

Agenda for

3rd GST Council Meeting

From 18-20 October 2016

Venue: Hall 2-3, Vigyan Bhavan, New Delhi

Agenda Items

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Discussion on Agenda Items

Agenda Item 1: Confirmation of the Minutes of the 2nd GST Council Meeting held on 30th September, 2016

Draft Minutes of the 2nd GST Council Meeting held on 30 September 2016

The second meeting of the GST Council (hereinafter referred to as ‘the Council’) was held on 30 September 2016 under the Chairpersonship of the Hon’ble Union Finance Minister, Shri Arun Jaitley. The list of the Hon’ble Members of the GST Council who attended the meeting is at **Annexure 1**. The list of officers of the Centre and the States who attended the meeting is at **Annexure 2**.

2. In his opening remarks, the Chairperson of the Council welcomed all the members and enumerated the agenda items for the second meeting of the Council.

3. The following three agenda items were taken up for consideration:

- (i) Approval of the Draft Minutes of the 1st GST Council Meeting along with the Draft Rules for Conduct of Business
 - a. Draft Minutes of the 1st GST Council Meeting
 - b. Draft Rules of Procedures and Conduct of Business in the GST Council
- (ii) Draft GST Rules on Registration, Payment, Return, Refund and Invoice, Debit/Credit Notes
- (iii) Treatment of the existing tax incentive schemes of the Central and State Governments

Discussion on Agenda Items

Agenda Item 1: Approval of the Draft Minutes of the 1st GST Council Meeting (22-23 September 2016) along with the Draft Rules of Procedure and Conduct of Business in the GST Council

4. The Hon’ble Minister from Punjab stated that in para 37 (ii) of the draft minutes of the 1st GST Council Meeting (hereinafter called ‘the draft minutes’), it should be amplified that revenue to be compensated shall, in addition to taxes, also include cesses and Input Tax Credit (ITC) reversals and adjustments. On the first issue, after discussion, it was agreed that in para 37 (ii), the word ‘cesses’ should be added.

5. In respect of the second issue (ITC reversals and adjustments), the Hon'ble Minister from Punjab stated that ITC reversals accounted for an additional revenue of Rs. 4,000 Crores in his state. The Secretary to the Council observed that it was not desirable to subsume the amount related to ITC reversal for calculation of compensation as it was a distortion in the taxation system and only five States had such a provision in place. The Chairperson observed that if compensation was to be paid for ITC reversal, the Centre's rate of tax would go up and this would imply that taxpayers of all States would be paying extra to compensate five States. He further observed that as the issue regarding compensation for ITC reversal was not discussed in the first meeting of the Council, it would be inappropriate to insert it at the stage of confirmation of its Minutes. However, it was agreed that this issue could be further examined by a committee of officers.

6. The Hon'ble Minister from Uttar Pradesh stated that more clarity was needed as to what constituted 'revenue'. The Hon'ble Minister from Jammu and Kashmir also stated that what constituted 'revenue' for the base year needed to be spelt out clearly. The Chairperson observed that this issue could also be examined by the same committee of officers who would be examining the issue of compensation to be paid for ITC reversal.

7. The Hon'ble Minister from Tamil Nadu stated that in para 37 (ii), revenue to be compensated for Central Sales Tax (CST) should be calculated at the rate of 4%. The Secretary to the Council stated that compensation could not be calculated on a presumptive basis. The need for compensation for reduction in CST was felt in the initial years only which was fulfilled by the Central Government as per the promise given. The Hon'ble Minister from Tamil Nadu observed that CST was reduced to 2% at the Centre's behest and therefore, calculation was not presumptive. The Secretary to the Council stated that in the last meeting, there was no agreement to count CST at the rate of 4% for computing compensation. It was agreed that this need not be incorporated in the Minutes of the 1st Meeting of the Council.

8. The Hon'ble Minister from Jammu and Kashmir stated that in para 37 (ii) of the Minutes, the revenue to be compensated should cover exemptions and duties. The Secretary to the Council stated that these could not be included for compensation as the population of the whole of India should not be expected to bear the burden for exemptions given by different states. The Hon'ble Minister from Assam stated that the formula for compensation under VAT did not include exemptions as part of revenue and the same methodology should be adopted for GST. The Hon'ble Minister from Bihar also opposed the idea of putting exemptions in the compensation formula. The Chairperson reiterated that additional issues being discussed today could not be made part of the Minutes of an earlier meeting. Such issues could be flagged for discussion in a later meeting.

9. The Hon'ble Minister from Odisha stated that in para 22, correction should be made in the last sentence to the effect that the 'best 3 out of 5 years' would be taken into account to ascertain

growth rate. The Hon'ble Minister from Rajasthan observed that the same correction should be carried out in the last sentence of paragraph 21.

10. Considerable discussion took place in respect of the Minutes relating to Agenda 5 of the 1st Meeting of the GST Council (Provisions for Cross-Empowerment). The Hon'ble Minister from Odisha stated that paragraph 47 (vi) (relating to Information-based enforcement powers) should be deleted as at point (ii) of the same paragraph, it had been mentioned that for traders/manufacturers of goods with a turnover above Rs. 1.5 Crores, a Committee of Central and State Government officials should suitably modify the cross-empowerment model presented in the meeting. The work of the Committee should cover the entire gamut of activities and functions to be performed from registration, scrutiny, etc. to enforcement. This Committee should discuss how information-based enforcement powers should be exercised so that there was no parallel exercise of powers resulting in confusion and possible harassment.

11. The Hon'ble Minister from Tamil Nadu stated that there was no agreement as recorded in paragraph 47 (iii) ("All existing registered service providers irrespective of the value of turnover, for the present, shall continue to be administered by the Central tax administration"). He also expressed his strong reservation in respect of the cap of three years mentioned in paragraph 47. The Hon'ble Minister from Kerala also supported the view of the Hon'ble Minister from Tamil Nadu and stated that the Centre and the States should have concurrent power to administer Service Tax payers having turnover above Rs. 1.5 Crores. He also observed that States were currently handling certain Services as 'deemed sale of goods' (like works contract, restaurants, etc.) and this could not now fall in the exclusive domain of the Central administration. He also mentioned that there was a need to provide a broad timeframe by when Service Tax payers with turnover below Rs. 1.5 Crores would be administered by the States alone. The Hon'ble Ministers from Uttarakhand and Uttar Pradesh also stated that States should be empowered to collect Service Tax. The Hon'ble Minister from Punjab stated that an officers' committee could look into the issue of how taxpayers dealing in both goods and services, having turnover below Rs. 1.5 Crores should be administered.

12. The Hon'ble Minister from Rajasthan stated that there should be clarity regarding administrative arrangements for taxpayers making composite supplies. The Secretary to the Council clarified that the collection of tax on supply of service would be for both States and the Centre. Audit was proposed to be limited to 5% of the taxpayers on the basis of risk parameters. The issue decided was that the Centre would take up such audit for suppliers of Services. He suggested that this issue should not be reopened.

13. The Chairperson recalled the discussions that took place in the 1st Meeting of the Council. He stated that the compromise arrived at was that in respect of goods, taxpayers with a turnover below Rs. 1.5 Crores would continue to be administered by the States, as was the practice currently and for those with turnover above Rs. 1.5 Crores, there would be concurrent jurisdiction of the Centre and States. In respect of Service Tax, he had stated that 11 lakh current

assesseees of Service Tax would continue to be administered by the Centre and this clearly implied that no division was proposed on the basis of Rs. 1.5 Crore turnover. He also recalled that it was agreed that new Service Tax registrants would be allocated between the Centre and the State administrations on the basis of a protocol to be devised by officers and that arrangements shall be made to train State Government officials on Service Tax issues. He also recalled that he had mentioned that machinery of the Centre and the States needed to be used optimally for administration of GST. He observed that there were five limbs to the compromise decision on the subject of single interface through cross-empowerment and at this stage, only one limb of the decision could not be reopened; rather, the whole issue would get reopened. He observed that the time period of three years was not specifically discussed and if members so desired, it could be removed.

14. The Hon'ble Minister from West Bengal recalled the spirit of the house in the meetings of the Empowered Committee of State Finance Ministers in Kolkata and Delhi to allow the States to administer all taxpayers below the threshold of Rs. 1.5 Crores and that the formulation agreed to in the 1st Meeting of the Council was in a spirit of compromise. However, this compromise was limited to the Centre administering 93% of the Service Tax assesseees whose turnover was below Rs. 1.5 Crores and in his understanding, the agreement was that Service Tax assesseees with turnover above Rs. 1.5 Crores would be administered jointly by the Centre and the States. The Hon'ble Minister from Chattisgarh stated that in the Empowered Committee, the decision regarding no dual control on small taxpayers was only to protect small traders in goods and it was not meant for services and therefore, it would not be fair to raise the issue of Services at this stage. The Hon'ble Minister from Meghalaya stated that the States should administer taxpayers with turnover below Rs. 1.5 Crores and those above Rs. 1.5 Crores should be shared between the Centre and the States. He also stated that there was hardly any presence of Central Government officials in his State. He suggested a time-frame to be fixed by when administration of taxpayers with turnover below Rs. 1.5 Crores would be transferred to the States.

15. The Hon'ble Ministers from Andhra Pradesh and Bihar stated that their understanding of the decision taken in the 1st Meeting of the Council was that Service Tax assesseees with turnover below Rs. 1.5 Crores would be administered by the States. The Chairperson observed that there appeared to be different interpretations of the decision taken in the last meeting on this subject. The Hon'ble Minister from Haryana stated that in the last meeting, it was conceded that the Central Government would fully deal with Service Tax assesseees and that the House should not go back on this decision. The Hon'ble Minister from Assam also supported this view. He pointed out that for the first five years of implementation of GST, the Centre had agreed to give full compensation to the States for any loss of revenue and in order to give comfort to the Central Government, it should be allowed to handle Service Tax assesseees exclusively for the first five years. The Hon'ble Chief Minister of Puducherry also recalled that for Services, it was decided that all 11 lakh existing Service Tax assesseees would be administered by the Central Government. The Secretary to the Council brought to the notice of the House that big service

providers in sectors such as telecom, banking, information technology, etc. had been representing that they should have a single registration and if that was not possible, they could at least be given the second best comfort of being audited by only the Central administration for initial years. He pointed out that contribution of Services to the Gross Domestic Product (GDP) of the country was 56% and the administrative structure should be such that it does not affect the growth of the Services sector and thus, of the GDP.

16. The Hon'ble Minister from Tamil Nadu stated that transition period should not be for 3 years and that it should be limited to 6 months. The Hon'ble Minister from Uttar Pradesh also supported this. The Hon'ble Minister from Punjab suggested to reduce the transition period to one year. The Hon'ble Minister from Telangana observed that starting from now, the States would complete 6 months of training in Services by 1st April 2017 and therefore, Service Tax payers could be brought under the jurisdiction of the States. The Hon'ble Minister from Jammu and Kashmir suggested that modalities on how taxpayers would be facilitated could be reviewed after one year. The Chairperson suggested that there could be a provision for annual review of the arrangement agreed upon under paragraph 47 of the draft Minutes. The Hon'ble Minister from Tamil Nadu also expressed unease at the idea of putting only one organization in charge of administering Service Tax and that this would create a vested interest to protect turf.

17. In order to find a solution to this issue, the Hon'ble Ministers from Punjab and Gujarat suggested to vertically divide the taxpayers between the Centre and States irrespective of any turnover threshold. The Hon'ble Minister from Assam stated that such an arrangement would create difficulty for small traders. The Hon'ble Ministers from Bihar and Kerala stated that in order to consider this new suggestion, it should be circulated as a separate agenda point.

18. Due to persistent differences, the Council decided to defer the approval of the minutes of the meeting in respect to agenda item 5 of the 1st meeting of the Council. It was suggested and agreed that a committee of officers would examine the issue further and the matter could then be taken up in the next Council meeting.

19. The sub-agenda (b) of the agenda item 1, i.e. Draft Rules of Procedures and Conduct of Business in the GST Council with the revisions suggested in the last meeting of the Council was taken up and the Council approved the revised version unanimously.

20. The Hon'ble Minister from Jammu and Kashmir suggested that there should be some State-level officials associated in drafting the minutes of the Council meetings. The Secretary to the Council stated that State-level officials could come on deputation to the GST Council Secretariat. The Chairperson stated that at least one officer from the States could be taken to the GST Council Secretariat on deputation as early as possible.

21. In respect of Agenda Item 1, the Council decided as follows:

(i) Adoption of Draft Minutes from Paragraph 1 to 38 and Paragraphs 48-49 of the 1st Meeting of the Council held on 22nd and 23rd September with the following amendments –

a. Sub-paragraph 37(ii) to be replaced by ‘Revenue to be compensated shall consist of all taxes (including cesses) levied by the States and which are now proposed to be subsumed in GST’.

b. The last line of paragraph 21 to be replaced by ‘The Hon’ble Minister from Rajasthan was of the view that as the compensation was for 5 years, the average growth rate of 5 years or the best 3 out of 5 years should be taken to ascertain the growth rate’.

c. The last line of paragraph 22 to be replaced by ‘The Hon’ble Minister from Odisha suggested that the best 3 out of 5 years be taken to ascertain growth rate and compensation payment be made monthly and adjusted at the end of the year on the basis of CAG-audited figures and also that the base year could be 2015-16’.

(ii) In relation to Agenda Item no. 5 of the first meeting, namely “Provision for cross-empowerment to ensure single interface under GST”, para 39 to 46 where the discussions have been recorded was approved. In para 47, the last sentence of the main body of the paragraph shall be replaced by the following sentence: “Thereafter, the following modalities for single interface were discussed but discussions remained inconclusive.”

(iii) Adoption of modified Draft Rules of Procedures and Conduct of Business in the GST Council as contained in the agenda notes.

(iv) Examination of the following issues by a Committee of Officers:

- a. Definition of the term ‘Revenue’ for determining compensation to the States;
- b. Whether input tax credit (ITC) reversals by a State would be part of definition of ‘Revenue’;
- c. Modalities for allocating jurisdiction between the Central and State administrations in respect of taxpayers covered within the ambit of deemed sale of goods, in particular, works contractors and restaurateurs;
- d. Modalities for allocating jurisdiction between the Central and State administrations in respect of taxpayers who are currently registered simultaneously under VAT and Service Tax;
- e. Modalities for exercising information-based enforcement action.

Agenda Item 2: Draft GST Rules on Registration, Payment, Return, Refund and Invoice, Debit/Credit Notes

22. In respect of agenda item 2, the Hon’ble Deputy Chief Minister of Arunachal Pradesh expressed some concern in regard to the draft rules on registration. He mentioned that registration under GST was proposed to be PAN-based which would be difficult to comply with

in his State as no Income Tax was payable in his State (as also in Nagaland). He further mentioned that in GST, in B2C (Business to Consumer) transactions, taxes would flow to the consuming states. However, as his state did not have big distributors or high-end retailers, people from his state bought goods from Assam, West Bengal, etc. and a mechanism was required to be devised to ensure that taxes paid for such purchases flowed to Arunachal Pradesh. The Chairperson observed that this issue could be taken up for clarification in the next meeting of the Council.

23. The members expressed their approval of the draft Rules relating to Registration, Payment, Return, Refund and Invoice, Debit/Credit Notes. The Secretary to the Council suggested that the Draft Rules may be approved with an understanding that minor changes may be permitted, if required, due to suggestions from the stakeholders. He suggested that this could be done with the approval of the Chairperson and the same could be circulated to all the States.

24. In respect of Agenda Item 2, the Council approved the Draft GST Rules on Registration, Payment, Return, Refund and Invoice, Debit/Credit Notes with the understanding that minor changes may be permitted with the approval of the Chairperson, if required, due to suggestions from the stakeholders or from the Law Department.

Agenda Item 3: Treatment of the existing tax incentive schemes of the Central and State Governments

25. The Secretary to the Council explained that the Central and State governments had given various incentives of Central Excise and Value Added Tax (VAT) and Central Sales Tax (CST). He pointed out that in the GST regime, such incentives could not be continued as supplies would need to be made on payment of tax in order to permit flow of tax to the destination state. Therefore, a decision would need to be arrived at regarding the treatment of such tax incentive schemes under the GST regime. He observed that one option could be to 'grandfather' such schemes and provide for a budgetary apportionment in the State and the Central budgets for reimbursing the tax paid to those units which enjoyed tax exemption up to a specified period. However, while 'grandfathering' any such scheme, it would need to be kept in mind that unlike VAT and the CST which were origin-based taxes, GST was a destination-based tax and an unconditional reimbursement scheme could lead to double outflow for the origin-state – one by way of transfer of tax to the destination state and the other by way of reimbursement to the supplier. Therefore, the States would need to be careful while devising any reimbursement scheme and care could be taken that such reimbursement was limited for supplies made within the State.

26. The Hon'ble Deputy Chief Minister of Gujarat alluded to possible legal complications that might arise in case exemption schemes promised for five years were not continued. The Secretary to the Council pointed out that the agenda note contained certain judgements of the Hon'ble

Supreme Court as per which the principle of promissory estoppel would not apply in a case where there was a supervening public equity.

27. The Hon'ble Minister from Tamil Nadu stated that the Centre should not give budgetary support to only few states that were classified as Special Category states for the tax incentive schemes maintained by them. The Hon'ble Minister from Assam strongly objected to the line of argument presented by the Hon'ble Minister from Tamil Nadu and stated that small states should get help from the Centre. He pointed out that for the last 70 years, oil and natural gas were being taken out of Assam which was used for the benefit of all states. He pointed out that for small states to exist, the Centre should help them; otherwise smaller states might wither away. The Chairperson stated that no compensation was to be paid by the Centre to any state for reimbursements relating to tax incentive schemes and that States would need to make their own budgetary provisions for the same.

28. The Hon'ble Minister from Uttarakhand stated that the Government of India had given an area-based exemption for 10 years and that such exemptions were to continue up to 2020. She observed that the Centre must reimburse such units for the Central taxes as jobs of more than one lakh workers were at stake. The Hon'ble Minister from Jammu and Kashmir stated that their state was in a similar situation as Uttarakhand. The Chairperson observed that once incentive schemes were withdrawn, the taxes paid would be accounted for in the Consolidated Fund of India and 42% of the amount would be devolved to the States. The Centre, therefore, could be expected to only reimburse the units out of the remaining 58% of the fund which was not part of the devolution and the States would also need to correspondingly reimburse such units out of the share of revenue received through devolution.

29. The Council approved the following –

(i) All entities exempted from payment of indirect tax under any existing tax incentive scheme shall pay tax in the GST regime.

(ii) The decision to continue with any incentive given to specific industries in existing industrial policies of States or through any schemes of the Central Government, shall be with the concerned State or Central Government.

(iii) In case the State or Central Government decides to continue any existing exemption/incentive scheme, then it shall be administered by way of a reimbursement mechanism through the budgetary route, the modalities for which shall be worked out by the concerned State/Centre.

30. In conclusion, after discussing with the members, the Chairperson stated that the next meeting of the Council would be held on 18th, 19th and 20th October 2016. The main agenda for that meeting would be the rate structure under GST along with other residual agenda items from the previous meeting.

31. The meeting ended with a vote of thanks to the Chair.

Annexure 1 (List of the Hon'ble Members of the GST Council who attended the Meeting)

<u>Sl.No.</u>	<u>Centre/State/UT</u>	<u>Name of Minister</u>	<u>Designation</u>
1	Government of India	Shri Arun Jaitley	Union Minister of Finance and Corporate Affairs
2	Government of India	Shri Santosh Kumar Gangwar	Union Minister of State for Finance
3	Puducherry	Shri V Narayanasamy	Chief Minister
4	Arunachal Pradesh	Shri Chowna Mein	Deputy Chief Minister
5	Goa	Shri Francis D'Souza	Deputy Chief Minister
6	Gujarat	Shri Nitinbhai Patel	Deputy Chief Minister
7	Andhra Pradesh	Shri Yanamala Ramakrishnu	Minister of Finance and Planning, Commercial taxes and Legislative Affairs
8	Assam	Shri Himanta Biswa Sarma	Minister of Finance
9	Bihar	Shri Bijendra Prasad Yadav	Minister for Commercial Taxes
10	Chhattisgarh	Shri Amar Agrawal	Minister of Commercial Taxes
11	Haryana	Captain Abhimanyu Singh	Minister for Excise and Taxation
12	Himachal Pradesh	Shri Prakash Chaudhary	Minister for Excise and Taxation
13	Jammu and Kashmir	Dr Haseeb A Drabu	Minister of Finance
14	Kerala	Dr. T M. Thomas Isaac	Minister of Finance
15	Madhya Pradesh	Shri Jayant Malaiya	Minister for Finance and Commercial Tax
16	Manipur	Shri D Korungthang	Minister for Health & Family Welfare
17	Meghalaya	Shri Zenith M.Sangma	Minister of Taxation
18	Odisha	Shri Pradip Kumar Amat	Minister of Finance
19	Punjab	Shri Parminder Singh Dhindsa	Minister of Finance
20	Rajasthan	Shri Rajpal Singh Shekhawat	Minister for Local Self Government, Urban Development and Housing
21	Tamil Nadu	Shri K.Pandiarajan	Minister for School Education & Sports and Youth Welfare
22	Telangana	Shri Etela Rajendar	Minister for Finance
23	Uttar Pradesh	Shri Abhishek Mishra	Minister for Vocational Education and Skill Development
24	Uttarakhand	Dr. Indira Hridayesh	Minister of Finance
25	West Bengal	Dr. Amit Mitra	Minister for Finance and Excise

Annexure 2 (List of officers from the Centre and States)

S No.	Centre/State/UT	Name of Officer	Designation
1	Centre	Shri Hasmukh Adhia	Secretary (Revenue) and Secretary to the GST Council
2	Centre	Shri Najib Shah	Chairman (CBEC)
3	Centre	Shri Ram Tirath	Member (GST), CBEC
4	Centre	Shri B.N. Sharma	Additional Secretary, Revenue
5	Centre	Shri Arun Goyal	Additional Secretary, GST Council Secretariat
6	Centre	Shri Vivek Johri	Principal Commissioner (Customs), CBEC
7	Centre	Shri P.K. Mohanty	Consultant (GST), CBEC
8	Centre	Shri Shashank Priya	Commissioner, GST Council Secretariat
9	Centre	Shri Upender Gupta	Commissioner (GST), CBEC
10	Centre	Shri Udai Singh Kumawat	Joint Secretary(Revenue)
11	Centre	Shri Amitabh Kumar	Joint Secretary, TRU-II
12	Centre	Shri Manish Kumar Sinha	Commissioner, GST Council Secretariat
13	Centre	Ms. Aarti Saxena	Deputy Secretary (Sales Tax), Department of Revenue
14	Centre	Ms. Himani Bhayana	Joint Commissioner, GST Council secretariat
15	Centre	Shri Paras Sankhla	OSD to the Finance Minister
16	Centre	Ms. Thari Sitkil	OSD, GST Council Secretariat
17	Centre	Shri Kaushik TG	OSD, GST Council Secretariat
18	Andhra Pradesh	Shri J Syamala Rao	Commissioner, Commercial Taxes
19	Andhra Pradesh	Shri T Ramesh Babu	Additional Commissioner
20	Arunachal Pradesh	Dr. BM Mishra	Secretary, Tax & Excise
21	Assam	Dr. Ravi Kota	Finance Commissioner
22	Assam	Shri Anurag Goel	Commissioner, Commercial Taxes
23	Bihar	Ms. Sujata Chaturvedi	Principal Secretary, Commercial Tax
24	Bihar	Shri Arun Kumar Mishra	Additional Secretary, Commercial Tax
25	Bihar	Shri Birendra Kumar	Personal Secretary to the Minister
26	Chattisgarh	Shri Amit Agrawal	Secretary, Finance & Commercial Tax
27	Chattisgarh	Ms. Sangeetha P	Commissioner, Commercial Taxes
28	Delhi	Shri H Rajesh Prasad	Commissioner, VAT
29	Goa	Shri Dipak Bandekar	Commissioner, Commercial Taxes
30	Gujarat	Dr. P. D. Vaghela	Commissioner, Commercial Taxes
31	Gujarat	Ms. Mona Khandar	Secretary, Economic Affairs
32	Haryana	Shri Sanjeev Kaushal	Additional Chief Secretary
33	Haryana	Shri Shyamal Misra	Excise & Taxation Commissioner
34	Haryana	Shri Hanuman Singh	Additional Commissioner
35	Himachal Pradesh	Shri Pushpender Rajput	Commissioner, Commercial Taxes
36	Himachal Pradesh	Shri Sanjay Bhardhao	Additional Commissioner

S No.	Centre/State/UT	Name of Officer	Designation
37	Jammu & Kashmir	Shri Naveen K Chaudhary	Secretary, Finance
38	Jammu & Kashmir	Shri Parvaiz Khateeb	Commissioner, Commercial Taxes
39	Jammu & Kashmir	Shri P.K. Bhat	Additional Commissioner
40	Kerala	Dr. Rajan Khobragade	Commissioner, Commercial Taxes
41	Kerala	Shri Shaikh Hassan Khan	Finance
42	Madhya Pradesh	Shri Raghwendra Kumar Singh	Commissioner, Commercial Taxes
43	Madhya Pradesh	Shri Sudip Gupta	Deputy Commissioner, Commercial Taxes
44	Madhya Pradesh	Shri Kamal Shrivastava	Personal Assistant
45	Maharashtra	Shri D.K. Jain	Additional Chief Secretary, Finance
46	Maharashtra	Shri Dhananjay Akhade	Joint Commissioner, GST
47	Manipur	Dr. Shailesh Kumar Chourasia	Commissioner, Taxes
48	Meghalaya	Shri Abhishek Bhagotia	Commissioner, Commercial Taxes
49	Meghalaya	Shri Leo Khongsit	ACT
50	Mizoram	Shri C Vanlalchhuana	Assistant Commissioner, Taxes
51	Mizoram	Shri H Hrangthanmawia	Superintendent, Taxes
52	Nagaland	Shri Asangba Chuba Ao	Commissioner, Commercial Taxes
53	Nagaland	Shri Wochamo Odyuo	Joint Commissioner of Taxes
54	Odisha	Shri Tuhin Kanta Pandey	Principal Secretary, Finance
55	Odisha	Shri Saswat Mishra	Commissioner, Commercial Taxes
56	Odisha	Shri Sahdev Sahoo	Joint Commissioner
57	Puducherry	Dr. V Candavelou	Secretary, Finance & Commercial Tax
58	Puducherry	Shri G Srinivas	Commissioner, Commercial Taxes
59	Punjab	Shri DP Reddy	Additional Chief Secretary, Taxation
60	Punjab	Shri Rajat Agarwal	Excise & Taxation Commissioner
61	Punjab	Shri Supreet Gulati	Additional Commissioner
62	Rajasthan	Shri Praveen Gupta	Secretary, Revenue
63	Rajasthan	Shri Alok Gupta	Commissioner, Commercial Taxes
64	Sikkim	Shri Bikash Diyali	Assistant Director, Commercial Taxes
65	Tamil Nadu	Dr. C Chandramouli	Additional Chief Secretary
66	Tamil Nadu	Shri D Soundararajapandian	Joint Commissioner, Taxation
67	Telangana	Shri Ajay Misra	Special Chief Secretary
68	Telangana	Shri Anil Kumar	Commissioner, Commercial Taxes
69	Telangana	Shri Lakshminarayana	Deputy Commissioner
70	Tripura	Ms. Debapriya Bardhan	Commissioner, Taxes
71	Uttar Pradesh	Shri Mukesh Meshram	Commissioner, Commercial Taxes
72	Uttar Pradesh	Shri SC Dwivedi	OSD/Special Secretary
73	Uttar Pradesh	Shri Vivek Kumar	Additional Commissioner, Law
74	Uttar Pradesh	Shri Biresh Kumar	Principal Secretary, Commercial Taxes
75	Uttarakhand	Shri Ranveer Singh Chauhan	Commissioner, Taxes
76	Uttarakhand	Shri Piyush Kumar	Additional Commissioner

<u>S No.</u>	<u>Centre/State/UT</u>	<u>Name of Officer</u>	<u>Designation</u>
77	Uttarakhand	Shri Kamal Kishore Kafaltiya	PA to Minister
78	Uttarakhand	Shri Sridhar Babu	Additional Secretary, Finance
79	West Bengal	Shri HK Dwivedi	Finance Secretary
80	West Bengal	Ms. Smaraki Mahapatra	Commissioner, Commercial Taxes
81	West Bengal	Shri Khalid Anwar	Senior Joint Commissioner

Agenda Item 2: Modalities for compensation to the States for possible revenue loss

- (i) **Definition of the term “Revenue“ (outstanding issue from 2nd GSTC Meeting)**
- (ii) **The formula for calculating the projected growth rate for compensation**

Background: The issue of compensation to be paid to the States on account of losses due to introduction of GST was discussed in the meeting of the GST Council held on 30th September, 2016. It was felt that further clarification was required on the issues related to the definition of ‘revenue subsumed’ and on the possible formula for projection of growth rates. Thereafter, a meeting of officers from all States was called under the chairmanship of the Revenue Secretary, Government of India, on 8th October, 2016, wherein both these issues were discussed in detail.

Definition of ‘revenue’

2. **ITC Reversals:** In the meeting held on 8th October, 2016, most States submitted that Input Tax Credit (ITC) reversals was a legitimate source of revenue for most State Governments under the extant VAT Acts, and hence, revenue accruing to the States on account of ITC reversals should be taken into consideration for calculating the ‘revenue’ subsumed under GST for the purposes of compensation. It also was noted in the discussion that various States follow different policies with regard to ITC reversals. While most States were reversing ITC in case of inter-State stock transfer, some States like Gujarat were also reversing ITC in case of inter-State sale transactions. Further, it was also noted that the rates of ITC reversal also varied between 2% to 5% amongst different States. This matter was deliberated upon in detail and it was decided that ITC reversals be included in the definition of ‘revenue subsumed’ for the calculation of compensation payable to States.

3. **Specific tax incentives/exemptions given by States:** The issue of the treatment of present exemptions/tax incentives given by States under the GST regime was discussed in the meeting of the GST Council held on 30th September, 2016. The following had been decided in this regard:

- i. Under GST regime, exemptions in their present form would not be allowed to continue.
- ii. The decision to grandfather any incentive given to specific industries in existing Industrial Policy of States shall remain with the concerned States.
- iii. In case any State decides to continue any existing exemption/incentive scheme, then it shall be administered only in the form of direct transfers of equivalent taxes paid through the budgetary route and not by way of refund. Therefore, revenue from all such previously exempted units would be collected by the States and shown as receipts, even if the concerned State decided to grandfather the exemptions by way of direct transfers through the budgetary route.

In the meeting held on 8th October, 2016, it was raised by the officers of the States that for the purpose of compensation, the revenue earned by the States on account of withdrawal of

exemptions should not be considered for calculating revenue earned under GST. It was noted that such provisions of exemptions is distortionary in nature and ideally they need to be phased out. This matter was discussed in detail and it was decided that in case any State decides to grandfather any of the existing tax exemption schemes, the revenue collected under GST on account of withdrawal of outright exemptions shall be counted towards their total revenue under GST in the concerned financial year, so as to avoid any perverse incentive to State Governments for grandfathering their current exemptions. In other words, it was decided that the Central Government shall not bear the expenses for grandfathering of exemptions by the concerned State Government.

4. **Issues raised by Punjab:** In his letter dated 20.09.2016, the Finance Minister of Punjab had pointed out that in the State of Punjab, 11% of VAT revenue is directly transferred to Urban Local Bodies without depositing this amount in the State Treasury. Therefore, this amount is not included in the AG certified revenue figures for the State of Punjab. However, since octroi and entry tax in lieu of octroi is being subsumed under GST, Finance Minister, Punjab proposed that for the State of Punjab, this VAT revenue which is directly transferred to Urban Bodies shall also be taken into account while considering the revenue to be subsumed in the base year for Punjab. This matter was further raised by the officers from Punjab on 8th October, 2016, and it was decided that in case of Punjab, the entire revenue collected under VAT, including the amount being directly transferred to the local bodies, shall be taken into consideration for the purpose of GST compensation. It was also clarified that all revenues subsumed on account of amendments to entries made in the State List by the Constitution (One Hundred and First Amendment) Act, 2016, shall be considered for purpose of calculating compensation irrespective of whether they get credited to the Consolidated Fund of the State or not.

5. **Proposal before the GST Council:** Section 2(6) of the Draft Goods and Services Tax (Compensation for loss of Revenue) Bill, 2016, (as presented in the 1st meeting of the GST Council on 22nd - 23rd September, 2016) is proposed to be read as follows:

“2(6). “Revenue collected” for a State shall mean all revenues collected by the State, under any Act passed by the Centre or the State, which has been included in the definition of “earlier Law” as defined in the concerned State Goods and Services Tax (SGST) Act;

except that it shall not include revenues arising out of taxes on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas, aviation turbine fuel, and alcoholic liquor for human consumption;

provided that “revenue collected” shall include revenue from any cess that has been subsumed under the Goods and Services Tax, as per the recommendations of the GST Council.”

Possible formula for projection of revenue growth

6. In the meeting of the GST Council held on 30th September, 2016, most States had proposed that an average revenue growth rate of best three years out of the preceding five years from the base year of 2015-16, should be taken for the projection of revenue growth for the purpose of compensation under the GST regime. This option was discussed in the meeting of the officers held on 8th October, 2016, and it was pointed out that this option was not feasible for the Central Government, as this would lead to a growth rate of over 19% p.a. in nominal terms. It was felt that it may be difficult for the Central Government to pay compensation to the State Governments on the rate at which revenue grew in the best of last few years if the nominal growth of GDP in the future is not as optimistic.

7. Therefore, in the meeting of the officers held on 8th October, 2016, the following alternative options for the possible formulas for the projection of revenue growth were discussed:

- i. Average revenue growth achieved in the three years over the preceding years for the financial years ending 31st March, 2016, 31st March, 2015 and 31st March, 2014 ;
- ii. Average revenue growth achieved in the five years over the preceding years for the financial years ending 31st March, 2016, 31st March, 2015, 31st March, 2014, 31st March, 2013 and 31st March, 2012;
- iii. Average revenue growth achieved in three years of the five years over the preceding years, after removing the outliers for the financial years ending 31st March, 2016, 31st March, 2015, 31st March, 2014, 31st March, 2013 and 31st March, 2012;
- iv. Fixed rate of 12% p.a.;
- v. Rate equivalent to the nominal GDP growth rate of the country.

8. It was noted by the Central Government officers that the projected growth rate to be arrived at for the purpose of calculating compensation needs to take into account the future growth rate of the economy. This is so because it would not be possible to pay compensation arrived at on the basis of growth rates when the economy was growing at a high rate in case the economy is not able to grow at the same pace in the future. Simply put, since revenue earned depends on how fast the economy grows, in case sufficient revenues are not generated due to slowdown of economy because of any reason, it would not be possible to pay compensation at higher growth rates.

9. Some States opined that they would be comfortable with a projected growth rate equivalent to the nominal growth rate of the country, with a floor rate. Hence, they favoured a mix of the options proposed in points 6(iv) and 6(v).

10. **Proposal before the GST Council:** The projected growth rate for the purposes of calculation of compensation payable to States on account of losses caused due to introduction of GST could be equivalent to the nominal growth rate of GDP of the country.

Agenda Item 3: Provision for Cross-Empowerment to ensure Single Interface under GST (outstanding issue from 1st and 2nd GSTC Meeting) –

- (i) **Distribution of taxpayers between States and Centre under GST regime**
- (ii) **Modalities for exercising information based enforcement action**
- (iii) **Periodicity of review of the distribution**

Background : In the first GST Council meeting held on 22-23 September, 2016 the issue of Single Interface was discussed in detail and a broad framework to resolve the issue was arrived at which consisted of the elements such as traders/manufacturers of goods with a turnover above Rs. 1.5 crores shall be administered by both the Central and State tax administrations on the basis of the cross empowerment model; existing registered service providers irrespective of the value of turnover shall continue to be administered by the Central tax administration; States will also get jurisdiction along with the Centre over those service providers who get registered under GST in future etc. In the second meeting of the GST Council held on 30th September, 2016 differences emerged on the interpretation of the details of the framework arrived at in the first meeting. As these differences were persistent, Council directed that a team of officers discuss the issue and present before the Council an acceptable framework for creating single interface for the taxpayers in the GST regime.

2. The issue has since been discussed at the officers' level in the meeting held on 8th of October, 2016, where the Secretary to the Council chaired the meeting. In this meeting following models for distribution of taxpayers between Centre and State were discussed, namely -

2.1 Option I (Horizontal Division based on turnover): A division of taxpayers both for administrative and audit purposes based on a cut off turnover such that taxpayer having a turnover over Rs. 1.5 crore would be administered only by the Centre and taxpayer having turnover below Rs 1.5 crore would be administered by the State. This model was found unacceptable to the States as it provided little control over revenue to the States because taxpayers having turnover above Rs. 1.5 crore are estimated to contribute almost 90% of the revenue.

2.2 Option II (Horizontal Division in which States administer taxpayers with turnover below Rs. 1.5 crores and Centre and States jointly administer taxpayers with turnover above Rs. 1.5 crore with Cross Empowerment) : A division of taxpayers both for administrative and audit purposes based on a cut off turnover such that taxpayer having a turnover over Rs. 1.5 crore would be administered by both Centre and State and taxpayer having turnover below Rs. 1.5 crore would be administered solely by the State. This model was found unacceptable to the Centre as it provided little control over taxpayers base by numbers to the Centre as 93% of Service tax assesses and 85 % of the VAT taxpayers have a turnover below Rs. 1.5 crore.

2.3 Option III (Division based on services or goods with horizontal divide for goods): In the first GST Council meeting held on 22-23rd of September, 2016, a tentative framework was arrived at for distribution of taxpayers which incorporated the following elements, namely, traders /manufacturers of goods with a turnover of less than Rs. 1.5 crores shall be under the jurisdiction of the State administration; traders/manufacturers of goods with a turnover above Rs. 1.5 crores shall be administered by both the Central and State tax administrations on the basis of the cross empowerment model, all existing registered service providers shall continue to be administered by the Central tax administration etc. In the offices meeting held on 8th of October, 2016, it was felt that any division of taxpayers on the basis of nature of supply, namely trading in goods or supply of services would be difficult to implement. In GST era tax is on supply and any artificial division between goods and services is undesirable as there are a very large number of supplies which involve both goods and services. An illustrative list in this regard is enclosed as **Annexure I**.

2.4 Option IV (Cross-empowerment with division only for audit, based on protocol or random distribution): As per the business processes under GST, there would hardly be any need for interaction between taxpayers and the tax administration. Therefore, a view emerged that there is no need to assign taxpayers to specific administration either to the State or the Centre. The most important function where there is interface with the taxpayer is audit and it was proposed that for division of taxpayers for audit, the Centre and the State will separately prepare, at the beginning of the year, a list of taxpayers to be audited based on risk parameters. The list will be merged and based on agreed protocol; the taxpayers would be distributed for audit between the Centre and the State. As an alternative, it was also proposed that distribution for audit can be done on random basis. A cap on audit of 5% of the total number of taxpayers was proposed as adequate. Once a taxpayer was allocated to either the Centre or the State, the same will be reviewed only after three years. Size of the taxpayers based on turnover, geographical considerations and available competencies would also need to be factored so that the revenue yield can be maximized by audit. For any residual administrative matters, both the Centre and the State officers may sit together at state level through a committee and allocate taxpayers to tax administrations, if required. In this model all subsequent action arising due to audit of CGST and/or SGST such as issue of demand notice, adjudication of the case, appeal proceedings etc would be handled by the authority which initiated the action. The main disadvantage of the option is that the taxpayer would not know which administration to approach in case of difficulty.

2.5 Option V (Complete vertical division based on ratios) : The last option discussed in the meeting of the officers on 8th October, 2016, consisted of following attributes, namely, to assign taxpayers to a tax administration, Centre or State, for a period of three years for all purposes including audit. In assigning the taxpayers, geographical considerations, size of the taxpayers based on turnover and available competencies could also be factored. Taxpayers could be divided in a ratio which would balance the interest of Centre and the State, both with respect to

revenue and spread of numbers. Different ratios for distribution of taxpayers between Centre and State could apply above and below the turnover threshold of Rs. 1.5 crore leading to better balance of revenue and distribution of taxpayers between Centre and State. The views expressed by the officers from Centre and State regarding the ratio in which the taxpayers could be administered by Centre and State could vary from 50:50 to 60:40, above and below the threshold. It was also noted that this option had advantages such as, taxpayers would be aware as of the office to which he should address his concerns or problems for servicing and the problems due to division based on nature of supply - goods or services would be avoided. In this model, all subsequent action arising due to audit of CGST and/or SGST such as issue of demand notice, adjudication of the case, appeal proceedings etc. would be handled by the authority which initiated the action.

3. Any cross empowerment model would lead to detection of IGST irregularity by SGST officers during scrutiny or audit of a taxpayer. IGST disputes would predominantly be to determine place of supply as it would lead to determination whether the supply is intra-state or inter-state. Audit would occur in the exporting state where the taxpayer is located and the decision about the nature of supply will affect the revenue of both exporting and importing state as GST is a destination based tax. Thus, there may be conflicting interests of the state which would need to be objectively adjudicated. Further, IGST is a Central Levy and as a corollary such irregularity when detected by SGST officer during audit or scrutiny shall be forwarded to the IGST officer for further necessary action such as issuing demand and adjudicating the same.

Modalities for exercising information based enforcement action

4. In relation to enforcement action based on intelligence, in the officers meeting on 8th of October, 2016, it was generally felt that both the Centre and the State should have freedom to take action on the basis of specific intelligence of evasion of tax. This is so because such intelligence is sensitive in nature and sharing of intelligence may be avoided to ensure effective enforcement action. Such arrangement would also add to checks and balances in the system. The June 2014 Report of the Empowered Committee of State Finance Ministers [Committee on Problem of Dual Control, Threshold and Exemption in GST Regime co-chaired by the Additional Secretary, Dept. of Revenue and the Member Secretary, Empowered Committee of State Finance Ministers] had also agreed that both the Central and State authorities, in specific evasion information cases, can take action on their own. Once one authority initiates the action, the factum of such action having been initiated could be intimated to the other authority leading to the other authority getting precluded from taking any action against the same taxpayer for a given period of time. Once the basic agreement was reached, further details on the subject would be worked out. This would also lead to creation of data base of offences which would be useful for policy analysis in the future.

Periodicity of review of the distribution

5. In the meeting on 8th of October, 2016 at New Delhi, the issue of review of the administrative arrangement was also discussed. Most of the officers of the State and Centre were of the view that taxpayers should not be frequently rotated between the administrations. A review after a period of three years would be in order.

6. Hon'ble Council may accordingly consider deciding the following issues, namely –

- (i) Which of the five options I to V above would be most appropriate to provide single interface to the taxpayers in the GST regime?
- (ii) What period may be appropriate to review the arrangement made for providing single interface to the taxpayers?
- (iii) The most appropriate arrangement for enforcement action when specific intelligence is available with a tax administration?

Annexure I

SALE OF GOODS AND PROVISION OF SERVICE	
(1)	Works Contract
(2)	Erection, Commissioning and Installation
(3)	Commercial Construction
(4)	Construction of Residential Complex
(5)	Maintenance and Repair (MRO)
(6)	Restaurant
(7)	Outdoor Catering
(8)	Hire Purchase on instalments/licensing/leasing
(9)	Dry Lease v/s Wet Lease(aircraft industry)
(10)	Transfer or right to use goods (supply of goods leviable to VAT)as against licence/permission to use goods (supply of service leviable to service tax)
(11)	Advertising Services (supply of physical property and services)
(12)	Authorized Service Station
(13)	Event Management
(14)	Franchise service
(15)	Business exhibition services
(16)	Intellectual property Services other than copyright
(17)	Cleaning services other than in relation to agriculture, horticulture, animal husbandry or dairying
(18)	Ship Management Services
(19)	Packaging services
(20)	Business support services
(21)	Design services
(22)	Interior Decoration/ Designer Services
(23)	Automated Teller Machine Operations, Maintenance or Management
(24)	Cargo handling (only inland cargo)
(25)	Transport of goods by road (GTA under reverse charge)
(26)	Photographic Services
(27)	Commercial training or coaching
(28)	Fashion designers
(29)	Mandap Keeper Services

(30)	Pandal or Shamiana services
(31)	Convention Services
(32)	Beauty parlours
(33)	Services of providing of accommodation in hotels/Inn/clubs/guesthouses/campsite
(34)	Video Tape Production Services
(35)	Supply of customized information technology software on media on which there is no legal requirement to affix RSP
(36)	Dredging services of rivers, ports harbours, backwaters and estuaries
(37)	Services provided by any person in relation to supply of tangible goods
(38)	Services related to (a) Transferring Temporarily or (b) permitting the use or enjoyment of any copyright
(39)	Sound Recording Services

Agenda Item 4: Finalisation of the bands of tax rates under GST Regime

Background: As per Article 279A of the Constitution, the GST Council shall recommend the rates on Goods and Services tax. Under the proposed Goods and Services tax (GST) structure in India, the following taxes shall be subsumed under GST:

- a. At the Centre level:
 - i. Central Excise Duty;
 - ii. Additional Excise Duties;
 - iii. The Excise Duty levied under the Medicinal and Toiletries Preparation Act;
 - iv. Service Tax;
 - v. Additional Customs Duty, commonly known as Countervailing Duty (CVD);
 - vi. Special Additional Duty of Customs-4% (SAD); and
 - vii. Cesses and surcharges in so far as they relate to supply of goods and services subsumed under GST.
- b. At the State level:
 - i. VAT/Sales Tax;
 - ii. Central Sales Tax (levied by the Centre and collected by the States);
 - iii. Entertainment tax;
 - iv. Octroi and Entry tax (all forms);
 - v. Purchase tax;
 - vi. Luxury tax;
 - vii. Taxes on lottery, betting and gambling; and
 - viii. State cesses and surcharges in so far as they relate to supply of goods and services.

Considerations for rate structure under GST

2. Analysis of present tax incidence on goods and services in the country:

2.1 Presently, the Constitution empowers the Central Government to levy excise duty on manufacturing and service tax on the supply of services. Similarly, it empowers the State Governments to levy sales tax or value added tax (VAT) on the sale of goods. Further, central sales tax (CST) is levied on inter-State sale of goods by the Central Government, but collected and retained by the exporting States. In addition, many States also levy an entry tax on the entry of goods in local areas.

2.2 No credit of excise duty and service tax paid at the stage of manufacture is available to the traders while paying the State level sales tax or VAT, and vice-versa. Further, no credit of State taxes paid in one State can be availed in other States. The above tax structure results in cascading of taxes, and the prices of goods and services get artificially inflated to the extent of this 'tax on tax'.

2.3 It is thus crucial to analyze the present tax distribution structure of goods and services in the country. The present distribution of tax base in Centre and States (including gold) from excise and VAT, excluding revenues from petroleum products and alcohol (in case of States) is as follows:

Table 1: Rate structure of present tax regime

		Rate	% of base taxed
Centre	Lower	<6%	42.3%
	Standard	12.4-14.5%	53%
	Higher/ Demerit rate	14.5%+	4.7%
States	Lower	<6%	64.6%
	Standard	12.5-14.5%	33.3%
	Higher /Demerit rate	>14.5%+	2.1%

3. Protecting the present revenues of both the Centre and States:

3.1 The Revenues being collected by both Centre and States from the taxes, cesses and surcharges being subsumed under GST needs to be protected by the proposed rate structure. Such revenues for the Centre and States for 2013-14 and 2015-16 are given below:

Table 2: Revenue to be protected

	2013-14 (in lakh crore Rs.)	2015-16 (in lakh crore Rs)
Centre	3.76	4.42
States	3.68	4.40 ¹

3.2 Based on the information provided by the States, the distribution of tax revenue collected by the States excluding revenues from petroleum products and alcohol, for 2015-16 is as given below:

¹ The Revenue figure for States for the year 2015-16 above is based on information provided by States. It includes revenue figures for Delhi which was not included in details of State Revenues for 2015-16 sent to States. States are being asked to confirm if the revenue figures for VAT and CST sent by States include revenues from petroleum products not being subsumed under GST. These figures may thus change in case States send revised figures.

Table 3: Revenue collected by States in 2015-16 (excluding petroleum and alcohol)

S. No.	Category	Revenue collected (in crore Rs.)
1	Value Added Tax (VAT)	3,23,498
2	Central Sales Tax (CST)	56,257
3	Entry tax	42,298
4	Entertainment tax, tax on lottery, betting and gambling, luxury tax and advertisement tax	6,111
5	Cesses and surcharges	7,813
6	Purchase tax	4,497
	Total	4,40,474

3.3 The revenues to be protected for the Centre excluding revenues from petroleum products, for 2015-16 is as given below:

Table 4: Revenue Collected by Centre in 2015-16 (excluding petroleum products)

S. No.	Category	Revenue collected (in crore Rs.)
1	Basic Excise duty, CVD and SAD	1,95,416
2	Service tax	2,06,235
3	Cesses and surcharge	40,874 ²
	Total	4,42,525

3.4 For protecting the above tax revenues, present tax base of the economy needs to be calculated. While making an estimate of the revenues to be collected in this note, the tax base estimated by Chief Economic Advisor (CEA) in his report on Revenue Neutral Rates has been

² The total revenue collected by Centre from Cesses and Surcharges imposed on taxes other than on taxes on petroleum products was Rs. 23707 crores. Since taxes accruing to Centre under GST would devolve to States and only 58% shall be retained by the Centre, revenue from Cesses to be protected by Centre has been taken as $23707/0.58 = \text{Rs. } 40,874$ crores

used. A brief comparison of the tax base as calculated by National Institute of Public Finance and Policy (NIPFP) and CEA is given below:

Table 5: Tax base difference between NIPFP and CEA

(in lakh crore Rs.)

S.No	Category	NIPFP		CEA	
		Tax base	% of VAT base	Tax base	% of VAT base
1(a)	VAT base				
	(i) Gold	0.617	2%	4.19	11.6
	(ii) Lower	17.33	56%	20.13	55.4
	(iii) Standard	12.92	42%	9.92	28.5
	(iv) Higher	0		2.20	4.7
	Total	30.87		35.01	
1(b)	Adjustments				
	(i)Efficiency gain	0		1.00	
	(ii)Cascading (Unregistered suppliers)	0		0.23	
	(iii)Sugar	0		0.30	
	Total	0		1.53	
	Total VAT base(1(a)+1(b))			36.54	
2	Services tax base	8.48		8.48	
	Grand total(1+2)	39.35		45.02	

3.5 The CEA has based the above breakup of tax base based on data from 16 States. The NIPFP did not have this data. In CEA's report, percentage of goods being taxed at lower tax rate is higher, thus leading to a higher tax base. Further, to take into account cascading due to excise, the NIPFP has deflated the tax base at 12% whereas the CEA has deflated it at 9% (since excise component is embedded only on the ex factory price of good and not on the final price at which it is finally sold to consumer).

4. Inflation considerations of rate structure:

4.1 It would be desirable to have a rate structure which has minimal adverse impact on inflation.

4.2 The Consumer Price Index is calculated on basis of prices of a basket of 300 items as decided by Central Statistical Organization. An analysis of distribution of weights of various items in the CPI basket and present tax incidence on the items of the CPI basket is given below.

Table 6: Composition of CPI

Category	Weight in CPI basket
Food and beverages	45.86
Pan, tobacco and intoxicants	2.38
Clothing and footwear	6.53
Housing	10.07
Fuel and light	6.84
Miscellaneous (Health, transportation, communication, recreation, education)	28.32

Table 7: Tax incidence of Central and State taxes on CPI basket

Range of tax	Percentage of CPI basket taxed			
	Centre		States	
	Percentage of tax (Excise)	% of CPI basket	Percentage of tax (VAT)	% of CPI basket
Zero	0 %	71.2 %	0 %	37.2 %
Low	0-6 %	9.9 %	0-6 %	33.4 %
Normal	6 – 12.5%	14.9 %	6 – 14.5%	25 %
High	12.5 % +	4.1 %	14.5 % +	4.3 %

Table 8: Average tax incidence on CPI basket

Present combined tax incidence distribution of the CPI basket	
Tax incidence	Weights
< 3 %	49.9
>=3 % - < 9%	9.12
>=9% - < 12%	21.99
>=12 - < 15 % +	7.85
>=21	11.13

5. Principles for proposed Rate Structure under GST

The following principles have been followed for proposing the Rate Structure:

- Proposed rate slabs should be such that they are closest to **present combined tax incidence** of Excise and VAT (including cascading).

- (ii) **Protecting existing revenues:** Proposed Rate Structure should be such that the existing revenues of Centre and States which would be subsumed under GST are protected. Thus, the revenues of Centre and States indicated in Para 2(b) above would need to be protected by the proposed rate structure.
 - (iii) **Inflation:** The proposed rate structure should be such that the impact on inflation i.e., CPI is minimal.
 - (iv) The proposed rate structure should not be regressive in nature. This implies that items presently consumed by upper middle class and rich which are being taxed at higher rate presently should not be taxed at a rate lower than their present tax incidence. This is so since in order to achieve this the revenue loss so incurred could be met only by increasing taxes on items which are taxed at lower rate presently. Such a step would be regressive in nature and has been avoided in the proposed rate structure.
 - (v) Items of mass consumption should not be taxed at higher rate.
 - (vi) **Compensation:** Compensation to be paid to States shall be collected through Cess imposed on luxury or demerit supplies over and above the Higher tax slab
6. The following points need to be deliberated for deciding the GST Rate Structure.
- (i) **Point for consideration for items being taxed at 5-6% in present rate structure:** At Annexure III of the Report by “Committee on Dual Control, Threshold and Exemptions under the GST Regime”, a list of 98 items is given which are exempt from both VAT and excise. The number of items exempted under excise presently is around 300. Most of these items are taxed at lower rate of 5-6% under VAT. It is for consideration if such items or any set of items presently having a combined tax incidence of 5-6 % can be taxed at 12% under GST Regime. Illustrative list of items which are exempt under Excise but are at lower VAT rate of 5% as per the Dual Control Committee is at **Annexure I**.
 - (ii) **Point for consideration for items being taxed at Standard rate in both Centre and States:** As per data collected from the States for 2014-15, around 39.5% ($37.32+2.27 = 39.59\%$) of taxable base of the States is presently being taxed at either Standard or higher rate. As per Central excise revenue estimates, around 53% of base is being taxed at Standard or higher rate. This implies that **around 35%** of items are presently being taxed **at least** at $12.5 + 14.5 = 27\%$ rate. It may further be observed that the above calculation does not take into account cascading due to embedded excise, entry tax and CST on items which are non Vatable. Thus the present tax

incidence on these items is at least 2% higher than 27%. It is for consideration if such items or any set of items presently having a combined tax incidence of at least 27 % can be taxed at a standard rate of 18% under GST Regime. List of items in the CPI basket which are presently at 26% or higher effective tax rate is given at **Annexure II**.

7. The following is proposed for consideration of the GST Council:

7.1 Proposed Rate Structure

A rate structure has been proposed below which takes into account the points mentioned above regarding need to protect existing revenues and minimizing any impact on inflation. The salient features of the proposed rate structure are as follows:

- a) As mentioned above, presently around 300 items are exempt from imposition of Excise duty whereas the “Committee on Dual Control, Threshold and Exemptions under the GST Regime” had identified a list of 98 items presently exempt under VAT. Thus, a number of items which are presently exempt from excise are being taxed at lower rate under VAT. List of items from the CPI basket in such category is at **Annexure III**. It is proposed to have a tax slab of 6% for these items.
- b) Two Standard rates 1 and 2 are being proposed respectively for items which are being taxed at lower rate of 5-6% by both Centre and States and for items which are presently being taxed at lower rate by either Centre and State and higher by the other respectively. Services are proposed to be included in Standard 2 tax category.
- c) Items presently being taxed at standard rate by both Centre and States are proposed to be kept in higher tax slab.

The following Rate Structure is proposed under GST regime:

Table 9: Proposed Rate Structure under GST

	GST rates	Present rate structure merging into GST rates
Lower	6.00%	$\geq 3.00\% - < 9.00\%$
Standard 1	12.00%	$\geq 9.00\% - < 15.00\%$
Standard 2	18.00%	$\geq 15.00\% - < 21.00\%$

Higher	26.00%	$\geq 21.00\%$
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7.1.1 Inflation impact of proposed GST Rate Structure:

(a) The following is a distribution of proposed Rate Structure on the CPI basket:

Table 10: Distributional impact of proposed GST rate structure on CPI basket

(b) Present tax incidence (Excise+VAT)	GST Rate	Number of items	Weight in CPI basket
<3%	0%	92	49.565
3% < R < 9%	6.00%	29	9.06
9% < R < 15%	12.00%	71	20.27
15% < R < 21%	18.00%	37	8.085
>21%	26.00%	50	6.635
Outside GST		20	8.645
Total		300	

The following is the estimated impact on various components of the CPI basket of the proposed Rate Structure:

Table 10: Impact of proposed GST rate structure on CPI

	Weight	Inflation impact	Total CPI impact
Health	6%	0.56%	-0.06%
Fuel & light	7%	0.05%	
Clothing & footwear	7%	0.23%	
Food and beverages	46%	0.35%	
Transport and communication	9%	-0.65%	
Education, stationery etc.	4%	-0.08%	
Housing	10%	-0.09%	
Other Misc.	9%	-0.81%	

Pan, tobacco and intoxicants	2%	-0.22%	
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7.1.2 Revenue collection under proposed GST Rate Structure:

- (i) **Revenue collection:** Para 2(b) above indicates the revenues for Centre and States to be protected by the proposed GST Rate Structure. An estimate of the total revenue which shall accrue to the Centre and the States through the proposed rate structure has been given below for the year 2013-14.

The following is the estimated Revenue collection with the proposed Rate Structure for 2015-16:

Table 11: Estimated revenue collection with proposed GST rate structure

(in Lakh crore Rs.)

Rate	Rate of tax	Tax base	Tax collected
(a) Lower rate	6%	3.66	0.22
(b) Standard rate 1	12%	14.66	1.76
(c) Standard rate 2	18%	5.50 (Goods) 10.60 (Services)	1.10 <u>2.12</u> <u>3.22</u>
(d) Higher rate	26%	12.83	3.34
Total (a+b+c+d)		47.26	
(e) Gold	4%	4.5	0.18
		51.76	8.72

7.2 Funding mechanism for Compensation:

7.2.1 Section 18 of the Constitution (One Hundred and First) Amendment Act, 2016 provides as follows:

“18. Parliament shall, by law, on the recommendation of the Goods and Services Tax Council, provide for compensation to the States for loss of revenue arising on account of implementation of the goods and services tax for a period of five years.”

7.2.2 Thus, the Centre would need to raise revenues **over and above its present revenues indicated in Para 2(b) above** to be able to compensate the States for a period of five years. It is for consideration on what should be the mode of collecting the extra revenue for compensation.

7.2.3 Raising of resources for compensation by means of a Cess has the following advantages as compared to raising it through increasing RNR as discussed below:

- (i) **Increase in tax burden is minimal** : As an illustration, if compensation amount of Rs. 100 has to be raised, raising it by means of GST rate would imply that tax worth Rs. 172 (i.e $100/0.58$) would need to be imposed since a collection of Rs. 172 would ensure that Centre is able to retain Rs. 100 after 42% devolution to the States. On the other hand, raising revenues through Cess would mean that additional tax only for Rs. 100 would need to be imposed.
- (ii) **Distribution of extra revenues would not follow compensation requirements** : The extra Rs. 72 would be devolved to the States as per recommendation of Finance Commission. The distribution formula of Finance Commission is quite different from the distribution of States which may need compensation i.e. the States benefiting from higher devolution may not be the States needing compensation.
- (iii) **Impact on inflation** : It is clear from Para (i) above, that impact on inflation shall be less if additional revenue is raised through Cess.

7.2.4 In light of above, it is proposed that the requirements of Compensation be met by the Centre through imposition of Cess on the following items:

- (a) Cess on items presently being taxed at rate higher than the highest proposed rate slab of 26%. The rate of Cess shall be equal the difference between the current tax incidence and higher tax slab of 26%.
- (b) Centre may impose Cess on tobacco equal to a rate mentioned at (a) above
- (c) Centre may impose Clean Environment Cess on Coal, Peat and Lignite
- (d) A separate Compensation Fund is proposed to be created in Public Account which shall not lapse after the end of Financial year. The revenues raised through Cess for the purpose of payment of compensation to States shall be credited to this Fund and payment of compensation to States be made from this Compensation Fund.
- (e) After the period of five years, any balance amount available in the GST Compensation fund shall also be devolved to the States as per formula laid down by Finance Commission for devolution.
- (f) The National Calamity Contingency Duty (NCCD) presently being collected by Centre as a cess has not been reflected in Centre's revenues to be protected. The Centre shall continue to collect it for the purpose of funding the National Disaster Relief Fund (NDRF).

7.3 Action following decision on Rate Structure: After the rate structure is decided upon by the GST Council, it is proposed that a team of officers from the Central and State

Governments may be formed to deliberate on the list of goods and services which may be placed in the various slabs of the GST Rate Structure decided above by the GST Council. The report of the Committee could thereafter be placed before the GST Council for consideration.

Annexure I

Illustrative List of items attracting concessional rate under VAT and CENVAT

		<u>1% LIST</u>	VAT	Excise
1	7113	Gold and silver & platinum ornaments	1%	NIL
2	7102, 7103	Precious stones, Diamond-, Other precious stone-	1%	12% Nil 12%
3	7108	Bullions	1%	9%
		<u>5% LIST</u>		
1	28 & 29	Acids	5%	12%
2	84	Agricultural implements not operated manually or not driven by animal sprayers & drip irrigation equipments including their parts & accessories thereof	5%	NIL
3	85	All equipments for communications such as, private branch exchange(PBX) & Elect. Private Automatic Branch Exch.(EPABX) etc Mobile phones of RSP upto Rs 2000 Mobile phones of RSP exceeding Rs 2000 Radio Trunking terminal Other equipment for communication.	5%	6% & 12% 1% 6% 2% /6% 12%
4	Service Tax	All intangible goods like copyright, patent, rep. license etc.	5%	12% if Temporary Transfer which does not amount to

				sale
5	69	All kinds of bricks including fly ash bricks, refractory bricks & asphaltic roofing earthen tiles & Refractory monolithic.	5%	2%, 6% & 12%
	69091000	Building bricks		Nil
	69010010	Bricks of fossil meals or similar siliceous earths		Nil
	69051000	Earther tiles		Nil
	6815 9910	Fly ash bricks		12%
	6902	Refractory bricks.		12%
6	7307, 74199100	All metal Castings	5%	12%
7	NA	All other goods of local importance not notified by states as tax free goods.	5%	NA
8	5106 to 5110; 5306 to 5308; 5401 to 5406; 5508 to 55011	All types of yarn other than cotton & silk yarn in hank & sewing thread & waste	5%	12%
9	7323,7418,76 15 73239310, 76151011	All utensils including pressure cookers/pans except utensils made of precious metals pressure cookers	5%	2%/6% 6%
10	76042910	Aluminium conductor steel reinforced(ASCSR)	5%	12%
11	2106 90 30	Arecanut powder and betel nut	5%	6%
12	7117	Article made of rolled gold and imitation gold.	5%	6%
13	2303 20 00	Bagassee	5%	NIL

14	1401 10 00	Bamboo	5%	Nil
15	28	Basic chromium sulphate, sodium bi chromate, bleach liquid	5%	12%
16	8482	Bearings	5%	12%
17	6304	Bed sheet, pillow cover & other textile made ups.	5%	0%/6% in case of cotton & 0%/12% in case of non-cotton.
18	1404 90 10	Beedi leaves and Tendu leaves	5%	12%
19	4010	Beltings	5%	12%
	4203 30 00	Belts		12%
20	871200, 8714	Bicycles, tricycles, cycle rickshaws parts, tyres & tubes thereof.	5%	2% or 6% NIL
21	3808	Bio-fertilizers Micro-nutrients also plant growth promoters & regulators, herbicides, rodenticide, insecticide, weedicide etc.	5%	Nil 12%
22		Bio-mass briquettes	5%	
23	2713 20 00 2714 90 20	Bitumen	5%	14%
24	2309	Bone meal	5%	Nil
25	73 76 39	Buckets made of iron & steel, aluminium, plastic or other materials (except precious materials).	5%	12%
26	34060010	Candles	5%	2% / 6%
27	84	Capital goods (where ever notified by State Govts.)	5%	12%

28	1518	Castor oil	5%	NIL
29	84	Centrigugal & monobolic & submersible pump sets for water handling & parts thereof	5%	6%
30	31, 3808	Chemical fertilizers, Pesticides, weedicides, insecticides, micronutrients.	5%	1%, 12%
31	28 & 29	Chemicals including caustic soda, caustic potash, soda ash, bleaching powder, sodium bi carbonate, sodium hydro sulphite, sulphate of alumina, sodium nitrate, sodium acetate, sodium sulphate acid slurry, trisodium phosphate, sodium tripoly phosphate, sodium silicate, sodium meta silicate, carboxymethyle cellulose, sodium sulphide acetic acid, sodium bi-sulphite, oxalic acid, sodium thio sulphate, sodium sulphite, sodium alginate, benzene citric acid, diethylene glycol, sodium nitrate, hydrogen peroxide, acetaldehyde, pentaerythritol, sodium alpha olefin, sulphonate ,sodium formate, chemical components & mixtures & all other chemicals not specified elsewhere in this schedule or any other schedule.	5%	12%
32	2508	Clay including fire clay, fine china clay and ball clay.	5%	NIL
33	2706 00 10	Coal tar	5%	6%
34	0901	Coffee beans & seeds, cocoa pod & beans, green tea leaf & chicory	5%	NIL
35	57, 63	Coir & Coir products excluding coir mattresses	5%	Nil, 12%
	5308	Coir yarn		Nil
	5305	Coir fibre		12%
	57	Coir carpets		Nil
36	9615	Combs	5%	Nil
37	84	Computer stationery, certain parts & accessories of computers Others-	5%	6% 12%
38	0406	Cottage cheese	5%	NIL
39	5201,5202,52030000	Cotton & cotton waste	5%	NIL

40	69	Crucibles	5%	12%
41	4823 39	Cups and glasses of paper & Plastics.	5%	12%
42	NA	Declared goods as specified in Section 14 of the Central Sales Tax Act, 1956.(Animal hair to be part of hides & skin)	5%	NA
43	30, 90183100, 12712	Drugs & Medicines including vaccines, syringes & dressings, medicated ointments produced under drugs license, light liquid paraffin of IP grade.	5%	6%, 12%
44	32	Dyes that is to say acid dyes, basic dyes, alizarine dyes, bases, direct dyes, naphthols, nylon dyes, optical whitening agents, plastic dyes, reactive dyes, sulphur dyes, vat dyes, all other dyes not specified elsewhere in the schedule	5%	12%
45	15 23	Edible oils oilcake	5%	NIL
46	83 & 85	Electrodes	5%	12%
47	5809 84	Embroidery or zari articles, that is to say,- imi, zari, kasab, saima, dabka, chumki, gota sitara, naqsi, kora, glass bead, badla, glzal, Embroidery machines, embroidery needles .	5%	6%/12% 12% & 6%
48	4820 20 00	Exercise book, graph book, & laboratory note book	5%	2% or 6%
49	39 or 40	Feeding bottles & nipples.	5%	2% / 6%
50	7206-7226 7403,7502,76 01, 7801,7901,80 01 7407,7408,75 05 7604,7605,79	Ferrous& non-ferrous metals & alloys, Non-metals, such as aluminium, copper, zinc & extrusions of those.	5%	12%

	04			
51	5303, 5305	Fibres of all types and fibre waste.	5%	NIL, 12%
52	2508	Fireclay,		NIL
	2621	coal ash,		12%
	2621	coal boiler ash,		12%
	2621	coal cinder ash,		12%
		coal powder,	5%	12%
	2523	clinker,		12%
	2621	fly ash		
53	11	Flour, Atta, Maida, Suji, besan, etc.	5%	NIL
54	11	Fried and roasted grams	5%	NIL
55	2940 00 00	Glucose D	5%	12%
56	1701	Gur, jaggery & edible variety of rub gur	5%	12%
57	2520	Gypsum of all forms & descriptions	5%	NIL
58	84	Hand pumps , spare parts & fittings	5%	Nil
59	6304	Handloom woven gamcha	5%	0%/6% in case of cotton & 0%/12% in case of non-cotton.
60	33074100	Havan samagri including dhoop, agarbatti, sambrani or lobhana.	5%	Nil
61	07	Herb, bark, dry plant, dry root, commonly known as jari booti and dry flower.	5%	NIL
62	0409	Honey	5%	NIL
63	3917, 4019	Hose pipes and fittings thereof.	5%	12%

64	61	Hosiery goods	5%	0%/6% in case of cotton & 0%/12% in case of non-cotton.
65	9405, 94055031	Hurricane lanterns, Kerosene lamp/ lantern, petromax, glass chimney, accessories & components thereof.	5%	2% / 6%
66	2302	Husk and bran of cereals	5%	NIL
67	8471	I.T products (as listed by GOI) including computers, telephones & parts thereof, cell phones, DVD, CD, teleprinter & wireless equipment and parts thereof.	5%	12%
68	2201	Ice	5%	NIL
69	7117	Imitation jewellery	5%	6%
70	33074100	Incense sticks commonly known as agarbati, dhupkathi or dhupbati.	5%	Nil
71	8544	Industrial cables (High voltage cables, XLPE Cables, jelly filled cables, optical fibres)	5%	12%
72	85	Insulators	5%	12%
73	14049050	Kattha	5%	2%/6%
74	2710 19 10	Kerosene oil sold through PDS	5%	NIL
75	04	Khoya/ khoa	5%	NIL
76	5106, 5107	Knitting wool	5%	12%
77	13	Lac & shellac	5%	NIL
78	1404	Leaf plates and cups	5%	Nil
79	2702	Lignite	5%	2% /6%
80	25	Lime, Lime stone, products of lime , clinker & dolomite & other white washing materials not elsewhere mentioned in the schedule or	5%	NIL & 12%

		in any other schedule.		(clinker)
81	27	Linear alkyl benzene, L.A.B. Sulphonic Acid, Alfa Olefin Sulphonate.	5%	14%
82		List of industrial inputs and packing materials (as notified by state Govts.)	5%	Annexe-II
83	11081200	Maize starch, maize gluten, maize germ & oil	5%	6%
84	9021	Medical equipment/devices & implants	5%	NIL / 6%
85	7204, 7404, 7503, 7602, 7802, 7902	Metal alloys, metal powders, metal pastes of all types & grades & metal scraps other than those falling under declared goods.	5%	12%
86	04	Milk food & milk products including skimmed milk powder tinned, bottled or packed.	5%	NIL
87	04	Milk powder, baby milk food, paneer	5%	NIL
88	3904	Mixed PVC stabilizer	5%	12%
89	64	Moulded Plastic footwear, hawai chappals and straps thereof.	5%	RSP not exceeding Rs. 500 – NIL/ Other- 12%
90	68	Napa Slabs (Rough flooring stones) & Shah bad stones.	5%	12%
91	63	Newars	5%	0%/6% in case of cotton & 0%/12% in case of non-cotton.
92	89020090	Non-mechanized boats used by fisherman.	5%	Nil

93	7318	Nuts, bolts, screws and fasteners.	5%	12%
94	12	Oilseeds	5%	NIL
95	25& 26	Ores and minerals	5%	NIL
96	39	Packing cases & packing materials including cork, cork sheets, gunny bags, HDPE/PP woven strips, HDPE/PP circular strips and woven fabrics; Hessian cloth, Hessian based paper, polythene and Hessian based paper; high density polythene fabric based paper and bituminized water proof paper, Jute twine; Polythene and plastic bags including LDPE plastic bags for milk pouches; Tin containers, shooks, tea chests, waste paper, wooden boxes, wooden shavings, wooden crates, wooden cable drums, or other materials notified by govt. in this behalf. Explanation: planks panels, battens, when assembled will form tea chest or packing cases will come under packing cases for the purpose of this entry	5%	12%
97	10	Paddy, rice, wheat and pulses	5%	NIL
98	48 4707 4801	Paper, paper boards, waste paper & newsprint	5%	6%& 12% 6% NIL
99	2712	Paraffin wax of all grade standards other than food grade standard including standard wax & match wax	5%	14%
100	7303, 7305, 7306, 7307	Pipes of all varieties including G.I. pipes, C.I. pipes, ductile pipes, PVC etc. and fittings.	5%	12%
101	1905	Pizza bread	5%	NIL
102	39	Plastic granules, plastic powder, master batches and scrap	5%	12%
103	84,85 & 90	Pollution control equipments; instrumental-B Oc incubator, C Oc apparatus, ion analyser; Air pollution control equipment –filters (fabric filters, bag filters, vaccum filters), electrostatic precipitators, cyclones, wet scrubbers, particle analyser (SO2, CO, NOx, SOx, hydrocarbons, chlorine, fluorine, etc.), personal samplers, detectors (for grass), high volume sampler, pressure gauges, timber, filter head assembly, pitet tube, sampling train (for ambient/stack air	5%	12% & 6%

		quality monitoring), smoke meter, mist eliminator.		
104	5402, 5509, 5510, 5511	Polyester & staple fibre yarn	5%	12%
105	1104	Porridge	5%	NIL
106	4820 10 4910	Printed materials including diary, calendar etc.	5%	2% or 6%
107	3215	Printing ink excluding toner and cartridges.	5%	12%
108	16	Processed meat, poultry & fish.	5%	2%/6%
109	20	Processed or preserved vegetables & fruits etc including fruit jams, jelly, pickle, fruit squash, paste, fruit drink & fruit juice (whether in sealed containers or otherwise).	5%	2%/ 6%
110	1904	Puffed rice, commonly known as Muri, flattened or beaten rice, commonly known as Chira, parched rice, commonly known as khoi, parched paddy or rice coated with sugar or gur, commonly known as Murki	5%	2% /6%
111	47	Pulp of bamboo, wood and paper	5%	2% or 6%
112	,8601, 8602, 8603, 8606 8607	Rail coaches, engines & wagons parts thereof	5%	2% or 6% 12%
113	0801	Raw cashew	5%	NIL
114	61, 62	Readymade garments	5%	0%/6% in case of cotton & 0%/12% in case of non- cotton.
115	84 & 85	Renewable energy devices & spare parts	5%	NIL

116	2302	Rice bran	5%	NIL
117	2505	River sands and grit.	5%	NIL
118	40	Rubber, raw rubber, latex, dry ribbed sheet of all RMA Grades, tree lace, earth scrap, ammoniated latex, latex concentrate, centrifugal latex, dry crepe rubber, dry block rubber, crumb rubber, skimmed rubber and all other qualities and grades of latex; Reclaimed rubber, all grades and qualities; Synthetic rubber	5%	NIL & 12%
119	36050010	Safety matches	5%	6%, 12%
120	8452	Sewing machine, its parts & accessories.	5%	6%
121	8901,8902, 8904, 8905 8903,	Ship & other water vessels Yatch	5%	NIL 12%
122	500710, 50072; 50079090	Silk fabrics excluding handloom silks unless covered by AED.	5%	12%
123	04	Skimmed milk powder and UHT milk.	5%	NIL
124	15	Solvent oils other than organic solvent oil.	5%	Nil
125	9001,7015	Spectacles, parts & components thereof, contact lens & lens cleaner.	5%	2%/6%
126	09	Spices of all varieties and forms including cumin seed, aniseed, turmeric, dry chillies and Hing (Asafoetida).	5%	NIL
127	95	Sports goods excluding apparels and footwear	5%	2%/6%
128	7219, 7220	Stainless Steel sheets	5%	12%
129	1108	Starch and Sago	5%	6%/Nil
130	1701	Sugar	5%	Rs 95 per Quintal

131	0813	Tamarind seed and powder.	5%	NIL
132	0902	Tea	5%	NIL
133	50-62	Textile	5%	Various rates
134	8460,8508	Tools		12%
135	9503	Toys excluding electronic toy.	5%	NIL
136	8701 8433	Tractors, Threshers, harvesters & attachments & parts thereof,	5%	Nil except road tractors NIL
137	8504	Transformer	5%	12%
138	7308	Transmission wires & towers	5%	12%
139	6601 & 6603	Umbrella except garden umbrella and parts thereof.	5%	6% & 12%
140	8703	Used cars	5%	NIL
141	15	Vanaspati (Hydrogenated Vegetable Oil)	5%	NIL
142	15	Vegetable oil including gingili oil and bran oil	5%	NIL
143	0804	Wet dates	5%	Nil
144	85	Windmill for water pumping & for generation of electricity	5%	NIL
145	44151000	Wooden crates	5%	12%
146		Works contracts, which are in the nature of printing works, will carry the same tax rate of 4% as for printed materials.	5%	Service component leviable to service tax
147	321590	Writing ink.	5%	6%
148	7310 or 7418 or Any Chapter	Writing instruments, geometry boxes, colour boxes, crayons & pencil sharpeners.	5%	2%/6%,

Note: Modified on 18.7.06- Palmy fatty acid deleted as per decision of 7.3.05; lime products inserted; Blood components inserted after receiving inputs from states. EC decision on 14.07.05 is 'sprayers & drip irrigation equipments including their parts & accessories thereof, to be a part of agricultural implements' (since these can be attached to tractors also the same is inserted in 4% Schedule)

Annexure – II

Items in CPI Basket with present combined tax incidence of 25% or above

Category of item in CPI Basket	Weight	Present Combined Tax Incidence
Food and beverages	45.86	
Cereals and products	9.69	
Biscuits, chocolates, etc.	0.88	26%
Ice-cream	0.01	28%
Mineral water (litre)	0.02	28%
Cold beverages: bottled/canned (litre)	0.09	38%
Other beverages: cocoa, chocolate, etc.	0.09	29%
Other packaged processed food	0.08	26%
Bedstead	0.06	26%
Almirah, dressing table	0.03	28%
Chair, stool, bench, table	0.02	28%
Other furniture & fixtures (couch, sofa, etc.)	0.02	29%
Bathroom and sanitary equipment	0.01	29%
Carpet, daree & other floor mattings	0.01	25%
Bedding: others	0.00	26%
Air conditioner, air cooler	0.05	29%
Inverter	0.04	29%
Washing machine	0.02	29%
Stove, gas burner	0.00	25%
Refrigerator	0.09	29%
Electric fan	0.02	29%
Electric iron, heater, toaster, oven & other electric heating appliances	0.01	28%
Other cooking/ household appliances	0.01	29%
Other durables (specify).	0.00	28%
Glassware	0.01	26%
Electric bulb, tubelight	0.18	28%
Plugs, switches & other electrical fittings	0.00	29%
Electric batteries	0.01	29%
Torch	0.05	29%
Lock	0.00	26%
Washing soap/soda/powder	0.87	29%
Other washing requisites	0.12	29%
Mosquito repellent, insecticide, acid etc.	0.12	25%
Other petty articles	0.16	25%
Motor car, jeep	0.48	31%
Motor cycle, scooter	0.79	28%

Tyres & tubes	0.07	27%
Lubricants & other fuels for vehicle	0.05	30%
Radio, tape recorder, 2-in-1	0.01	29%
Television	0.16	29%
VCR/VCD/DVD player	0.01	26%
Camera & photographic equipment	0.01	26%
Toilet soap	0.64	29%
Toothpaste, toothbrush, comb, etc.	0.36	29%
Powder, snow, cream, lotion and perfume	0.39	29%
Hair oil, shampoo, hair cream	0.45	29%
Shaving blades, shaving stick, razor	0.10	29%
Shaving cream, aftershave lotion	0.04	29%
Clock, watch	0.00	29%
Suitcase, trunk, box, handbag and other travel goods	0.01	29%
Lighter (bidi/ cigarette/ gas stove)	0.01	26%
Any other personal goods	0.01	25%

Annexure III

List of items in CPI basket proposed to be taxed at 6%

Category of item	Weights in CPI basket	Present combined tax incidence
Cereals and products	9.69	
Chicken	1.23	4%
Mustard oil	1.33	5%
Groundnut oil	0.33	5%
Coconut oil	0.08	4%
Refined oil [sunflower, soyabean, saffola, etc.]	1.26	5%
Ghee	0.47	7%
Butter	0.01	9%
Vanaspati, margarine	0.07	9%
Coconut: copra	0.10	3%
Groundnut	0.29	5%
Dates	0.04	7%
Cashewnut	0.08	5%
Raisin, kishmish, monacca, etc.	0.06	7%
Chips (gm)	0.01	6%
Gram products	0.02	3%
Besan	0.16	3%
Other pulse products	0.03	3%
Jeera (gm)	0.37	3%
Dhania (gm)	0.33	5%
Turmeric (gm)	0.50	3%
Black pepper (gm)	0.14	5%
Curry powder (gm)	0.18	7%
Oilseeds (gm)	0.09	5%
Tea: leaf (gm)	0.96	5%
Coffee: powder (gm)	0.06	8%
Pan: leaf	0.06	4%
Incense (agarbatti), room freshener	0.20	5%
Candle	0.03	9%
Taxi, auto-rickshaw fare	0.57	8%

Agenda Item 5: Delegation of powers to the Chairman, GST Council to constitute Technical Committees of offices

There are many technical issues of taxation which would come before the GST Council for decision. GST Council being a high powered body of Hon'ble Finance Ministers, it would not be possible for the Council to invest its valuable time in analysing such issues in detail. Further, many of these issues would require technical inputs from the officers having domain knowledge in taxation. Technical committee of officers would be required to be constituted on such issues to explore all policy options on the issue and to present the same before the Council with relative merits and demits of the option(s). The ultimate decision on these options would rest with the Council.

2. Hon'ble Council may consider authorizing the Chairperson of the Council to constitute such technical committee of officers. It would be open for any State to join such committee by volunteering for the same. Council would be kept duly informed of formation of any such technical committee of officers.

Agenda Item 6: Date of the next meeting of the GST Council

Agenda Item 7: Any other Agenda item with the permission of the Chairperson