

Five years of GST (GS Paper 3, Indian Economy)

Context:

- July 1 marks the completion of five years since the Goods and Services Tax (GST) was introduced.
- It was **first discussed in the report of the Kelkar Task Force** on indirect taxes in 2003 and was long in the making.

Unique model:

- Several countries moved to the GST regime long before India did in 2017. But, the mechanism of the GST Council itself is unique to India.
- The **quasi-federal nature of Indian polity** wherein both the Centre and the states enjoyed independent powers of taxation demanded a unique solution.



Role of GST Council:

- **States of different sizes and at different stages of development** with their legacy tax systems had to be brought together under the GST. States were also at different stages in the use of technology for revenue collection.
- The GST Council, the constitutional body, and a GST solution unique to India (dual GST) were the answers found to such a demand.
- With a few exceptions, taxes, both of the Centre and the states, were subsumed in the GST. **Seventeen different laws were merged** and a single taxation system was brought in through the GST.
- The GST Council has played a crucial role in forging a national consensus on key issues related to the tax regime rates, exemptions, business processes and movement of ITC etc.

Achievements:

- Over 63.9 lakh taxpayers migrated into the GST in July 2017. This **number has more than doubled** to over 1.38 crore taxpayers as of June 2022. Over 41.53 lakh taxpayers and 67,000 transporters are enrolled on the e-way portal, generating, on average, 7.81 crore e-way bills per month.

- Since the launch of the system, a total of 292 crore e-way bills have been generated of which 42 per cent are for the inter-state transport of goods. **May 31, 2022, saw the highest single-day generation of 31,56,013 e-way bills.**
- The average monthly collections have increased from Rs 1.04 lakh crore in 2020-21 to Rs 1.24 lakh crore in 2021-22. In the first two months of 2022, the average collections are Rs 1.55 lakh crore. It is a reasonable and fair expectation that this steady increasing trend will continue.

Enhanced logistics supply chain efficiencies:

- GST has **eliminated the tax arbitrage** that existed among the states under the CST/VAT regime. An intrusive control system, involving border check posts and physical verification of goods-laden-trucks, played havoc resulting in loss of time and fuel.
- As a result, the logistics chain for the movement of cargo, even within the country, could not acquire scale and efficiency. Logistics costs were estimated to contribute as much as 15 per cent to the cost of goods.
- With no such arbitrage under the IGST and with the e-way bills, the **logistics supply chain efficiencies have increased manifold.** With focus on multi-modal transport and now with PM Gati Shakti, these gains are only sure to multiply.

GST rates:

- In the pre-GST regime, on most items, the combined Centre and states rates were more than 31 per cent. However, under the GST, the rates of over 400 goods and 80 services have been reduced.
- The highest 28 per cent rate is restricted to sin and luxury items. Out of a total of 230 items which were in the 28 per cent slab, close to 200 have been shifted to the lower slabs.

MSMEs sector:

- Special attention has been paid to the needs of the micro, small and medium enterprises (MSMEs).
- The objective continues to be that their tax and compliance burden be kept low. Equally, it was important to ensure that they **remain integrated with the supply chains for the purpose of ITC.**
- In this context, two important steps were taken up: The **enhancement of the threshold exemption limit from Rs 20 lakh to Rs 40 lakh for goods** and the introduction of the **quarterly returns and monthly payments (QRMP) scheme** which has the potential to benefit 89 per cent of the taxpayers.

IT-based & fully automated:

- Since its inception, the administration of GST continues to be IT-based and fully automated.
- The creation of GSTN, a professionally managed technology company to run the platform was a step in the right direction. Constant review and upgrading of hardware and software capacities have helped in keeping the system nimble.
- The system of automated IGST refunds by customs and refund of accumulated input tax credit (ITC) to exporters by the GST authorities has made the neutralisation of input taxes on export goods and services seamless and hassle-free.

Litigations:

- It is noteworthy that most of the litigation on GST matters has centred around issues such as ITC, powers available to the GST officers on aspects of enforcement such as issuing of summons, arrest of persons and the attachment of property for recoveries.
- Even in the much highlighted recent judgment of the Supreme Court in *Mohit Minerals vs UoI*, the Court has not set aside or altered the fundamental features of GST.

Autonomy of States:

- The states never had the power to levy service tax. States have been asking from the very beginning for the power to levy service tax, and not simply a share of it. With GST that has been brought in.
- The empowered committee has been taking a firm stand on the autonomy of the states. The GST Council, incidentally, is a recommendatory body to Parliament for central GST and to assemblies for the state GST.
- Technically, the legislature may or may not accept it. So, this power of the legislature has not been taken away.

- As far as the rates are concerned, the states and the Centre together are accepting a kind of single tax for both. So, in a sense, there is a partial sacrifice of states and the Centre in the interest of cooperative federalism. **GST is giving additional powers to the state in terms of service tax.** Half of state domestic product is services.