GST panel works out rates for 6,000 items

Fitment of contentious goods to be finalised this week

Ahead of the Goods and Services Tax (GST) Council meeting in Srinagar from Thursday, the Centre and states seem to have arrived at a consensus on the rates for at least 6,000 items.

The fitment of contentious items such as soaps, cosmetics, coconut oil and cars would be finalised in a meeting of the state and central officials on Monday and Wednesday.

“The committee has looked into each and every product and their excise and VAT (value-added tax) rates across the country. Rates have been finalised for 70-75 per cent of the total items. The remaining items are still under discussion and will likely be finalised before the GST Council meeting, if the issues pertaining to categorisation are ironed out,” said a government official.

The rates have been decided on the basis of the current effective tax rate of products based on the Harmonised System of Nomenclature or HSN code. The report of the sub-committee on rates will be presented before the Council.

For instance, the rate for gold is likely to be pitched at 4 per cent. Currently, the VAT is imposed on it at 1 per cent. Chief Economic Adviser Arvind Subramanian, in his GST report, had also made a case for a 4 per cent rate on gold.

The GST will broadly have a four-slab structure — 5 per cent, 12 per cent, 18 per cent, and 28 per cent. There will be zerorated goods as well as exempted items, besides an additional cess on demerit goods such as tobacco, cigarettes, luxury cars, and aerated drinks.

In the case of cars, the existing classification is based on what fuel is used. Electric cars attract a lower rate, diesel cars are taxed higher. Besides, the tax rates differ on account of engine capacity as well. SUVs are taxed the highest. “It will be difficult to club all cars in the 28 per cent bracket,” said a government official.

The contentious issues related to classification include soaps and cosmetics, which face an effective tax incidence of 24-25 per cent. This will mean the closest tax slab will be 28 per cent, raising the tax incidence on these items.

Coconut oil is another case where there is a debate over classification, on whether it should be considered a hair oil or edible oil. As hair oil, it will be classified under cosmetics. However, the consensus seems to be building on classifying it as edible oil, lowering the tax incidence to between 5 per cent and 12 per cent.

“Currently, excise duty on coconut oil is 6 per cent and it is VAT exempt in a few states, while other states such as Delhi and Mumbai impose a 6 per cent VAT,” said the official. Soaps will likely end up in the 28 per cent category,” the official added.

Pratik Jain of PwC India said, “One would hope the government would use the 28 per cent category only for select goods and items like cosmetics and consumer durables etc would fall under the 18 per cent slab.”

Tax on movie tickets is another area that needs to be settled. Currently, while there is no service tax on movie tickets, entertainment tax charged by states varies between 12 per cent and 40 per cent.

Mobile phones also have widely varying VAT rates across states, with 5 per cent in Karnataka, 12 per cent in Gujarat and 14.5 per cent in Delhi. Similarly, newsprint has zero excise duty but VAT is charged by a few states. Telecom is categorised as an infrastructure sector, under the Essential Services Maintenance Act, and has an effective tax rate of 15 per cent.

“The question is whether to put it in the 18 per cent bracket or give a relief under 12 per cent,” said another official. Union Finance Minister Arun Jaitley has received several representations from the industry with media, education and health pitching for a zero rating.

Bipin Sapra, leader, indirect tax, EY, said the industry was looking at an announcement on GST rates now, given that July 1 is the roll-out date.

“We should get some clarity on rates in the Srinagar GST meeting. If rates are not finalised in this meeting, we should look at a September 1 roll-out,” said M S Mani of Deloitte.

The government is also attempting to ensure there is no inverted duty structure under GST that may hurt the industry from imports. Finished goods will be taxed at a higher rate and raw material at a lower rate.

The industry has made a representation for following rates to the finance minister seeking a tax on biscuits at 5 per cent, food items, including juices and namkeen (snacks) at 12 per cent, nutritional products and health supplements at 12 per cent, cell phones and IT products at 12 per cent, furniture at 12 per cent, sanitary napkins and babycare products at 5 per cent, and consumer durables, cosmetics and watches at 18 per cent.

The nutritional goods sector recently made a representation to Jaitley, asking for its categorisation under the ambit of merit goods to be taxed at 12 per cent considering higher tax rate will adversely impact health and well-being. “The standard rate on nutritional items should not exceed 18 per cent as is the case in most countries. These should not be classified as luxury or demerit items,” the letter said.

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