Budget 2013: Govt relooks at excise, service tax exemptions

The government is taking a fresh look at exemptions in excise duty and services tax this Budget to prepare the ground for the roll out of goods and services tax (GST) by December this year.

If implemented, this could mean a more expensive grocery bill as a host of packaged food items such as sweetmeats, edible preparations like namkeens, smoked fish, sausages, olives, trufles, cheese, butter, noodles, ketchups will become expensive. These goods either do not attract excise duty now or attract a lower levy than the median 12% rate that the policymakers are in favour of being retained to ensure that manufacturing sector does not face fresh headwinds.

Mobile handsets, hands-free devices, memory cards could also become costlier with the proposed duty structure rationalisation. "The idea is to send out strong signal on GST and also to get back to high growth path," said a senior government official adding that this will be pitched more as adjustments than increase in levies.

The government had proposed 16% GST (8% central GST and 8% state GST) to replace indirect taxes levied on goods. There was a very small list of goods that was to be taxed at lower rate. Though this structure is being review, in a GST regime a number of goods will face a higher incidence of tax because most exemptions will be phased out.

The government is keen to begin this process of rationalisation in the budget itself but final decision would be taken at the highest political level after giving due consideration to revenue requirements and economic factors, the official added.

The centre and states have reached an understanding on many aspects of the proposed GST, which seeks to replace plethora of union and federal indirect taxes on goods and tax on services.

The progress, finance minister P Chidambaram hopes, will allow him to get crucial legislation for GST in place by December.

The Vijay Kelkar panel in its report on fiscal consolidation has advocated for a cut in the median rate to 8% to signal a shift towards GST and also move items enjoying lower rate of duty to the standard rate.

The panel also suggested removing a number of items from the negative list for services.

However, finance ministry officials are in favour of retaining the median rate at 12% for now as government is keen to send out strong message about its commitment to fiscal consolidation while ensuring that the fragile business sentiment does not get hurt.

Most industry lobby groups, including CII and FICCI, have demanded that if the government can't cut taxes, then it should at least retain rates.

Experts say shift towards GST would mean maintaining stability in tax rates and cut in the number of exemptions.

"Steps towards GST should mean stability in tax rates, removing several excise exemptions coupled with rationalisation of various slab rates," said Pratik Jain, partner, KPMG India.

The government had cut the median excise duty rate levied on nearly 90% of goods manufactured to 10% from 14% in December 2008, and by another 2 percentage points to 8% in the interim budget in February 2009.

(Economic Times)