

Dear Professional Colleague,

GST Council fixes four-tier rate structure at 5%, 12%, 18% and 28%

Moving swiftly on the road to formalising the biggest reform of the indirect tax regime, the Goods and Services Tax (“GST”) Council on November 3, 2016, has decided four-tier GST tax structure of 5, 12, 18 and 28%, with zero rate for essential items and the highest for luxury and de-merits goods that would also attract an additional cess.

With a view to keeping inflation under check, essential items including food, which presently constitute roughly half of the consumer inflation basket, will be taxed at zero rate.

The lowest rate of 5% would be for common use items, while there would be two standard rates of 12 and 18% under the GST regime targeted to be rolled out from April 1, 2017.

Announcing the decisions arrived at the first day of the two-day GST Council meeting, the Hon’ble Finance Minister, Shri. Arun Jaitley said that the highest tax slab will be applicable to items which are currently taxed at 30-31% (Excise duty plus VAT). **Luxury cars, tobacco and aerated drinks would also be levied with an additional cess on top of the highest tax rate.** The collection from this cess as well as that of the clean energy cess would create a revenue pool which would be used for compensating States for any loss of revenue during the first five years of implementation of GST. The cess, he said, would be lapsable after five years.

The 4-tier rate tax structure agreed to has slight modification to the 6, 12, 18 and 26% slabs that were under discussion at the GST Council last month. The Centre's proposal to the GST Council entailed a lower rate of 4% for precious metals, a threshold rate of 6%, two standard rates of 12% and 18%, a higher rate of 26% and a cess on luxury items, pan masala and tobacco products.

*“The structure agreed to is a compromise to accommodate demand for highest tax rate of 40% by States like Kerala. **While the Centre proposed to levy a 4% GST on gold, a final decision was put off...**”* Shri. Jaitley said. He further added that individual items which will fall under different tax slabs will be decided later.

Conclusion:

One of the critical aspect for successful implementation of GST relate to the determination of GST rate, which is revenue neutral i.e. RNR. Dr.Arvind Subramanian, Chief Economic Advisor, said that the rate structure is revenue neutral but there are going to be efficiency gains which could finance some of the revenue.

Undoubtedly, the interest of common man has been duly taken care of which is evident from finalisation of 5% tax rate on common use items, as against 6% proposed earlier. Further, zero rating of necessities is also a welcome move in the beneficial interest of aamaadmi. Not to mention, classification of products in slabs will be an important process playing crucial role, more so, because the luxury goods would be covered under 28% tax rate slab with additional cess on specified items. On levying of additional cess, Dr. Subramanian said that the cess is only on four commodities - aerated beverages, luxury cars, tobacco and pan masala. It may not be out of place here to mention that imposition of cesses in GST regime (which would be outside the GST), would hamper the free flow of input tax credit and continue the age old legacy of tax cascading in GST regime as well.

Comparison of rates under various Indirect tax levies, at present, along with decided standard rates of 12 and 18% under GST, can be summed up as under in respect of goods and services:

On goods - Currently, the Union Excise Duty rate is 12.5% on manufacturing of goods, while VAT is approx. 14.5% on sale of goods in most of the States. This combines to around 26-27%. Then, there are other taxes like Entry Tax, Purchase Tax, Octroi, etc., eventually leading to an effective indirect tax rate of 26% to 30% in the hands of the end customer.

Considering the standard rate of GST as stated to be 12% and 18%, it is likely that GST might see significant reduction in the prices of the specified goods with corresponding reduction in production cost with standard tax rate at 12%/18% against 26-30% at present.

On services - Currently, w.e.f. June 1, 2016, rate of Service tax is 14% plus Swachh Bharat Cess at 0.5% and Krishi Kalyan Cess at 0.5%, totalling to 15%.

Though, Shri. Jaitley didn't elaborate which tax rate will apply to services, apparently, with GST standard rate at 18%, services in GST regime will become costly. Earlier, the Centre proposed that services should be taxed at 12% and 18% i.e. most services would be taxed at 18% but those that have abatement should face a levy of 12%.

The Government is committed to implement GST from April 1, 2017, so has set a deadline of finalizing the modalities of the new indirect tax by getting the subsequent GST laws passed during the winter session of Parliament beginning November 16, 2016.

Source: Economic Times, Money Control etc.

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Published by

YOUNG GLOBAL PUBLICATIONS
B-4, Basement, Vardaan Building,
11 Torrey Park, New Delhi - 110021
Phone: 011-22324140, 22324142
E-mail: info@youngglobal.com
Website: www.youngglobal.com



Price 1195

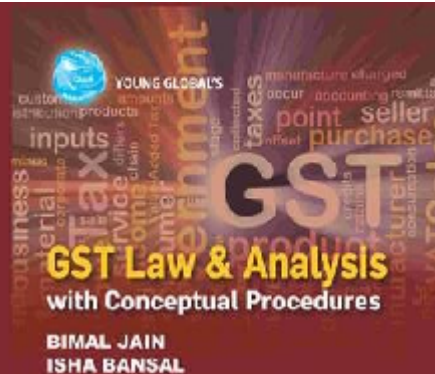


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October, 2016

Thanks & Best Regards,

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