

## GST White Paper all set to be unveiled but will it really demystify it?

TIOL - COB(WEB) - 158  
OCTOBER 22, 2009

**By Shailendra Kumar, Editor**

### GOING

by the hectic rounds of meetings held by the Empowered Committee of States' Finance Ministers in the recent weeks, and the commensurate pace of top-level parleys among North Block officials, it is difficult to believe the words of the sceptics, vibrating in our eardrums, putting serious question mark on the April 1, 2010 deadline for the GST roll-out. With the deadline inching closer, the sagacious septuagenarian in North Block seems to be showing nerves of steel to sort out the growing cleavages over the compensation issue among the Members of the Empowered Committee. What goes to prove his unprecedented penchant for the structural reforms of the indirect taxes, and his determination to have a tryst with the fiscal destiny of India of 21st Century, is his quick acceptance of Rs 14000 Crore demand from States as VAT compensation. With such a huge give-away, none can now doubt the Finance Minister, Mr Pranab Mukherjee's intention to leave any stone unturned to ensure the GST roll-out next fiscal.

And the first concrete step in this direction is barely a fortnight away. The 'White Paper' on GST which West Bengal Finance Minister Asim Dasgupta has been talking about for the past few weeks, is all set to be released for public debate **on November 10**.

And this would hopefully address the concerns expressed by the author in our '[ST se GST tak](#)' Column where he has alleged step-motherly treatment being given to GST vis-a-vis the Direct Taxes Code (DTC). His allegation is that the DTC which is to be implemented from 2011 is already in public domain but the White Paper on GST which is scheduled to be rolled out from April 2010 is not yet public. And reason which has perhaps escaped the eyes of the author is that **the DTC is purely the Union Govt's baby, whereas the GST is going to carry the entire jamboree of States and a large basket of diverse taxes with it.**

Anyway, let's now quickly move to the common expectations from the 'White Paper'. Broadly speaking, the 'White Paper' should be providing an unambiguous roadmap for the GST roll-out. The major heads which may form the backbone of this vital piece of document should be **1) the Exemption Threshold, 2) the Rates, 3) the Jurisdiction, 4) the Model Legislation, and 5) the IT infrastructure for facilitating the Input Tax Credit (ITC)**. Let's now visit these heads one by one.

**EXEMPTION THRESHOLD:** THE VAT exemption limit today ranges between Rs two lakh to Rs 10 lakh. For most States, it is Rs five lakh. For the North-Eastern States it is Rs two lakh. For the service tax it is Rs 10 lakh. And for the Central Excise, it is Rs 1.5 Crore. Deciding a common threshold limit is indeed an uphill task for both the Centre and the States. Given the inelastic nature of State taxes, it is very difficult for them to enhance the exemption limit further. It would then be safe to assume that it is unlikely to be more than Rs 10 lakh. If it happens, the N-E States along with many economically-backward States would be the big losers. In this scenario, the Finance Commission may be entrusted with the task of working out a compensation package for them for the loss of revenue. Such a situation is inevitable in the light of the fact that under no circumstances, there can be two exemption thresholds - one for the Centre and the other for the States.

Then comes the question of how to handle the Rs 1.5 Crore exemption limit for Central Excise. This is a contentious issue, and the Centre will have to find a way out. **Compounding Scheme**

could be one solution upto Rs 50 lakh where a small manufacturer and dealers may like to pay tax once in a month and forget about other complicated paperwork. But, under the GST regime, most of such SSI units and dealers may not like to be outside the network of input tax credit. Besides, **such a scheme may also represent a 'Credit Breaker' in the credit chain**

which is the real goal of the GST system which is expected to countervail the cascading effect of tax on tax.

**GST RATES:** INTERESTINGLY, the GST rates are inextricably related to the threshold limits. Let's see how. Unless exemption thresholds are decided, it is difficult to know the magnitude of the taxbase. And unless the taxbase is known, it is simply impractical to work out the Revenue Neutral Rate (RNR). And, unless the RNR is known to both the parties, they cannot decide on the rates for the dual GST - the CGST and SGST, as announced by the Finance Minister in the Budget. Though there are going to be two types of GST but the taxbase is going to be the same for the both. It may be true that there is some sort of consensus that the combined tax rate is going to be in the **region of 15% to 17%**

but what would be the actual rate continues to be a puzzle for the entire nation. It is also widely known that there are going to be three rates for both the Centre as well as the States. One will be known as the Standard Rate and the other as 'Lower Rate'. Lower rate will be applicable to essential items, meant

for both the rich and the poor. And the Standard Rate will apply to almost the entire basket of goods. The third rate will be exclusively for the precious metals, may be, 1% of their value. In addition, there would be a list of exempted items. But the million-dollar question is:

**Whether similar exempted items and the rate structure will be followed by both the Centre and the States?**

Some highlights in the 'White Paper' on this issue would be appreciated as it would help the Netizens to solve their puzzle.

**JURISDICTION: GOING** by the dual structure and the fact that the GST is going to be a destination-based tax, jurisdiction automatically assumes much greater importance than many other issues. First, a comprehensive Constitutional amendment in Article 246 is required whereby the least important 'Concurrent List' is going to be given the status of primacy and prominence. This List is going

**to empower both the Centre and the States to levy tax on both the goods as well as the services.**

Then comes the issue of taxing inter-state transactions. Since the States cannot have jurisdiction over other States,

**only the Centre can logically collect this Integrated GST (I-GST)**

and distribute the same among the States. Let's hope the 'White Paper' clearly talks about the I-GST.

Then comes up the question of collection of Special Additional Duty in lieu of SGST on imported items. Given that the States cannot have control over the ports where imported goods are cleared, it is important that the Empowered Committee agrees to authorise the Customs to collect the SAD at the time of filing of bill of entry, and a mechanism has to be devised to hand over the same to the States.

**MODEL LEGISLATION: MODEL**

Legislation which is going to be adopted by both the Centre and the States is indeed a vital piece of document. To ensure uniformity in the wordings of the legislations adopted by the States it is important that the mistakes 'opted' for while enacting VAT laws are not repeated by the States. If the IT infrastructure has to work with optimal efficiency, uniformity in legislation is a non-negotiable characteristic. And this task may be entrusted to the Centre. After the legislation, the rules and the procedures are also to be carved out. All these technical works consume time for careful drafting, and the necessary steps must be taken to give the law-drafters adequate time for flawless drafting, ruling out amendments at least in the first two years of the roll-out.

**IT INFRASTRUCTURE: THE** entire goal of making India a common market, and to neutralise the cascading effect of tax on tax hugely depends on the IT Infrastructure of our tax system. The credit chain is going to work seamlessly and successfully only if a robust IT system is put in place, not only at the Centre but also in all States. What would also determine the robustness of the IT System is the perceptible reduction in the interface between the taxman and the taxpayer.

As a forward-looking fiscal netizen, I do expect that the 'White Paper' would unveil a clear-cut IT configuration which is going to give confidence to all manufacturers, dealers and service providers that the IT system is going to ensure unbreakable chain of credit flow. Where does our IT preparedness stand today must be disclosed in the 'White Paper'. And if the Finance Minister is so sure about catching the April deadline,

**why is CBEC showing unholy haste in implementing their ACES Programme virtually across all major cities in the country.**

One solid counter-argument the CBEC may have is that the same software may be 'reprogrammed' to take care of GST. But the bigger question is that when the CBEC has taken so many years to make return-filing and other pertinent central excise and service tax activities online-based, and the fact that it is also the mother of GST, can it not wait for a few months before it knows the extent of changes which would be required to be done in this Scheme. When the contours of GST are still a mystery, no argument to justify the 'rewriting of the present programme' would hold water as

**rewriting of a programme in the IT world is like developing a new software, and it costs as much as a new software costs.**

This issue indeed needs to be looked deeper into by a third party or the CAG before any statement in relation to its IT preparedness is taken on the face value!

Besides these four major heads, let's also hope that the 'White Paper' is going to demystify the mystery of what all taxes are going to be subsumed by the CGST and SGST. **Are Cesses levied on various commodities going to be taken care by the CGST?**

What about the surcharge? It is learnt that the taxes collected by municipal body are going to go beyond the ambit of GST. If it is so, Entertainment Tax which is levied by municipal bodies in certain states may retain its independent identity. Similarly,

**Octroi in the case of Maharashtra is going to look like a 'pimple' on the progressive fiscal face of the State (Incidentally, this extinct form of municipal tax now survives only in Maharashtra and Ethiopia in the entire world.)**

What about the Purchase Tax levied by the States like Punjab and Haryana which collect huge revenue from it (Purchase tax is levied on items like foodgrains where there are many small-time sellers but the purchasers like FCI number just a few, and the tax is collected from the purchasers). Have they agreed to be compensated for it? It is learnt that the area-based exemptions for States like HP, J&K and Uttrakhand, are going to be guillotined, and the Centre has agreed to compensate the States for the revenue loss.

**PARTING SHOTS:**

It is high time now that the Centre and the States must finalise the exemption threshold limit and the GST tax rates if they have not done so. Without clear words on these vital aspects of GST, the 'White Paper' would merely remain a piece of plain paper. Only after these basic parameters are finalised, the work on the model legislation could begin in right earnest. TIOL hopes that the 'White Paper' lives upto the expectations of the nation, and due care is taken by both the Centre and the States to avert any major disappointment on this score.