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GST – A Historic Landmark-2

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What is it?

- GST aims to stitch together a common market by dismantling fiscal barriers between states
- It is a single national uniform tax levied across the country on all goods and services

Present Situation

- The Centre and states levy multiple taxes such as excise duty, octroi, central sales tax (CST), value-added tax (VAT) and entry tax, among others

Why amend the Constitution?

- Under current laws, only the Centre can impose taxes on services
- GST will empower states to collect service taxes

What about tax rates?

- There has been no agreement yet on tax rates for various goods and services
- States want the rate to provide relief to common citizens and small businessmen while preventing loss of revenue for states
- A panel headed by chief economic adviser Arvind Subramanian has recommended a revenue-neutral rate of 15% to 15.5%, with a standard rate of 18%
- The revenue-neutral rate is the rate at which there will be no revenue loss to the Centre and states under GST

Compensating states

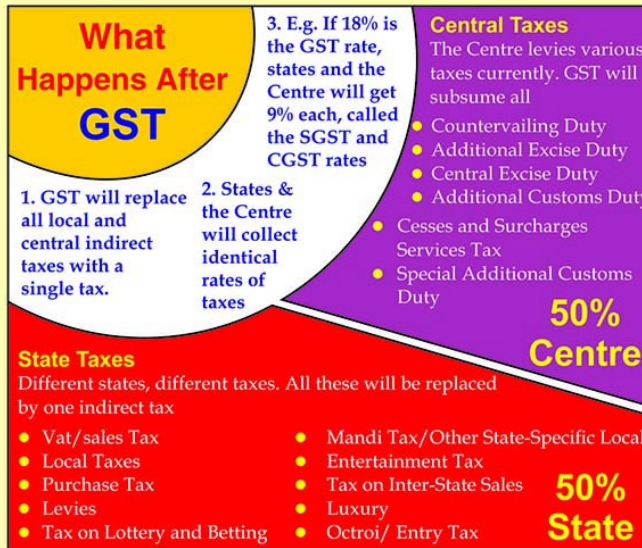
- States want 100% compensation for the first five years, and want this specified in the main law through "fool proof" wording
- In the original Bill, the Centre had proposed 100% compensation for first three years, and 75% and 50% for the next two years, respectively
- The Centre has acceded to the states' demand and modified the Constitution Amendment Bill

Inter-state movements

- The Centre would collect the Integrated Goods and Services Tax (IGST) on inter-state supplies
- IGST has been designed to ensure seamless flow of input tax credit from one state to another
- The IGST rate would roughly be equal to CGST plus SGST

What next

- More discussion on rates in the months ahead



- Rates may be specified in subordinate legislation—SGST law, CGST law by later this year.
- It backbone GST Network (GSTN) to be tested after rates are finalised; GSTN will enable real-time tax returns, registrations, input credit etc.

Price impact

- The impact on prices is unknown
- Experts say GST will make most services costlier
- The 13th Finance Commission estimates prices of agricultural goods will increase by 0.61% to 1.18%, while prices of manufactured items will fall by 1.22% to 2.53%
- It will lower the overall tax inputs and make exports competitive

Timeline

2006-07: The govt moots a proposal for GST in the Budget; negotiations with states begin

2008: The govt. constitutes the empowered committee (EC) of state finance ministers

2009: The committee releases its first discussion paper

2011: The UPA govt. introduces the Constitution Amendment Bill for GST in Lok Sabha (LS)

Aug 2013: The Parliamentary Standing Committee submits its report; the govt incorporates recommendations of the committee in the Bill

Sep. 2013: Revised bill sent to the empowered committee

Dec 2014: The Constitution Amendment Bill introduced in the LS

May 2015: LS passes the Bill

August 2015: Congress insists on

capping GST rate at 18%, and specifying the same in the Constitution Amendment Bill

July 2016: The Centre and states agree against capping GST rate in the Constitution Amendment Bill

Aug 2016: Rajya Sabha passes Constitution Amendment Bill Industry hails reforms, says will make doing business easier