

FM on GST

On GST, stated position:-After careful consideration of the issues raised by the Empowered Committee of State Finance Ministers, we have revised our position to accommodate the concerns of the State Governments. The Central Government is willing to consider a phased approach for the introduction of GST. In a departure from its earlier stand, the Central Government is also willing to accept a dual rate structure in the transitory phase leading eventually to a “model GST”.

The revised position on some of the key issues is as follows:

Exempted List

At present, 99 commodities are in the exempted list of VAT. States propose to keep these in the exempted list of SGST. The Central Government would align its exemption list with the State list and keep these 99 commodities as exempted commodities under CGST as well. Similarly, precious metals, bullion and other similar commodities are proposed to be taxed at 1% under CGST so that the 1% list is common both for SGST and CGST. The Centre proposes to shift the remaining commodities which are in the exempted category under Central Excise to the lower rate of the CGST.

Exemption Threshold

As has been agreed in the earlier meeting of EC, uniform threshold for all dealers with a turnover upto Rs.10 lakh per annum will be exempted both from CGST and SGST. The same threshold will apply to the services.

Threshold for compounding for small dealers

Ideally the threshold for compounding (option to pay tax at a fixed percentage of turnover without input tax credit) should be uniform for CGST and SGST at Rs.50 lakh per annum. However, Centre could consider a higher threshold of Rs. 1 crore if the States also agree to raise the limit.

Rate Structure

As you would recall in the meeting held on 13th January, 2010, FM had clearly stated that **the ideal position would be to adopt a single rate structure with a common rate for goods and services**. However, to facilitate the introduction of GST regime by 1st April, 2011, the Central Government proposes to keep CGST merit/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.