



Bangalore Chamber of Industry and Commerce

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BCIC welcomes discussion paper on the new GST regime

The much awaited discussion paper on Goods and Services Tax (GST) in India has been released by the Empowered Committee of State Finance Ministers on 10th November, 2009.

The First Discussion Paper has set the ball rolling on the landmark Goods and Service Tax (GST) regime on indirect tax reforms and is broadly on the expected lines. The discussion paper does not specify the time lines for circulation of model legislations, tax rates, time and place of supply rules relating to goods and services, transitional provisions, usage of forms, etc. Trade and Industry believe that the transition provisions as and when enacted would permit seamless carry forward of unutilized credits under MODVAT, CENVAT, VAT, etc.,

The dual tax (CGST and SGST) proposed to be levied and collected, subsumes a number of Central and State taxes. Trade and Industry welcome the proposals indicated in the discussion paper. Thus, largely the multiplicity of taxes has been done away with and if the input tax credit mechanism proposed in the discussion paper is followed in letter and spirit, Trade and Industry would stand to gain.

However on the following issues no clarity emerges from the discussion paper:

1. Purchase tax levies;
2. Subsuming of levies such as automobile cess, Research and Development cess, Education and Labour cess etc.;
3. Services which are currently outside the service tax net;
4. Whether the same commodities will be exempt from Center and State levies. Any variance would complicate the taxability of the transactions;
5. Services likely to be exempt or taxed at lower rate;
6. Taxability of Aviation services and infrastructure projects;
7. Taxability of real estate transactions;
8. Taxability of transactions relating to EOUs, STPs and non-processing area in SEZs.
9. State's discretion / authority to fix own composition rates, although the floor rate of composition is stipulated at 0.5%;

Specifically the area of concern to the Trade and Industry will certainly be:

1. Concurrent administration of the tax payer by the Centre and the State;
2. Separate legislation for CGST and State-wise legislation for GST;
3. Whether cash back schemes to incentive driven units would be time bound;
4. Taxability or otherwise of the transactions relating to stock transfers and consignment sales.

A plain reading the discussions paper indicates that it will impact Trade and Industry in the area of supply chain, finance, IT systems and process marketing, etc. At least as far as Karnataka is concerned it appears that Entry tax will continue. It would be worthwhile, if the Centre and the States still consider stamp duty and electricity taxes to be subsumed into the GST net. While intentions seem to be honorable, there is a clear need for a determined action plan with identified responsibilities to see the implementation.

Overall, BCIC feels that this is a concrete step taken by the Government towards implementing this historic tax reform. As we see, this is only the First Discussion paper and many more white papers are in the offing and we sincerely hope for more clarity to emerge. BCIC feels that enough time will be given to Trade and Industry and the Government will usher in the historic tax reforms after detailed deliberations with the stake holders.
