

Further delay in GST rate rationalisation likely

Shishir Sinha
New Delhi

With a new coalition government at the helm, a key economic reform involving GST rate rationalisation may be further delayed. Many experts feel that as rate rejig impacts inflation, there may be pressure to not undertake it at all. However, there is a section that feels there is still hope for this long-pending reform.

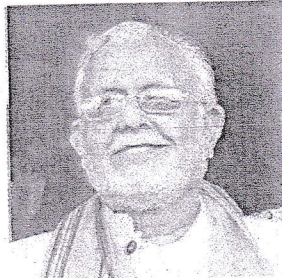
A seven-member committee under the convenorship of Suresh Kumar Khanna (Finance Minister, Uttar Pradesh) has been working on rate rationalisation exercise for 1,200 category of goods and all services, excluding those in negative list. Once the committee gives its report, the Fitment Committee will discuss and finalise the agenda for the GST Council. Based on the recommendations of the Council, the Centre and States (including three Union Territories with assemblies) will notify rates.

One of the key proposals has been to bring down number of main rates to three from four. This could mean new rate by merging either 12 per cent and 18 per cent to 15 per cent or 5 per cent and 12 per cent to 8 per cent. Although some items would become cheaper, many items would move to upper rate bracket and result in inflation. This argument deferred the rationalisation in the past and now experts feel it will be very difficult to take such an exercise.

ROLE OF ALLIES

According to Prateek Bansal, Tax Partner with White and Brief while the BJP led NDA has secured an absolute majority in the Lok Sabha elections, the interests and political commitments of allies such as JD(U) and TDP would also be taken into account before any major rejig in the tax structure is undertaken by the new government.

"In light of new political equations, the GST rate rationalisation may take a back seat for some more time, con-



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considering its cascading effect on different industries and possibility of additional inflationary burden on the common masses," he said.

Rajat Mohan, Executive Director (Indirect Tax) with Moore Singhi said GST rate rationalisation exercise faces significant challenges and uncertainties due to new political equations, making the process of adjusting GST rates increasingly complex. "Political shifts can influence policy decisions, create legislative delays, and introduce stakeholder pressures, potentially complicating and delaying the implementation of GST rate adjustments," he said.

Businesses such as food, clothing, education, health-care, agriculture, transportation, electricity and water supply having lower tax rates, are likely to exert significant pressure on the government if their rates are increased. Since GST is a transactional tax, any changes will push the market into a reset mode to find a new equilibrium, leading to further uncertainty. "This underscores the intricate relationship between taxation policy and the evolving political landscape," he said.

Vivek Jalan, Partner of Tax Connect Advisory Services said the Council will have a bigger say from NDA now as Odisha and Andhra Pradesh are going to be ruled by BJP and its alliance partner respectively. NDA will gain a higher vote share in the balance two-thirds voting.