

## **Govt. backs merger of 2 tax slabs in GST**

Live Mint | 19 Feb 2021

### **The Central Government is in favour of merging the goods and services tax (GST) rates of 12% and 18% into a single slab**

The central government is in favour of merging the goods and services tax (GST) rates of 12% and 18% into a single slab, a top finance ministry official said, acceding to a demand first made by some states and endorsed by the Fifteenth Finance Commission (FFC).

GST Council, India's federal indirect taxes body, may discuss the matter at its meeting in March, the official added.

Apart from special rates of 0.25% and 3% on precious stones and metals, India currently has four primary GST rates of 5%, 12%, 18% and 28%. There is also a cess on luxury and demerit goods such as automobiles, tobacco and aerated drinks.

"There have been discussions regarding the merger of the two tax slabs. It could be taken up for consideration in the next (GST) Council meeting in March. States also need to agree," the official cited above said on condition of anonymity.

When India merged 17 central and state taxes into a single GST, it was supposed to be a revenue-neutral exercise; meaning, it wouldn't lead to any changes in the actual tax revenue for states and the Centre. However, a series of GST cuts since then has reduced the tax revenue, and a tax slab revision will aim to correct this.

"If the 12% and 18% slabs are merged to form a new slab somewhere in between, the tax burden on items currently in 12% slab will rise. It remains to be seen how businesses and consumers will respond. On the other hand, tax on items in 18% slab will come down in an upside for consumers," said Abhishek Jain, tax partner, EY India.

If the Council approves a single rate, items such as ghee, butter, cheese and spectacles may become expensive, while soap, kitchenware and apparel may become cheaper. But a final decision on the rates of individual items will be taken by a fitment panel.

In its report tabled in Parliament this month, FFC urged restoring the "rate neutrality of GST", which was compromised in multiple rate cuts.

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The finance ministry did not respond to queries emailed by *Mint*.

“Restoring revenue-neutral rate will mean merging the rates of 12% and 18% and operating with a three-rate structure of a merit rate, a standard rate and a demerit rate of around 28% to 30% and minimizing (tax) exemptions,” said the FFC report, which recommended the ways of sharing Centre’s tax revenue with states for the period 2021-26.

Kerala Finance Minister Thomas Isaac said in an interview last month that the most important thing for the next GST Council meeting would be a discussion on changes required in GST as there has been a drastic decrease in the incidence of indirect tax after GST was introduced. Isaac said unless this was fixed, states would face a precipitous fall in revenue collection when GST compensation ends in June 2022.

Merging GST slabs has been discussed earlier, though not at the GST Council. Former finance minister Arun Jaitley had called for merging the two slabs. “A road map could well be to work towards a single standard rate instead of two standard rates of 12% and 18%. It could be a rate at some mid-point between the two...The country should eventually have a GST, which will have only slabs of zero, 5% and standard rate with luxury and sin goods as an exception,” Jaitley wrote in a December 2018 blog .

“Rate rationalization will help reduce classification disputes, but the merging of 12% and 18% rate could lead to some revenue implications and, hence, proper number crunching is essential,” said Abhishek A. Rastogi, partner at Khaitan