

31st GST Council Meeting (22nd December 2018)

Table Agenda

Agenda Item 12: Any other agenda item with the permission of the Chairperson

Agenda Item 12(iv): Proposal to increase the threshold exemption limit for supplier of Goods (manufacturers and traders) under GST from existing turnover of Rs. 20 lakh to Rs. 75 lakh and from Rs. 10 lakh to Rs. 20 lakh for Special Category States in a year

It is submitted that the manufacturers under MSME sector having turnover less than Rs. 1.5 crore per annum were not required to take registration in Central Excise. This was an optional scheme. In GST, the threshold limit is Rs 20 lakh. For Special Category States (except Jammu & Kashmir), it is Rs 10 lakh. However, as per the proposed CGST Law Amendment which are yet to be notified, the threshold limit would be increased from Rs. 10 lakh to Rs. 20 lakh for 6 more Special Category States, namely Arunachal Pradesh, Assam, Himachal Pradesh, Meghalaya, Sikkim and Uttarakhand. This leaves 4 Special Category States, namely Manipur, Mizoram, Nagaland and Tripura with registration threshold of Rs. 10 lakh. Any person above this threshold is required to take registration in the GST regime. A composition scheme is available to supplier of goods (manufacturers and traders) having turnover of Rs 1 Cr in a year. This limit may be increased to Rs 1.5 Cr on implementation of legislative changes that have been incorporated in the respective GST Acts.

2. Various representations have been received from the MSME sector that in GST, their compliance burden and tax incidence has increased significantly. Compliance by way of monthly/quarterly return followed by Annual return is causing hardship to them. It has been argued that compliance cost is not commensurate with the tax that they pay, and hence they may be given relief.

3. It appears that there is a case for increasing the registration threshold from the existing annual turnover of Rs. 20 lakh for supplier of goods (manufacturers and traders). This is for the simple reason that such small manufacturers were subject to simple compliance in VAT, while in Central Excise, they had option not to register. As regards traders, their effective value addition may be around 5%-10%. Thus, tax liability of a trader having annual turnover of Rs 75 lakh would be quite low while compliance cost on account of return filing, maintaining requisite records and payments to tax consultants for the purposes of GST appears to be high. As the threshold exemption would be availed only by such taxpayers who are largely indulging in B2C intra-State sale, the tax implication of such concessions may not be high. While the exact data about supplies made by small supplier of goods is not available, as per a broad estimate, the total GST involved in B2C intra-State sale by taxpayers having annual turnover upto Rs 75 lakh may be to the tune of about Rs 5000 crore in a year. Thus, increasing annual turnover threshold for registration from Rs 20 lakh to Rs 75 lakh for supplier of goods may not have much significant revenue implication while this concession would provide relief to a large number of taxpayers. This will also free the resources of tax administration for optimal utilisation for compliance verification of large taxpayers.

4. However, considering the taxpayer base of Special Category States, which consists largely of small taxpayers, the annual turnover threshold of registration for the remaining four Special Category States, namely Manipur, Mizoram, Nagaland and Tripura can also be increased to Rs. 20 lakh.

5. It may be mentioned that the suggestion to give rebate of 25% or 50% of CGST that has been paid by manufacturers/traders up to annual turnover of Rs.1.5 Crore has also been received. However, in this case, it will not be possible to limit such rebate only to manufacturers in the GST system. The benefit will have to be given to all manufacturers as well as traders and in such cases, implementing such scheme and building a rebate system into the GSTN system will require several months, and at the

same time, it will have a much higher outgo of revenue. Therefore, the suggestion of increasing the annual turnover threshold limit of registration from Rs. 20 lakh to Rs. 75 lakh may be more beneficial because it will have a much lesser revenue loss. More importantly, it will free a large number of supplier of goods who are primarily doing supply to ultimate customer from the compliance burden which involves filing of several returns in a year.

6. There is an apprehension that many of such suppliers will go out of the formal system. But this issue will get addressed as the whole-seller is required to collect PAN details of every retailer with whom he does a transaction of Rs. 50,000/- or more in cash or else the payments from such retailers will have to be collected through banking channels.

7. The proposal to increase the threshold exemption limit for supplier of goods (manufacturers and traders) from the existing turnover of Rs 20 lakh to Rs 75 lakh in a year and from Rs. 10 lakh to Rs. 20 lakh for the remaining 4 Special Category States (Manipur, Mizoram, Nagaland and Tripura), is placed before the GST Council for consideration.