

GST MAY BECOME TWO-TIER TAX WITH MERGER OF 12% AND 18% SLABS: JAITLEY

Former Finance Minister Arun Jaitley Monday said the 12 and 18 per cent tax slabs in goods and services tax(GST) could be merged going forward as revenues increase, thereby effectively making it a two-tier tax.

The GST Council, chaired by Finance Minister and comprising state Finance Ministers, has reduced tax rates over the last two years which led to revenue loss of more than Rs 90,000 crore, he said.

"Except on luxury and sin goods, the 28 per cent slab has almost been phased out. Zero and 5 per cent slabs will always remain. As revenue increases further, it will give an opportunity to policy makers to possibly merge the 12 per cent and 18 or cent slab into one rate, thus, effectively making the GST a two rate tax," he said.

Observing that a sudden reduction of tax rates on all categories of goods can lead to a massive loss of revenue for the government leaving it without resources to spend, Jaitley said "this exercise had to be done in a gradual manner as the revenues increased".

In the eight months of 2017-18 (July to March), the average revenue collected was Rs 89,700 crore per month. In the next year (2018-19), the monthly average has increased by about 10 per cent to Rs 97,100 crore

"The fear of the states today is that for the first five years they get a guaranteed 14 per cent increase. The lurking doubt is as to what will happen after five years? Every state has been paid its share of tax as also from the compensation fund, if necessary. We have just completed two years of GST. Stating that a single slab GST is possible only in extremely affluent countries where there are no poor people, he said it would be inequitable to apply a single rate in countries where there are a large number of people below the poverty line.

"In the pre-GST regime, the rich and the poor, on various commodities, paid the same tax. The multiple slab system not only checked inflation, it also ensured that the Aam Aadmi products are not exorbitantly taxed. Illustratively, a hawai chappal and a Mercedes car cannot be taxed at the same rate. This is not to suggest that the rationalisation of slabs is not needed. That process is already on," he said.

GST, which subsumed 17 local taxes, was rolled out on July 1, 2017. The GST currently has four slabs -- 5, 12, 18 and 28 per cent. On top of the 28 per cent slab, a cess is levied on automobiles, luxury, demerit and sin goods.

Source: Business Standard