Give GST Council Institutional Strength

Transfer Tax Research Unit to the council

Three years after the transition to the goods and services tax (GST), there is a strong case to strengthen the GST Council for the constitutional body to take informed decisions to reform the tax structure, rates and broaden the tax base. A policy paper by the Pune International Centre, The GST Compensation Cess: Problems & Solution, by V Bhaskar and Vijay Kelkar recommends the creation of an independent GST Council Secretariat to offer professional advice on tax matters. It also essentially calls upon the Centre to borrow more to deliver on its promise to compensate the states for five years from 2017-18 for any shortfall in GST collections in relation to the past trend, notwithstanding the fiscal pressures faced by it due to the corona pandemic. Both suggestions make eminent sense.

The council needs neutral, unbiased advice from top-notch professionals in the field. The finance ministry’s budget-making wing on indirect taxes, called the Tax Research Unit, should be brought under the GST Council. Rightly roping in competent tax-research officers from states, and having a taxation expert of national stature as the Secretary General (currently steered by the Revenue Secretary) will help strengthen the council’s secretariat. GST subsumed 17 central and state taxes and 23 cesses. It creates multiple audit trails on the income and production chain — throwing up voluminous data. Big-data analytics must be deployed to follow these trails to tax potential. The transaction chain of key raw materials such as metals and petrochemicals must be followed up to unearth the value added escaping tax at the moment.

The council should move towards the overall direction to lower and converge rates and prune exemptions that break the GST chain and clutter the tax system. This will minimise classification disputes and make compliance easy. Rate changes should be based on rigorous data analysis. The council must not delay the inclusion of petroleum products, real estate and electricity duty in the GST framework, to widen the tax base, and probably double its current size.