

Scrapping of inter-state trade tax under scanner

State finance ministers will discuss adjudicating powers in GST today

Dilasha Seth | New Delhi July 26, 2016 Last Updated at 00:59 IST



The Union and state finance ministers would on Tuesday debate scrapping the proposed one per cent tax on inter-state movement of goods proposed in the Constitution amendment Bill on goods and service tax.

The Centre has been pushing hard to build a consensus on

the legislation so that it can finally be passed in the ongoing monsoon session of Parliament.

Finance Minister Arun Jaitley and the empowered committee of state finance ministers might also thrash out a vexed issue over distribution of adjudicating powers between the Centre and state indirect tax departments.

"The removal of the one per cent additional tax on inter-state trading may come up for discussion at the empowered committee meeting. With that the GST structure will improve considerably, as although it is there only for two years, there will be some amount of cascading effect," said a government official.

Jaitley will chair the meeting with the state finance ministers on Tuesday, after which the Constitutional amendment Bill on GST may come up for a discussion in the Rajya Sabha.

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The Constitution amendment Bill, as passed by the Lok Sabha in May 2014, sought to impose additional levy of up to one per cent over and above GST to help the manufacturing states such as Gujarat, Tamil Nadu and Maharashtra, since the GST is destination-based.

However, this sparked fears that the levy would lead to a cascading, tax on tax, since it would not be a part of the GST chain.

To balance the grievances of manufacturing states and assuage fears, a select panel of the Rajya Sabha had suggested limiting the one per cent tax over GST to only those inter-state exchanges of goods for which there was a monetary consideration.

This means that only inter-state trading of goods would draw this tax and not company-to-company transfer. States charge central sales tax on sales made outside their territory, which will not be available under the GST regime.

The Congress, in its dissent note to the select committee report, wanted to eliminate the one per cent tax altogether since it, the Opposition party claimed, "distorts the market".

In a way, it is an overture by the National Democratic Alliance, the ruling coalition, to the Congress, after the former showed its reluctance to accept the latter's demand of incorporating a cap on the GST rate in the Constitution amendment Bill.

Minister of State for Finance Arjun Ram Meghwal on Monday said, "A consensus is likely to be reached on at least two of the three demands put forth by main Opposition party, the Congress, indicating that an agreement was possible on scrapping of one per cent additional tax besides the dispute resolution mechanism.

"Many states, including Bihar, West Bengal, Uttar Pradesh and Odisha, feel that once GST is passed, it would be good for the country. We are trying to build a consensus. We are trying to get the GST Bill passed in the monsoon session of Parliament."

The select committee wanted the exact definition of interstate supply of goods, which would attract up to one per cent tax, be made at the time of framing GST laws.

"The committee feels that the provision of one per cent additional tax in its present form is likely to lead to cascading of taxes. Therefore, the committee strongly recommends that in the concerned GST law, an explanation should be given that for the purpose of Clause 18, the word 'supply' would mean all forms of supply made for a consideration," the committee had said.

The Clause 18 of the Constitution amendment Bill deals with the one per cent tax.

However, experts are of the opinion that the select committee's panel would not entirely address the issue of cascading.

It should be noted that the Constitution Amendment Bill is an enabling mechanism to allow the Centre and states to impose GST. After the Bill is passed, the new indirect tax regime would need another central law as well as state laws on GST. It is in these laws that the committee wanted this explanation to be incorporated.

States are demanding that they should get sole administrative powers to carry out assessment, scrutiny and passing of orders for entities and traders up to an annual turnover of Rs 1.5 crore and beyond that both states and the Centre should have these powers.

In response to that, the GST committee, set up by the Central Board of Excise and Customs (CBEC), proposed two options in its report to iron out the administrative differences under the unified indirect tax regime.

The CBEC committee, headed by member Ram Tirath, recommended doing away with the threshold altogether. Or alternatively, it has said that if states get exclusive control over up to Rs 1.5 crore, the Centre should get exclusive control over above that limit.

"The Centre is of view that there should be no administrative threshold at all. Although if the states are keen on exclusive control for up to Rs 1.5 crore, then the Centre should have exclusive administrative control over all cases falling above the threshold. The finance minister will take a final call on that matter," said a senior government official, who did not wish to be quoted.

States, including Gujarat, Maharashtra, West Bengal, Tamil Nadu and Karnataka, are pressing for authority over tax assessments and adjudication for entities with an annual turnover of up to Rs 1.5 crore. According to states, this will help small businesses from being harassed by dual control.

The CBEC also suggested a "cross-power" model, which means if there was no threshold, the Centre could initiate action and carry out scrutiny in case it detects a state GST case and adjudicate, and vice-versa.

According to the mechanism, the states can also initiate action on detecting a Centre GST (CGST) case, and inform the Centre. So, states will be authorised to initiate action in CGST case while the Centre will be authorised for SGST cases as well.

WILL CLOUDS OVER GST BILL CLEAR?

The empowered committee of state FMs will meet on Tuesday to discuss two major issues:

1% tax on inter-state trading

A 1% tax on inter-state supply of goods and services to help manufacturing states

Debate: Might impose tax on tax

Solution on offer: Tax only on inter-state supply of goods for monetary consideration

Adjudicating powers

States want exclusive adjudicating powers to assess and scrutinise entities with annual turnover of up to Rs 1.5 crore

Debate: Centre not comfortable with it

Solutions on offer: Scrap limits on adjudicating powers; give Centre exclusive purview on entities with more than Rs 1.5 crore turnover