COUNCIL MEETING SCHEDULED FOR LATER THIS MONTH

States demand Vice-Chairman post in GST Council, won’t budge on compensation

A MEETING of the Goods and Services Tax (GST) Council later this month is set to be a stormy affair with states set to air concerns of inadequate representation and an overall review of the indirect tax regime besides sticking to their demand for 14 per cent compensation. States are guaranteed compensation for any revenue shortfall from base year of 2015-16 at an annualised growth rate of 14 per cent.

Opposition-rulled states such as Punjab, Kerala and Chhattisgarh are likely to insist that the Council immediately fill the post of Vice-Chairman by allotting it to a finance minister from a non-BJP ruled state. The post has remained vacant since the GST was rolled out three years ago in July 2017. The Council is chaired by Finance Minister Nirmala Sitharaman.

Punjab Finance Minister Manpreet Singh Badal said designating a state FM to the Vice-Chairman’s post was essential to bring states on an even keel with the Centre. “Many issues need to be looked into under GST. The post of Vice-Chairman in the GST Council also needs to be filled since otherwise there is no adequate representation of states’ agenda in the secretariat. Right now, it’s mostly run by the Government of India. It should have been operationalised three years back,” Punjab’s Finance Minister Manpreet Singh Badal told The Indian Express. Some other state FMs, including Kerala Finance Minister Thomas Isaac said he will support Badal’s demand. “It was raised earlier in the Council but didn’t come through. Badal has raised it; we will support him. It is a very important vacancy and that must be filled by a non-BJP person, in particular don’t know who, but rightfully, so that a permanent seat can be rotated,” he said.

Chhattisgarh Health Minister TS Singh Deo, who represents the state in the Council, said although the Vice-Chairman doesn’t have additional powers as such, the move would be welcome “as a federal and as a measure of inclusiveness”. “States feel their views are not getting adequate representation and the tendency to take things into a Central perspective; it is objectionable also because it impinges on the federal structure. So, any time is the right time,” he said.

In the previous Council meeting, it was also decided that the Council would be convened specifically to discuss the issue of compensation. There are differing views among states on the Council itself resorting to market borrowings to raise money for revenue compensation. While Kerala backs such a move and Bihar opposes it, all states are unanimous on sticking to the 14 per cent assured rate for compensation.

The other option to hike GST rates is also gaining ground among states though they acknowledge it cannot be done at present given the economic slowdown.

Isaac said no state, including BJP-rulled states, would be willing to accept a lower than 14 per cent rate for compensating states and there can be no compromise on that front. “You can increase the rates but not in the balance. The Centre can borrow and give to states, but the central government may not want to increase its fiscal deficit. The only option is to empower the Council to borrow,” he said. Badal also said GST rate structure requires an overall review. “The first thing to reform is to acknowledge the problem. If we admit there is a problem, it is very difficult to comply with, how is the rate structure, there is multiplicity of rates, so all those things need to be seen holistically,” he said, and suggested that if needed, the Council must hire outside experts to study and review the GST structure.

Deo, on his part, said, more than tinkering of rates, the pillarage leading to revenue loss needs to be plugged. Bihar Deputy Chief Minister and Finance Minister Sushil Kumar Modi said revenue shortfall and reforms should be of greater concern. “It (designating a Vice-Chairman for the GST Council) is just a minor issue, whether it’s filled or not. The focus should be on reforms,” he said.

As per estimates shared by Modi, if revenue collections in 2020-21 are projected to be even 65 per cent of the revenues collected in 2019-20, there would be a revenue gap of Rs 2,67,000 crore for states. As an option, even if there is a 1 per cent increase in the average overall GST, it will yield about Rs 50,000 crore and there will still be a big gap, Modi said. Even if a 5 per cent cess is levied on high-end luxury goods, which accounts for about 10 per cent of the overall GST base, it would only yield about Rs 22,000-25,000 crore per annum. “Then also there will be a big gap of Rs 2,20,000 crore,” he said.

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