



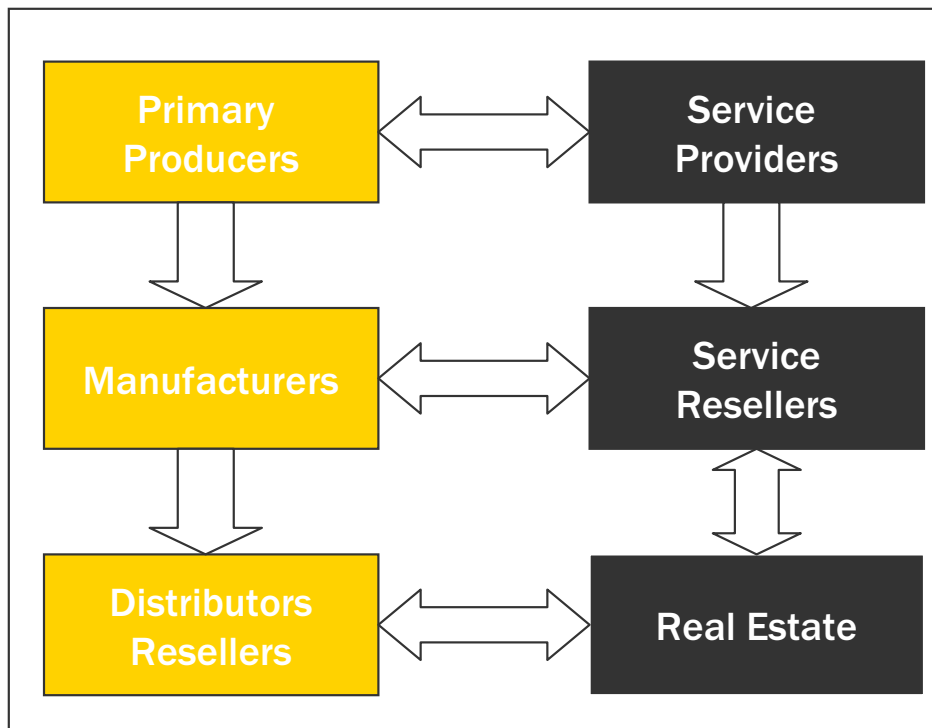
# Goods and Services Tax in India

International Taxation Conference

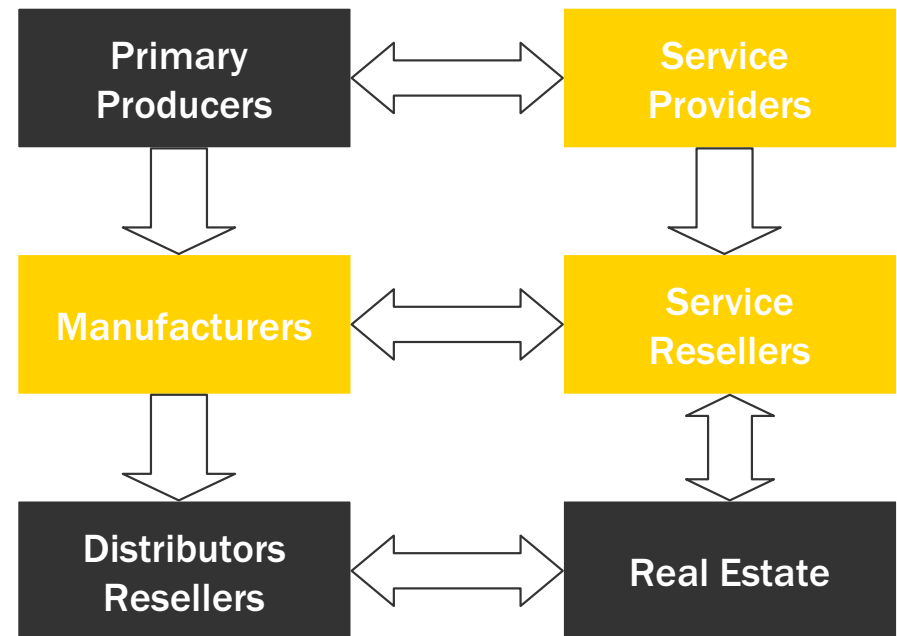
Satya Poddar  
December 1, 2011

# Current Patchwork

## State VAT



## CENVAT/Service Tax



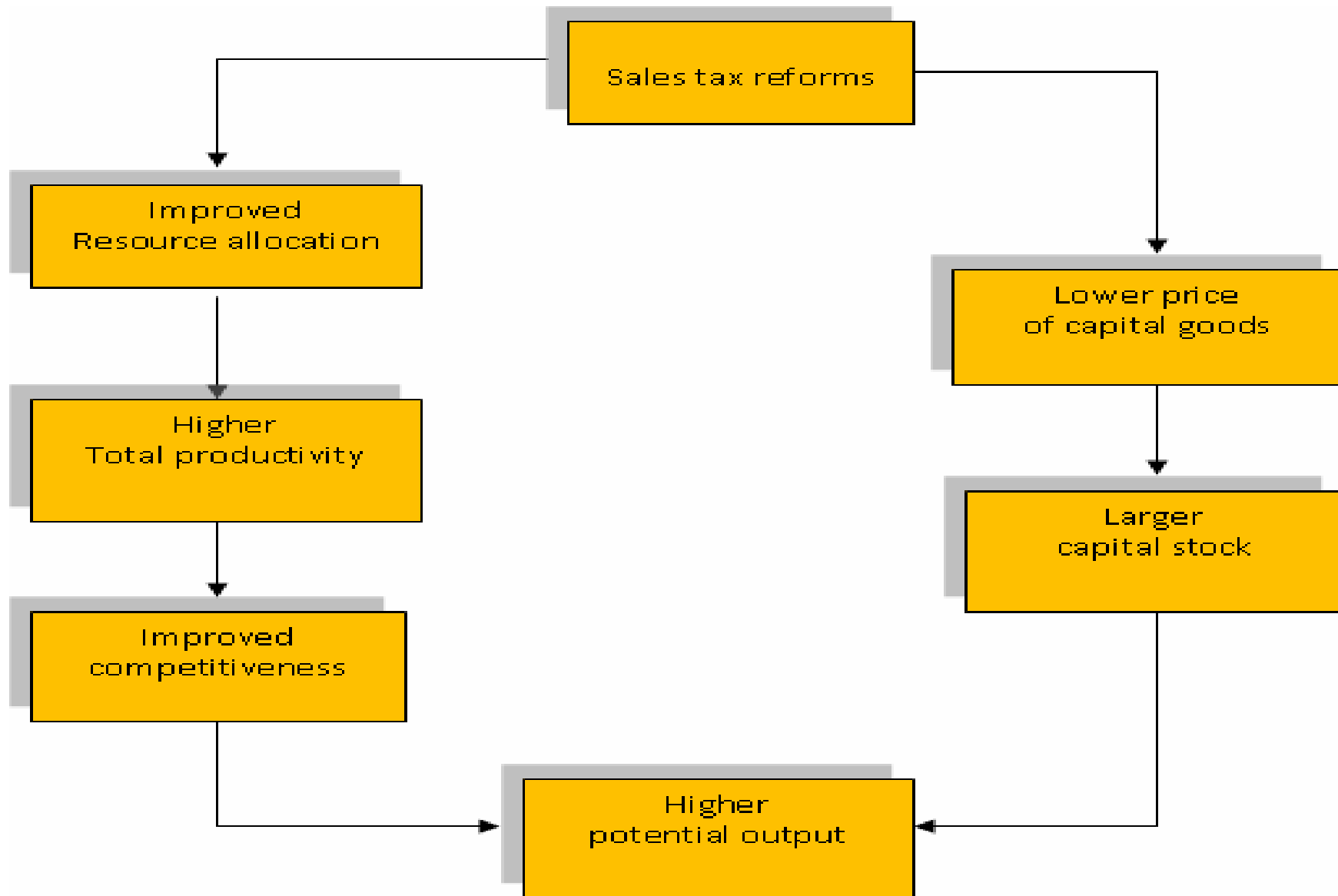
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# Why GST?

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- ▶ **Less tax cascading**
  - ▶ **Increased investment and higher GDP**
  - ▶ **Improved competitive position of Indian producers**
  - ▶ **Improved factor productivity**
- ▶ **Broader base, lower rates**
- ▶ **Simpler compliance and**
- ▶ **Improved administration**

# GDP Flow Chart



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# Requirements for Non-cascading Tax

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- ▶ **Comprehensive base**
  - ▶ **To minimize classification disputes**
  - ▶ **To allow input credits**
- ▶ **Destination basis of tax**
- ▶ **Full and immediate credit for both current and capital inputs**

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# Constitution Amendments

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- ▶ **Concurrent Powers to levy GST (Article 246A)**
- ▶ **GST defined as any tax on supply of goods or services or both except on specified petroleum products, natural gas and alcohol**
- ▶ **Parliament given exclusive powers to:**
  - ▶ **levy GST on inter-state trade and imports, and**
  - ▶ **apportion revenues among the Union and the States**
- ▶ **Parliament empowered to constitute:**
  - ▶ **GST Council**
  - ▶ **GST Dispute Settlement Authority**
- ▶ **Restriction or deletion of existing taxation powers**

# GST Council

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- ▶ **“Parliament may...provide for constitution of GST Council ...to make recommendations to the Union and the States on GST”**
  - ▶ Taxes to be subsumed
  - ▶ Tax base, rates, exemptions, and threshold limits
  - ▶ Any other matter relating to GST
- ▶ **All matters relating to decision-making process within the GST Council to be dealt with in the enactment by Parliament.**
- ▶ **No clarity whether and how GST Council recommendations binding on governments**

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# GST Council and Dispute Settlement Authority

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- ▶ **Guiding principles for GST Council deleted from the Constitution Bill, but could re-emerge in the enactment by Parliament**
  - ▶ **Development of a common national market**
  - ▶ **Equal treatment of all States**
  - ▶ **Destination principle of taxation**
  - ▶ **Minimization of compliance costs**
  - ▶ **Uniform exemption list**
- ▶ **Parliament empowered to enact law to create a GST Dispute Settlement Authority**
  - ▶ **To “adjudicate any dispute or complaint arising out of a deviation from ...recommendations of the GST Council”**



# Existing Taxation Powers Restricted: Centre

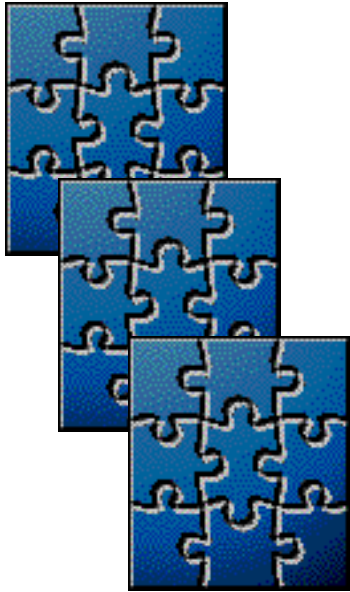
Current Union List	Revisions
84. Duties of excise on tobacco and other goods manufactured in India	Duties of excise on specified petroleum products, natural gas, and tobacco
92. Taxes on newspapers and advertisements	To be deleted
92C: Taxes on services	To be deleted
83. Customs duties, and export duties	No change
89. Taxes on goods/passenger transport by air, sea, and rail	No change
91. Rates of stamp duties	No change
97. Residual taxation powers	No change

# Existing Taxation Powers Restricted: States

Current State List	Revisions
52. Entry Tax	“Taxes on the entry of goods into a local area ...to the extent levied and collected by a Panchayat or a Municipality”
53. Taxes on Electricity	No change
54: Taxes of sale and purchase of goods	Taxes on specified petroleum products, natural gas, narcotics, and alcohol
55. Taxes on advertisements	To be deleted
62. Taxes on entertainment, betting, and gambling	“Taxes on entertainments and amusements to the extent levied and collected by a Panchayat or a Municipality”
49. Taxes on land and buildings	No change
50. Taxes on mineral rights	No change
51. Excise Duties on alcohol etc.	No change
56. Taxes on goods/passenger transport (road and water)	No change
58. Taxes on animals and boats	No change
63. Stamp duties	No change

# Issues under Debate

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- ▶ **Excluded Sectors**
- ▶ **Tax Rates**
- ▶ **Taxes to be subsumed**
- ▶ **Inter-state Services**
- ▶ **Compensation to States**
- ▶ **Fiscal Autonomy Vs Harmonization**

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# Excluded Sectors

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- ▶ **Land and real property**
  - ▶ **Not taxable because not a sale of goods or services**
  - ▶ **Real property rentals likely to attract GST as a service**
  
- ▶ **Alcohol for human consumption**
  
- ▶ **Petroleum products**
  - ▶ **Petroleum crude**
  - ▶ **High speed diesel**
  - ▶ **Motor spirit**
  - ▶ **Natural gas**
  - ▶ **Aviation turbine**
  
- ▶ **Electricity???**
  - ▶ **Within the scope, but could be exempted**

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# Issues: Excluded Sectors

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- ▶ **Significant cascading**
  - ▶ **Cascading in petroleum sector alone estimated to be Rs35,000 cr per annum**
  
- ▶ **Market distortions**
  - ▶ **Bias against outsourcing**
  - ▶ **Bias in favor of vertical and horizontal integration**
  
- ▶ **Breakdown of 'place-of-supply' rules for inter-state (pan-India) services**
  
- ▶ **Complex GST design for other sectors**
  
- ▶ **No social, economic, or fiscal policy objectives served by exclusion**

# Tax Rates

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- ▶ Tax rates evenly split between the Centre and the States
- ▶ Tax Rates: 12%, 16%, 20%

	2011-12	2012-13	2013-14
Essential Goods	12%	12%	16%
Services	16%	16%	16%
Other goods/supplies?	20%	18%	16%

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# Issues

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- ▶ **Whether need to define “Goods” and “Services”**
  - ▶ **Whether rental of real property within the scope of GST?**
  
- ▶ **Scope of Entry Tax, and Entertainment Tax “to the extent levied and collected by a Panchayat or a Municipality”**
  - ▶ **Whether GST Council empowered to recommend subsuming of these taxes**

# **TAGUP Report (Technology Advisory Group for Unique Projects)**

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- ▶ **Report submitted on January 31, 2011**
  
- ▶ **Recommends setting up a GST Network (GSTN) responsible for IT systems for GST implementation, and common GST Portal**
  - ▶ **To be incubated within National Securities Depository Limited (NSDL)**
  
- ▶ **Common functions (initially) to be managed by GSTN**
  - ▶ **Registration**
  - ▶ **Returns**
  - ▶ **Payments**



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# GSTN role and responsibility

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- ▶ **Dealer registration (including existing dealer master migration and issue of PAN based registration number)**
- ▶ **Payment management including payment gateways and integration with banking systems**
- ▶ **Return filing and processing**
- ▶ **Taxpayer management, including account management, notifications, information, and status tracking**
- ▶ **Tax authority account and ledger Management**
- ▶ **Computation of settlement (including IGST settlement) between the Centre and States**
- ▶ **Processing and reconciliation of import GST and integration with EDI systems of Customs**

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# Anticipated Roadmap

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- ▶ **Referral of the Bill to Parliamentary Select Committee**
  - ▶ To be followed by Committee hearings and report back to Parliament
  
- ▶ **Preparations for GST**
  - ▶ Drafting of Model GST Law
  - ▶ IGST, Place-of-Supply rules, and reporting system for inter-state sales
  - ▶ IT Infrastructure
    - ▶ Setting up GSTN
    - ▶ Ramp-up implementation of e-filing, and e-payment systems
    - ▶ Pilot testing of GST portal
  
- ▶ **Ratification of the Constitution Bill in State Assemblies**
  
- ▶ **Tabling and enactment of GST law**