Finmin rules out GST waiver or deferment to businesses

NEW DELHI, May 23: The Finance Ministry has ruled out GST waiver or deferment to businesses as part of the economic relief package to help them cope with the situation arising in the wake of COVID-19 pandemic and the resultant nationwide lockdown.

In discussions within the ministry, it has been said that goods and services tax exemption or deferral is not required as it would not have given any benefit to industry but seriously impact the revenues of both the States and the Centre.

With the Centre announcing a mega relief package of Rs 20-lakh crore as part of the Atmanirbhar Bharat Abhiyan, there have been off-repeated demands for the GST waiver, this time for a period of six months. The argument given is that GST exemption would lead to revival of demand due to reduction in prices and hence benefit in the fight against COVID-19.

The government has provided exemption and moratorium on payment of various taxes and debt as part of the package.

Contrary to what is being suggested, government sources said on the condition of anonymity that GST exemption would seriously jeopardise the industry’s interests and not result in any significant gains to consumers.

Therefore, there is no point in exempting businesses from this tax that would lead to blocked input tax credit (ITC), resulting in increase in manufacturing cost and a higher price for consumers.

“Hopefully, the Centre is not considering the demand. Exemption of GST on the final product is never a good idea. It distorts the value chain. It does not necessarily lead to reduction in prices. In fact, it adversely impacts domestic industry,” Najib Shah, former Chairman, Central Board of Indirect Taxes and Customs (CBIC), told IANS.

The issue for GST exemption has surfaced particularly with respect to items needed in the fight against the pandemic: ventilators, personal protection equipment (PPE), COVID-19 test kits, sanitizers, etc.

At present, the liability of the inputs “be it 5 per cent or 12 per cent or 18 per cent” is more than offset when discharging the 5 per cent or 12 per cent GST liability on PPE or ventilator, with the entire liability being ‘paid’ by the credit of taxes accumulated at the earlier stages of manufacture.

If GST is exempted, this credit facility will be unavailable, leading to higher final price of the equipment.

In the past also, when the GST exemption on sanitary napkin was allowed, it led to similar hardship for domestic manufacturers of sanitary napkins. Later, domestic industry complained of adversity.

It is also equally important to keep in mind that GST waiver provides much larger incentive for imports because imports do not come with any baggage of input side taxes compared with the domestic supply. GST provides a level-playing field to domestic industry vis-a-vis the imports. – IANS