

# Business Standard

## How GST deal was clinched

Rajya Sabha may pass it next week, with consensus on revenue-neutral rate between Centre & states

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The empowered committee of the finance ministers of states on Tuesday reached an agreement that the revenue-neutral rate (RNR) would not be specified in the Goods and Services Tax (GST) Constitution amendment Bill, raising hopes that it would be passed by the Rajya Sabha next week.

a source, once the Bill is passed “there will be a significant reduction of taxes on the common man which will be reflected in a tax rate and structure that protects the existing levels and trends of revenue between the Centre and the state.”

No finance minister, including those of states ruled by chief Opposition party Congress, insisted on a cap on the rate of taxation and agreed that this could be revisited later. Armed with this consensus, Union Finance Minister Arun Jaitley is likely to tell the Congress that the finance ministers of states, where it is in power, are on board on the Constitutional amendment Bill.

Jaitley made no bones about the fact that he was extremely keen to get the Bill passed and showed a great flexibility in creating consensus, a state finance minister, who did not want to be named, told Business Standard.

Also, according to

Top sources in the Congress said they were not happy with the development but would not hold up the Bill. Neither Gujarat nor Maharashtra nor Tamil Nadu – all three states that had raised objections to one or other aspect of the Bill – demurred on the formulation.

To cement this consensus, Jaitley met with other political parties on GST on Wednesday.

He met NCP's Praful Patel and is likely to meet the Left parties on Thursday. Government strategists said talks with the Congress would continue. They said the GST Constitution amendment would not be possible without key states such as Congress-ruled Karnataka, Himachal Pradesh and Uttarakhand, since the amendment has to be ratified by at least half, that is 15, of the state legislatures.

"I am doing this in good faith. You have to believe me," was Jaitley's heartfelt and fervent appeal to his counterparts from the states.

There was an initial flutter at the meeting because of a letter received by West Bengal FM Amit Mitra from the revenue secretary that the minutes of the 25 June meeting at Kolkata — that Mitra had recorded — were inaccurate. This issue related to the states getting exclusive rights to levy GST on businesses with a turnover of Rs 1.5 crore or less. The revenue secretary wrote to Mitra that the Union finance ministry did not agree on this. However, this problem was sorted out with the committee accepting and passing the minutes.

Finance ministers of states pointed out that traders would have to face harassment by the central government because the CBEC did not have the bandwidth to levy and collect the taxes. When this issue was raised in Kolkata, Jaitley had said: "This can be done". When the Union finance ministry raised the issue, he told the state ministers: "This is small matter. What I really want is a sense of what the states are feeling."

That set the tone for the rest of the meeting on which there was some quibbling over language and wording, especially relating to "full compensation" but all finance ministers were finally on board.

At the empowered committee meeting, Jaitley said: "I request all of you to use your good offices and convince all political parties to pass this Bill." Again, the Congress did not contest this.

Elsewhere in Parliament, too, this spirit of consensus was evident.

The government and the Congress reached a rapprochement in the Rajya Sabha, after intervention by Chairman Hamid Ansari.

The Rajya Sabha transacted business normally after two days of disruptions by Congress members. The House also took up the compensatory afforestation Bill, and it is likely to be passed on Thursday.

## THE CENTRE-STATES DIALOGUE

Answering the concerns of the states, Union Finance Minister Arun Jaitley managed to bring almost all of them on board, clearing the decks for the GST:

**States:** What about tax levied on businesses below Rs 1.5 crore?

**Centre:** This is a small matter... You can have it

**States:** We want "full compensation". In the Bill, "may be shared", should be replaced with "shall be shared"

**Centre:** The words may vary but the Bill will encapsulate the sense

**States:** Revenue neutral rate should be significantly reduced

**Centre:** Chief Economic Adviser Arvind Subramanian and Haseeb Drabu (Jammu & Kashmir finance

ministers) will draw up the phraseology

**Final formulation:** “There will be a significant reduction in taxation on the common man, which is reflected in a tax rate and structure that protects the existing levels and trends of the revenue of the states and the Centre”

**States:** How about signing memoranda of understanding (MoUs) with every states on the rate, and whether it should be floating or a band?

**Centre:** We can talk about that