

GST rate reductions too little, too late

The decision of the Goods and Services (GST) Council to reduce tax rates for some Covid-related medicines and equipment is welcome, but it is too little, too late. Even that little would have made a difference for many when the pandemic situation was much worse than it is now. The GST on some medicines has been waived, and on others it was reduced from 12% to 5%. Oxygen and some medical equipment will be taxed at 5%, and the tax on ambulances has been cut to 12% from 28%. Though some state governments had demanded a tax exemption for vaccines, they did not insist on it because the Centre will now be buying 75% of the requirement and distributing it for free to states.

The demand for tax exemptions and reductions had been made from the beginning of the Covid pandemic over a year ago. The government, already short of revenues,



Relief was needed when pandemic was at its peak

resisted and arguments were made against effecting the exemptions and reductions – making too many changes in tax rates is not advisable because taxpayers, whether individuals or businesses, look for stability in a tax system; making such changes for a limited period is not a good practice; zero-rating of these items would have called for an amendment of the GST Act; exemptions would hurt manufacturers because they would not then be able to claim input tax credit. These may have been valid in normal circumstances

but not in an emergency situation when the health and lives of so many are at stake. All these were technical in nature and there was enough time for the government to get around them. Exemptions and lower taxes, effected at the right time, would have reduced the burden on many people who sought treatment. Medical capacity could have been augmented in a low-tax environment, and that would have helped, because apart from the prices, shortage of Covid-related items was a major problem for many. Even now, the tax relief is only till September. A longer term of relief would have been better because it is uncertain when the pandemic would end.

Though the GST Council meeting was held only to take a decision on tax relief, some other issues were sought to be raised at the meeting. Some states wanted the GST compensation period to be extended beyond 2022 because they think that the damage done by Covid will continue. The matter is bound to be discussed in the coming months. An early decision on it will help both the Centre and the states in planning their post-Covid finances.