GST Council mulls five rate slabs

Central government proposes two standard rates of 12% and 18% and 6% for essential goods; white goods and luxury products at 26% and gold at 4%

On Day 1 of the three-day meeting of the goods and services tax (GST) Council, Finance Minister Arun Jaitley said five different rate structures were presented.

At the same meeting, the central government proposed a four-rate structure with two standard rates of 12% and 18% and 6% for essential goods. It proposed white goods and luxury products to be taxed at 26% and gold at 4%.

The Council is also looking at a cess on demerit goods such ultra-luxury items, tobacco products and pan masala and environmentally harmful products in order to equalise the levy to the current level of tax.

The cess will help the government raise an additional Rs 50,000 crore that would be used to compensate the states for their revenue losses.

“The broad approach has been that the rate structure should be such that it does not lead to any further CPI (consumer price index) inflation, the states have adequate revenues, so should the Centre, to discharge their obligations and this has to be blended with only the least possible burden that has to be put on the tax payer,” Jaitley said.

Kerala Finance Minister Thomas Isaac said the rate structure proposed by finance ministry confirmed his “worst fear”.

“Worst fears confirmed — GST to be regressive. Tax on luxuries to be reduced to 26% and on necessities to be raised to 12%,” he said, adding that the proposal for cess contradicted the original concept paper for GST.

A government panel headed by chief economic advisor (CEA) Arvind Surbamanian has recommended a four-tier rate structure with standard rate of around 17-18%, a 12% rate for essential goods, 2-6% for precious metals and a 40% for demerit goods.

Bipin Sapra, tax partner, EY, believes a peak rate of 26% would be inflationary and cesses could to lead cascading effect.

"The maximum rate of 26% for demerit or luxury goods may harbour more goods than initially envisaged which will make them costlier. Also since cesses would be outside the GST, the present cascading may continue raising the tax burden," he said in statement issued by EY.

On Tuesday, the Council, chaired by Jaitley, concluded that the secular revenue growth rate for all states would be taken as 14%.

The Council, which is represented by all states, also agreed on the definition of revenue under GST regime. Consensus on these two issues paved the way for the Council to finalise the issue of compensation to states which would lose revenues under GST.

“With these two decisions (definition of revenue and annual revenue growth rate of 14%), the issue with regard to calculation of compensation itself was concluded in the discussions today,” Jaitley told the media after the meeting.

He said the 14% growth rate was arrived at by taking the average of revenue rates, ranging from 10% to 18%, from all formulae.

The Council will meet again today to further deliberate on the GST rate structure.

In the last meeting, the Council had decided to agree on all issues by November 22. The finance ministry would try to get a consensus on all issues to push through Central GST (CGST) and Integrated GST (IGST) legislations in the Winter Session of Parliament beginning November 16.

Thomas expected a “broad structure of the GST rates to emerge by today evening”.

Jaitley said once the rate structure was finalised, the technical group of officers would decide which items of goods and services went under which category.

After finalisation of the GST rate, the union minister said the Council will take up the “inconclusive item of the last meeting with regards to cross-empowerment”.

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