

GST: The Countdown Begins

The empowered Committee of State Finance Ministers on Tuesday (10 Nov 2009) unveiled the contours of Proposed Goods and Service Tax (GST) by releasing a First Discussion Paper on Proposed GST.

Uncertainty continued to persist about whether the April 1, 2010, deadline for the roll out would be met and Asim Dasgupta, West Bengal's finance minister and pane chairman, admitted that attempts are still on to try and resolve differences among states.

Highlights of Discussion Paper on Proposed GST

GST will redistribute the burden of taxation equitably between manufacturing and services, bringing about a qualitative change in the tax system. It will broaden the tax base and lower tax rates. The distortions will be reduced fostering a common market across the country. The compliance cost will come down and trade & industry will become competitive leading to an increase in exports and lower prices for domestic consumers.

PROPOSED GST MODEL

GST will have two components:

- **Levied by the Centre (Central GST) :**
 - Will be implemented through one statute for Central GST.
 - Paid into the account of the Centre.
 - Administration with the Centre.
- **Levied by the States (State GST) :**
 - Will be implemented through state-specific law, but basic features will not change.
 - Paid into the account of respective states.
 - Administration with respective states.

RATES

There will be two rates for GST – a lower rate for necessary items and standard one for others.

- Special Rates for Precious metals.
- Services to have a single rate.
- Exact rates to be decided later.

THRESHOLD LIMIT

- Rs. 10 lakh gross annual turnover for state GST.
- Central GST at Rs. 1.5 Crore
- Service - High but not proposed

SALIENT POINTS

- There two taxes, state GST and central GST, will be treated separately.
- Input tax credit, or tax paid on inputs, will be allowed only in respect of IGST, central or state.
- Input tax in respect of central GST, for instance, cannot be set off against state GST.
- Will be applicable on all transactions of goods and services except exempt ones, those outside GST and transactions below a threshold to keep smaller traders out and for ease of administration.
- Uniform procedures for collection of both the components.
- Taxpayers to submit returns to both the central and state authorities.
- Each taxpayer will get a PAN-linked identification number for GST.
- Imports would attract both central and state GST.
- Cross-utilisation of credit between goods & services allowed within one vertical, central or state GST.

MAJOR TAXES THAT WOULD BE SUBSUMED.

Central	State
• Central excise • Additional excise • Service tax • Additional Customs duty • Special additional duty on Customs • Surcharges • Cesses	• VAT/Sales tax • Entertainment tax, except those levied by municipal bodies • Luxury tax • Taxes on lottery, betting & gambling • State cesses & surcharge on goods • Entry tax that is not in lieu of octroi

MAJOR CONSTITUTIONAL CHANGES NEEDED

- State will have to get powers to tax services and imports.
- The Centre will need powers to tax on sale of goods.

BENEFIT OF GST

- There will not be any tax-on-tax, leading to lower tax liability.
- General lowering of costs will reduce the cost of goods & services.
- The high threshold will keep small traders out.

INTER-STATE GST

- There will be an inter-state GST, called IGST
- The tax will be levied by the Centre and will be sum of state and central GST.
- A scheme of transfer of credit will ensure uninterrupted input credit chain.