

GST cloud on states' sops for industry

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New Delhi, 25 April

With the goods and services tax (GST) being destination based, states might be unable to provide incentives to encourage local industry.

At the GST Conclave in New Delhi, Revenue Secretary Hasmukh Adhia on Tuesday said, "States are wondering how to continue with promised benefits. Any incentive has to be by way of the Budgets."

States offering the incentives might not even be able to collect taxes, he added. In inter-state sale of goods, the destination states would collect the tax.

Some states currently offer incentives through refunds. As value-added tax is origin-based, some states pay back to the producers, irrespective of whether or not goods move out of the state.

Once the new indirect tax regime is rolled out, states may only be able to offer business-to-consumer (B2C) incentives, but not business-to-business (B2B) ones.

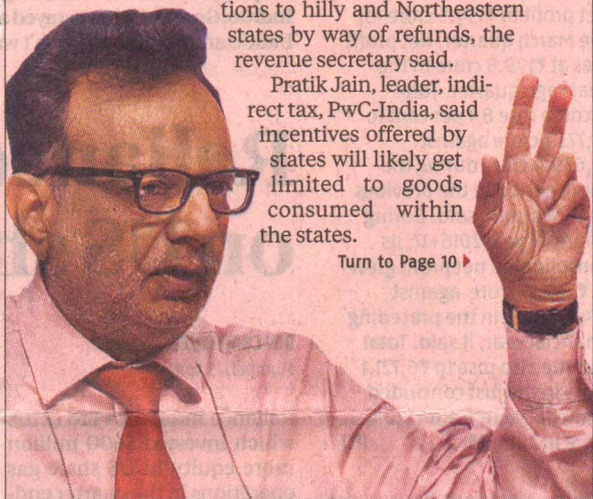
Adhia gave the example of goods produced in Gujarat but consumed in Bihar. "What right will Gujarat have to forgo the tax of Bihar?" he said.

The Centre would continue with area-based exemptions to hilly and Northeastern states by way of refunds, the revenue secretary said.

Pratik Jain, leader, indirect tax, PwC-India, said incentives offered by states will likely get limited to goods consumed within the states.

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ON GST COMPLIANCE RATING

"A system of GST Compliance Rating will be put in place... Once it is made public, a businessman can decide on whether to deal with another who does not deposit tax"

HASMUKH ADHIA, Revenue secretary

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"Besides, the effective rate of VAT may also go down from 13-14 per cent to 9 per cent on most products under the GST, narrowing the relative advantage industry enjoys," said Jain.

Service tax rate to remain unchanged

Although the service tax rate will go up from 15 per cent to 18 per cent, Adhia said the effective rate would remain the same, as service providers would be allowed input tax credit for goods used by them to providing services. "Currently, a bank does not get an input tax credit for the stationary or office supply it uses. Under the GST, it will get that, so the effective tax rate will remain the same," he said.

Services enjoying abatement to be taxed less than 18%

Services enjoying abatement for valid reasons will be taxed lower than 18 per cent, Adhia said. Restaurants, tour operator, construction and transportation currently enjoys abatements under service tax. Abatement is essentially a reduction in the level of taxation faced by the service provider. Transportation will be taxed at a lower rate under the GST, as its major input item petrol is out of the GST net, not allowing an input tax refund. "It is a possibility that there is more than one rate for service tax in

GST. Where there is abatement for service for valid reasons, the GST rate will be lower than 18 per cent," said Adhia. He pointed out that transportation services will be put in a lower tax bracket since petrol is out of the GST net.

GST roll-out on July 1

The revenue secretary said that all efforts are being made to roll out GST from July 1 and the industry, too, should brace for it. While Telangana and Bihar have already passed the State GST (SGST) Bill in their respective state legislatures, Rajasthan is scheduled to pass it soon. "As many as 14 states have said they will pass the SGST Bills by the middle of May and by end-May, all state legislatures will pass the SGST Bill," Adhia said. We are making all efforts to implement the GST from July 1," he added. Adhia said trade and industry should not be complacent and must make efforts to prepare for the GST. "The big industry will have to change the ERP software system, the small traders need no preparation as they can file return using the offline tool on the GSTN portal," he said.

GST to lower inflation

The GST will not lead to inflation; rather it will make domestic goods competitive compared to imported

items. Adhia said prices will come down, as cascading effect of taxes will ease. He pointed out that the current tax incidence of around 32 per cent will come down to 28 per cent under the GST. "The incidence of tax on imported goods will be equivalent to the tax paid by the local industry. This will strengthen domestic manufacturing and Make in India," Adhia said. The imported goods will be subject to Integrated GST (IGST) for which credit can be claimed at the time of sale. The IGST is just an interim tax or a washout tax, which is equivalent to the GST rate on a specific product. In case of locally manufactured goods, a similar GST rate will be applicable. Hence, there will be no advantage for the imported goods. The government levies countervailing duty and special additional duty on imported goods to protect domestic manufacturers.

Compliance ratings under GST

Adhia said that a system of GST compliance rating will be put in place so that every trader or businessman will be rated based on their track record. Once the rating is made public on the GSTN portal, an entity could decide on whether to deal with another trader that does not deposit tax with the government and therefore, has a low compliance score.