

Budget 2010 on Goods and Service Tax

Budget 2010 whether good or bad for GST?

In Budget Speech 2010 -2011 Pranab Mukherjee, Minister of Finance showed his keenness to introduce GST; however, he also recognised that there are issues in its quick implementation.

1st April 2011 is proposed as new date for its implementation. He recognized several developments in the field of computerization, which are ultimately targeted eventual implementation of GST. He also clearly stated that he is not increasing the service tax rate to 12% in view of convergence with GST in future.

Keeness of Finance Minister shown by the following paragraphs in of his budget speech in which finance minister referred to Goods and Service Tax. Also see my inline comments to every point that he said in his speech.

“Para 26. On Goods and Services Tax, we have been focusing on generating a wide consensus on its design. In November, 2009 the Empowered Committee of the State Finance Ministers placed the first discussion paper on GST in the public domain. The Thirteenth Finance Commission has also made a number of significant recommendations relating to GST, which will contribute to the ongoing discussions. We are actively engaged with the Empowered Committee to finalise the structure of GST as well as the modalities of its expeditious implementation. It will be my earnest endeavour to introduce GST along with the DTC in April, 2011.

[Author’s Note:

Task force report of Thirteenth Finance Commission are only recommendations.

They might not be all implemented soon.

Structure of GST is still not finalized.]

Para 104. An effective tax administration and financial governance system calls for creation of IT projects which are reliable, secure and efficient. IT projects like Tax Information Network, New Pension Scheme, National Treasury Management Agency,

Expenditure Information Network, Goods and Service Tax, are in different stages of roll out. To look into various technological and systemic issues, I propose to set up a Technology Advisory Group for Unique Projects under the Chairmanship of Shri Nandan Nilekani.

Para 118. I had stated last year that tax reform is a process and not an event. The process I had outlined in the area of direct taxes was to release a draft Direct Taxes Code along with a Discussion Paper. In the area of indirect taxes, the reform initiative was the introduction of a Goods and Services Tax. I have presented the developments in both reform initiatives in Part 'A' of my Speech.

Para 121. To achieve the roll-out of GST by April 2011, the indirect tax administrations at the Centre and the States need to revamp their internal work processes based on the use of Information Technology. I am happy to inform Honorable Members that project ACES - Automation of Central Excise & Service Tax, has already been rolled out throughout the country this year. This will impart greater transparency in tax administration and improve the delivery of taxpayer services. Similarly, a Mission Mode Project for computerisation of Commercial Taxes in States has been approved recently. With an outlay of Rs.1133 crore of which the Centre's share is Rs.800 crore, the project will lay the foundation for the launch of GST.

[Author's Note:

Although ACES has been launched, but still the some physical documents are to be filed in department, telephonic help is not very good and the system is at a very pre-mature state as compared to MCA-21.]

Para 141. The major objectives that have guided me in the formulation of my proposals on indirect taxes are the need to achieve some degree of fiscal consolidation without impairing the recovery process and moving forward on the road to GST.

Para 179. To bridge this gap, I had the option to raise the rate of service tax to 12 per cent as it was before I introduced the third stimulus package. I am not resorting to this option to maintain the growth momentum and also to bring about a convergence in the rates of tax on goods and services. I, therefore, propose to retain the rate of tax on services at 10 per cent to pave the way forward for GST.”

[Author's Note:

If GST is not introduced soon, service tax rate might shoot up back at 12%.]

Finance Minister is keen in introducing GST as soon as possible, although he is recognize that there is delay mainly due to States. howsoever I feel that there could have been more in this budget on GST. I think the following propositions could have been made Budget 2010 itself:

1. Date of applicability of GST should be 1st October 2010 rather than 1st April 2011. This would have resulted in more stress on states to work harder for earlier implementation.
2. Centre should have merged Excise Act and Service Tax Act into Goods and Service Tax Act w.e.f. 1st April 2010. In other words, centre should have implemented GST from 1st April 2010 for all central taxes.
3. Draft Goods and Service Tax Act should have been made available to public for its comments in Budget 2010.