Floor and ceiling rates suggested for Goods & Services Tax

Parliament's standing committee on finance has suggested a floor rate and ceiling in the proposed Goods and Services Tax (GST) and making it optional for states to introduce indirect tax reforms. This will lead to multiple tax rates in GST, while the government's original intent was to have a uniform rate across the country.

"Taking into account the need for state autonomy, the states may thus be allowed to increase their GST rate within a narrow band," the panel said in its recommendations on the Constitution (115th Amendment) Bill, 2011.

The committee also recommended that decisions in the GST Council be taken by voting and not by consensus. It said one-third weightage for central representatives and two-third weightage for state representatives may be provided, with the decision taken by the Council being passed with more than three-fourth votes of the representatives present. The quorum for holding meetings of the Council is proposed to be raised to half from one-third.

It recommended that sections proposing a Dispute Settlement Authority to decide disputes arising among states and take action against the states should be removed from the Bill, tabled in Parliament in March 2011, and that the GST Council itself should evolve a mechanism to resolve the disputes.

The panel, headed by Bharatiya Janata Party (BJP) leader Yashwant Sinha, also suggested subsuming entry tax in GST, a simpler model suggested by the 13th Finance Commission Task Force , instead of the IGST (Inter-State Goods and Service Tax) model for inter-state movement of goods, and giving powers to states to levy tax in the event of a natural calamity among other things. It is of the view that the states should be given enough fiscal space if the success of Value-Added Tax (VAT) is to be replicated. VAT was also optional for states at the time of introduction, but gradually all states adopted it.

To address concerns of the states on revenue loss in the GST regime, the panel recommended an automatic compensation mechanism wherein a fund may be created under the GST Council. It also said exclusion of specified goods from GST should not be provided in the Constitution itself and instead, the GST Council should decide on it.

It said there was no finality in the views of the finance ministry itself on key areas of GST and that the Centre and the states should arrive at a broad consensus on key issues regarding GST implementation before the enactment of the Constitution Amendment Bill.

The finance ministry, after incorporating the views of the committee, will approach the Cabinet to present the Bill in Parliament with the changes. However, the roll-out of GST would still not be possible during the current government's regime as firstly the

Constitution Amendment Bill would have to be passed by a two-third majority in Parliament. Then, it will have to be ratified by legislatures of at least half the states. The next step will be to table the GST Bill in Parliament, while states will introduce the Bill in their respective Assemblies.

GST will replace a number of indirect taxes presently being levied by the Centre and the state governments and is intended to remove cascading of taxes.

STANDING COMMITTEE RECOMMENDS

* Decision by voting not consensus

* No dispute settlement authority

* Modified bank model instead of Inter-State GST

* Subsume entry tax in GST

* Automatic compensation mechanism

* Power to states in natural calamity

* GST monitoring and evaluation cell

(Business Standard)