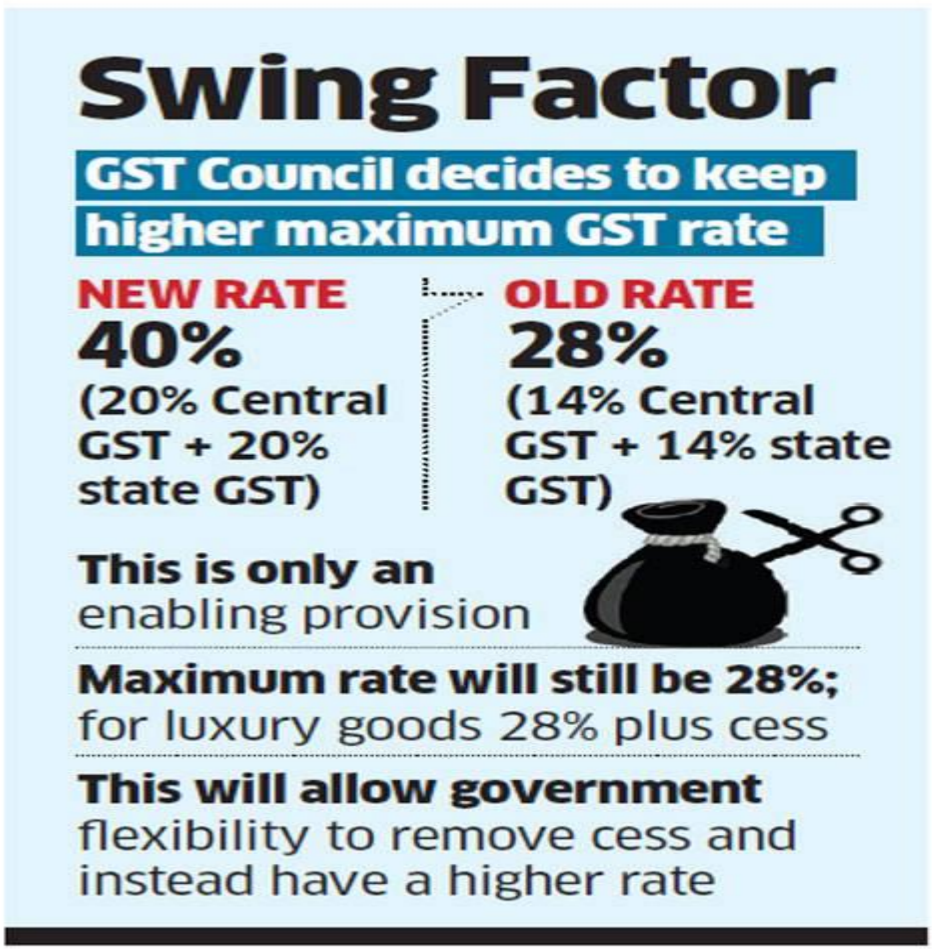
Peak GST rate to be pegged higher at 40%

India has decided to peg the peak goods and services tax (GST) rate at 40% in the legislation instead of 28%, giving it the flexibility to raise rates without having to reach out to Parliament.

This is only an enabling provision and the highest rate levied on goods will still be 28% (14% central GST and 14% state GST). The demerit and luxury goods will attract higher 28 rate plus cess.

This provision will also allow the government to remove the cess at some stage and instead have a higher GST rate only, which will make for a neater GST.

The GST Council has decided to peg the peak tax rate at 40% (20% central GST and 20% state GST) in the model GST law to preclude the requirement of approaching Parliament or state assemblies for any change in future.



This has been done to ensure that when the cess is removed or merged, the flexibility to impose higher rate on luxury goods is not taken away, a senior finance ministry official told ET.

"Some members of the council felt such an enabling provision was needed," the official privy to the development said.

The Centre is looking at GST rollout from July 1.

The change in the peak rate will not alter the four-slab rate structure of 5%, 12%, 18% and 28% agreed upon last year, but is only a provision being built into the model law to take care of contingencies in future.

"There shall be levied a tax called central/state goods & services tax (CGST/SGST) on all intra-state supplies of goods and/or services... at such rates as may be notified by the central/state government... but not exceeding 14%on recommendation of the council and collected in such manner as may be prescribed," the draft GST law says. Officials said this "14%" will now be changed to say the rate will not exceed "20%".

Experts said this raises the fear of rates being raised. "While it seems that it will not immediately impact the current slabs which have been envisaged, industry would be afraid that rates could increase once GST is implemented," said Pratik Jain, indirect tax leader, PwC India.

"It is important for the government to realise that benefits of GST will only accrue if rates are moderate and tax base is enhanced. It might be prudent for the council to reconsider this decision," said Pratik Jain of PwC India.

The official dismissed these fears. "There is no thinking to tinker with the rates at present," the official said.

The GST Council, headed by finance minister Arun Jaitley and comprising representatives of all states, is to take up the model laws at its next meeting.

Mirroring the model GST law, the CGST, SGST and UTGST law will be firmed up by the Centre, states and Union Territories, respectively. The Centre plans to introduce in Parliament the Central GST Bill in the session beginning March 9. After it is ratified, the states will introduce the State GST Bill in their respective legislative assemblies. The central and state officials will soon start the exercise to determine which goods and services should fall in which tax bracket and the same will be taken to the council for approval.

They will also decide the goods and services that would attract a cess on top of the peak rate to create a corpus that can be used for compensating states for any loss of revenue.

(Economic Times)