

Gung-ho on GST

The Finance Minister is confident of introducing a uniform goods & services tax (GST) across states by April 2010. Whilst the benefits are plenty, the task is a challenging one.

WHAT IS GST?

A dual tax with both central and state GST components levied on the same base. Thus, all goods and services barring a few exceptions will be brought onto the GST base. There will be no distinction between goods and services for the purpose of the tax.

The Benefits

- Taxes will be equitably redistributed between manufacturing and services
- Tax base will broaden, allowing for a reduction in rates
- Distortions will reduce, as will compliance costs
- Investment decisions will be made purely on economic concerns, independent of tax considerations
- Exports will get a leg up; will grow faster than imports
- Will promote employment
- Will spur growth; gains of \$15 billion annually have been estimated

Addressing the concerns

A number of issues remain to be resolved, which are currently under the consideration of the Empowered Committee under the chairmanship of Dr Asim Dasgupta, Finance Minister of West Bengal. These include:

● The rate structure and value

The primary concern of all state governments is protection as well as enhancement of existing revenue services. There are three parameters that need to be balanced:

one, the range of taxes being levied, which will be subsumed into the GST. This will determine the tax base of the GST. The other parameters are the number of rates and the numerical value of these rates, which will be applied to this base. All indirect taxes on the supply of goods and serv-

ices would need to be subsumed into the GST. VAT, stamp duty, vehicle tax, taxes on goods and passengers, taxes and duties on electricity, entertainment tax, entry tax, luxury tax, taxes on lotteries, betting and gambling, purchase tax as well as all state cesses and surcharges will be subsumed into the state GST. Central sales tax (CST) will stand abolished. From the Centre's side, central excise, additional excise duties, service tax, additional customs duty and all cesses and surcharges (other than educational cess) will be subsumed into the central GST. The best option would be a bare minimum number of rates, at best two, preferably one.

● Rules of supply for goods and services

While CST will be abolished in the GST regime, the treatment of inter-state sales will need to be carefully thought through. It would be necessary to guard against tax arbitrage where local sales that will be taxed could be shown as inter-state sales. The CST Act provided for documentation to attest the inter-state nature of the sales. A number of models are being examined by the Empowered Committee which will serve as alternatives.

Putting in place the Rules of Supply for the inter-state provision of services will be demanding. Some services may be supplied from one state, consumed in another and paid for in a third state. A set of rules to determine the taxation jurisdiction and appropriation would need to be worked out.

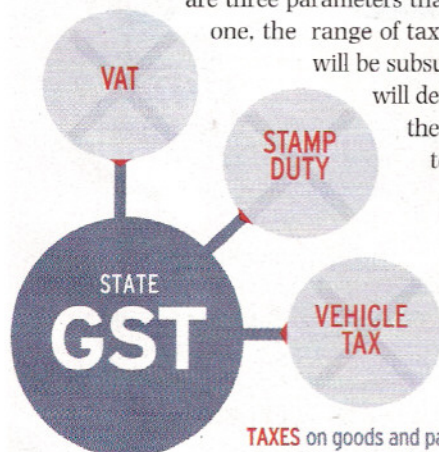
● Operational issues: Sharing of information

Recent experience suggests that local sales under the VAT regime are being shown as CST sales (which is a lower tax), leading to revenue loss. Apart from putting in place a comprehensive IT network, sharing of tax-related information and coordination amongst states will be crucial.

● IT infrastructure

The present Tax Information Exchange System (TINXSYS) does not appear to be fully operational across all states. ☉

Edited excerpts from a recent speech by Dr Vijay Kelkar, Chairman, Thirteenth Finance Commission, at ASSOCHAM



TAXES on goods and passengers and duties on electricity, entertainment tax, entry tax, luxury tax, taxes on lotteries, betting and gambling, purchase tax and all state cesses and surcharges will also be included in the state GST

