

GST - GoM trying hard for tax-vax but Do 'Leopards' really change Spots!

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THE 'frolicking' time for playing Russian roulette over GST rates is over! With fiscal dwarfism induced by the pandemic roiling the GST collections, the GoM's *leitmotif* is undebatably clear-eyed - max out its potential with a carefully laid down transformative medium and long-term roadmaps! For GST-slayers, the need for more revenue may sound a weary cliché but the GoM's sole mandate is to bolster the revenue's arsenal by crafting and scripting shrouded 'arrows' in its quiver! That is another issue that shrouds have generally no pockets! If a need is felt, the GoM is empowered to disdain the path blazed by others in the past! Its hands are unfettered to ship goods and services from one bucket to another if it tangibly bungs up leaky fiscal 'casks' and does no injustice!

Undoubtedly, the challenge is asteroid-sized. And the tribe of GST policy eagles working overtime with their tool-kits, does need a fresh breath of hot ideas! They are, much to their credit, acutely sensitive about eschewing the pathway which may lead to fiscal bloating! Keeping tedious sparring in the GST Council in its rearview, the GoM is leerily cataloguing a new tariff chart so that the swelling 'balloon' of economic recovery is not pricked! Keeping zippy approach at arm's length, it has thus far avoided missteps which may achingly decouple the emerging reality of economic growth and the new GST tariff!

It certainly does not intend to give a bloody nose to the taxpayers but the taxpayers do need to recall a time-tested maxim - Leopards do not change their spots!

Empirically speaking, the wheels of wisdom and folly truly run parallel in real life! And, the changes being thrashed out are not going to be akin to putting lipstick on 'pigs'! The GoM which met in Bangalore last Saturday, may meet again this Saturday in Delhi and may submit its Interim Report to the Council, extensively correcting the vexatious issue of inverted duty structure!

Undoubtedly, one may tend to laud the holistic approach of the GoM moving very cautiously but all fiscal experts would agree that there is no silver bullet to the complex challenge which may pleasantly surprise all segments of the industry and trade! Rudeness and shock are the embedded elements in this assignment, and no matter how much circumspection may be deployed, a large segment may find it buccaneering, wrong-footed and fiscal empire-building gambit! It may even spark 'Modiflation' in the economy!

The businesses may be lulled into a bruising sense of insecurity! Keeping in mind myriad inherent risks, what should the GoM do to recoup the revenue which has taken a debilitating toll and the recalcitrant pandemic is refusing to go! Let me swirl back to the [last week column](#) where I had made a passing reference to the second thesis of 'tax-vax'! The first one was all about political expediency and buying more time to wall off possible adverse electoral fall-outs!

The GoM's race against the clock is to find an effective and least gruelling 'vaccine' which may protect revenue and 'gaslight' buoyancy in the monthly collections. Without being too pernicky about certain goods, let's steal a sneaky glance at how much revenue comes from different tax slabs. But, before we do that, let's spare a glance at the total number of goods under the GST basket - 1211. About 7% items have been exempted; 14% are in 5% basket; 17% in 12% slab; 43% in 18% kitty & 19% in 28% pot. The GST Council has cut tax rates on as high as almost one-third of total items. As per sources, payments through

cash ledger account is about 10% from 5% slab; 8% from 12% slab; 65% from 18% slab and 17% from 28% slab rates. These are the vital pieces of the jigsaw puzzle the GoM has been mandated to grapple with and may split its 'hair for growth' in revenue!

Now, the GoM has to believe that when it has been given lemons, it can make 'lemonade'! For the GoM, the winner slabs are obviously 18% and 28%. Tweaking these two buckets would make the wateriness of the challenge muddier and scarier too! So, the only two slabs which are available for fiscal-reengineering, genetically, are 5% and 12%. The fact that correction of inverted duty structure is one of the prime tasks, many items would be zipping into 12% pot from 5%, exactly like the textiles and the footwear items. Extreme caution is required to be taken so that any rate revision does not create a new set of goods which may confront the virus of inverted duty structure(IDS)! Aha! A word of persuasion for the GoM! There are certain agri items under IDS which also warrant correction and the same should not be subjected to dilly-dallying on the ground of political implications and optics in the public!

Secondly, 12% tax slab has many items which are of mass consumption nature. For instance, most pharma goods come under this tax head and they cannot be moved to 18% as it would gigantically harm the interests of the common man. Similarly, cell phones cannot be parachuted into 18% as many mega missions like Digital India, Startup India and Standup India largely hinge on the hand-held devices for their successes. In a nutshell, a large swathe of goods under this bucket cannot be subjected to higher rates nor be lowered to merge with a new slab which may be created by pushing 5% items to a new 8% slab. This would not help the Revenue's interests. Ideally, the short-term strategy should be to script a new tax slab of 7% and dismantle the 5% edifice forever.

Post-COVID, the global trend is to rely more on indirect taxes to meet the forced spike in government spendings, including public debts, as the personal income tax collections have suffered predictable bouts of jerky 'palpitations' worldwide! Even a low-tax jurisdiction or call it a 'tax haven' like Singapore, has gone for a hike in the GST rate from 7% to 9% after its last hike from 5% to 7% in 2007. Let's examine the impact of the pandemic on haemorrhaging revenue in Australia where GST has turned 20 and is yet to stabilise! It collects around 13% of their total revenue. Since consumers spend more on education, health and real estate, a debate is raging to bring all such services under GST which account for major shares of household income.

India also needs to buckle down to make a modest beginning rather than keeping health and education completely outside the tax ambit. I strongly believe that any head which remains beyond the shadow of fiscal panoply, later turns into a funnel for money-laundering!

In other words, a studious relook at all the items under the 5% head may produce insights into certain items which may probably dovetail into 12% bucket. Secondly, a hike of 2% may enhance its contribution from 10% to 14%. What may further augment the cash contribution is the reversal of tax regime which has broken the ITC chain for certain sectors like Real Estate and Restaurant. Ideally, ITC optical fibre should not be fractured to plug revenue evasion. Preventive outfits should be deployed for such work. And they may be moved into 12% & 18% slabs respectively

. These sectors may be watched closely to pass on the benefits of ITC to the consumers rather than shamelessly deep-pocketing them. Thirdly, in the interest of tax efficiency, the large basket of exemptions needs to be reviewed and slashed. Exemption may be withdrawn on many government services which go tax-free today. A large number of services which are exempted today in relation to education and health, may be placed under the new slab of 7% so that the GST Council does not feel compelled to hike the tax rates on other goods of mass consumption for higher tax mop-up. Presently, the taxed goods and services are subsidising the exempted goods and services and this triggers imbalance in the overall tax architecture of GST Design!

Although time and tide wait for none but for the record sake, as part of its long-term recommendations, the GoM may work on creating a new slab of 14% and all the items under 12% may be zipped under this category. Whenever the Council takes such a decision, the 7% slab may be moved to 8% in the second tranche so that lesser strain is put on other slabs for generating revenue. Here may come the time for a twist in the tale! Once contributions from these two new slabs of 8% and 14% spike up to a reasonably good health

, the much-talked about debate of merger of slabs may be turned into a reality by bringing down the 18% slab to 16% and merging the 14% slab into the same to keep only three slab rates of 8%, 16% and 28%. The largest chunk of revenue to the extent of 75% should come from the 16% slab in the future.

This would provide relief to a large number of services too! Secondly, the TDS provisions may increasingly be expanded to rope in many of private sector payments to mobilise extra revenue. A calibrated approach with exhaustive education and a close monitoring may enable Revenue to gather a good chunk of tax through the TDS route. If it avoids the mistakes historically made by the Income Tax Department in the case of TDS, such a change may gradually ensure smooth and consistent flow of taxes into its monthly kitty!

Now, it's time to get whirring! This brings me to the most sensitive issue of lessening the tax burden on the poor! It is indeed high time that the GST Council 'gropes' the option of Direct Benefit Transfer(DBT) or GST Voucher for transferring tax subsidy.

If a scenario emerges whereby GST burden or even direct tax burden is assessed to be disproportionate for the poor and lower middle income class, the DBT route may be explored in lieu of outright exemption for all! India has tasted success of the DBT platform and the same may be replicated for the tax subsidy if any, to be approved. This would enable the Government to expand the tax base much faster and also channelise all vim and vigour to plug the revenue leakage from the existing tax base. Of course, this idea needs more homework and elaboration which I would attempt in the future. I sincerely hope that the GST policy buffs would make realistic and not very upsetting recommendations although I am aware that what is learnt in the cradle generally lasts to the tomb! Godspeed!

Also see: [GST Rate Revision - Kicking Can Down the Road may save GoM from Hoopla!Â](#)