

# The GST Council finalises seven set of rules and approves rate structure on majority of goods and services

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## In brief

The Goods and Services Tax (GST) Council has at its fourteenth meeting held in Srinagar approved the rate structure on majority of the goods and services. The GST Council also approved seven set of rules, barring two rules which are still to be vetted.

## In detail

The major highlights of the tax rates and the finalised rules are as under:

### **Tax rates on goods and some of the important commodities in each of the rate slabs:**

The GST Council has largely completed the exercise of fitment of various goods in different rate slabs. Some important commodities with their GST rates are as under:

Sr. No.	GST Rate (in %)	Percentage of total commodities covered	Illustrative list of commodities
1	0	7%	Milk, Food grain, Bread, Printed books, Hearing aids, Stamp papers,
2	5	14%	Coal, Sugar, Tea, Coffee, Edible oil, building bricks, renewable energy devices and its spare parts,
3	12	17%	Medicines, Telephones, LED lights, Fruit Juices, Paintings, Fertilisers, Agarbatti
4	18	43%	Soap, Toothpaste, Hair oil, Steel, Insecticides, Refractory bricks, Nuclear reactors,
5	28	19%	Consumer durables, Motor cars, Auto Components, Wrist watches, Cement, Cosmetics, Furniture

The tax rates on few categories of goods, such as gold, textiles, beedi, branded and packaged food items etc. will be decided in next meeting of the GST Council scheduled to be held on 03 June, 2017.

### GST compensation cess

In addition to the GST rates, GST compensation cess has been prescribed for certain categories of supplies.

Sr. No.	Commodity	Rate of cess
1	Coal, Lignite & Peat	INR 400 per tonne
2	Motor cars	Small cars 1%/ 3% Mid segment/ Large cars/ SUVs - 15%
3	Motorcycles with engine capacity > 350 cc	3%
4	Pan Masala, Tobacco and Tobacco products	60% - 204%
5	Cigarettes	5% - 21% plus fixed rate per 1000 based on category and length
6	Aerated waters	12%

### Tax rates on services and some of the important commodities in each of the rate slabs:

As against the general expectation, the GST Council has decided to tax services in all the tax rate slabs, as in the case of goods. While the schedule of rate for services is yet to be released in public domain, as per news reports, the GST rates on some of the services are as under:

Sr. No.	GST Rate (in %)	Illustrative list of services
1	0	Healthcare, Education, Metro & Non AC train travel
2	5	Goods Transport agency, Hotels with tariff < INR 1,000 per day, AC train travel, Economy class air travel.
3	12	Works contracts, Non AC restaurants, Business class air travel
4	18	Financial services, Telecommunication, IT services, AC restaurants. Additionally, this will be standard rate of tax on services.
5	28	Cinema halls, betting, Five Star hotels

### Key changes in the amended rules:

The GST Council has approved the following rules and the key changes have been highlighted below:

- Valuation rules:
  - Not many changes in most Rules
  - In case of goods intended for further supply as such by the recipient, supplier has option to adopt value as 90% of the price charged by the recipient to his customer not being a related person:
    - Specific mechanism for valuation of repossessed assets by Banks, NBFCs etc.
    - Pure agent conditions have been rationalised
    - Formula prescribed to compute GST in cases where value is inclusive of GST
- Input tax credit (ITC) rules
  - Specific mention of a few documents for availing credit
  - In cases of supply without consideration, amount deemed to be paid to the supplier for the purpose of taking credit
- Time limit for taking credit not to apply to claims for re-availing credit, where credit had been reversed earlier
- Reversal of ITC on Capital goods/ plant and machinery removed at depreciated value at the rate of 5% per quarter from date of invoice
- Invoice rules
  - Serial number of invoices and other documents not to exceed sixteen characters
  - Reverse charge (self) invoice to bear signature / digital signature of

- authorised signatory of recipient
- Requirement to capture number and date of application for removal of goods for exports dispensed with
- Contents prescribe for refund voucher and payment voucher
- Tax Invoices/ other documents can be issued by Banks/ NBFCs electronically or physically
- At the time of receipt of advance
  - o If the nature of supply is not determinable, same shall be treated as inter-state supply
  - o If the rate of tax is not determinable, tax shall be paid at the rate of 18%
- Registration rules
  - SEZ unit/ Developer to make separate registration as a business vertical – this now covers multiple units in a SEZ
  - Input service distributor to make a separate application for registration
  - Business entity incorporate outside India to file application for registration (as non-resident taxable person) along with tax identification number/ Unique number of that Country or PAN, if available
  - Verification of forms, outward and inward supply details, appeals etc. enabled through aadhaar based electronic verification code
- Refund rules
  - Refund for supplies to SEZ

- units/ developer subject to declaration that the SEZ unit/ developer has not taken ITC
- Formula provided for computation of refund in case of inverted duty structure
- Payment rules
  - Not many changes in most Rules
  - Provision to communicate discrepancy noticed in electronic liability register or electronic cash register
- Composition rules
  - Not many changes in the Rules

### **PwC Comments**

- The Government has made rapid progress on introduction of GST and finalising the GST rates on almost all the goods and most of the services. It was mentioned by the revenue secretary that approximately 19% of the goods would be taxed at the rate of 28%, which is against the previous understanding that only some of the goods like luxury goods, aerated beverages etc. were to be taxed under this slab. It is hoped that gradually the tax rates on such goods are reduced and brought to 18%. Further, while it was mentioned that the items of daily needs are to be taxed at 18% rate and commodities like soap and toothpaste are indeed included in the 18% rate slab, the goods like detergents etc. are included in 28% rate bracket, which leads to a question on the parameters used for defining items of daily needs. Release of the rate schedule would enable the industry to work out its new pricing structure, after considering the new rate

structure and the benefits of ITC. The industry would also hope that some of the decisions on rates, such as multiple rates for services etc. may be reconsidered for the sake of bringing in simplicity.

- The changes in the Rules are welcome and address some of the concerns raised by the industry. While some of the rules have been finalised, the industry is awaiting the complete set of final rules which would enable it to plan the transition and compliance requirement in the GST regime and accordingly make appropriate changes to the IT systems. The industry hopes that the Government would release all the final rules and also reach a consensus on the final rate structure of the goods in the next meeting of the GST Council scheduled on 03 June, 2017. The Government is yet to come up with the rules and methodology to implement the provisions relating to anti-profiteering
- Considering that the time line of 01 July is extremely close, it is imperative that the Government should release all the rules and formats quickly to enable the industry to gear up for the transition. With around 15 States passing State GST bills and GST Network undertaking beta testing of the network, the Government seems to be on its way for implementing GST from 01 July. Trade and industry on its part would need to accelerate their efforts to be ready for introduction of GST.

### **Let's talk**

For a deeper discussion of how this issue might affect your business, please contact your local PwC advisor

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