

## **Key Services may be Taxed at Lower Rate in GST Regime**

***Lower rate for services to help consumers who have borne the brunt of increase in tax to 14% this year from 12.36% earlier***

Worried about a steep rise in service tax when the goods and services tax (GST) is rolled out, the government is considering a two-rate structure to minimize the impact on consumers.

Key services may be taxed at a lower rate to give relief to consumers who saw the levy increase to 14% this year from 12.36%. "There is a thinking that some essential services be taxed at a lower rate," a finance ministry official said, adding that a sudden, steep rise could pinch the common people.

There could be a standard rate and a threshold rate for select services.

The GST Bill, which has been passed by the Lok Sabha, could not be taken up in the Rajya Sabha due to opposition protests during the July 21-August 13 monsoon session of parliament. The government is said to be looking at calling a short session to get the crucial legislation passed in time to roll out the new tax regime from April 1, 2016.

While the service tax rate will increase under the GST regime likely to 18% or more -there will be a substantial reduction in taxation on goods as the new regime will eliminate will eliminate the so-called cascading of tax, or tax on tax.

A panel headed by chief economic advisor Arvind Subramanian is looking at possible revenue-neutral tax rates under GST that would be consistent with the present level of revenue collection of the Centre and the states.

The panel is expected to give its report in 2-3 weeks.

Some sections in the government feel there should be a mechanism to lower the burden of a jump in service tax, such as the two-rate option.

This will also ensure that the negative and exempted list of services under the new regime is kept minimal to widen the tax base.

The single-rate GST will replace a series of levies including central excise, service tax, state value-added tax, entertainment tax, octroi, entry tax, luxury tax and purchase tax and is projected to add as much as 2% to the country's gross domestic product. Some experts don't favour a two-rate structure for service tax.

"Having two rates of GST for services will create issues of classification and disputes in case of bundled and mixed supplies. It will further add to the multitude of rates prescribed in GST and further move it away from an efficient design. There will be enhanced litigation and further increase in cost of compliance," said Bipin Sapra, a partner at EY.

## **Don't Clutter the Tax System**

Multiple service tax rates under GST is a bad idea. It goes against the grain of indirect tax reform where steady convergence has largely been the norm. Tailoring service tax to suit individual sectors also distorts the tax system. Instead, the Centre and states must settle for a lower GST rate when all taxes levied on goods and services are collapsed into one. The global average VAT rate is about 16.4%. A combined central and state GST rate of not more than 18% makes sense to reduce the tax burden for consumers.

*(Economic Times)*