

Select panel arrives at middle ground on GST

RS committee moots 1% extra tax only on inter-state supply for a consideration suggests states be given full compensation for revenue loss for 5 years

Parliamentarians are understood to have recommended a mechanism to do away with the contentious issue of a cascading effect of one per cent tax over the proposed national goods and services tax (GST). A select panel of the Rajya Sabha is believed to have suggested the tax be made liable only in the case of inter- state supply of goods for a consideration, adding this be made explicit at the time of making the GST law.

It also accepted a demand by most states that the Constitution amendment Bill on GST provide that they be fully compensated for revenue loss for five years.

The committee, sources said, was also understood to have recommended moderate GST rates, with as many goods under it as possible. However, the rates would be decided by the proposed GST council and these wouldn't be part of the Constitution amendment Bill.

Despite the proposed changes to the crucial tax reform legislation, the opposition Congress on Monday submitted a dissent note to the Bill.

The Constitution amendment Bill, passed by the Lok Sabha earlier, has a provision of one per cent additional tax over GST for inter- state supply of goods to help producing states, as GST is a destination- based tax. However, this drew flak from industry and experts, who claimed it would lead to a cascading effect.

To balance the interests of the two sides, the panel is understood to have recommended the proposed GST law should say that inter- state movement of goods won't be taxable if it is without a consideration, which might mean the movement of goods within the same company.

The Constitution amendment Bill is an enabling mechanism to allow the Centre and states to impose GST. After the Bill is passed, the new indirect tax regime would require another central law, as well as state laws on GST.

The select panel of the Rajya Sabha seemed to be of the view that compensation to states should not decline from the fourth year; the current Bill says states be fully compensated for their losses till three years; this would fall to 75 per cent in the fourth year and 50 per cent in the fifth.

On a GST rate, the committee is expected to have said the proposed indirect tax regime should be broad- based so that rates are moderate and non- inflationary. It is understood to have stated as petroleum was out of GST for all effective purposes, the rates were high. The Bill passed by the Lok Sabha says the proposed GST council will decide whether petroleum is included or not.

Earlier, a sub- panel of the empowered committee of state finance ministers had recommended a revenue neutral rate of 27 per cent, to be broken into state GST and central GST.

WHAT THE PANEL RECOMMENDS

- Rajya Sabha select panel adopts report on Constitution amendment Bill on GST
- Recommends moderation of GST rates |Decision on the rate to be taken by the proposed GST council
- Congress has filed a dissent note on the Constitution amendment Bill

(Business Standard)