



A patchwork approach to GST problems

Posted at: 28/02/2019

Transparency and simplicity in the tax regime are casualties of the GST Council's recent decisions

- It has the best intentions, but the Goods and Services Tax (GST) Council is nevertheless systematically eroding the strongest features of the new tax regime — simplicity and transparency.

From three to eight rates

- Before the GST was introduced, the government set up a panel under the then Chief Economic Adviser, Arvind Subramanian, to come up with a suitable rate at which most items should be taxed under the GST.
- So, from what should have at most been three rates, we now have eight!
- To be clear, the number of tax slabs does not affect the concept of 'One Nation One Tax', as a single product is still taxed at the same rate across the country.
- But specifying eight different GST rates is a blow to tax simplicity, which the GST was to provide.
- That said, the GST Council has not spared the concept of 'One Nation One Tax' either.
- However necessary the government felt it was to provide Kerala additional funds for rehabilitation after the devastating floods of 2018, it had several options available apart from the one it chose, which was to allow the State to impose a 1% disaster relief cess.
- As a result, for two years, the Indian market will be divided into two: Kerala, where goods and services are 1% more expensive, and the rest of India.
- Recovery from natural disasters is an expensive process, and additional funds must be made available. But mechanisms for this have already been put in place.
- There is a National Disaster Response Fund at the Central level and each State has a State Disaster Response Fund.
- Increasing budgetary allocations in these areas instead of spending on

giant statues and advertising campaigns is an option.

Increasing opacity

- Transparency is the other casualty of the GST Council's need to provide temporary fixes to problems. Sunday's decision to remove the input tax credit provision from the real estate sector will likely go a long way in increasing opacity in an already murky sector.
- The input tax credit system was designed to create a seamless chain in the entire supply process.
- Under a fully functioning GST system, the government can verify the amount of credits to be paid to the company by matching its invoices with those provided by the vendor.
- Such a system encourages honesty and transparency.
- This is the third time the Council has removed this vital provision, and its reason for doing so is weak.
- The government took the easy way out and simply removed the input tax credit provision altogether.
- So, rather than relying on the body it had created to handle such issues, the National Anti-Profitteering Authority, the Council instead chose to weaken the entire tax system.
- In both cases — disaster relief and anti-profitteering — the GST Council has chosen to ignore established institutions designed for those very purposes in favour of a patchwork approach that is likely to cause more problems than it solves.

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