

Finance commission recommend five GST exemptions, ONE GST rate of 12% and implementation from October 2010

The Thirteenth Finance Commission's taskforce on the proposed goods and services tax (GST) has recommended a 5 per cent central GST and 7 per cent state GST on all goods and services, except five specific categories. It has proposed a zero rate for exports though it is not in favour of any special dispensation for the special economic zones (SEZs).

For inter-state transactions, the taskforce, in its report, recommended zero-rated structure through adoption of the modified bank model. Pending constitutional amendment, the report suggested that the collection from 7 per cent state GST should accrue to the state government and devolution to the third-tier (local) government should be made based on recommendations of state finance commissions.

The exemption list includes public services of Union, state and local governments, service transaction between an employer and employee, unprocessed food articles sold under the public distribution system, educational and health services provided by non-government schools, college and agencies.

It has favoured doing away with area-based exemption and replacing it with direct investment-linked cash subsidy in case the government wants to support industry for balanced regional development.

The taskforce has also recommended that "sin" goods comprising emission fuels, tobacco products and alcohol should be subject to a dual levy of GST and excise with no input credit for excise. "However, industrial fuels should be subjected only to GST with the benefit of input credit like any other intermediate good," the report said.

Central taxes proposed to be subsumed in GST are central excise duty, including additional excise duty, service tax, additional customs duty, all surcharges and cesses. Among state taxes that should be subsumed are value added tax, including purchase tax and central sales tax, and entertainment tax, among others.

In recommending what it terms as a "flawless" GST, the taskforce, headed by Arbind Modi, joint secretary, Department of Revenue, has made wide variations from what was proposed by the empowered committee of state finance ministers in their first discussion paper released last month.

The discussion paper had recommended a two-rate structure for both state GST and central SGT while keeping the purchase tax levied by states like Punjab, Haryana and Uttar Pradesh out of the purview of GST.

The discussion paper had recommended a dual rate structure for CGST and SGST with a single rate for services. The finance commission taskforce, however, said "there should

be no classification between goods and services in law so as to ensure that there is no classification dispute”.

The state governments will meet tomorrow to discuss the fine contours of GST as the scheduled date (April 1, 2010) for its introduction draws closer.

Even in the case of exempted items, the discussion paper did not list the items but favoured retaining the exempted list of value added tax and Central VAT which is currently around 100.

PROPOSALS:-

- A zero rate for exports though it is not in favour of any special dispensation for the special economic zones
- It has favoured doing away with area-based exemption and replacing with direct investment-linked cash subsidy
- The taskforce has also recommended that 'sin' goods comprising emission fuels, tobacco products and alcohol should be subject to a dual levy of GST

The taskforce in its report has suggested that small dealers, service providers and manufactures with an annual turnover of less than Rs 10 lakh should be exempted from both CGST and SGST though they could voluntarily register themselves for GST in order to get the benefit of input credit. The discussion paper had suggested Rs 10 lakh as threshold for SGST and Rs 1.5 crore as threshold for CGST.

In order to reduce administrative and compliance burden, the taskforce report proposed compounded levy of one per cent each for CGST and SGST for those with turnover of Rs 10 lakh to Rs 40 lakh with “no input credit allowed against compounded levy or purchases made from exempt dealers”.

The 13th Finance Commission task force on the proposed Goods and Services Tax has recommended a single, 12 per cent rate on all items and suggested deferring implementation of the new tax regime by six months from April to October next year.

Out of the GST of 12 per cent, states should receive seven per cent while the rest five per cent should go to the Centre's kitty, said the task force.

The recommendations, however, are at variance with the Discussion Paper prepared by the Empowered Committee of State Finance Ministers which had suggested four rates, including a separate category for exempt items.

The government has planned to introduce the GST, which will replace excise duty and service tax at the Central level and Value Added Tax at the state level, besides the cess, surcharges and local taxes being levied on good and services, from April 1, 2010.

The task force has said the GST be introduced from October 1, 2010.

The Empowered Committee, which is yet to take a final call on GST tax rates, is meeting here under the chairmanship of Asim Dasgupta.

“It (GST) will have four slabs. I hope the rates will be released in the next 15 days,” Dasgupta had said.

Regards;
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