



# **DAILY EDITORIAL ANALYSIS**

**TOPIC**

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**EQUITABLE DISTRIBUTION: PAC  
REPORT ON GST**

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## EQUITABLE DISTRIBUTION: PAC REPORT ON GST

### Context

- The **19th report of Parliament's Public Accounts Committee (PAC)** called for a comprehensive overhaul of the GST framework, proposing a **revamped 'GST 2.0'** to address procedural inefficiencies and compliance challenges.

### About the Goods and Services Tax (GST)

- It is a comprehensive, multi-stage, **destination-based** tax levied on the supply of goods and services in India.
- It was implemented on July 1, 2017 by the **101st Constitutional Amendment Act, 2016**, replacing multiple **indirect taxes** such as VAT, service tax, excise duty, and others.
- It is governed by the **GST Council**, which includes representatives from both the central and state governments.
- For the **key features of GST**, kindly visit the: <https://www.nextias.com/ca/current-affairs/23-09-2024/7-years-of-goods-and-services-tax>

### Need For Reforms: Concerns Highlighted in the PAC Report

- **Decline in Indirect Tax Revenue:** Nearly 2% drop in indirect tax revenue between FY18 and FY20, prior to the COVID-19 pandemic.
  - ♦ **High-revenue states** like Maharashtra, Tamil Nadu, and Karnataka contribute significantly but feel that revenue redistribution is not proportional to their contribution.
  - ♦ **States with low tax collection capacity**, such as those in the Northeast and economically weaker regions, struggle to generate sufficient revenue under GST.
- **Impact on Fiscal Federalism:** The Central Government controls GST rates, exemptions, and procedural rules, limiting states' autonomy in taxation.
- **States' Compensation Fund:** Non-auditing and non-finalization of the States' Compensation Fund for over six years.
  - ♦ It strained the functioning of the federal tax structure and delayed compensation to states for revenue losses.
- **Centralizing Tendencies:** Major revenue-generating states have expressed concerns over diminished fiscal autonomy and sharp declines in indirect tax collections.
  - ♦ The destination-based nature of GST adversely affects manufacturing-heavy states.
- **Complex Registration Processes:** Issues with biometric-based Aadhaar authentication and other registration hurdles were identified as barriers to achieving the vision of **'One Nation, One Tax'**.
- **Revenue Leakages:** Report highlights concerns over tax evasion and fraudulent input tax credit claims, which affect revenue distribution fairness.
- **Criminal Penalties for Unintentional Errors:** The PAC flagged the issue of honest taxpayers facing severe penalties for unintentional compliance failures, calling for a more balanced approach to enforcement.

### Recommendations for Reform

- **GST 2.0:** The report calls for a **comprehensive review** to develop a **'GST 2.0'** which would address **states' demands for a greater share of GST revenues**, closer to 70%-80%, up from the **current 50%**.
  - ♦ With GST 2.0, authorities may:
    - Implement biometric authentication to prevent fake invoicing.
    - Use real-time transaction monitoring to detect anomalies.
    - Strengthen penalties and legal actions against tax evaders.
- **Timely Audits and Updates:** The PAC recommended establishing a formal mechanism with the Comptroller and Auditor General (CAG) to ensure timely audits and updates on pending cases.
- **Simplification of Processes:** Streamlining GST procedures and enhancing the user-friendliness of the GST portal are essential to reduce compliance burdens and improve efficiency.

- ♦ It aims to reduce the compliance burden on MSMEs.
- **Reintroducing GST Compensation:** Extending compensation support for another 3-5 years, especially for economically weaker states.
- **Improved GST Portal:** The PAC recommends clear guidance and support for taxpayers at every step of the filing process to minimize errors and delays.
- **Enhancing Tax Compliance:** Implementing stricter measures to curb fraud and ensure that tax revenues are fairly distributed.
- **GST Revenue Devolution Formula:** Developing a new mechanism for progressive distribution of GST revenue, ensuring fairness based on economic capacity and needs.
- **Periodic Review of GST Rates:** Establishing a structured review process to align GST rates with economic conditions and ensure consistency.
- **Use of Technology:** The e-invoicing system and AI-based monitoring tools have been suggested as ways to reduce leakages.

### Conclusion

- The PAC's findings underscore the need for equitable distribution and systemic reforms in the GST framework.
- By addressing the challenges, India can ensure a more balanced and effective tax system that supports both economic growth and fiscal federalism.
- Collaborative efforts between the Centre and states will be crucial in achieving these goals.

Source: TH

### Mains Practice Question

[Q] How can the implementation of equitable revenue distribution under Goods and Services Tax (GST) address the key challenges and strengthen India's federal fiscal structure?

