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Goods and Services Tax Alert

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Report on Revenue Neutral Rate and Structure of Rates for GST

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Report on Revenue Neutral Rate and Structure of Rates for GST

A Committee headed by the Chief Economic Advisor (CEA) of India was formed earlier this year to recommend possible tax rates under the Goods and Services Tax (GST) regime. The committee was primarily formed to analyse and determine the Revenue Neutral Rate (RNR). RNR is the recommended single rate of tax under GST regime that would maintain the revenue from tax and duties levied by both the Central Government as well as the State Government, at the current levels, after considering all the benefits, exemptions and concessions extended by both the Governments.

The revenue from taxes and duties levied, for the fiscal year 2013-14, of the Central Government was INR 3.28 lakh crore and State Government was INR 3.69 lakh crore. The said revenue does not include the revenue earned from petroleum and tobacco products for the Central Government as well as petroleum products and alcohol for the State Government.

The committee has submitted its report determining the RNR and structure of rates for GST to the Finance Minister on 4 December 2015. The broad highlights of the report are mentioned below:

RNR for GST

- The report provides for a preferred RNR of 15% which is derived basis certain assumptions and adjustments.
- Considering the uncertainties of the adjustments and assumptions an alternative RNR of 15.50% is also suggested.
- RNR gets converted into a whole rate structure where different categories of goods are to be taxed at a rate lower or higher than the RNR.

Structure of rates

- Standard rate of GST (to be applied on all goods and services on which tax rate is not specifically provided): **17-18%**
- Rate on precious metals: **2-6%**
- Lower rate: **12%**

- Sin/demerit rate on luxury cars, aerated beverages, paan masala, tobacco and tobacco products: **40%**

Threshold limit under GST regime

- The report recommended a uniform threshold of INR 2.5 Million for goods and services combined for both Central and State GST across all States.
- Raising threshold to INR 4 Million may be considered.
- Threshold limit has been recommended with no exemptions and is aggregated at the legal entity level

Make in India

- Report states that the current indirect tax structure fragments India as the levies and rates vary on state to state basis, and hence not supporting the ‘Make in India’ scheme.
- This consequently favors import of goods in India rather increasing the domestic production.
- The above is caused due to the following three reasons:
  - Levy of non-creditable Central Sales tax on inter-state sale of goods
  - Other numerous inter-state taxes currently being levied but to be subsumed under GST
  - Extensive nature of countervailing duty (CVD) exemptions
- GST would rectify the above situation by eliminating the above three issues which would result in supporting the ‘Make in India’ scheme

Exemptions:

- The report provides that currently INR 1.80 lakh crore relates to excise exemptions as well as tentatively around INR 1.50 lakh crores relates to the exemptions provided by State Governments
- The total loss of revenue due to exemptions amounts to around 2.7% of the GDP
- Recommended narrow list of exemptions which should be confined to final goods only and common across the Centre and States
- Area-based and CVD exemptions to be phased out, and
- Precious metals should not be exempted

Other recommendations

- Proposed origin based additional tax of 1% on inter-state supply of goods recommended to be abolished

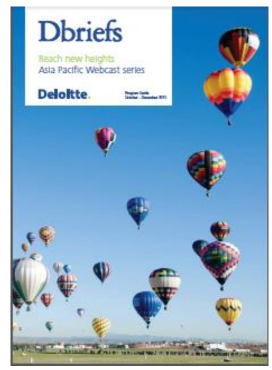
Source: Report on revenue Neutral Rate and Structure of Rates for GST by a committee headed by Chief Economic Advisor of India

Upcoming Dbriefs – Register

Global Mobility: No More Secrets!

On 15 December 2015 from 11:30 AM to 12:30 AM IST

Recently, we have seen trends emerging globally and in Asia Pacific as tax authorities seek to deal with maintaining revenue in more turbulent economic times by finding ways to ensure the correct tax revenues can be collected. As business, and especially commerce, is undertaken without regard to borders, how can authorities share better information and develop strategies to deal with the new borderless business environment? For more information, visit the **Dbriefs** page



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