

State govts free to levy certain taxes outside GST regime

FE BUREAU
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THE FINANCE MINISTRY on Tuesday said states can levy certain taxes under the new indirect tax regime as the GST Council did not have any authority to direct them against such a move. The ministry was replying to a question in the Rajya Sabha on whether the Goods and Services Tax (GST) Council was empowered to stop states from levying certain taxes.

“Under the constitution, certain powers of taxation still remain with the state governments after introduction of GST also and within those powers, the state governments are free to

decide their rates of taxation. These taxes include stamp duty and registration charges, VAT on potable alcohol, entertainment tax, electricity duty and taxes on vehicle,” the ministry said.

As *FE* had reported earlier, in the first week of GST, Maharashtra and Tamil Nadu had raised local taxes leading to fears that more states could follow suit, thus undermining the objective of GST. The GST, which subsumes most major indirect taxes, is designed to reduce cascading of taxes that jacks up costs to businesses. Prevalence of input taxes that cannot be offset by the downstream industries is against the GST’s basic tenet, analysts said.

However, some government official said that the remaining taxation power with states was very limited, and it will prevent distortion of GST unlike the case under the earlier state VAT system. In the past, several states tweaked their laws to restrict flow of input tax credit and impose levies on inter-state transfer of stock under VAT.

For instance, Punjab, in December 2013, introduced a system of levy only on the first point of sale for a large variety of items — from electronic goods and packaged foods to mineral water and medicines — at substantially higher rates of 7-25% (as against the weighted average of about 12% in case of other

items). This meant the tax is paid either at the manufacturer’s or first importer’s stage and an absence of tax on the value added downstream, including at wholesale and retail points.

The imposition of local body taxes will continue for sometime before the trend stagnates but it is unlikely to dent the objective of the new regime, a government official said on the condition of anonymity.

“The states have enjoyed autonomy over taxation since independence, which has now been stripped off with the implementation of GST. The administrations will take time to adjust to the new reality,” the official said.