



The critical and long awaited meeting of the Empowered Committee of State Finance Ministers was held in Delhi on September 16, 2009. The key announcements, subsequent to the meeting, are as follows :-

In Brief

- Strong Commitment to the April 1, 2010 deadline for the introduction of the dual GST.
- States have agreed to have two basic rates of GST. Central GST will also be in conformity with the State GST.
- Standard rate likely to be in the range of 8% to 9% and the lower rate, for essential commodities etc, will be in the range of 4% to 5%. The special rate for precious metals is expected to be at 1%. A small set of specified products will be exempt from the GST.
- States will be given flexibility on the choice of goods of local importance for the purpose of exemption.
- A Joint Working Group will be set up to work out a framework of the GST law and the required Constitutional amendments within two months of setting up.
- The Centre has agreed in principle to compensate States in case of revenue loss arising from switch over to GST.
- The Empowered Committee will meet the Union Finance Minister on October 8, 2009 for further discussions on the GST model and roll out.

In Detail

The meeting of 16th September was attended by the State Finance Ministers as well as by senior officials of the Union Finance Ministry. The States have agreed to two basic rates for the GST comprising a standard rate for most goods and a lower one for essential commodities. In addition, a special rate will apply to a small list of precious metals. A

consensus to this effect was arrived at the three hour long meeting of the Empowered Committee. There will also be a list of exempted items. The exact rates for the items that would be included in the GST have not been decided.

However, the standard rate is likely to be in the range of 8% to 9% while the lower rate for essential commodities would be in the range of 4% to 5% and the special rate for precious metals is expected to be fixed at 1%.

Despite differences from a few States on several issues including revenue loss, the compensation formula and sharing of the service tax base, the Empowered Committee has reaffirmed its commitment to the April 1, 2010 deadline for the introduction of the GST.

It has also decided to set up a Joint Working Group (JWG) to work out within two months a framework of the necessary amendments to the Constitution for the GST implementation as well as the model of the GST legislation for the Centre and the States. The JWG will comprise officials from the Centre, from the Finance Ministry and other Ministries as well, besides the Finance Secretaries and the Commissioners of Commercial Taxes from the States.

Dr Asim Dasgupta, Chairman of the Empowered Committee indicated that while the Centre will decide on the Central GST, he expected a significant degree of conformity between the Central and the State GST, in terms of rates and other aspects.

He has indicated that the States will be given flexibility with regard to the choice of goods of local importance for the purpose of exemption from tax. He also informed that the Committee has discussed in detail as to how the inter State transactions take place and have reached a convergence on that for both goods and services.

Dr Dasgupta also stated that the expression of reservations over various aspects of the dual GST by the States has narrowed down. Some States like Karnataka and Gujarat are quite supportive of the GST. Some of the North Eastern States as well the as States belonging



to special category wanted the Centre to compensate them in case they incur revenue loss by switching over to the GST. He said that the Centre has indicated that a mechanism can be evolved for compensating the States on the above basis. Dr Dasgupta said that the Committee is attempting to put its "best foot forward" to finalizing the structure in time and all the ground work in terms of readying the framework should be completed in two months from now.

The Empowered Committee will now be meeting the Union Finance Minister Mr. Pranab Mukherjee on October 8, 2009 for further discussions on the GST model and roll out.

(PTI News September 16, 2009)
(Deccan Herald September 16, 2009)
(The Economic Times September 17, 2009)
(Business Line September 17, 2009)

In conclusion, the Empowered Committee has reiterated the commitment to the introduction of the GST by 1st April 2010. Corporates thus need to immediately understand and address the implications of the dual GST.

PwC is ready to advise and assist in this process.

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