

RATIONALISE RATES, BUT FUEL IN GST MAY HAVE TO WAIT

Chief Economic Adviser K V Subramanian said rationalisation of GST rates was 'definitely going to happen'. If you call to mind, a three-rate structure has always been on the cards, so it's not a question of definitiveness, but readiness to execute. Against a planned revenue neutral rate of 15.5%, the average GST rate is about 11.8%. The 15th Finance Commission too suggested merging the 12% and 18% slabs to raise the current 11.8% incidence to at least 14%. In hindsight, revenue rate neutrality in the first year of GST implementation helped raise the tax buoyancy rate to 1.20, but it was ironically discontinued in subsequent years.

While bringing fuel under GST often draws attention, there are other items like tobacco, gold and electricity that need urgent focus. As per the RBI report on State Finances, budgeted collection of state electricity duty for FY21 is ₹46,184 crore and analysts believe bringing this into the GST fold will reduce the cascading impact of taxes. Similarly, the GST Council must consider phasing out 90-odd state VAT exemptions on commodities, which accounted for about 30% of all commodity taxes and duties at an estimated ₹7 lakh crore last fiscal.

Clearly, a significant sum comes from petrol and diesel, but bringing them under GST right now is destructive for two reasons. One, such a move will deprive states of their crucial fiscal resources. That said, some believe the GST Council must start considering getting natural gas and aviation turbine fuel under GST to begin with and later extend it to petrol and diesel when state finances are strong enough to take it. Two, the guaranteed 14% revenue shortfall from Centre to states for five years ends next June. Thanks to the Covid-19 pandemic-induced slowdown, states will want an extension for a few more years. If it's agreed upon, compensating states for any anticipated revenue shortfall on account of fuel taxes under GST will add to the Centre's fiscal burden. Hence, it's paramount to first raise GST collections and rationalise rates either by reducing exemptions or raising tax rates.