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The Chairman of the Empowered Committee of State Finance Ministers on VAT/GST, Dr. Asim Dasgupta said that the EC plans to interact with all stakeholders and industry houses after finalising the GST structure. The details of the dual GST model and the rate structure are being worked out and will be finalized soon.

(ET Bureau, July 6, 2009)

The Finance Minister, Mr. Pranab Mukherjee has expressed confidence that the Government would implement the Goods and Services Tax (GST) from April 1, 2010, with the support of all political parties.

He also stated that the introduction of the GST in 2010-11 is expected to bring a sustained rise in tax revenues. According to official estimates, the implementation of the GST could generate additional revenue of over Rs 72,000 crores annually. The Finance Minister has impliedly taken a step towards the introduction of Central GST rate on goods by increasing the rate of central excise duty on certain commodities from 4% to 8%.

Mr. Mukherjee and Dr. Dasgupta will be meeting at scheduled intervals to monitor the roll out of dual GST by April 01, 2010.

(PTI, July 15, 2009)

News

Companies located in States that do not implement the proposed Goods and Services Tax from April 1, 2010, would not be able to claim “input tax credit”, according to a senior finance ministry official.

Thus, firms in non-GST States would have to pay higher taxes, which will make them uncompetitive with those in States where the tax is implemented. The concept of input tax credit is essential to ensure that producers pay tax only on their value addition, and not pay tax on tax.

The Centre is hoping that in such a scenario firms in GST States would lobby for the introduction of a pan-India tax, which will subsume most State and Central level taxes. The Finance Minister, in an address to industry representatives, said that some States might decide to stay out of GST in the beginning like in the case when the Value Added Tax (VAT) was implemented four years back.

A few states like Tamil Nadu, Madhya Pradesh and Chhattisgarh have opposed or expressed reservation on implementing this pan-India consumption-based tax as many of their concerns were not resolved.

(PTI, July 15, 2009)

A consensus has been reached among States on the rolling out of the Goods and Services Tax from April 1, 2010 with most of them approving a common tax rate. Any change in the agreed rate structure will be made only after a decision is taken by the Empowered Committee. The Revenue Secretary, Mr. P V Bhide said that most States have agreed to a common GST rate which would have two components – The Central and the State GST. On the State GST, States have agreed to have a single tax rate, unlike VAT where different States have different rates. This removes a major roadblock and would considerably help the Government's commitment in implementing GST from April 1, 2010. Some commodities like tobacco and liquor will be taxed differently by States, with the consent of the EC.

(TNN, July 16, 2009)



Structure of the GST



India will implement a dual GST whereby a Central goods and services tax (CGST) and a State goods and services tax (SGST) will be levied on the taxable value of a transaction of supply of goods and services and both the Centre and the State will legislate, levy and administer the CGST and the SGST respectively.

There are three Working Groups in the EC working on GST rates, taxation of inter state supplies of goods and services and on exemptions. These Groups are expected to finalize their recommendation in time for the EC to discuss in their August 2009 meeting.



Key Features of the dual GST



The proposed dual GST model will subsume taxes like central excise, service tax, VAT, central sale tax, entertainment tax, luxury tax, octroi, electricity duty and purchase tax. Taxes like stamp duty, toll tax, passenger tax and road tax will not be subsumed.

Goods will be classified based on the HSN classification and services will be classified based on global best practices and Indian realities.

Services will likely be taxed at uniform rates while multiple rates could exist for taxing goods. All goods and services are to be taxed with few exceptions.

Uniform thresholds and exemptions will be applicable for the Central and State GST with little flexibility for the States to deviate therefrom.

Existing exemption schemes are proposed to be converted into post tax cash refund schemes

Full input credit of the Central GST and State GST will operate in parallel under this model and cross utilisation of credits between Central GST and State GST will not be allowed. However, unutilised accumulated input tax credits will be available for refund at the end of each fiscal year.

Key Features of the dual GST



There would be no tax in the originating State on inter-State supplies as the GST will be destination based. Also exports will be zero rated.

Consequently, inter-State supply of goods will be taxed in the State of consumption alone. However, in order to ensure payment of tax on inter-State supplies as also to ensure appropriate documentation, it is proposed that the originating state will recover the SGST of the destination State on such inter-State supplies and remit it to the destination State through banking channels. The dealer in the destination State will be able to offset this tax against his output SGST.

In case of inter-State provision of services, services are to be taxed at the place of consumption of services. The place of supply rules to be drafted will determine the relevant State, which would tax these services. The collection of the CGST on such services will be relatively straight forward.

PAN based identification number will be used with two extra digits to distinguish between Central and State GST for compliance purposes and one periodic return need to be filed.

Issues and Challenges



Amendments to the Constitution are essential so as to enable the Central Government to tax beyond the manufacturing stage and for the State Governments to be able to charge service tax.

Federal GST law is required to be drafted along with uniform State GST Law.

Integration is required among large number of Central and State taxes, consensus needs to be obtained amongst States to abolish multiple local taxes and thresholds need to be rationalized across excise, service tax and VAT.

Agreement is yet to be reached on major issues such as the treatment of inter- state supplies of goods and services , treatment of exemptions under the federal and State GST, imposition of GST on imports, standardization of systems and procedures for GST implementation.

Certain issues which require to be dealt before implementation of GST will be safeguarding the interests of less developed States, assessing the impact of GST on business to business basis to ensure that GST is a positive for corporates, educating tax authorities as well as the tax payers, compensation for States for phasing out CST and for introduction of GST.



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Disclaimer: The materials contained in this Newsletter have been compiled by the Indirect Tax Practice team from various sources. The subjects are discussed in brief/general terms and are intended to provide a simple overview of the relevant developments in dual Goods and Services Tax. This information is for guidance only and should not be regarded as a substitute for appropriate professional advice. PricewaterhouseCoopers accepts no liability with regard to the information herein or any action that may be taken by readers of this Newsletter.