

Next-level GST talks on Wednesday

Signalling that a consensus might be emerging on the proposed national goods and services tax (GST), states have dropped the controversial issue of compensation to them to make up for the cut in the central sales tax (CST) from the agenda of their meeting on Wednesday, after Finance Minister Arun Jaitley gave an assurance on this front.

CST was one of the major roadblocks for a GST, which was originally scheduled to come from April 1, 2010. It had prominently figured in almost all past meetings of the empowered committee (EC) of state finance ministers.

Jaitley has already assured states that the Centre would clear their CST compensation dues of about Rs 34,000 crore over a three-year period. CST is levied by the Centre on inter-state movement of goods, but collected by states. The issue of compensation arose because the Centre cut CST from four per cent to two per cent in phases after state-level value added tax (VAT) was introduced from April 1, 2005.

ON THE SAME PATH?

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However, finance ministry officials are still keeping their fingers crossed over the possibility of the issue again cropping up in the August 20 meeting, despite the agenda not mentioning it.

If the CST compensation does not come up, officials said discussions on the GST would progress very fast now as the Centre is willing to address states' concerns, while some states had also softened their stance.

Experts agree to this point of view. "The Centre is serious about GST. If you are strong at Central level, that makes it much easier. However, there are still some grounds to cover like the Constitutional Amendment Bill. States have some genuine concerns on autonomy and

compensation. But there are no major roadblocks. So in my view, GST is not a possibility in 2015 but it might come from April 2016," said Pratik Jain, partner, KPMG.

States and the Centre will take discussions on GST to the next level in the meeting which will be the first one after the presentation of the Union Budget in Parliament. In the Budget, the finance minister had assured the "states that government will be more than fair in dealing with them".

"Discussion on recommendations of the committee on the problem of dual control, threshold and exemptions in GST regime are on the agenda," said a finance ministry official, who did not wish to be identified.

By subsuming most indirect taxes levied by the Centre and the states such as excise, service tax, VAT, and sales tax, GST will facilitate a common market across the country, leading to economies of scale and reducing inflation through an efficient supply chain.

To avoid dual control of two authorities on small traders, states want to keep the administrative control of traders with annual turnover of up to Rs 1.5 crore. The Central Board of Excise and Customs is against this.

The EC will also discuss the recommendations of a committee comprising officials from the finance ministry and some of the states on integrated GST, which will be a tax on inter-state movement of goods, and review the latest position of VAT and non-VAT revenues of the states.

States such as Gujarat, Madhya Pradesh and Uttar Pradesh, which were standing in the way of GST earlier, have now said they are not opposed to the new indirect tax as long as their concerns on autonomy and other issues are concerned.

States are opposing inclusion of petroleum, alcohol and entry tax in GST. Petroleum constitutes 26 per cent of the revenues of the states. Besides, it is easy to administer tax due to limited number of players. But as it is a major input for other industries; cascading of taxes as a result of keeping it out of GST would increase the production cost and disrupt audit trail.

"I think petroleum will be out to start with, though it won't be an ideal situation. It will still be a much better system," said KPMG's Jain.

Discussion on the visit of a delegation of the EC to Russia and China is also on the agenda. The states had proposed a study tour to these countries on GST. However, according to officials, the Centre did not give its approval as it felt Russia and China did not have the GST model India should follow.

"Some states have been apprehensive about surrendering their taxation jurisdiction; others want to be adequately compensated... I do hope we are able to find a solution in the course of this year and approve the legislative scheme, which enables the introduction of GST," Jaitley had said in his Budget speech.

This will streamline the tax administration, avoid harassment of the business and result in higher revenue collection both for the Centre and the states, he had said.

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