

## **Centre agrees to broader 10-15% band for state GST**

Keen to strike a consensus with states on the few remaining contentious issues related to the proposed goods and services tax (GST), the Centre has decided to allow them the flexibility to have a state-level GST within a wide band of 10-15%. The major relaxation by finance minister P Chidambaram reflects the UPA government's resolve to have a breakthrough in finalising the new Centre-state indirect tax regime through a process of give and take even when Opposition parties that rule in some of the states are staging walkouts in Parliament over several issues including the alleged vetting of the CBI report on the coal allocation scam by senior government functionaries.

Officials privy to the development said that states could levy their component of GST anywhere between 10% and 15%, keeping in mind their revenue considerations. The rate that the Centre would levy is yet to be finalised. The proposal will be discussed at a two-day meeting of the empowered committee of state finance ministers led by Sushil Kumar Modi, deputy chief minister of Bihar, in Mussoorie, Uttarakhand, from May 10.

If the Centre also adopts a comparable rate for its share of GST, the combined rate could go well beyond what has been suggested by various panels. A task force constituted by the 13th Finance Commission had suggested 12%, while a panel on fiscal consolidation led by tax expert Vijay Kelkar had recommended a 16% combined rate covering all existing taxes.

Chidambaram recently said he saw a 70% of chance of the GST getting implemented during the tenure of the UPA-II government. Introduction of GST is key to increasing the competitiveness of Indian industry as it is an inclusive, destination-based tax on consumption that would avoid cascading of taxes.

Experts said the wide band for the state GST rate will address a major concern of states related to their rights on taxation.

"Flexibility on fixation of state GST rates will help them retain some fiscal autonomy," said Saloni Roy, senior director, Deloitte in India.

Officials from the central and state governments will also finalise on May 10 how much each state is entitled to from the Rs 9,000 crore that Chidambaram allocated in Budget 2013-14 as compensation to states for the reduction in central sales tax (CST), the proceeds of which go to states. This is the first instalment of the agreed pending compensation to states for the gradual lowering of CST from 4% to 2% a few years ago. To build consensus, New Delhi had earlier dropped its view that it would deduct from the compensation amount any revenue gain states may have made by increasing state level value-added tax or VAT from 4% to 5%. The Centre will pay Rs 34,000 crore to states in instalments compensating them for revenue losses in 2010-11, 2011-12 and 2012-13.

State ministers had discussed various revenue-neutral Centre-state GST rates at the meeting of the empowered committee at Bhubaneswar in January, but a consensus is yet

to be arrived at. With the states' concerns of fiscal autonomy addressed to a large extent, an agreement on the GST rates and the threshold for the unified tax to be applied are expected later this month. The global average GST/VAT rate is around 16.4%. The average rate in the Asia-Pacific region is 9.88%, while Canada and Nigeria have the lowest rate of 5%. GST would subsume existing taxes such as excise duty, service tax and VAT.

According to the task force set up by the 13th Finance Commission, a threshold of Rs 40 lakh could be set for levying GST. The existing threshold exemption for state VAT is Rs 2 lakh to Rs 10 lakh, Rs 8 lakh for service tax and Rs 1.5 crore for central excise.

As part of a major consensus reached in January, the Centre and states had agreed to include petroleum products within GST with states having the power to levy extra taxes on them without input tax credit facility. They also decided to drop the proposal to have a dispute resolution authority chaired by a judge and decided on a phased roll-out of the new tax regime.

A think tank had projected that introduction of GST would boost the size of the economy by a maximum of 1.7%.

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