

GOVT LIKELY TO GO SLOW ON KEY ANTI-EVASION RULE UNDER GST

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NEW DELHI: The government is unlikely to insist on implementing the reverse charge mechanism, a key anti-evasion measure proposed under the goods and services tax (GST), on concerns that the rule will adversely impact small businesses while not yielding revenue gains.

The implementation of the reverse charge mechanism is likely to be disruptive for small traders, a key electoral constituency of the ruling BJP, said two people familiar with the development. Instead, they said, alternative ways to curb tax evasion are being explored.

Under the reverse charge mechanism, entities (registered under GST) that purchase goods from small unregistered dealers have to pay a tax on behalf of the latter. This is expected to add to the compliance burden of all involved and discourage purchases from unregistered dealers. The Narendra Modi government, in the final year of its tenure before elections are held by May, is trying to avoid further upsetting small traders, who have already been affected by the initial chaos following the implementation of GST last year.

The government thinks the anti-tax evasion measure will disrupt small businesses, especially those operating in the informal economy, without leading to a significant rise in revenue collections. To be sure, a final decision on the fate of the reverse charge mechanism will be taken by the GST Council, the federal indirect tax body.