



The Task Force appointed by the Thirteenth Finance Commission, Government of India, has issued a report on December 15, 2009 detailing the recommendations on various issues relating to the design and implementation of the proposed GST in India.

These recommendations differ considerably from the model and structure of the GST envisaged by the Empowered Committee of State Finance Ministers (EC) as described in the First Discussion Paper released by the EC on 10 November, 2009. The differences relate to several critical areas such as the tax base, tax rates, threshold limits, taxation of inter-State supplies of goods and services, exemptions/compounding schemes and taxation of alcohol, tobacco and petroleum products in the GST regime, amongst others. It must be clearly understood that these are only recommendations and it is for the EC to accept or reject these recommendations.

At the outset, given the inadequate preparation for GST implementation as of date, the Task Force has recommended that the implementation date of the dual GST be postponed by six months, to October 1, 2010.

The following are the highlights of the recommendations of the Task Force for implementation of a 'flawless' dual GST regime in India.

#### GST structure

- GST to be a dual levy imposed concurrently by the Centre and the States
- GST to have two components; one being levied by the Centre (Central GST or CGST) and the other levied by the States (State GST or SGST)
- Tax base to extend to goods and services in a comprehensive manner upto the final consumption point
- Destination principle to be followed resulting in shifting of the tax base from the State of production to the State of consumption.

#### GST Rates

- The CGST and SGST on all goods and services should be fixed at a single positive rate of 5 per cent and 7 per cent respectively.
- Out of the 7% SGST rate, a formula based devolution of an amount equivalent to 2 % SGST should be made to local governments and bodies in lieu of abolition of entry tax, octroi, cesses, etc.

#### Coverage

The CGST & the SGST should be made applicable on all transactions of goods and services made for a consideration except for exempted goods and services, goods which are required to be outside the purview of the GST (negative list) and transactions which are below the prescribed threshold limits. The real estate and power sectors should also be integrated into the GST framework.

#### Classification

The GST should ensure that there are no classification disputes between goods and services i.e. whether a particular transaction would be taxed under VAT or Service Tax or both and hence no distinction should be maintained between goods and services in terms of tax treatment and rates.

#### Place of supply rules

The place of supply rules for goods and services to be framed by the Centre and the States should be in conformity with the best international practice.

#### **Subsumation of existing taxes**

The Central taxes to be subsumed under the CGST are the Central Excise Duty; the additional Excise Duties; Service Tax; Additional Customs Duty commonly known as Countervailing Duty (CVD); surcharges and all cesses.



The State taxes to be subsumed under the SGST are VAT/ Sales tax (including Central Sales Tax CST and Purchase Tax); Entertainment tax (other than levied by the local bodies); luxury tax; taxes on lottery, betting and gambling; state cesses and surcharges in so far as they relate to supplies of goods and services and entry taxes not in lieu of octroi.

Other State levies such as stamp duties, taxes on vehicles, taxes on goods and passengers and taxes and duties on electricity should also be subsumed under the SGST.

Finally, all entry taxes and octroi levied by the local governments or bodies should be abolished.

The Central Sales Tax (CST) is to be phased out upon the introduction of the GST.

#### **Input Tax credits (ITC)**

The ITC for the CGST & SGST would operate in parallel and would be available for utilization only against the output payment of CGST & SGST respectively. A taxpayer or exporter would have to maintain separate accounts for availment and utilization of credits. Full and immediate ITC should be allowed for tax paid on all purchases of capital goods in the year of purchase and any subsequent transfers of capital goods should attract GST liability.

Cross utilization of ITC between the CGST & the SGST should not be allowed.

#### **Taxation of Inter-State supplies of goods and services**

Taxation of inter-state supplies of goods and services should be governed by the Modified Bank Model.

All inter-state transactions of goods and services, including consignment sales and branch transfers, should be effectively zero rated in the origin State and charged to tax in the destination State, as per the above model.

#### **Exemptions, Thresholds & Composition schemes**

##### Exemptions

The Centre and the States should draw up a common exemption list which should be restricted to:

- all public services of Government (Central, State and municipalities / panchayats) including civil administration, health services and formal education services provided by Government excluding railways, post and telegraph, PSEs, Banks and Insurance;
- unprocessed food articles covered under public distribution system irrespective of the outlets through which they are sold;
- education services provided by non-Governmental schools and colleges;
- health services provided by non-Governmental agencies;
- any service between an employer and employee either as a service provider, recipient or vice versa.

No exemptions should be provided to developers of or units in the Special Economic Zones (SEZs).

##### Uniform Thresholds

There should be a uniform exemption threshold limit both for the CGST and the SGST. The threshold limit has been prescribed for both taxes at Rs. 10 lakhs.

##### Compounding Schemes

The option for availing Composition / Compounding scheme under GST would be available to dealers having aggregate turnover of goods and services between Rs. 10 lakhs to Rs. 40 lakhs at a rate of one percent each towards CGST and SGST.



The dealers in high value products like gold, silver, platinum, precious stones and bullion, would be allowed to opt for the compounding scheme at the aforementioned rate irrespective of the turnover.

### **Exports & Imports**

Exports will be zero-rated. Both CGST and SGST will be levied on imports of goods and services into the country. The incidence of tax will follow the destination principle. Full and complete set-off will be available on the GST paid on import of goods and services.

### **Tax Administration & Compliance**

#### Tax Administration

All compliance and enforcement procedures under CGST and SGST should be uniform. The basis for division could be turnover or any other criteria which is considered reasonable so that the compliance and administrative burden is minimized. A common IT infrastructure serving the needs of both CGST and SGST should be established by the Central Government.

#### Registration

The GST registration number should be a PAN based twelve digit alphanumeric number. Dealers having branches across States should have multiple GST registration numbers based on the number of States in which they operate.

#### Payment of Taxes

The transaction reporting should be made through a combined payment and transaction reporting statement in the prescribed format (Form No. GST-I) and one single payment is to be made both for CGST and SGST.

### **Treatment of current area based exemptions**

The existing area based exemptions in respect of CENVAT should be discontinued and if need be a direct investment linked cash subsidy may

be provided to support the industry, for balanced regional development.

### **Taxation of tobacco, alcohol & petroleum products**

Tobacco, alcohol and emission fuels should be subjected to both GST and excise. However, no set off of input tax credit for excise would be available.

Industrial fuels should be subject only to the GST with full benefit of input tax credits.

### **Fiscal Autonomy of States**

In order to permanently institutionalize the States' collective decision making mechanism, the EC should be transformed into a permanent Constitutional body known as the Council of Finance Ministers under the Chairmanship of the Union Finance Minister with the State Finance Ministers being the members of the Council.

### **Roadmap for GST implementation**

A phased approach should be adopted for implementation of GST whereby in the year 2010-2011, single CGST and SGST rates as recommended should be adopted and transactions in the real estate sector should be brought within the ambit of GST with the levy of stamp duty not exceeding 4%.

In the year 2011-12, the rate of stamp duty should be reduced to 2%. In the year 2012-13, the stamp duty should be eliminated and replaced by a nominal registration fee at a specific rate.

### **Conclusions & Way Forward**

The recommendations of the Task Force would now be studied by the EC. Given the significant variations between the recommendations of the Task Force & those contained in the First Discussion Paper, it appears likely that several of these recommendations may not find favour with the EC. The EC is meeting today in Delhi and is likely to discuss these recommendations in detail.



Queries on the flash may be addressed to the following:

**S. Madhavan/ R. Muralidharan**

PricewaterhouseCoopers  
17th Floor, Building No 10  
Tower C, DLF Cyber City  
Gurgaon – 122002, India  
Ph: +91(124) 3306000  
Fax: +91(124) 3306999  
Email – [s.madhavan@in.pwc.com](mailto:s.madhavan@in.pwc.com)  
[r.muralidharan@in.pwc.com](mailto:r.muralidharan@in.pwc.com)

**Sachin Menon/ Santosh Dalvi**

PricewaterhouseCoopers  
PwC House, 2<sup>nd</sup> Floor, Plot No.18A,  
Guru Nanak Road – (Station Road),  
Bandra [West],  
Mumbai – 400 050, India  
Tel: +91 (22) 6689 1000  
Fax:+91 (22) 6689 1888  
Email – [sachin.menon@in.pwc.com](mailto:sachin.menon@in.pwc.com)  
[santosh.dalvi@in.pwc.com](mailto:santosh.dalvi@in.pwc.com)

**Somnath Ballav**

PricewaterhouseCoopers  
South City Pinnacle, 4th Floor  
Plot No. X-1/1,  
Block EP, Sector V  
Salt Lake Electronic Complex  
Kolkata - 700091  
Tel: +91 (33) 4404 6666  
Fax: +91 (33) 4404 6166  
Email : [somnath.ballav@in.pwc.com](mailto:somnath.ballav@in.pwc.com)

**Pramod Banthia**

PricewaterhouseCoopers  
The Millenia, Tower 'D', 6<sup>th</sup> Floor  
# 1 & 2 , Murphy Road, Ulsoor  
Bangalore – 560 008  
Tel: +91 (80) 4079 6000  
Fax: +91 (80) 4079 6222  
Email : [pramod.banthia@in.pwc.com](mailto:pramod.banthia@in.pwc.com)

**Disclaimer:** The materials contained in this Flash have been compiled by the Indirect Tax Practice team from various sources. The subjects are discussed in brief/general terms and are intended to provide a simple overview of the relevant developments in law. This information is for guidance only and should not be regarded as a substitute for appropriate professional advice. PricewaterhouseCoopers accepts no liability with regard to the information herein or any action that may be taken by readers of this Flash.