was revised by the Finance Minister Nirmala Sitharaman to ₹6.63 lakh crores in her maiden Budget speech. In FY2019-20 the actual GST collection was ₹5.99 lakh crore — 78 per cent of BE and 94 per cent of RE.

Now, coming to the fourth year, FY21, the GST target was revised to ₹5.15 lakh crore from the Budget target of ₹6.90 lakh crore. However, the actual collection was ₹5.49 lakh crore. It was 106 per cent of RE and

80 per cent of BE. The outcome was satisfactory as the economy was hammered by the Covid-19 pandemic.

Targets vs collections

During the first four years of the GST regime, the average Budget estimate was ₹6.99 lakh crore and average revised estimate was ₹5.54 lakh crore. However, the actual average collection was ₹5.43 lakh crore, which is 78 per cent of the BE and 98 per cent of the RE.

In the past, the indirect tax had been growing at 14.6 per cent since 2007-08, and the growth rate for 2015-16 was 16.2 per cent. The government has estimated the nominal growth rate of revenue for States subsumed during the transition period to be 14 per cent. Thus, we should fix a target of at least 14 per cent growth rate in the GST revenue. However, the average growth in the GST revenue has been only 8.67 per cent in the first four years.

GST tax collection has been a matter of concern. The Subramanian committee had recommended a revenue-neutral rate (RNR) of 15-

15.5 per cent with a standard rate of 17-18 per cent to be levied on most goods and all services to ensure no revenue loss to the Centre and the States in the GST regime.

However, the rate neutrality has been compromised by multiple rate cuts, changes in tax brackets, exemption limits and other changes. The 15th Finance Commission has suggested the government restore tax neutrality rate of GST.

It is time to reform 'Goods and Service Tax'; and make it 'good and simple tax'. The government needs to make structural changes like reducing the tax slabs from 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent along with 0.25 per cent and 3 per cent to three rates to increase GST revenue.

The Parliamentary Standing Committee on Finance has also urged the government to initiate both structural and enforcement related measures to increase GST collection. The GST revenue should achieve the ₹6.30 lakh crore target in FY22.

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