The Union Cabinet approves changes to the GST Constitution Amendment Bill

Background

After the release of the draft model Goods and Services Tax (GST) law by the Empowered Committee of State Finance Ministers on 14 June 2016, all hopes are set on the passage of the GST Constitution Amendment Bill in the monsoon session of the Rajya Sabha (Upper House of the Parliament). While the central government continues to make concerted efforts including discussions with key opposition parties to garner their support, some key recent developments including the approval of the Union Cabinet to the changes in the GST Constitution Amendment Bill are summarised as below:

Recent developments

- Pursuant to deliberations held by the government including the meeting of the Empowered Committee of State Finance Ministers on 26 July 2016, the Union Cabinet has approved the following changes to the GST Constitution Amendment Bill on 27 July 2016. These changes were necessitated to incorporate the suggestions made by the states:
  - Removal of the proposed 1 per cent additional tax on inter-state supply of goods
  - Full compensation to states for loss of revenue for five years
  - Adjudication of disputes between different states as well as between state and centre by GST Council.

- Further, the Empowered Committee of State Finance Ministers deliberated on the following key aspects of GST:
  - It is reported that the opposition demand of capping the GST rate in the GST Constitution Amendment Bill has been rejected by the states. It is expected that the GST rate may be specified in the respective GST law to be enacted by centre and state.
  - Revenue Neutral Rate (RNR) – No consensus has been reached on the effective rate of GST. However, broadly it has been agreed that the rate should be reasonable so as to protect the interests of the people by reducing the tax burden and safeguard revenues of states.
  - States have conveyed that the dealers with an annual turnover of upto INR1.5 crore will be under exclusive control of State, whereas dealers crossing the said turnover will be subject to dual control of centre and state.

Our comments

The Union Cabinet’s swift approval to the changes in the GST Constitution Amendment Bill is a positive development and indicates government’s effort to implement GST from 1 April 2017. The removal of proposed 1 per cent additional tax can relieve the industry from the cascading negative effect on supply chain.
Now, it is expected that the GST Bill may be tabled/presented in the Rajya Sabha next week for debate and discussion. The industry is eagerly following up the developments in Rajya Sabha and looks forward to a positive news of passage of the GST Bill shortly.

Source: News reports (including from Press Trust of India) on GST development