
GST Implementation

Presentation by
Confederation of Indian Industry to
The Empowered Committee of State Finance Ministers

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Indirect Tax Reforms

- Reform from Sales Tax to VAT – implanted due to efforts of the Empowered Committee
- Shift from VAT, Excise, Service Tax etc to GST will be a major reform in Indirect Taxes
- GST feasible only with the help of all members of the Empowered Committee
- CII appreciates the efforts being made by the Empowered Committee to resolve the issues related to implementation of GST

Expected Benefits of GST

- Higher economic growth
- Simplification of administration and improvement in compliance
- More secure and stable base for Centre and State revenues
- More capital investment through elimination of tax cascading
- Free flow of goods and services within the common market in India
- Promotion of manufacturing in India
- Removing trade biases against Indian manufactured goods

GST to simplify compliance and create stable revenues

- World bank ranking of tax administration / ease of paying taxes in India is abysmally low at 147 out of 183 countries
- Multiplicity of taxes, irrational structure and ad hoc administration are a bane for Indian economy
- GST an opportunity for rationalization, consolidation, standardization/automation
- Simple, fair and neutral structure
- Invoice-credit system to discourage non-compliance
- More transparency
- Greater buoyancy through extension of tax on services by states

Prices can be maintained under GST

- Price of goods & services is a function of aggregate revenue
- If GST is at the revenue neutral rate (RNR), prices can be maintained at the same level
 - RNR would be 15% or below if the tax base is comprehensive
- Attempts to garner revenue other than by strengthening administration would lead to price rise
- During transition, governments need to publicize the benefit of credit mechanism under GST

GST and the SMEs

- Small dealers do not fear taxes, but the associated procedural problems
- Traders and dealers want a simple and neutral tax and a hassle-free environment
- GST would provide:
 - Automation of the tax systems and procedures
 - Reduced interface between the taxpayers and authorities
 - Minimal discretion
 - Need to educate small dealers about advantages of GST

International Experience

- Internationally, countries moving towards simplification of tax structures
- South Korea replaced eight indirect taxes representing 40% of revenue by GST
- Other countries have strived to achieve a world class GST- Examples are:
 - Japan
 - Australia
 - New Zealand
 - Singapore
 - South Africa

Constitutional Amendment Bill

- The Bill in its present form does not deliver world class GST
 - Partial coverage due to exclusion of petroleum products, alcoholic liquor and real estate
 - Continuation of entry tax, entertainment tax levied by local bodies, Electricity duty
 - Even if deviations are needed from world class, it should not be part of the Constitutional Amendment Bill
 - For revenue consideration the Centre and states may be allowed to levy supplementary tax on motor spirit and diesel
 - States may be allowed to levy similar supplementary tax on alcoholic liquor for human consumption

Implications of Exclusions

- Existing laws of excise duty, CST and VAT will continue to tax the excluded products. Co-existence of these taxes would undo the structural benefits of GST
- Inputs in the form of goods and services will be taxable under GST, but no credit will be available for the excluded products.
- Similarly, there will be denial of input tax credit to users of excluded products
- Petroleum sector includes oil exploration and production, refining, transportation, distribution and marketing. Proposed exclusion of petroleum crude, high speed diesel, motor spirit, natural gas and ATF may render the IGST model for taxation of inter-state sales unworkable or inordinately complex in this sector
- In case of exclusion of alcohol, hotels and restaurants serving alcohol and other outlets will be worst affected in terms of administrative complexities

Constitutional Framework – CII's Views on GST Council & DSA

- Adopt a more workable option like two-third majority instead of consensus for decisions by the GST Council
- Dispute Settlement Authority (DSA) need not be in the Constitution and let the GST Council decide a suitable mechanism to resolve disputes
- The Constitutional Amendment Bill should be mainly to empower centre to levy tax beyond manufacturing stage and states to levy tax on services

CII Request

- Find a viable solution acceptable to states as well as Central Government so that the Constitutional Amendment Bill with necessary modifications is passed at the earliest
- Floor rate concept, if considered necessary, could be explored, but not at the inception
- States may keep in view the overall benefits of implementation of GST to country as a whole.
- Discuss the changes suggested by states in the framework of GST with industry (CII) from time to time.
- Commit to a target date for implementation of GST.

Thank you