Multi-layered GST Complicated But Unavoidable, Say Tax Experts

Tax experts are divided over the multi-layered goods and services tax finalised by the GST Council on Thursday.

Some said the multi-layered GST is too complicated and undermine the key benefit of this reform, while others said having different tax slabs is unavoidable in a country like India and will help keep rates close to what is prevailing.

“The multi-layered structure will see classification issues and complicate matters from transaction perspective especially for companies dealing with more than one product,“ said Bipin Sapra, partner (indirect taxes) at E&Y. “Overall it is a balanced structure as it would keep the change in tax incidence minimum as compared to today,“ he said.

Rajeev Dimri, leader (indirect tax) at BMR & Associates, said that from the perspective of overall tax incidence, levy of cess on luxury items and demerit goods should be acceptable to the industry as these goods face a similar tax burden presently.

“However, dealing with another tier of tax would be administratively difficult to handle, specifically given the short timeframe that the India Inc has in hand for setting up GST enabled systems,” he said. “Also modalities around levy of cess, viz point of levy, credit eligibility, etc. will be critical aspects to watch out for,” Dimri added.

Effectively, there will be seven rates under the GST regime -exempt, 2-4% for gold, 5% for essential commodities, two standard rates of 12% and 18%, 28% rate and higher rate on demerit goods that includes a cess over and abo ve the 28% rate.

Krishan Arora, director at Grant Thornton India, said that while the consensus on rate structure among the Centre and the states seems to be a step closer towards timely implementation of GST, the essence of the multiple split tax rates will need to pass the test of industry acceptance on grounds of revenue neutrality and zero cascading across sectors, specially go ods falling in the 28% bracket.

Prashant Deshpande, partner at Deloitte Haskins & Sells, said the increase in maximum marginal rates to 28% coupled with the announcement that it will be applied to items currently taxed at rates in that range would mean that rate as a criteria would cease to play a role in evaluating benefits from GST for such products.

Sandeep Chilana, partner at Shardul Amarchand Mangaldas, said while the present approach is a departure from international practice of single GST rate, this collaborative and consultative approach should successfully address the peculiar social, political and economic complexities in India.

Earlier, NITI Aayog vice chair man Arvind Panagariya and finance minister Arun Jaitley have defended multi-layered tax rate.

Panagariya had said such a system would ensure less inflationary implications and lower tax rates for consumers as well as revenue predictability for the exchequer. “A four slab rate structure for GST is better than going in one go on to a single rate as in the latter price effect on specific products could be substantial,” he had said.

Jaitley had supported the multilayered structure on the pretext that similar structure exits elsewhere. “Some developed countries, which do not have any section of the population below the poverty levels and where economic standards are high, have three-four slabs,” he had said in his blog.

(Business Standard)