

Finally, GST Begins To Work as Planned

For simplification, completion, data analytics

Finance Secretary Ajay Bhushan Pandey attributes the spurt in tax collections in December to the crackdown on the evasion of the goods and services tax (GST), coupled with economic recovery. Revenue authorities have done well to deploy data analytics to identify fraudulent input tax credit (ITC) claims and fake bills. Plugging leakages by pursuing audit trails in the income and production chain has helped boost GST revenues. Collections rose by 11.6% to touch ₹1.15 lakh crore in December, the highest since the tax regime was rolled out in July 2017. Work remains on reducing the number of rates, broadening the base and eschewing exemptions that break the GST chain. Taxes such as electricity and petro-fuel duties, which cascade and are embedded in domestically manufactured products, should be brought under GST. So should alcohol and real estate. It would raise efficiency and help raise the tax-GDP ratio.



What further needs to be done is to trace the transaction chain from bulk raw materials to those who use them as inputs. Those who purchase a particular volume of a raw material must produce, given certain input-output norms, a certain amount of value, and pay tax on it. If that tax has not been paid, it is easy to pin down that evasion. Tax paid divided by the rate of tax is the value added, which necessarily breaks down into gross profits and the cost of wages and salaries. This establishes a link between the GST database and that of direct taxes, leading to superior collections overall.

The GST Network now auto-generates ITC certificates using data from returns filed by suppliers and collating the tax paid on supplies to a particular entity. This helps curb fraudulent claims. The case to make reverse charge universal for all input purchases by firms — so that buyers pay tax on their purchases directly to the government while recognising the vendor on whose behalf the tax is being paid — is compelling. This would bring small suppliers under the tax net, widen the base of the tax and shore up collections.