

GST CAFÉ

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Welcome to GST Café, yet another effort in Vaish's incessant endeavour to provide you with the best. We bring this newsletter series GST Café to make it intellectually exciting and enriching experience of sail through transition phase to GST. We intend to ensure that the process of transition to GST is smooth by sharing our views on developments. At the same time we also solicit your feedbacks so that we can mutually benefit in this process of learning and unlearning while we move towards the eagerly awaited taxation system: 'GST'.

GST Rollout: Are we there yet?

Need of GST: An ideal indirect taxation system collects taxes at various stages of production, supply and retail. It is based on the value that the producers, suppliers and retailers individually add to the product. However, needless to say, the current tax regime is unfairly skewed against producers and service providers with its inherent limitations in utilization of tax credit.

The motive for the introduction of GST is to simplify India's tax structure, broaden the tax base and to create a single unified market in the interest of the economy. With this background, implementation of GST becomes a necessity.

The story so far: The first discussion paper issued in November 2009 presented the roadmap for GST. However, the GST rollout is already delayed by 5 years from its original deadline.

GST proposes a multi-tiered taxation system i.e. taxes at federal level would be governed by Central Government, while at State level they are governed by State Government. Equal powers to tax goods and services would be vested to Centre and States. Implementation of a unified GST system requires the devolution of equal powers in State and Central Governments. This requires an amendment in the Constitution of India. The Constitutional Amendment Bill is required to be passed by both the houses of the Parliament with 66% majority. Also, the bill is also required to be ratified by half of the states prior to its ascent by the President of India. Currently, the revised Constitutional Amendment Bill has been passed by the Lok Sabha. The Rajya Sabha has referred the bill to a Select Committee and has asked that the committee to submit its report on the last day of the first week of the Monsoon Session. Upon the amendment, model GST statutes are expected to be enacted. The government has proposed April 1, 2016 as the rollout date.

Do you Know:

Economists call GST a regressive tax. That is, as a percentage of income, the GST will impact lower income individuals much more than high-income individuals.

The proposed GST model has provisions to avoid this imbalance. Basic goods and services are proposed to be either exempt from supply or zero-rated which means that such goods and services will not attract GST.

Considering the current political environment, the entire process appears to be an uphill task. A lot of states are not on the same boat as the Central Government citing the following reasons:

- The primary concern for the states has been the compensation for the perceived loss of revenues owed to the subsuming of several state taxes into the GST model. Upon multiple rounds of negotiation, taxes on petroleum and alcohol have been kept out of GST. States would continue to tax petroleum and alcohol. Also, an INR 33,000 Cr. compensation (in separate tranches) have been proposed for the states to make up for the loss of Central Sales Taxes;
- The idea of bringing parity of taxes between the states is not desirable to certain states. The implementation of GST would bring about a common tax rate for all the states. Thus, it is argued that a state's fiscal autonomy may get marginally compromised due to parity of taxes;
- Thirdly, the Centre is facing problems in devising of an appropriate model for the taxation of inter-state transactions in goods and services. Currently, the Constitutional amendment Bill has proposed an additional tax at the rate of 1% leviable on supply of goods, when such supply takes place in the course of inter-state trade or commerce,

However, given the recent developments and the urgency with which the current federal government has taken up the task, we expect implementation of GST to be a certainty. Whether the deadline of April, 2016 would be met or not remains to be seen.

Unanswered Questions: In addition to the above issues, a number of questions still remain as we move closer to the GST rollout:

- Revenue neutral rate: Till now, there is no clarity as to the Final revenue neutral rate, with speculations ranging between 18% and 27%. The GST council is expected to decide the final revenue neutral rate.
- The proposed revenue neutral rate (18%-27%) is expected to make services more costly. Currently, services are taxed at 12.36%, which is slated for an increase to 16% upon ascent of the Finance Bill, 2015.
- Will GST be implemented in phases or on one single date.

GST café would bring to you the developments on a fortnightly basis. We look forward to your opinions and questions.

Please revert with your comments and questions to:

Shammi Kapoor, Delhi
shammi@vaishlaw.com Phone: +91-11-4249-2525

Shilpa Sharma, Mumbai
shilpa@vaishlaw.com Phone: +91-22-4213-4101

www.vaishlaw.com

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