

GST: Arun Jaitley readies compensation plan

The government is set to start a major initiative to get states on board to launch the good & services tax (GST) with finance minister Arun Jaitley expected to initiate a dialogue to iron out issues blocking the country's most ambitious indirect tax reform.

The move comes as the finance ministry is readying details of the compensation formula. Government officials said there are three key areas where states and the Centre have divergent views. The states are keen to retain entry taxes while the finance ministry opposes it. Similarly, the Centre wants alcohol and petroleum products within the ambit of GST. The third area of disagreement is the demand from states that the Constitutional amendment should clearly spell out the compensation mechanism. The officials said apart from discussions at the empowered committee level, revenue secretary Shaktikanta Das has also met officials from some of the states to look at ways to narrow the differences.

Jaitley is expected to hold political-level consultations as the Centre is keen to launch GST since it doesn't want to postpone the decision to 2016 when the pay commission's recommendations are expected to be ready, making it difficult to find the resources.

Discussions are on to find the resources from within the tax measures to fund compensation to states, without putting a burden on the Union government. "The compensation mechanism will be worked out soon. The finance ministry is working on the funding sources, method of compensation and the governance structure," said a state government official, familiar with the discussion.

The empowered committee of state finance ministers, which met on Wednesday in the Capital, had managed to evolve consensus on a handful of issues but differences remain on a number of areas. On Wednesday, the empowered committee agreed to lower the threshold for imposing the tax to Rs 10 lakh from the earlier Rs 25 lakh and wants the Union government to spell out the compensation details in the Constitution Amendment Bill. Differences exist on the states' demand to collect taxes on businesses with a turnover of Rs 1.5 crore.

"On most issues we are confident of a consensus," said a government official, signaling the government's intention to move ahead with the crucial reform. The finance ministry is also holding dialogue with state government officials to narrow the differences. States want petroleum products and alcohol to be kept out of the GST mechanism.

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