Summary of GST development between 08-02-2010 and 14-02-2010

A broad consensus has been formed within the finance ministry on a rate of 16% for the proposed GST for both centre and states combined. To be levied on all companies and traders with an annual turnover of Rs.10 lakh and above, this would provide a tax base of 40-45 lakh assessees and ensure that neither the centre nor the state suffer any revenue loss. Sources said the rates for both the centre and the states on GST could be more depending on the final negotiations with the empowered committee of state finance ministers after presentation of the Union Budget. The law ministry is believed to have sent a detailed response on the suggestions sought by the department of revenue toward finalization of draft constitutional amendment of the indirect tax reforms.

Tobacco is taxed by the centre, alcohol comes under states. In the current negotiations, states have sought petroleum products and alcohol to remain outside the GST model. Central wants to bring them within the GST model in order to remove the cascading effect on the proposed tax paid on the inputs such as raw material and packaging material. Sales tax / VAT and excise duty can be charged over and above GST. After a careful screening, the centre and states could work out a uniform exemption list that could be pruned down to 50, sources said.

The Madhya Pradesh government has refused to buy the centre?s concept of introducing a single slab of the goods and services tax and has said this will raise prices of essential commodities. ?The centre has proposed to introduce single slab of GST and impose 16 percent tax on all edibles like sugar, pulses and edible oils. The centre is making a populist decision. It has also turned down the state?s demand of paying compensation against CST for 2009-10 and 2010-11?, state Finance Minister Raghavji said. The state has asked the centre to provide more rooms to levy indirect taxes.

GST: IMPACT ON THE POOR

GST is a destination based consumption tax. Consumption taxes are regressive in nature. It increases the gap between the rich and the poor. The pertinent point is whether such tax would be fruitful for the economy as a whole or not? Is it not so that shift towards the consumption tax would increase inequality? However, there are different ways to combat this inequality. For example, reduced rate of goods and services tax may be applied to certain ?necessities? in order to reduce tax burden on the poor. But it is not an effective way to deal with the problem as the rich typically consume more of the ?necessities? than the poor. Also it is difficult to ensure that none of the poor people lost out. This is the biggest concern that the oppositions use to oppose a tax on consumption.

The poverty reduction will continue to remain the central objective of the economic policy making in India . Any policy for poverty reduction must enable the provision of at least, food, clothing, shelter, education and health.

The Thirteenth Finance Commission?s Task Force has come out with rational answers to these queries and said that the proposed switchover to the ?flawless? GST should be viewed as pro-poor and not regressive.

The Task Force?s studies show that primary food articles like rice and wheat are liable to tax by many states either by way of purchase tax or sales tax at a lower rate. As a result the incidence of tax on primary food articles comprises of two elements: a) tax on inputs and b) tax on output (primary food article). However, under the ?flawless? GST, all food items covered under the public distribution system are proposed to be exempt from GST. So, it is clear that primary food articles like rice and wheat would be exempt from GST (i.e., there will be no output tax). Hence, the tax incidence on such items will be limited to tax on inputs. The GST is designed as a pro-poor policy initiative since expenditure on food constitutes a large proportion of the total consumption expenditure of the poor. In any case, the poor will continue to have accessibility to these items at subsidized prices through the public distribution system.

Basic health and education services are expected to be fully exempt in GST regime. Since these services are necessary to meet the basic human needs, the exemption for these services will enable the poor to have cheaper accessibility. In any case, as at present, these services will continue to be exempt from tax and therefore no additional burden will arise on account of the switchover to GST.

Housing is yet another important item of basic needs of the poor. The Task Force recommended for the inclusion of transactions in real estate within the purview of GST. Therefore, for a registered real estate builder, all taxes on inputs (including on land) will be offset against the tax payable on the constructed property. This will effectively reduce cost of housing to the extent of embedded taxes and hence, benefit the poor.

Another necessary item of consumption by the poor is clothing. The National Council of Applied Economic Research (NCAER) study shows that the implementation of the GST will result in sharp decline in the price of cotton textiles (by 6.44 percent), wool, silk & synthetic fibre textiles (by 11.4 percent) and textile products including wearing apparel (by 17.45 percent). If you will take total expenditure on consumption, the share of expenditure on clothing in case of poor will be relatively higher than in case of rich and the poor will gain relatively more from large drop in prices.

The rural poor comprise essentially of small and marginal farmers and landless labourers. Similarly, the urban poor comprises of the unemployed. The National Council of Applied Economic Research (NCAER) study shows that the implementation of GST will witness an increase in the real returns to land, labour and capital. Therefore, the poor will also enjoy an increase in their income. Similarly, on account of increase in economic activity resulting in higher growth, there will be new opportunities for employment which will directly benefit the urban poor.

According to the Task Force the benefit to the poor from the implementation of GST will flow from two sources:

i) Through increase in the income levels and

ii) Through reduction in prices of goods consumed by them. The proposed switchover to the ?flawless? GST should, therefore, be viewed as pro-poor and not regressive.

As per Task Force, prices of agricultural commodities and services are expected to rise. Most of the manufactured goods would be available at relatively low prices especially textiles and readymade garments. The prices of agricultural goods would increase between 0.61 and 1.18 percent whereas the overall prices of all manufacturing sector would decline between 1.22 and 2.53 percent. Hence, the terms of trade will move in favour of agriculture between 1.9 to 3.8 percent. The increase in agricultural prices would benefit millions of farmers in India . Similarly, the urban poor will also benefit from new employment opportunities. With regards to the food crops the poor would continue to remain secured through the public distribution system. The prices of many other consumer goods are expected to decline. These include sugar; beverages; cotton textile; wool, silk and synthetic fibre textiles; and textile products and wearing apparel.

Based on the above discussion we can conclude that the overall impact of GST on the poor would not be negative. In the long run it will help the economy to move in the positive direction as well as in the poverty reduction. To minimize the gap of inequality is much bigger challenge but adequate implementation of goods and services tax with supportive tax-administration would be a firm step in this direction