Rollout of GST has lent stability to fiscal policy

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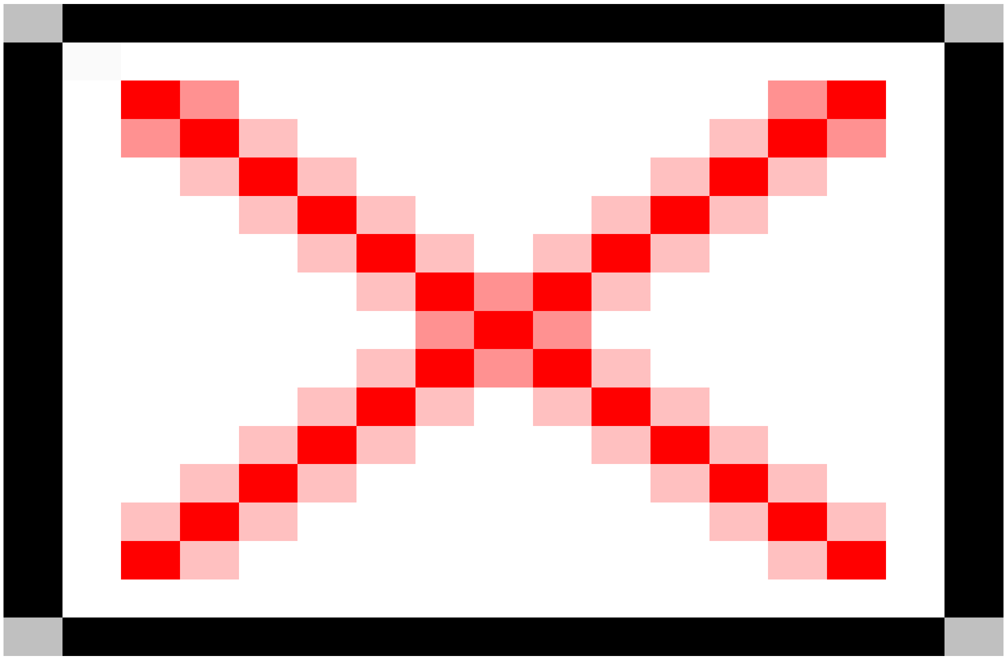
THE Goods and Services Tax (GST) has travelled well in its five-year journey, reaching new milestones with states and the Centre working in harmony to implement the country's most ambitious tax reform plan. There have been several gains from the rollout of GST and the biggest perhaps has been the formalisation of the economy. Driving this change has been the adoption of technology and the rapid pace of digitalisation. The GST portal, which is the backbone of the tax reform measure, has displayed robustness and is an example of how technology can be used for cooperation between the Centre and states on taxes and usher ease of doing business. Businesses have also re-engineered their processes to align themselves with the new realities of doing business, which is evident from the rising compliance.

Technology has also led to transparency and helped significantly in dealing with the menace of those taking advantage of the loopholes. The opening up of the economy after the lifting of curbs imposed to prevent the spread of the Covid-19 pandemic has also helped as demand has come roaring backÂ and GST Revenue is consistently crossing the One lakh crore Mark. While there are some worries over the months ahead due to the stubborn price pressures and high interest rates, the trend that has emerged shows that demand is likely to hold up and GST revenues will continue to remain robust. The strong growth in revenues has prompted the government to lower the borrowing target for the year and provided much needed headroom to undertake spending in crucial areas. This may ultimately help the government to have a much better fiscal outlook and help rein the fiscal deficit within the target of 6.4% of GDP set for the current fiscal year. And the credit must go to robust GST collections which have lent enough comfort to government finances against the backdrop of a challenging economic environment.

Increased Compliance

Data shows that pre-GST non-compliance has reduced sharply to below 20% from over 55%. The rising revenues and returns filed shows that compliance levels have increased.



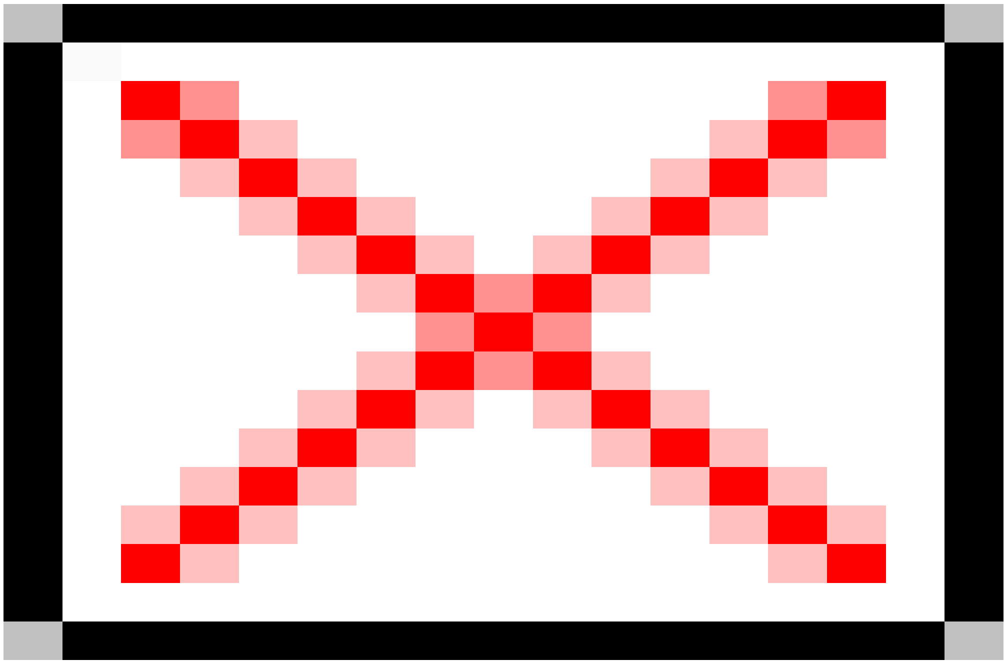
Latest official data shows that monthly GST revenues have been more than Rs 1.4 lakh crore for six months in a row and there are expectations that it may cross the Rs 1.5 lakh crore mark aided by the festival demand push and this level could emerge as the ***"new normal". Â***

Looking beyond the headlines of monthly revenue receipts, one must acknowledge the measures taken to plug the loopholes. Authorities have used a raft of tools to usher in a culture of compliance and have come down heavily on errant taxpayers.

Data analytics and artificial intelligence has been used effectively to identify evaders and take strict action. GST has also triggered tremendous cooperation between the indirect and direct taxes arms of the revenue department, which has helped in rising revenues. This has led stability to revenue collections and paved the way for efficient conduct of fiscal policy. Tax evaders have taken recourse to ingenious methods to exploit the system. Across the country, the tax department has unearthed several such attempts and have successfully managed to recover precious government revenues. The department has undertaken special campaigns to detect invoice fraudsters and during one such drive conducted between September 26 and September 29, 2022, a huge amount of fake input tax credit was detected and the errant companies voluntarily deposited tax amounting to Rs 2743 crore. More than 700 people were arrested as well as 19 professionals including chartered accountants.

To ensure transparency, the department has developed a system to monitor GST audits. This has been done to assess the quality of tax returns and also to ensure that there is overreach by officials.

Another important measure which has led to better compliance is the introduction of the e-way bills. Data shows that in July 2022, 7.6 crore e-way bills were generated, which was



Marginally higher than 7.4 crore in June 2022 and 19% higher than 6.4 crore in July 2021. E-way bills have brought in efficiency in the logistics sector and have helped in strengthening the Ease of Doing business and also led to faster transportation of goods.

Further to increase the level of Compliance, introduction of e- Invoice has established a new benchmark. It has brought greater transparency and reduced the work of the taxpayer to generate separate e-way bills.

Â INSTITUTIONS

Another important fact that is often missed out is the way introduction of GST has helped create institutions such as the GST Council. The Council, which is chaired by the Union finance minister and state finance ministers as members, has demonstrated how effectively the concept of ***"cooperative federalism"*** can be implemented while devising crucial policies, particularly taxation.
"The mechanism of the GST Council would ensure harmonisation on different aspects of GST between the Centre and the States as well as amongst the States. It has been provided in the Constitution (One Hundred and First Amendment) Act, 2016 that the GST Council, in discharge of various functions, shall be guided by the need for a harmonised structure of GST and for the development of a harmonised national market for goods and services,"
according to official documents detailing the structure of the GST Council. All decisions of the Council have been through consensus and differences have been effectively handled to strengthen the ***"one-nation-one tax"***
concept. The effectiveness of the Council has already sparked off demands for such a structure on other vital issues which require cooperation between the states and the Centre such as healthcare, agriculture, and infrastructure. The five years of the tax reform measure has laid the foundation for a robust framework which will serve the nation for years to come. It also has flexibility to build on the foundation and undertake upgrades as the situation demands. Efforts are already on to make the processes more simpler and easy for all stakeholders.

Way forward

The GST Council has flagged its intention on rate rationalisation and this is an area that will engage the attention in the months.

Then, there is the larger question of making efforts to include some key sectors such as electricity, alcohol, petroleum products and real estate under the ambit of GST. There have been demands from several quarters to include petroleum products under GST but so far states have been reluctant to move on this crucial issue due to their own revenue implications. This would require more detailed deliberations between the Centre and the states to shield the consumers against the impact of the fluctuation in global prices.

Dispute resolution is another area where work is on for setting up GST Appellate tribunals. This is expected to ensure a smooth filing of appeals and strengthen the transparency that the GST system has provided.

There have been demands also for simplification of the input tax credit mechanism and the need to reduce the operational complexities for taxpayers. These issues also need to be examined as the tax system evolves in the years ahead.

[The views expressed are strictly personal.]