

**PRESS INFORMATION BUREAU
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**GST TO MAKE GOODS AND SERVICES MORE COMPETITIVE BOTH IN
DOMESTIC AND INTERNATIONAL MARKETS: FM**

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The Union Finance Minister Shri Pranab Mukherjee said that the primary benefit of the Goods and Services Tax (GST), when introduced, would be the removal of cascading effect of taxes which acts like a hidden cost and makes goods and services uncompetitive both in domestic and international markets. The Finance Minister Shri Mukherjee said that GST would check leakage of revenue and the States should be able to realize tax revenues commensurate to consumption of goods and services within their territory. He said that it would provide a stable source of tax revenue and would play a very vital role in sewing India together into one common market. The Finance Minister said that for the consumer, the biggest advantage of the GST would be its transparent character as well as the reduction in the overall tax burden on goods which is currently in the range of about 25-30%.

The Union Finance Minister Shri Pranab Mukherjee was addressing the Second Meeting of the Consultative Committee attached to the Ministry of Finance during the current year here yesterday. The subject of the meeting was “GST—The Way Forward”. The meeting was also attended by the Ministers of State for Finance Shri S.S. Palanimanickam, Minister of State for Finance Shri Namo Narain Meena. The meeting was also attended among others by the Members of Parliament Shri Anto P. Antony, Shri Mukesh V. Gadhvi, Shri Narahari Mahto, Shri Natubhai Gomanbhai Patel, Shri Prabhat Singh Chauhan, Smt. Rajkumari Ratna Singh, Shri S.P.Y. Reddy, Shri Suresh C. Angadi, Shri Vijay Inder Singla, Shri W. Bhausaheb Rajaram and Shri M.S. Reddy all from Lok Sabha and Shri Amar Singh, Shri Mukut Mithi, Shri N.K. Singh, Shri Rajkumar Dhoot, Shri Sabir Ali and Dr. Ashok Sekhar Ganguly from Rajya Sabha. Among the officials, Finance Secretary, Shri R.S. Gujral, Secretary, Financial Services, Shri D.K. Mittal, Secretary Disinvestment, Shri Haleem Mohammed Khan, Chief Economic Advisor, Dr. Kaushik Basu and senior officials of the Ministry of Finance also attended the aforesaid meeting.

The Finance Minister Shri Mukherjee said that there are several factors that make the current situation conducive to the introduction of GST in India. He said that studies have shown that the introduction of GST would act like a stimulus and instantly spur the rate of growth of the economy. Shri Mukherjee said that all the States have successfully switched over from the erstwhile Sales Tax system to the State Value Added Tax (VAT). He said that with the implementation of the recommendations of the 13th Finance Commission, the two items in respect of which the States were prevented from levying VAT viz., textiles and sugar have also been omitted from the AED schedule. The Finance Minister said that ever since the introduction of VAT, almost all the States have witnessed a spur in the rate of growth of their tax revenues. The Finance Minister Shri Mukherjee said as far as central taxes are concerned, the integration of central excise duty and service tax i.e., the taxation of goods and services is almost complete. Besides, the movement to a negative list of services would bring us to a near GST situation in the taxation of services, the Minister added. Shri Mukherjee said that soil has been prepared and the leap to GST is only logical step from here. The Finance Minister further said that the substantial and commendable efforts have been already put in by the Empowered Committee of State Finance Ministers in providing flesh and blood to the blueprint of GST suited to the Indian context. The first discussion paper on the subject was released by the Committee in November 2009, he said. The Union Finance Minister Shri Pranab Mukherjee said based on this conception, the Centre has already introduced a Constitution Amendment Bill in the Lok Sabha in February 2011--the first step in the legal process that would culminate into the GST. The Finance Minister Shri Mukherjee said that he is hopeful that the Standing Committee on Finance would soon give its report on the Bill so that the process of legislation in this direction can move forward.

The Union Finance Minister Shri Pranab Mukherjee said that the Empowered Group on IT Infrastructure for GST (EG) headed by Shri Nandan Nilekani had recommended creation of a Special Purpose Vehicle (SPV) which was further endorsed by the Empowered Committee of State Finance Ministers(EC). He said that the SPV would be a non-government, not for profit company with a self sustaining revenue model. He added that it would be governed by the representatives from the Centre, State and other private stakeholders. The government would however retain the strategic control over the GSTN, the Minister added. The Finance Minister Shri Mukherjee said that EG also recommended that creation of SPV would help in integrating Central and State system of taxation and leveraging the IT infrastructure for the benefit of the tax authorities and the taxpayers even before the GST roll-out. He said that the SPV for GSTN has been approved by the Union Cabinet and the Department of Revenue is taking necessary steps to make it functional. The Finance Minister said that keeping in view the importance of the GST, another Meeting of the Consultative Committee would also be held on the subject.

Thereafter, a power point presentation on GST was made by a senior official of the Department of Revenue for the benefit of the participating Members of Parliament.

Participating in the discussion, most of the Members of Parliament present in the meeting supported the proposal for introduction of GST and hoped that this would lead to 1% to 1.5% increase in GDP growth of the country. They said that GST is a key reform and be introduced at the earliest. They said that GST will result in higher tax collections both by the States and the Centre. This will also lead to increase in the Tax GDP ratio. They however cautioned that it must be ensured that introduction of GST does not lead to any hike in prices of commodities as inflation is still above comfort level. Some members suggested that there should be single point of taxation as multi point taxation leads to harassment of businessmen and traders. It was also suggested that the threshold limit should be kept little higher so that small traders are outside the purview of GST as it is very difficult for them to maintain books of accounts etc. Many members suggested for the same rate of taxes in all the States so that businessmen and traders donot indulge in any tax evasion activities. Some members suggested that the Constitution Amendment Bill on the subject recently introduced in the Parliament needs some corrections. In this regard, it was suggested that the provision of taking decision by consensus by GST Council is not practicable as it can lead to stalling of its smooth functioning. It was suggested that process to take decisions either by simple or 2/3rd majority or any other mechanism be considered. Some members said that there is no clarity regarding taxation of services by the different States. They said that different States are treating service tax differently. They suggested that there should be standard rates for goods and services. There should be more participation of industry in policy making in this area. The new industrial units may also be considered for inclusion within the ambit of the GST. There may also be a time frame for all the services provided by GST. Subsidy provided for various goods and services can be linked with GST network. The present provision for settlement of disputes between the States as well as between the Centre and State(s) needs to be reconsidered and simplified.

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