



India Goods & Services Tax

DoR Recommendations

The Department of Revenue (DoR) has commented on the First Discussion Paper (FDP) on GST published by the Empowered Committee of State Finance Ministers. This communiqué highlights the comments of the DoR.

Introduction

Introduction

Scope

Rates

Thresholds

Imports

Others

Concluding remarks

- ▶ The Department of Revenue (*DoR*) has agreed with the overall model and the framework of the GST proposed in the First Discussion Paper (FDP) and has offered its comments / views on certain matters dealt with in the FDP. Broadly, they are with respect to:
 - > Taxes to be subsumed into GST
 - > Rate/s of taxes
 - > Exemptions / thresholds
 - > Import transactions
 - > Tax administration
 - > Compensation to States

Amongst others, as against the proposal in the FDP, the DoR strongly recommends that the rate/s of CGST and SGST should be put in public domain much before the initiation of legislative action.

This is a welcome suggestion and if implemented would help the trade and industry in better managing the change / convergence to the new legislation.

Scope of the Levy

Introduction

Scope

Rates

Thresholds

Imports

Others

Concluding
remarks

- ▶ The DoR suggests that the **following taxes should also be subsumed into the GST structure.**
 - > Taxes by the local bodies comprising of electricity duty, octroi, purchase tax and others
 - > Duties on alcoholic beverages
 - > Taxes on petroleum products with a mechanism of disallowance of input credits in select cases to minimize the possibility of mis-use.

The FDP had suggested that the same be kept out of the GST framework and the current system of taxation continue for the same.

A single tax across the board, we believe would ensure simplicity, uniformity and transparency in levy and administration.

Rates of Tax

Introduction

Scope

Rates

Thresholds

Imports

Others

Concluding
remarks

- ▶ Single rate of tax for goods and services: The DoR suggests a **single rate of tax for both, goods and services under CGST and SGST**.
- ▶ It opines that
 - > a dual rate could result in inverted duty structure wherein the duty / tax on the inputs are higher than what is payable on outputs resulting in credit accumulation and demand for refunds.
 - > the dual rate format implies that the distinction between goods and services would continue.

The FDP had earlier indicated that a separate rates of taxes for goods and services would be prescribed.

A dual rate would result in the need for distinguishing between goods and services which we believe is principally against the GST regime, viz., a single tax base for both, goods and services.

Exemption Thresholds

Introduction

Scope

Rates

Thresholds

Imports

Others

Concluding
remarks

- ▶ The DoR recommends a **common threshold limit for registrations and exemptions**
 - ▶ A single threshold for both, goods and services
 - ▶ A single threshold for both, CGST and SGST

However, DoR opines that such thresholds should not be made applicable to the inter-State transactions (IGST transactions).

As an indication, it suggests a threshold of INR 1 Mil for CGST and SGST.

The FDP had earlier suggested different threshold limit for goods vis-à-vis services and for SGST vis-à-vis CGST.

This recommendation of the DoR reflects its focus to achieve uniformity in the base structure across various States. This in our view should avoid tax wars between States.

Exemption Thresholds

Introduction

Scope

Rates

Thresholds

Imports

Others

Concluding remarks

- ▶ Additional compounding scheme for small dealers under CGST: The DoR suggests that the **Centre may also provide for a compounding scheme under the CGST in addition to the State specific compounding scheme under SGST.**

However, the Centre could consider leaving the administration of the scheme to the respective States.

- ▶ Exemptions: The DoR suggests that the list of exemptions and exempted goods under both, CGST and SGST should remain same. The current list of exempted goods under VAT may be continued under the GST. It categorically recommends that no scope should be provided for individual States to expand the list, even for goods of local importance.

The FDP had earlier suggested a compounding scheme only under the SGST model.

This recommendation if accepted should reduce the cost of tax compliance for small dealers and also increase the tax base for the Government.

In the FDP, it was merely indicated that the list of exempted goods and whether the same would be retained under the SGST in the initial years is yet being deliberated upon.

This recommendation emphasises the need for uniform legislation across States.

Imports

Introduction

Scope

Rates

Thresholds

Imports

Others

Concluding
remarks

- ▶ The DoR suggests that the **levy on imports should be under a separate legislation** as a customs duty (as in existence currently) or on the lines of IGST.
- ▶ It recommends that the SGST component shall be collected by the Centre and passed on to the respective State on the principle of destination based taxation.
- ▶ The tax on import of services should continue under the reverse charge mechanism as is prevalent now.

The FDP proposed that both CGST and SGST be levied on imports in addition to the basic customs duty. However, there is no mention of a separate legislation.

While the levy of both, SGST and CGST on imports in addition to basic customs duty is primarily accepted, in our view a separate legislation should not be considered since it can take us away from the convergence of laws and uniformity of levies.

Others

[Introduction](#)

[Scope](#)

[Rates](#)

[Thresholds](#)

[Imports](#)

[Others](#)

[Concluding
remarks](#)

- ▶ Return / Filings: The DoR recommends that dealers having inter-State transactions should be required to submit a **separate return to the central IGST authorities in addition to the returns filed with the State.**
- ▶ DoR suggests a harmonized system of scrutiny, audit and dispute settlements be developed to enable a uniform tax administration for both CGST and SGST.

The FDP had earlier recommended a single common return which may be filed by the dealers for both SGST and CGST including inter-State transactions (IGST).

The FDP had merely suggested that appropriate relaxations be provided for the tax payers by facilitating free exchange of information between States.

Contd...

Others

Introduction

Scope

Rates

Thresholds

Imports

Others

Concluding
remarks

- ▶ The DoR suggests that the administrative control of the GST between the State and the Centre could be relaxed for small dealers through -
 - > Registration by single agency for both SGST and CGST without manual interface
 - > No physical verification of premises and no pre-deposit of security
 - > Simplified return format
 - > Longer frequency for return filing
 - > Electronic Return filing through certified service centres / chartered accountants etc.
 - > Audit in 1-2% cases based on risk parameters, and
 - > Lenient penal provisions

Concluding Remarks

- ▶ While it is encouraging to see the DoR emphasizing on aspects which would ensure convergence of laws and uniformity in levies, it has failed to comment on some key aspects such as :
 - > the legal side of the IGST model
 - *viz., as to how and when a transaction should be classified as inter-State – particularly in the context of intangibles and services involving participants based in different states*
 - > tax treatment for special transactions
 - *treatment for free samples, captive consumption and related party transactions has apparently not been discussed or commented upon by any of the committees.*
 - > transitional provisions
 - *the DoR should have provided guidance based on its experiences in transitioning to the VAT regime and issues faced in phasing out of the CST.*

It would have augured well for the industry to have received thoughts of the DoR in relation to the above matters.

[Back to introduction](#)



Thank you

“An organization’s ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage”

- Jack Welch

[Click here for our special communiqué on the First Discussion Paper](#)

Accretive Business Consulting Private Limited

112/12, 1st Floor,
11th Cross, 5th Main, Malleswaram
Bangalore 560 003. INDIA
www.accretiveglobal.com
+91 (80) 4151 6187

vishnu@accretiveglobal.com
badrinath@accretiveglobal.com

The views expressed and the information provided in this communiqué are of general nature and is not intended to address the circumstances of any particular individual or entity. The above content should neither be regarded as comprehensive nor sufficient for making decisions. No one should act on the information or views provided in this publication without appropriate professional advise. It should be noted that no assurance is given for any loss arising from any actions taken or to be taken or not taken by anyone based on this publication.

This is meant for private circulation only.