GST Council meet: Small businesses likely to get tax relief

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One of the major proposals that is likely to be approved by the Council is raising the annual revenue threshold for GST to Rs 75 lakh from Rs 20 lakh currently. The group of ministers (GoM) had also considered a proposal to partially refund taxes paid by these firms as relief measure but decided that raising exemptions was a more practical solution.

After its last meeting in December, the Council had expressed concern over the lack of smaller service providers not opting for GST registration, which was attributed to relatively higher tax rate of 18% and cumbersome compliance. To correct this, the Council is also likely to approve a benign composition scheme — with quarterly returns and nominal tax rate — for such taxpayers with a revenue threshold of up to Rs 1 crore. Such a scheme already exists for manufacturers and traders but given that the value addition in service sector can be quite large, the same was not made available to service sector till now.

Archit Gupta, founder and CEO of ClearTax, said: "Composition scheme for small service providers and quarterly payment of taxes will improve compliance and reduce the effort required by them significantly. The GST Council must continue to focus ITC claim process and simplification of GST returns as they are the cornerstones for GST success."

Finance minister Arun Jaitley had also cited lower-than-expected growth in the real-estate sector as a reason for subdued GST collections this fiscal. The proposal before the Council is to slash GST rates of under-construction housing units to 5% from 12% currently and deny the builders input tax credit, which is not being passed to consumers effectively anyway, Jaitley had said. Currently, the GST is levied at 12% on payments made for under-construction property or ready-to-move-in flats where completion certificate has not been issued at the time of sale. GST is not levied on properties with completion certificate.

Although the higher overall GST threshold would allow nearly half of nearly 1.2 crore GST registrant to go out of tax net, higher threshold is unlikely to either bring down taxpayers base or revenue. Even as the mandatory lower limit for a firm to register for GST is Rs 20 lakh, more than half of the firms registered are those with turnover below that level. Though these sub-Rs 10 lakh firms contribute just 1.5% of the GST revenue, they prefer to be in the tax chain for the benefit of input tax credit and to keep large businesses (which are in the GST chain) as their buyers. Similarly, a quarter of the firms registered with the GST Network (GSTN) have turnover between Rs 20 lakh and Rs 1 crore, their share in the government's GST revenue mop-up is just 5%.

Additionally, the GoM which was tasked with examining the option of raising revenue for flood relief in Kerala via a cess, has proposed that the affected state should be allowed to levy a higher SGST to generate the extra revenue for relief and reconstruction. The Council will take a call on this issue as well as a pan-India cess was not favoured by many states.

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