



Differentiated GST Regime

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Why in News

The **Goods and Services Tax (GST) Council** is likely to consider a **ministerial group's report** on introducing a **differentiated regime for sectors** where tax evasion is very high.

Tax Evasion is an **illegal way to minimize tax liability through fraudulent techniques** like deliberate under-statement of taxable income or inflating expenses. It is an **unlawful attempt to reduce one's tax burden**.

GST Council

- It is a **constitutional body (Article 279A)** for making recommendations to the Union and State Government on issues related to **Goods and Services Tax**.
- The GST Council is **chaired by the Union Finance Minister** and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.
- It is **considered as a federal body** where both the centre and the states get due representation.

Key Points

- **Background:**
 - The GST council had earlier constituted a **Group of Ministers (GoM)** to consider demands of some States to tax the **sectors with high tax evasion based on production capacity** rather than output (i.e. Special Composition schemes)
Capacity based tax is based on **manufacturing capacity rather than production**.
 - Some examples of sectors with high tax evasion include **brick kilns, sand mining, and gutkha and pan masala production**.
For instance, **Rs. 830 crore of evasion was detected** at a single pan masala unit earlier in 2021.

- **Concerns:**

- Capacity based tax **goes against the very structure of GST** as one of the objectives was to **ensure buoyancy in revenues with increase in sales volumes.**

It could also open the **floodgates for such demands from other sectors, like textiles.**

- In terms of **implementation also** it will not be easy and it may **not even yield the desired result of curbing evasion**, the main reason for which is extremely high tax rates.
- Such a shift would be **detrimental to the fundamental idea of GST** and send out the wrong signal to honest taxpayers. It would introduce **added complexity in the GST structure.**

Way Forward

As the **past composition schemes have not been effective in checking evasion**, leading to rampant litigation over production capacity disputes between Revenue authorities and producers, the government should check GST evasion using **better data analytics and introducing innovative, stringent legal provisions** to deter tax avoidance.

Source: TH