



Workshop on "An In-depth Analysis on the 13th Finance Commission Report and the Report by the Empowered Committee of State Finance Ministers on Goods and Services Tax" on Tuesday, January 19, 2010

Bangalore Chamber of Industry and Commerce (BCIC) organized a Workshop on "An In-depth Analysis on the 13th Finance Commission Report and the Report by the Empowered Committee of State Finance Ministers on Goods and Services Tax" on Tuesday, January 19, 2010. Dr. M. Govind Rao, Member, Economic Advisory Council to the Prime Minister and Director, National Institute of Public Finance and Policy, New Delhi was the Chief Guest and Mr.M.R. Sreenivasa Murthy, IAS, Additional Chief Secretary, Department of Finance, Government of Karnataka was the Guest of Honour on the occasion.

The main objective of the Workshop was to understand on the salient features of the several recommendations / proposals put forth in the The 13th Finance Commission's Report as well as at the First Discussion Paper released by the Empowered Committee of State Finance Ministers under the Chairmanship of Dr. Asim Kumar Dasgupta and to understand a clear perspective on GST and its implications to the Industry and Trade.

In his welcome address, Mr.K.R. Girish, President, BCIC said that the implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports which would translate into enhanced economic welfare and returns to the factors of production namely Land, Labour and Capital. He further emphasized that the Trade and Industry are well apprehensive on 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.,

Mr.S. Venkataramani, Chairman, State Taxes Committee, BCIC in his introductory remarks sought the views of the Chief Guest as well as the Guest of Honour on the following issues:-

- Barter or exchange of goods and services - whether they will be taxed under GST?
- Dual Levy in all forms is regressive and should be avoided
- It is recommended that under GST regime, an option be provided to the dealer to move goods, without payment of duty, outside the State on a temporary basis.
- It is strongly recommended that with the e-governance, the way-bill system be done away with.
- The Standard rate and Concessional rate for goods and services should be kept uniform.
- Whether carbon credits would be taxable under GST?

Presenting his views on the Industry Perspectives, Mr. Girish Krishnaswamy, Head – Taxation, BIAL brought out the critical issues arising out on the implementation of GST especially issues concerning Operational, Financial and Infrastructural functional areas of the Industry namely:

- Uniformity in tax treatment of Goods and Services
- Common Regulatory Authority Threshold for State and Central GST
- Input Tax Credits
- Immediate Phasing out of CST
- Periodic Returns & Payment Mechanism

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He especially drew the attention of Dr. Govind Rao that before implementing GST, it is critical that necessary infrastructure be created for redesigning as well as impart training to the administrative staff to switchover from the existing VAT regime to GST. He hoped that sufficient notice and time will be given to the industry to adapt to the new regime.

Mr. M R Sreenivasa Murthy deliberated that a major tax reform like GST has legal / constitutional challenges to be made both at the Central and State levels. He further added that the country needs a competitive tax environment in a global economy which would maximize revenues to provide efficient infrastructure and address the need to minimize distortions. He also stated that the Karnataka Government is already geared up to adapt GST and is in the process of deliberating the issue on Revenue Neutral Rate (RNR) and Compensation Mechanism with the Empowered Committee. He hoped that the GST will be implemented somewhere between October 2010 and April 2011.

With respect to issues relating to taxes on Petroleum Products and Alcohol that are not likely to be subsumed under GST, Mr. Sreenivasa Murthy said that both the items constitute more than 30% of the State revenue and hence no State Government would like to give up this revenue unless a suitable compensatory mechanism is drawn under GST regime. He further added that the State Government would ensure to protect its current revenue and if need be, request the Centre to provide adequate compensation in case of short fall with the implementation of GST.

BCIC's Booklet on "**Roadmap to Goods and Services Tax (GST) - Issues and Recommendations**" was officially released on this occasion by Dr. M Govinda Rao who appreciated the efforts of the Chamber and complimented that this would help the members to understand the knitty gritty issues relating to the GST.

Making a presentation on "Goods and Services Tax for India: Design and Implementation Issues" Dr. M Govinda Rao said that there is an urgent need for both Central and State Governments to come out with the policy reforms like Inter-state apportionment of Service Tax revenue, Individual State revenue implications, Unification of the rates by the States as well as compensation formula before introduction of GST. He reiterated that in order to have a good GST system, both the Central and State Governments must agree on a compensation formula, viz., on the Revenue Neutral Rate as well as rates under CGST and SGST at the earliest. He basically outlined the salient features of the GST proposals and expressed his opinion that the new Dual GST if implemented, may bring in uniformity in the administration and procedures as far as possible. If there are rate mismatches between GST and non-GST States, there could be significant trade diversion as well, he further added.

He was apprehensive of introducing GST by April 2010 and said that there is a need for a lot of reforms to be undertaken by both the Central and the State Governments and hence he recommended to the Union Finance Minister to partially introduce GST in his forthcoming Budget by converting Sales Tax from being selective to general and have uniform Cenvat Rates.

He mentioned that unlike VAT, which operates on originating principle and could be implemented in a staggered manner, absence of uniform implementation of GST operating on destination-based principle would result in cross-border transactions getting taxed in two

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states, bringing significant hardships to the Trade and Industry. However, he complimented the efforts put forth by the Empowered Committee of State Finance Ministers under the Chairmanship of Dr. Asim Kumar Dasgupta for his great business acumen in bringing all the stakeholders under one roof to arrive at a consensus.

His presentation was followed by Q & A session where there were lot of queries from the participants especially on Purchase Tax Levies, transactions pertaining to Real Estate, EoU, STPs, Non processing area in SEZs, Maximum Alternative Tax (MAT) and the implementation of GST. All the queries were duly answered by the Panelists.

Mr. Shekar Viswanathan, Vice President, BCIC proposed a hearty Vote of Thanks to all the participants and the Media for their support and cooperation in making this event a grand success.

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