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Dear Professional Colleague,

Key takeaways of 12th GST Council meeting:

GST Council approves the Draft of SGST and UTGST Bills

Clearing the decks for introduction of a major indirect tax reform in the Parliament, the Goods and Services Tax (**"GST"**) Council, in its 12th meeting held on March 16, 2017, has approved the Draft Bills for implementing GST in States and Union Territories (**"UTs"**). The UTGST Draft Law is for the Union Territories like Andaman and Nicobar Islands, Lakshadweep, Daman and Diu and Dadra and Nagar Haveli, which do not have legislative assemblies and thus not covered under the constitutional meaning of 'State'.

The GST Council in its last meeting had cleared the Central (CGST) and Integrated GST (IGST) Bills. Previously, the GST Council had also approved a Draft Bill to compensate States for any revenue loss arising out of GST for a period of five years.

"The GST Council has granted its formal approval to all five legislations," Finance Minister, Shri Arun Jaitley said after the meeting of the GST Council on Thursday, adding that he would try to take them to Parliament expeditiously.

It may be noted that the Session adjourns on April 12 and passage of the Bills in the current Session is essential for the timely roll-out of the new tax system. The SGST Bill will be tabled in State Assemblies.

GST Council caps cess on luxury goods at 15%

The GST Council also cleared a proposal to cap the cess on **luxury cars and aerated drinks** at **15%** over the peak rate of 28%. However, the ceiling for the cess on **"sin" goods would be much higher**. It was said that for paan masala, the cap would be 135%. On tobacco and cigarettes, the cap would be 290% or Rs. 4,170 per 1,000 cigarette sticks. A call is yet to be taken on whether or not a cess would be imposed on bidis. The cess on coal and lignite (environment cess) would have an upper limit at Rs400 per tonne.

The actual cess on demerit goods, which will help create a corpus for compensating states for any loss of revenue from GST implementation in the first five years, may be lower than the cap as the Council has kept a "little" headroom for future exigencies, Finance Minister ShriArun Jaitley said.

Giving an example, he said if a luxury car at present commands a total tax of 40%, under the new indirect tax regime, a GST of 28% plus 12% cess would be levied to keep the tax incidence at the same level.

The GST Council has opted to levy cess on five category of products - pan masala, chewing tobacco and cigarettes, luxury cars, aerated drinks and mineral water, and coal and lignite - to create a fund with a corpus of around Rs 50,000 crore for meeting a potential liability. The GST Council has, however, kept the option of adding more items to the list later.

"The council will decide the exact levy. What we have cleared today is the ceiling," Revenue Secretary, Shri Hasmukh Adhia said.

<u>Nil rate of tax on supplies made to Special Economic Zones (SEZs) - Sources</u>

According to sources, the GST Council has also cleared a Union commerce department proposal for the nil rate to be applied for goods and services going to special economic zones i.e. the supplies made to SEZs would be zero rated (a tax rate of zero) and considered as physical exports.

<u>Rules on four issues relating to Composition, Valuation, Input Tax Credit (ITC) and Transitions to be finalised in next meeting</u>

The new indirect tax regime also has nine set of rules and regulations, out of which the GST Council has already approved five -- Registration, Payment, Invoices, Returns and Refund.

Now, the GST Council will work out Rules on Composition, Valuation, ITC and Transitions. In the next meeting on **March 31, 2017**, the Council will take up the Rules on four categories and any changes to the already cleared Rules on five issues.

“With this, all nine rules will be cleared by the Council,”ShriJaitley said, noting that five sets of Rules relating to Registration, Payment, Invoices, Returns and Refundhave already been approved.

<u>Fitment of commodities in GST rate slabs to take place after March 31</u>

After March 31, the GST Council will take up the exercise of fitment of various commodities in the GST tax slabs – 5%, 12%, 18% and 28% besides the nil rate, Shri. Jaitleyadded. The officials have already started the fitment process, which will be put up for discussion and approval before the GSTCouncil.

Source: Economic Times, Business Standard etc.

Thanks & Best Regards,

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