The Economic Times November 3, 2016

Assocham, KPMG Warn against Sharp Anomalies in GST Rates

Our Bureau

New Delhi: Ahead of the crucial Goods and Services Tax Council meeting on Thursday and Friday, industry body Assocham and consultancy KPMG have called for avoiding sharp anomalies in taxation structure across different industries such as telecom, tobacco and textiles under the new tax regime.

"While GST is a path-breaking reform, its implementation should be calibrated in a manner to cause least disturbance to the existing taxation structure," Assocham secretary general DS Rawat said on Wednesday after the association and KPMG jointly submitted a paper to the GST Council on the proposed tax framework.

Taxation structure for sin goods like tobacco should not be based on emotive issues, but on rational parameters like the need to check illicit trade, the submission said, opposing the idea of taxing tobacco and tobacco products at a higher than standard rate. It said the focus should be on bringing exempted items under GST net and eliminate rampant illicit trade.

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>
> **DS RAWAT**
> Assocham Secretary General

The GST Council at its meeting will seek to decide on the GST rates and the division of tax administration. The Centre has proposed four slabs and a fifth rate for precious metals besides a cess on ultra-luxury and tobacco products, which has not been accepted by states.

Chandrajit Banerjee, director general at industry body Confederation of Indian Industry (CII), said the government should ultimately reduce the number of GST rates to one or two. "The GST should begin with an absolute limit of four rates as suggested by the government, and over time, the government should commit to converging these four rates to one or two rates," he said.

The Assocham-KPMG paper cautioned that for the telecom sector GST may negatively impact the working capital cost since initial landed price of purchases, including imports, may increase due to higher tax rates. The paper said the cost of procurement of services may increase to more than 18% from the current 15%, which will be a challenge for the industry, especially if CENVAT credit on passive infrastructure and fuel consumption is continued to be denied to the industry.

It also pointed out that for the tourism sector different abatement schemes addressing different situations are currently available under service tax, such as 30% in case of composite package and 60% for dining at a standalone restaurant.

The paper said differential rates are leading to ambiguity and complexity in determining the value on which service tax is payable, and pitched for a uniform tax treatment to overcome such a situation.

It said the food processing industry is taxed at a concessional rate or zero rate. GST is likely to be based on minimal exemptions regime, leading to increase in the tax cost for the food processing industry and inflation.

The Hindu Business Line

November 3, 2016

Remove anomalies across sectors before GST rollout: KPMG-Assocham report

PRESS TRUST OF INDIA

New Delhi, November 2

Sharp anomalies in the taxation structure across different industries such as telecom, tobacco and textiles should be addressed as the country moves towards the goods and services tax (GST) regime, said a paper submitted to the GST Council.

Taxation structure for sin goods like tobacco should not be based on emotive issues, but on rational parameters like the need to check illicit trade, said the Assocham-KPMG paper.

It said that instead of taxing tobacco and tobacco products at higher than the standard rate, the entire sector should be placed under the standard rate, with focus on bringing exempted items under GST net to eliminate the rampant illicit trade.

For the telecom sector, the paper cautioned that GST may negatively impact the working capital cost since initial landed price of purchases, including imports, may increase due to increase in tax rates. It said the cost of procurement of services may increase to more than 18 per cent from the current 15 per cent, which will be a challenge for the industry, especially if Cenvat credit on passive infrastructure and fuel consumption is continued to be denied.

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"While GST is a path-breaking reform, its implementation should be calibrated in a manner to cause least disturbance to the existing taxation structure," said Assocham Secretary-General DS Rawat.

The paper also went into the impact of GST on the textile sector and suggested ways to find an ideal situation. It said that in case India opts for higher tax rates under the proposed GST regime, the country will lose its market share in the long term to developing and highly competitive economies.

It recommended that India should implement policies that capitalise on the potential of its textile and apparel industry so that the country has a higher bargaining power in procuring export orders.

"Thus, the government should take a conscious call to retain lower rate for this industry by introducing a special lower slab of 4-6 per cent under the proposed GST regime along with full input tax credit of GST paid on goods and services used in the supply chain," said the paper, which was submitted recently to the GST Council.

The paper noted that the tobacco industry has been the second largest contributor to excise revenue after the oil and gas sector. The combined tax revenue collected from tobacco industry was more than ₹29,000 crore in 2014-15.

Business Standard November 3, 2016

Centre, states look to iron out differences at GST meeting

DILASHA SETH & SHINE JACOB
New Delhi, 2 November

The Goods and Services Tax (GST) Council will meet on Thursday to iron out differences on two key issues — rates and dual control — that could potentially delay the April 1 roll-out of the uniform indirect tax. Although the Centre is likely to stick to its guns on the four-slab GST rate, it will try to get states on board over the issue of administrative control by proposing an audit and scrutiny formula.

"We're hopeful of a consensus on the two issues on agenda during the two-day meeting. All states seem to be in favour of the four-slab rate structure proposed by the Centre, barring West Bengal and Kerala. All states understand the logic," said a government official who did not wish to be named.

The Centre has proposed four slabs for GST — six per cent, 12 per cent, 18 per cent, and 26 per cent. It has suggested a separate cess on ultra-luxuries and demerit items in the 26 per cent slab to compensate states. It has also proposed that ₹26,000 crore from clean environment cess will go towards compensating states, taking collections by way of cess to ₹50,000 crore. The Council is chaired by Finance Minister Arun Jaitley, with state finance ministers or their representatives as members.

On the issue of 'dual control', the Centre will likely propose a division of powers based on audit and scrutiny of assesses. The proposal will offer greater assesses to states to carry out auditing and scrutiny compared to the Centre. "We can have a clear distinction to carry out audit and scrutiny of assessees. We're willing to carry out a lot less intervention than states. But, there will be 'cross-empowerment' right from the beginning and will do away with the thresholds," said another official.

The states were pushing for the exclusive administrative control of up to ₹1.5 crore annual turnover threshold and dual control over that in case of both goods and services.

The 'cross-empowerment' model will ensure that a taxpayer will have to deal with one authority for all taxes to protect them from harassment. Under the framework, both Centre and states will have administrative control over assessment, scrutiny and audit for the central GST (CGST) and state GST (SGST). Whoever strikes first will carry out the assessment for CGST, SGST and integrated GST.

Kerala and West Bengal continue to show stiff resistance to the Centre's proposals. The two states had opposed to a cess on GST at the Council meeting on October 18. Kerala has pressed for a GST slab of 40 per cent instead of a cess on the highest GST slab of 26 per cent on ultra-luxury items.

"We have issues regarding rates and also the role of states on administering the GST. We are highlighting certain issues that will affect the states and also the common man. However, we're hopeful that this will be resolved in the next couple of days. We want to increase the top rate of 26 per cent to above 30 per cent," a senior official in Kerala's finance ministry told *Business Standard* ahead of the Council meeting on condition of anonymity. "We are also not in favour of imposition of cess on luxury goods to fund compensation to the states," the official added. Other contentious issues pertain to administrative control of 1.1 million service tax assessees.

The Centre is learnt to have turned down the idea on the grounds that tax revenue will need to be shared with the states, while cess would be entirely dedicated towards the purpose of compensating states. Besides, of the 50 per cent that the Centre will get, 42 per cent will go to states as devolution, which will stretch its revenues. "So, out of every ₹100 collected in GST, only 29 per cent remains with the Centre. The tax impact of this levy would be exorbitantly high and almost unbearable," Jaitley had said last week.

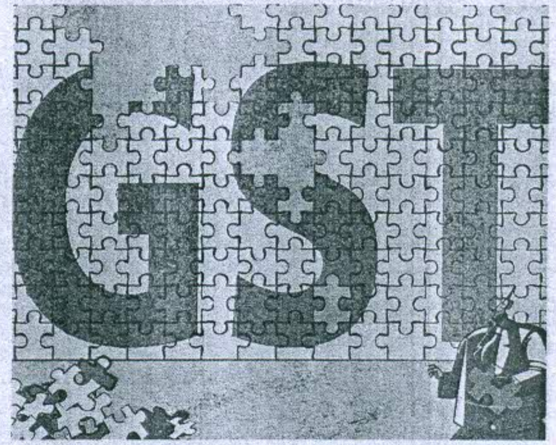
West Bengal asked for a hike in direct taxes to compensate states. The Centre said it would not like to burden taxpayers to compensate states. West Bengal finance minister Amit Mitra a letter to Arun Jaitley is reported to have accused the Centre of hiding facts pertaining to service tax assesses. Mitra said the number of service taxpayers stood at three million. According to Mitra, this has "unfairly influenced the discussions, especially on the sharing of administrative powers between the Centre and states".

A senior government official in the finance ministry clarified that while the service tax base is 2.6 million, the three million figure includes those who pay zero tax. Besides, it also filtered out those who did not file returns and the new taxpayers to arrive at the 1.1 million figure.

In the first GST Council meeting, it was broadly agreed that states will have exclusive control for up to ₹1.5 crore for goods, while 1.1 million service tax assesses would continue to be assessed by the Centre till states acquire the necessary training and skills to handle service tax cases. However, this understanding fell through in the subsequent meeting as states also wanted control over service tax cases.

Industry bodies favour a simplified GST structure. The Confederation of Indian Industry is of the opinion that cess should be levied only at the final product and that the total tax, including cess, on demerit goods should be kept within the present overall indirect tax incidence.

"As we are in a transition period, several industry sectors are faced with the challenges of adapting to new tax regime. While the GST is a path-breaking reform, its implementation should be calibrated in a manner to cause the least disturbance to the existing taxation structure," said D S Rawat, secretary-general, Assocham.



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The Asian Age November 3, 2016

GST niggles need to be sorted: Study

New Delhi, Nov. 2: Sharp anomalies in the taxation structure across different industries such as telecom, tobacco and textiles should be addressed as the country moves towards the goods and services tax regime, said a paper submitted to the GST Council.

Taxation structure for sin goods like tobacco should not be based on emotive issues, but on rational parameters like the need to check illicit trade, said the Assocham-KPMG paper. It said that instead of taxing tobacco and tobacco products at higher than the standard rate, the entire sector should be placed under the standard rate, with focus on bringing exempted items under GST net to eliminate the rampant illicit trade.

For the telecom sector, the paper cautioned that GST may negatively impact the working capital cost since initial landed price of purchases, including imports, may increase due to increase in tax rates. It said the cost of procurement of services may increase to more than 18 per cent from the current 15 per cent, which will be a challenge for the industry, especially if CENVAT credit on passive infrastructure and fuel consumption is continued to be denied.

THE PAPER highlighted that instead of taxing tobacco and tobacco products at higher than the standard rate the focus should be on bringing exempted items under GST net to eliminate the rampant illicit trade

"While GST is a path-breaking reform, its implementation should be calibrated in a manner to cause least disturbance to the existing taxation structure," Assocham secretary general D.S. Rawat said.

The paper also went into the impact of GST on the textile sector and suggested ways to find an ideal situation. It said that in case India opts for higher tax rates under the proposed GST regime, the country will lose its market share in the long term to developing and highly competitive economies.

It recommended that India should implement policies that capitalise on the potential of its textile and apparel industry so that the country has a higher bargaining power in procuring export orders. — *PTI*