

Issues and Perspectives

Annex 1 Issues relating to GST and Recommendations of the Standing Committee on Finance

| Issues | Recommendations of the Standing Committee of Finance |
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| Revenue neutral rate and compensation mechanism for potential losses in tax revenue | GST may have a floor rate with a band so as to allow state governments some flexibility in calibrating their tax rates within the band. To allay the state governments' fear of revenue loss, a well-defined automatic permanent compensation mechanism may be built in to ensure that revenue trajectories being contemplated are maintained at least in the short run. In this regard, a compensation fund may be set up under the administrative control of the GST Council. |
| Apprehensions of states generating high revenues from state VAT | A credible study may be undertaken to evaluate the impact of the GST regime on states' revenues. The GST regime may be made optional for states as was done in the case of VAT. |
| Integrated goods and services tax (IGST) | A suitable provision in the Constitution Amendment Bill may be made for distributing remaining proceeds of IGST when the accounts of the fiscal year have been settled. Instead of the proposed IGST model for taxing inter-state trade in goods and services, which could be cumbersome in terms of compliance and administrative burden, a simpler Modified Bank Model suggested by the Task Force on GST set up by the Thirteenth Finance Commission can be considered. |
| Harmonized tax structure | The term 'harmonized structure' used in the Constitution Amendment Bill may be clearly amplified or defined. |
| Threshold | Threshold limits for exempting certain class of tax payers should be decided by the GST Council. The existing exemption for small businesses may be continued so as to encourage and promote small enterprises. |
| Exclusions | Specific exemptions need not be provided in the Constitution Amendment Bill, keeping in view the goal of putting in place an integrated, comprehensive and seamless GST regime, subsuming various central and state indirect taxes and levies. However, the GST Council can make recommendations regarding subsuming or exempting/excluding certain goods/services from GST's purview. |
| Declared goods | To allay the fears of states on loss of fiscal autonomy and for ensuring that the central government does not take unilateral decisions regarding taxation of 'declared goods' which are kept outside the purview of GST, restrictions and conditions of tax may be specified by Parliament on the recommendations of the GST Council rather than by the Parliament alone. |
| Additional revenue raising capacities under certain conditions | Provisions may be made in the bill for giving: (a) flexibility to both the centre and the states to raise additional resources during a period of natural calamities and disasters; (b) allowing special schemes for the north eastern states, Jammu and Kashmir and other special category states; and (c) flexibility to the central government to levy surcharge or cess whenever required or during extraordinary circumstances. |
| Entry tax | Entry tax in general be subsumed in GST so as to enable the states to collect the entry tax for distribution to local bodies rather than leaving it to be collected by different local bodies. |
| Dual control | Although a dual GST regime has been proposed, a situation of traders/businesses dealing with dual administration and multiplicity of authorities should be avoided. |
| Voting <i>versus</i> consensus in GST Council's decisions | The decisions of the GST Council should be on the basis of voting rather than consensus. For this purpose, one-third weightage should be given to central representatives and two-thirds weightage to state representatives. The quorum for holding meetings of the Council should be raised to half from one-third. Decisions taken by the GST Council should be passed by over three-fourths of the representatives present in the meeting. |
| GST monitoring | A GST Monitoring/Evaluation Cell to be set up under the aegis of the proposed GST Council given the fluidity and uncertainties involved in ushering in radical changes in the tax system. The cell will closely monitor, on a continuous basis, the immediate impact of GST on key areas such as GDP growth, inflation, hoarding, compliance costs for tax payers, administrative bottlenecks and retail prices paid by consumers. |
| GST Dispute Settlement Authority (DSA) | Instead of setting up a DSA, the GST Council be empowered to decide about the modalities to resolve disputes arising out of its recommendations. |
| IT infrastructure | The central government is urged to provide technical assistance and capacity building at the state level, ranging from overall procedure for e-filing of tax return to audit of tax, so that GST collections at the state level may be enhanced. |