

● BUDGET FY22

GST vaccine for ailing economy

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THE UNION BUDGET FY22 can be postulated as the most anticipated economic event due to the unprecedented conditions caused by Covid-19. While economies across the world are seemingly recovering from the Covid-19 trauma, industrial growth in India is at an all-time low. The expectations in the market for innovative economic policies offering tangible corrective measures, therefore, appear to be reasonable.

One such prognostication is addressing the issues under goods and services tax laws to make GST a 'good and simple tax'. Given the escalation of disputes in relation to this fairly nascent legislation, the expectation is to address few of those issues, in line with the spirit and philosophy of GST law:

► Among other things, one of the frequently disputed issues under the GST regime relates to transition of tax credits from the erstwhile regime, which have been blocked either due to technical glitches on the online GSTN portal at the time of filing relevant form GST Tran-1, or due to non-availability of alternatives to rectify inadvertent errors in filing such form. Taking cognisance of the plight of taxpayers, while High Courts across jurisdictions have permitted such a transition, the government continues to contest taxpayers' requests. It is noteworthy to highlight that courts have, in the past, taken a consistent view to condone procedural

lapses to allow substantive benefit, if entitled. Thus, a resolution of the instant conundrum will not only save litigation costs of the government, but also allow businesses to optimise their working capital requirements to combat challenges arising due to Covid-19.

► Real estate is suffering from unreasonable distinction carved between those who develop property for sale as against others who use it for commercial leasing. While the

former are allowed to avail input tax credit, the latter suffer from the bar imposed under GST. A simple change offering parity to the two categories of developers can help avoid unnecessary litigation, and provide a panacea to the sector.

► Similarly, the ITeS sector, which forms the backbone of the world's backend operations, has been questioned on its exports with the onset of GST. Expecting status quo as the earlier regime, service providers in this sector expect a more descriptive clarification regarding an 'intermediary' and taxability of its activities. Similarly, MNCs crave indulgence to amend 'place of supply' specified for research and development activities carried out for their offshore offices, from location of performance of such services (i.e. in India) to the location of the service recipient (i.e. outside India) and helping it qualify as export supplies. These changes may help the government in fulfilling multiple objectives, namely impetus to foreign investments, generation of employment in India and combating brain drain in the R&D industry.

► Then there is streamlining the conditions for input tax credit. A myopic reading of the extant provision gives an impression that the recipient of goods and/or services is mandated with an impossible compliance of ensuring payment of tax by its supplier, before availing the credit thereof. This interpretation is not only contrary to the concept of unified tax, but also detrimental to honest taxpayers.

► This Budget presents an opportunity for the government to introduce policies that are aligned with its 'Make in India' and 'Vocal for Local' campaigns. In pursuance of these objectives, it is imperative that the government rationalises GST rates for inputs and input services with the corresponding output supplies to avoid accumulation of tax credits. Illustratively, the Pesticides Manufacturers & Formulators Association of India (PMFAI) has filed a representation for reduction of GST on farm-based inputs such as insecticides, plant growth regulators, etc, from 18% to 5%.

We note that the finance minister recently promised a 'never before like' Budget while concluding pre-Budget consultations. While this can be indicative of a rational reformist policy, the government will need to strike a balance to find the right dosage of vaccine to cure the economic slowdown, which has only intensified with the pandemic.

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