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Speech of Finance Minister at the meeting with the Empowered Committee of State Finance Ministers

Following is the text of the speech of Finance Minister; Shri Pranab Mukherjee delivered at the meeting of the Empowered Committee of State Finance Ministers, here today:

“Dr. Asim Dasgupta, Chairman, Empowered Committee; Members of the Empowered Committee, senior officials from the Department of Revenue and CBEC and officials of the State Governments,

It gives me great pleasure to welcome you this afternoon to what I perceive as a very significant link in the ongoing dialogue on the introduction of the Goods and Services Tax (GST) in the country. We have worked with great perseverance and industry over the last 3-4 years to clear the way for the launch of this momentous reform in the realm of indirect taxes. Given the size and complexity of our economy and our deep commitment to the values of pluralism, federalism and democracy it would not be an exaggeration to say that this dialogue has moved at a satisfactory pace. Since the deliberations on GST are not entirely hidden from public view they have managed to generate a palpable air of anticipation and excitement not only in India but among potential investors beyond our shores.

I have been told about the very constructive and fruitful discussions that the Empowered Committee had this morning. I am particularly touched by the gesture made by the Finance Minister of Punjab by agreeing to subsume the Purchase Tax in the overall interest of the GST regime which will benefit the nation as a whole. It is this spirit which will build our economy to a strength unmatched in this region.

As you are aware, the Government of India had furnished detailed comments on the First Discussion Paper circulated by the Empowered Committee in November 2009. While there was convergence of views between the Centre and the States on most of the elements of the GST framework proposed by the EC, some key issues that in our view are fundamental to the letter and spirit of this tax required further discussion. In its meeting held on the 21st of May, 2010 at New Delhi, the Empowered Committee deliberated further on these issues and chose to leave final decisions on many to the Government of India. In the light of this development, I have comprehensively reviewed the position with my team. Some of our decisions have already been shared with you this morning. I will elaborate these further.

Before I go into that, let me break good news on an issue that has caused considerable anguish to the States and hence been raised repeatedly in the run up to this juncture. This is the issue of CST compensation. I am glad to inform you that the Government of India has decided to fully compensate the States for their revenue losses on account of CST

reduction during the year 2009-10 and to release the balance outstanding amount to the States immediately. I am now waiting for Empowered Committee's recommendations on the CST compensation formula for the year 2010-11. I am confident that this decision would reaffirm our resolve to engage constructively with difficult issues and find mutually acceptable solutions.

As for specific issues, let me begin with the issue of exemption threshold under GST. In this regard, it was the suggestion of the Empowered Committee that the Centre should consider retaining the exemption threshold of Rs.1.5 crore (presently available under Central Excise) for goods while the CGST threshold for services and the SGST threshold for both goods and services would be Rs.10 lakh. It is fundamental to a dual GST that every transaction constituting a supply of goods and services receive similar treatment under CGST and SGST. It is our considered view that the exemption threshold for both goods and services under both components of GST i.e. CGST and SGST should be uniform at Rs. 10 lakh. For the same reason, the threshold for compounding for small dealers should also be uniform under CGST and SGST whether it is fixed at Rs. 50 lakh of turnover per annum or Rs. 1 crore per annum. Of course, we must not lose sight of one of the critical deliverables of GST viz. that it should result in considerable simplification for small dealers so that compliance is easy and assured.

One measure that would immensely facilitate simplification is the use of Information Technology so that physical interface between the taxpayer and the administration is minimized. Earlier today, you have had the benefit of listening to a presentation by Shri Nandan Nilekani, Chairman, Unique Identification Authority of India wherein he has proposed a detailed roadmap and strategy for putting in place the requisite IT Infrastructure to handle work related to GST. Since this infrastructure needs to be in place well before the actual introduction of GST in April next year, decisions have to be made with great alacrity and speed. In order that no time is lost, we have proposed the constitution of an empowered Group chaired by Dr. Nilekani with joint representation from the Centre and the States which would be authorized to take decisions about the size, features and functionalities of such a system; to choose the appropriate technology for its implementation as well as to choose the vendor who would be tasked to deliver it in a time-bound manner. I will request an early approval of the Empowered Committee of State Finance Ministers to our proposal for constitution of this empowered group, which, to my mind, should start functioning immediately. I would like to reiterate that the Centre is committed to provide all the support and assistance required to achieve homogeneity in the level of computerization across States.

This leaves us with two key policy issues. On exemptions, we have decided to review the existing exemptions from Central Excise duty so that the list of goods exempt from CGST is aligned to the SGST list and 99 items currently exempt from VAT are exempt from both components of GST.

As for the rate structure, it has been the Centre's considered view that the full potential of GST could be realized only if we adopt a single rate structure with unification of the rate for goods and services. However, we recognize that this may not be feasible on the date

of introduction of GST and requires a phased approach so that the transition is smooth and painless both for the taxpayer and the administration. As such, we are agreeable to the adoption of a dual rate structure for goods at the inception of GST. In the year of introduction i.e. 1st April 2011, the Central Government proposes to keep CGST lower rate for goods at 6% and standard rate at 10%. The services will be charged at 8%. Our request to the States will be to consider keeping the same rates i.e. the lower rate for SGST at 6%, standard rate at 10% and services at 8%. This mutually supportive approach will ensure that we have a single rate for CGST and SGST in the range of 12 to 20% in the first year of GST introduction. The peak effective rate will be about 15%, which will be quite acceptable to the trade and industry. Eventually, it will settle down to a level of 16 to 18% for both CGST and SGST, which will mean an effective rate of 12%.

In the second year of implementation of GST depending upon the revenue receipt by the Centre and the States and payment of compensation by Government of India to the States, the standard rate for SGST and CGST may be reduced to 9% retaining the lower rate at 6%. During the third year of implementation based on our experience and depending upon the buoyancy of revenue receipt and payment of compensation by the Government of India, the standard rate may be reduced to 8% and lower rate increased to 8% and services retained at 8% both for CGST and SGST. Thus, in a phased manner, we will be able to achieve a single CGST and SGST rate for both goods and services.

You would recall that the Thirteenth Finance Commission has made certain recommendations about compensating the States for their loss of revenue owing to the adoption of GST. I have repeatedly assured you that the Centre stands by this recommendation and would not hesitate to step up the amount of compensation recommended by the TFC should the need arise, based on a mutually agreed formula. I will also like to assure the States that the compensation for subsuming Purchase Tax on food grains will be provided along with VAT compensation for the next four years. A reference will be made to the Fourteenth Finance Commission to suitably address this issue for the period beyond 2013.

GST – a landmark reform of indirect taxes is well within our reach. It is now for us to convert it into a reality