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CBEC estimates Centre's collection in the first year GST rollout

Central Board of Excise and Customs (CBEC) has estimated the Centre to collect Rs. 5.65 lakh crore as its share in the first year of GST implementation. State of Maharashtra would be the biggest contributor with about Rs. 1.31 lakh crores as its contribution, followed by Rs. 50,000 Cr from Gujarat. UP is estimated to give around 46,900 Cr, Tamil Nadu to put Rs. 42,000 Cr while Delhi & Haryana will share around Rs. 25,300 Cr and Rs. 34,170 Cr respectively.

It is expected that such revenue neutral calculation would result in no compensation to States in the first year for their losses.

CBEC is likely to divide India into 24 zones with 107 commissionerates, and may abolish Large Tax Units (LTU) from each zone.

COMMENT:

The States may not need any compensation in the first year of GST implementation and this will be a huge relief to the Centre

RBI supports 18% GST rate

> ***"The general consensus is that the impact on consumer price inflation is likely to be moderate if the standard GST rate is at 18 per cent – in fact, overall price levels may go down due to more efficient allocation of factors of production."***
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> ***"While the creation of a unified goods and services market in the country would reduce supply chain rigidities, cut down on transportation costs and also bring down costs in general through improvements in productivity, it could also produce a short-lived pass-through to the inflation trajectory,"***
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> *– RBI Monetary Policy Report*

The Reserve Bank of India (RBI) in its Monetary Policy Report said that the 18% GST would not have any material impact on Consumer Price Index (CPI) Inflation. In its report, the RBI said that the

SIAM seeks only two rates under GST as opposed to the four rates under the present system

Society of Indian Automobile Manufacturers (SIAM) has urged for only two rates for conventional vehicles instead of the four at present. The industry body said standard rates must apply on small cars, two-wheelers, three-wheelers and commercial vehicles, while bigger cars should attract 8 per cent more than the standard rate.

COMMENT: Automobile industry has been looking forward to the GST as the embedded taxes and duties had made manufacturing less competitive.

implementation of GST could produce a short-lived pass through to the inflation trajectory. Though the GST Council is yet to finalize the GST rate, the RBI has said that a dual rate structure with a standard rate of 18% and a low rate of 12% is likely to have a minimal impact on inflation

As regards the effects of GST, the RBI report said that the according to cross-country experiences one-off effects caused due to GST will dissipate after a year of its implementation.

Further, the report stated that if the rate is increased to 22%, the impact on aggregate inflation would be in the range of 0.3-0.7%, concentrated in select groups like healthcare.

COMMENT: RBI's approval will favour 18% GST rate.

Commerce Ministry seeks exemption of exporters to continue under the GST

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The Ministry of Commerce and Industry has sent out its suggestion to the Finance Ministry to let the exporters be exempted under the new indirect tax regime, GST. This has come after the Council proposed that even those exempted under the GST regime would first need to pay the tax and then the same would be refunded to them. The Commerce Ministry has said that such a procedure would cause hardships to the exporters as a substantial amount of working capital would be locked in the process of paying duties and then taking refund and this would hurt the exports. Further the Ministry is also batting for the distinction between the domestic tariff area and special economic zones to be maintained under the new regime.

The Federation of Indian Export Organisations (FIEO) has expressed concerns about the implications of GST on exports and in light of the competition exports face from various countries, the Federation has raised several issues for the consideration of the GST Council so that the facilities currently availed by the sector continue. The definition of 'exports' under the Model GST law is at a variance with Special Economic Zones Act, however synchronization of the two is a must to avoid any dispute, the Federation's Director General Ajay Sahai said.

COMMENT: The concerns raised by the Federation need thoughtful consideration by the GST Council.

Tax administration overhaul under the GST regime

India's tax administration structure is all set to undergo major change with the implementation of the GST which includes overhauling the CBEC. The plan is to set up empowered GST Commissionerates within the CBEC that will administer the new tax system. There will be 24 zones and 107 GST Commissionerates spread all over the country. Each commissionerate will have oversight rights over 15,000-20,000 assessees with combined revenues of about Rs 5000 crore. Every state, except those with very small assessee-base, will have at least one commissionerate, which will be broken down into five divisions and 50 ranges for each.

A Directorate General of Dispute Resolution (DGDR) will also be set up, to deal with possible Centre-state and inter-state rows that may arise after the new tax system comes in. Directorate General of GST Intelligence (DGSTI) will be set up tasked with keeping a close eye on compliance and detecting and collating information on tax. The existing Customs and Service Appellate Tribunal (CESTAT), however, a judicial body, will continue to run concurrently to deal with legacy cases, some which go back more than a decade.

COMMENT: The reform is a must for smooth GST rollout.