GST Council Clears Compensation Bill

The goods and services tax (GST) Council **on Saturday 18th Feb, 2017 formally approved a Bill for compensating the state governments for any revenue loss they might have to suffer in the first five years in the GST regime, as the constitutionally empowered body entered the last lap of its key legislative business.**

At its 10th meeting held at Udaipur, the council also resolved to make some clarificatory changes in the model GST Bill — which will be replicated as the central and state GST bills — with a view to amplifying their legal tenability.

The model GST and integrated GST drafts are also likely to be endorsed by the council at its next session to be held in New Delhi on March 4-5. The Centre is hoping to introduce all the three crucial bills in Parliament in the second half of the Budget session, which will commence on March 9, said finance minister Arun Jaitley.

The Centre has set a July 1 deadline for ushering in the GST regime, the journey towards which has been a decade-long and chequered one, marred by political squabbles and bureaucratic turf battles.

As for the remaining agenda, Parliament needs to pass the three bills and the state assemblies will have to approve the state GST bills. The fitment of items under the four-tier (5%, 12%, 18% and 28%) rate structure, in keeping with the principles of revenue neutrality (for the government) and ensuring minimal inflationary impact, is a key challenge too. Jaitley said there would a 12th session of the council to finalise the fitment, while a technical committee has already made considerable headway in this regard.

The GST Network, the IT backbone for running GST, must be up and running and the businesses will have to get ready for the proposed destination-based tax on consumption that will replace all major existing indirect taxes except the basic customs duty and have a seamless input tax credit facility. As per the compensation Bill cleared by the council on Saturday, the states will be given full compensation for the first five years for any shortfall in revenue from what 14% annual growth from the 2015-16 base would have otherwise yielded.

The compensation will be funded via a clutch of cesses, including the extent clean energy cess and the impost on tobacco. While some states like West Bengal had earlier said that the compensation requirement could turn out to be much higher than R50,000 crore estimated earlier due to the negative impact of demonetisation on state finances, analysts said states have actually nothing to worry in this regard as the compensation is being computed on the 2015-16 revenue base and assuming 14% annual growth.

However, at the Udaipur meeting of the council, the Central bureaucracy is learnt to have sought to raise the issue of “dual control” again. While the proposed division of powers will lead to a significant shifting of the taxpayer base from the states to the Centre, states will gain hugely from the 50:50 division of the above-R1.5 crore taxpayer base, in terms of the taxpayer base to be under their control. Businesses with a turnover above R1.5 crore contribute to over 95% of the revenue attributable to the taxes to subsumed in GST, while 93% of the service tax assessees and 85% of those registered for state VAT have a turnover below the threshold.

As regards the model GST law, Jaitley said the council brought additional legal clarity on aspects like how to tax work contracts (currently both VAT and service tax are levied on them), definition of “agriculture,” exemptions to be accorded to small businesses during the transitional phase, and the composition of the appellate tribunals at the central and state levels.

Besides, the council discussed the composition scheme that allows a registered trader up to pay tax at a fixed rate (likely 1%) on turnover and avoid any further scrutiny by the taxman, as far as local (intrastate) sales up to a threshold are concerned.

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