

Easing GST norms

A simplified tax system will lead to higher mop-up

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The Finance Ministry's press release on GST revenues exuded a lot of positivity.

Gross GST revenues collected in July were ₹1,48,995 crore (CGST: ₹25,751 crore, SGST: ₹32,807 crore, IGST: ₹79,518 crore (including ₹41,420 crore collected on import of goods) and cess was ₹10,920 crore (including ₹995 crore collected on import of goods). This is the second highest mop-up since GST's introduction.

The government has settled ₹32,365 crore to CGST and ₹26,774 crore to SGST from IGST. The total revenue of Centre and the States in July after regular settlement is ₹58,116 crore for CGST and ₹59,581 crore for the SGST. July's revenues are 28 per cent higher than July 2021's ₹1,16,393 crore.

During the month, revenues from import of goods was 48 per cent higher and the revenues from domestic transaction (including import of services) are 22 per cent higher year-on-year.

In a departure from the norm, the Press Release tried to give an explanation for the buoyancy in revenues. For five months in a row now, the monthly GST revenues have been more than ₹1.4 lakh crore, showing a steady increase every month. The growth in GST revenue till July over the same period last year is at a robust 35 per cent.

This is a clear impact of various measures taken by the Council in the past to ensure better compliance. Better reporting coupled with economic recovery has been having positive impact on the GST revenues on a consistent basis. During June, 7.45 crore e-way bills were generated, marginally higher than 7.36 crore in May.

Reasons for rise

Many factors have contributed to the uptick in GST revenues. Economic activity is getting back to pre-pandemic levels, restrictions on availing input tax credit would have played a part and better compliance from taxpayers should be given credit.

Another factor that has contributed to revenue growth is an increase in the

numerator on which GST is charged due to the impact of inflation. 2022 has seen price rises like never before. It is normal to calculate inflation based on parameters such as Wholesale Price Index and Consumer Price Index.

These benchmarks normally reveal an inflation rate of between 7-9 per cent. 2022 gives us an opportunity to look at a new barometer to calculate inflation — let's call it API which expands as Airline Price Index. The increase in API pre- and post-pandemic is more than 25 per cent on an average. Airline prices are such that travelling abroad may be cheaper than travelling on some domestic routes.

It is natural to become complacent when revenues do not pose any threat. With the Compensation Cess no longer a part of the pound of flesh that State Governments can claim, how much they get is a just a multiplier of total GST revenues. They would be pleased with the increased monthly numbers.

An analysis of GST revenues between December 2017 and July 2022 gives some interesting insights. As a percentage to total GST revenues, CGST revenues have increased marginally (0.79 per cent) while SGST revenues have decreased marginally (1.11 per cent).

IGST revenues as a factor to total GST revenues have increased (2.63 per cent) while the Compensation Cess has reduced (2.32 per cent).

The reasons for these are that in December 2017, there was not much clarity on whether CGST or IGST should be charged on certain transactions. Some goods have been shifted from the Compensation Cess regime (28 per cent) to the normal regime (18 per cent).

The Central Board of Indirect Taxes and Customs (CBIC) has tonnes of data on the behaviour of GST taxpayers. They could use this data to chart a road-map on sustaining GST revenues without imposing artificial restrictions on taxpayers. Globally, the mantra 'Easier the tax, better the revenues' has worked. It is still not too late for CBIC to take a relook at some onerous provisions in GST laws and amend them.

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