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GST Council may consider raising lowest slab to 8%, rationalise tax slabs

The GST Council in next meet may look at raising the lowest tax slab to 8%, from 5%, and prune the exemption list in the GST regime

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Nirmala Sitharaman (Photo: ANI)

The GST Council in its next meeting may look at raising the lowest tax slab to 8 per cent, from 5 per cent, and prune the exemption list in the Goods and Services Tax regime as it looks to increase revenues and do away with states' dependence on Centre for compensation, sources said on Sunday.

A panel of state finance ministers is likely to submit its report by this month end to th Council suggesting various steps to raise revenue, including hiking the lowest slab an rationalising the slab. Currently, GST is a four-tier structure attracting a tax rate of 5, 12, 18 and 28 per cent.

Essential items are either exempted or taxed at the lowest slab, while luxury and demerit items attract the highest slab. Luxury and sin goods attract cess on top of the highest 28 per cent slab. This cess collection is used to compensate states for the revenue loss due to GST rollout.

According to sources, the GoM is likely to propose raising the 5 per cent slab to 8 per cent, which may yield an additional Rs 1.50 lakh crore annual revenues. As per calculations, 1 per cent increase in the lowest slab, which mainly include packaged food items, results in a revenue gain of Rs 50,000 crore annually.

As part of rationalisation, the GoM is also looking at a 3-tier GST structure, with rates at 8, 18 and 28 per cent.
If the proposal comes through, all the goods and services which are currently taxed a 12 per cent, will move to 18 per cent slab.

Besides, the GoM would also propose reducing the number of items which are exempted from GST. Currently, unpackaged and unbranded food and dairy items are exempted from GST. Sources said the GST Council is expected to meet later this month or early next month and discuss the report of the GoM and take a view on the revenue position of the states.

With the GST compensation regime coming to an end in June, it is imperative that states become self-sufficient and not depend on the Centre for bridging the revenue gap in GS collection.

At the time of GST implementation on July 1, 2017, the Centre had agreed to compensate states for 5 years till June 2022, and protect their revenue at 14 per cent per annum over the base year revenue of 2015-16.
However, over this 5-year period due to reduction in GST on several items, the revenue neutral rate has come down from 15.3 per cent to 11.6 per cent.

"As the revenue neutral rate has come down and the states stare at a shortfall of about Rs 1 lakh crore, efforts have to be made to make GST revenue neutral and the only way t do it, is rationalise the tax slab and check evasion," a source said.
The GST Council over the years has often succumbed to the demands of the trade and industry and lowered tax rates. For example, the number of goods attracting the highest 28 per cent tax came down from 228 to less than 35.

The Council, chaired by the Union Finance Minister and comprising state counterparts, had last year set up a panel of state ministers, headed by Karnataka Chief Minister Basavaraj Bommai, to suggest ways to augment revenue by rationalising tax rates and correcting anomalies in tax rates.