

Consensus eludes GST threshold

But Centre, states agree on timetable for April 1 roll-out

A consensus on turnover threshold over which the proposed goods and services tax (GST) would apply eluded the first meeting of the recently constituted GST Council on Thursday. However, there was a broad agreement that all pending issues, including GST rates and legislative Bills, be thrashed out within two months so that the new tax system could be introduced from April 1, 2017.

The meeting would continue on Friday when another contentious issue of dual control of the Centre and states over assesseees would come up as well as full compensation to states for five years in the event of revenue loss due to switch-over to GST rates. Even on compensation, fresh issues have cropped up, but there were broad indications that some kind of agreement could be reached over dual control.

Tamil Nadu and Uttar Pradesh demanded a larger say than one-state-one-vote principle that puts a smaller state on an equal footing with a large manufacturing one. The demand was, however, overruled by others.

Delhi wanted a threshold at Rs 25 lakh of annual turnover, while Uttar Pradesh was keen on Rs 10 lakh. Uttar Pradesh said it would lose 7.8 per cent of tax revenues if the threshold is kept at Rs 25 lakh, while Delhi said its small traders would be hit if the threshold is kept at Rs 10 lakh.

“With regard to threshold for exemptions, there are two sets of suggestions. We will converge those two different viewpoints – both at the ministers’ track and officials’ track. We’ll continue the meeting tomorrow (Friday) and thereafter so that we are able to converge to one particular figure as far as exemptions are concerned,” Finance Minister Arun Jaitley told reporters after the Council’s meeting. The finance minister is the chairman of the Council, which is yet to elect a vice-chairman.

Revenue Secretary Hasmukh Adhia said the threshold issue has been referred to the technical committee of officers. “It will be sitting tomorrow and I will chair it. The recommendations will be taken to the GST Council,” he said.

Deputy chief minister of Delhi, Manish Sisodia, said if annual turnover is fixed at Rs 10 lakh, small businesses would be killed in Delhi. “There is no consensus on the issue. It is a divided house,” he said.

Kerala finance minister Thomas Isaac said his state would lose only 2.5-3 per cent of revenues if the threshold is fixed at Rs 10 lakh and, hence, does not have any problem.

Jaitley said there was a consensus on timetable to solve pending issues, keeping a possible target of April 1, 2017 in mind. “The target also involves passage of CGST (central GST) and IGST

(integrated GST) laws by the Centre and SGST (state GST) laws by the state legislatures in the winter sessions itself... We have two months' time till November 22 to resolve all outstanding issues.”

When asked whether the April 1, 2017 target would be met, Isaac said states do not have any objection to it, provided they are given compensation.

While the Centre is bound to give full compensation for five years to states, there are differences over the methodology to calculate it.

Isaac said the contentious issue in compensation is the base year. “We want that average (tax revenue collection) of the best three years be taken out of the last six years,” he said.

However, according to the Kerala finance minister, the Centre wants average of the last three years.

At the time of implementing state-level value added tax, the average of the best three years out of five years was taken into consideration.

A consensus was also reached on the compounding, which means paying of lower tax than the GST rate for traders with annual turnover of up to Rs 50 lakh. “Compounding will be for up to Rs 50 lakh annual turnover only for trading. The rate has not been decided, but could range between one and two per cent,” Adhia said.

The issue of dual control has been a vexed issue so far. States are demanding that their officials should have a sole power over entities with an annual turnover of Rs 1.5 crore in case of goods, over which both the Centre and states would have powers. The Centre, on the other hand, has proposed cross-empowerment, according to which both the Centre and states would have the powers right from the lowest level.

Isaac said some kind of consensus could be evolved on Friday as the Centre might give up on its demand on goods, while states might give the Centre more powers in case of services.

However, he said the dual control also involves powers to collect taxes as well as scrutiny of assesseees.

The issue of GST rates will not come up on Friday. Adhia said the issue would be taken up in the next GST Council meeting.

The meeting on Thursday also adopted business rules and procedures.

“After we finish the meeting tomorrow (on Friday), we’ll fix dates for the next round of dates. We’ll meet for a number of days in quick succession so that other issues such as fixation of rates and whatever is outstanding from today's (Thursday’s) meeting could be worked out,” said Jaitley.

By and large, the meeting has been conducted in true federal spirit.

“What we have seen today (Thursday) is not any form of division on political lines; obviously, people have interest of their own governments and revenues and are entitled to that viewpoints. In that sense, consensus will finally emerge. I’m more optimistic about the sprit in which functioning of the council has actually begun,” Jaitley noted.

WHEN THEY MET FOR THE FIRST TIME

What they agreed on...

- Business rules and procedures
- Solving all pending issues in two months, with an eye on April 1 roll-out
- Composite scheme of paying 1-2% tax by traders with annual turnover of Rs 50 lakh

...and didn't

- Threshold of annual turnover over which GST is to apply

What's on Friday's menu?

- Dual control of central, state tax officials over assesses
- Compensation to states for five years, in the event of revenue loss

(Business Standard)