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# Expand GST base, reduce the compliance burden

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Pruning the GST exemption list and keeping the threshold at a reasonably high level is an integral part of the reform to keep the tax base broad and avoid levying it at high rates

The main argument for exempting pre-packed food items is that these constitute a large proportion of the consumption basket of low-income groups. However, most low-income households do not buy pre-packed food items but items sold in small quantities and loose. (Arun Sharma/HT PHOTO)

The 47th meeting of the Goods and Services Tax(GST) Council took several important decisions on withdrawing exemptions and concessions on some goods and services, rationalising some rates to minimise the inverted duty structure (where the input tax credit due is more than the tax payable on outputs), besides recommending some administrative changes and clarifications.

The most important of the changes was the decision to levy a 5% GST on pre-packaged and labelled local unbranded products such as rice, wheat,curd, lassi, papad, and honey. Although all state governments agreed with the Council's decision, some had second thoughts, perhaps due to local compulsions. For example, the finance ministerofKerala, KN Balagopal, stated that it is prematureto levy GST on items of everyday use, including pre-packed food items, when the prices ofdaily-use items are on the rise. He added that Kerala would not tax items sold by entities such as Kudumbashree and small stores in one- or two-kilo packets.

Coming afterthe SupremeCourt judgment that the GST Council is only an advisory body and the sovereign powers to change the tax structure lie with Parliament and state legislatures, such decisions to deviate from the GST Council's recommendations can threaten to disrupt the uniformity and harmony in the tax system.

However, thereare also conceptual questions about howsound the decision to withdraw these exemptions is and whether there are better ways to shield the lower-income groups and ensure equity.

The main argument for exempting prepacked food items is that these constitute a large proportion ofthe consumption basket of low-income groups. However, most low income households do not buy pre-packed fooditems butitemssold in small quantities and loose.

Second, the exemption is not limited to the poor, even when the relative consumption of these goods by low-income groups is higher. As aresult,the absoluteconsumption by the non-poor category could be higher,and their gain from the exemption may accrue to the latter more than the former.

Third, the equity objective is better achieved by focusing on anti-poverty interventions such as cash transfers rather than changing the income distribution through taxes and subsidies. Therefore, experts argue that it is desirable to broaden the base by removing exemptions and focusing on poverty reduction rather than changing theincome distribution. This,theysay,should be done through the expenditure side of the budget. Collecting taxes from perishables and unpackedfood items is administratively difficult,and exempting them is unavoidable. The critical point is that there is abetter way to deal with equity than having alongexemption list.

At the same time, there is merit in the argument made by the Keralafinance minister that the items sold by NGOs such as Kudumbashree and small unorganised sector traders must be treated differently. These are decentralised producersand sellers and provide employment, and financial security to several women organised into self-help groups.

There are about 26,5282 neighbourhood groups (NHGs)inKerala.The answer to protecting themfromthe tyrannyoftaxation is not to have an expanded list of exemptions, including those on pre-packed food items, but to keep the threshold for registration at a reasonably high level. When each NHG is considered adifferent unit, most ofthem fall below the prescribed threshold. This reduces the compliance cost of many small businesses and serves the case of equity as most low-income earners purchase their requirements from small traders.

Presently, the threshold for registering businesses dealing in goods is  40 lakh, and those in services are  20 lakh. The GST Council could consider increasing the threshold to  50 lakh for both. Unfortunately, data on turnover-wise taxpayers, their turnovers, and tax paid are not in the public domain, but the information collected from Karnataka for 2019-20 shows that the business with less than  50 lakh annual turnovers constituted92.7%ofthe number oftaxpayers. They accounted for 6.5% of the total turnover and12% of the tax paid.

Keeping the threshold at  50 lakh annual turnover would substantially reduce the administrative burden and allowthe authorities to focus on the "whales" rather than the "minnows". This would also solve the issueof exempting the products of Kudumbashree and other small traders whose wares are bought predominantlyfrom the poor.Pruning the exemption list and keeping the threshold at a reasonably high level is an integral part of the reform to keep the tax base broad and avoid levying it at high rates.