
Petro sector and taxes of local bodies to be out of GST net

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According to senior finance ministry official, the petroleum sector would be kept out of the proposed goods and services tax regime. This sector was also kept out of the State level value added tax system, which was introduced on April 1st 2005 in 21 States.

In the case of liquor and tobacco, indications are that certain components are likely to be within the GST and some outside. Also, the taxes collected by local bodies would not get subsumed in the proposed GST system.

The official said “There is a reason for keeping the taxes of the local bodies out of the GST system. We are having so much difficulty in the Centre dealing with just the States. We need to have compensation mechanism and tackle issues like how their revenues would be neutral after GST implementation. If you bring in the third component of urban local bodies and rural panchayats into the picture, you are going to multiply the problem by about 10 times. The present consensus is not to touch it.”

Both the Centre and the States are yet to finalize the GST rates and discussions are on in this regard at the level of the empowered committee of state finance ministers on VAT.

Under the proposed GST regime, the Centre will give input tax credit only for Central GST. The States will give input tax credit only for State GST. Cross utilization of credit between Central GST and State GST will not be allowed.

Meanwhile, the Government is looking to set up a new central authority to look into the issue of deviations made by States from the agreed rates. The main taxes that the proposed GST regime would subsume are Central excise, State VAT, service tax and countervailing duty.

The official said “These are the main components. The rest are not important from the revenue point of view, but they are important from the trade point of view. There is also a general consensus that it would subsume all cesses and surcharges levied by the Centre and States on these taxes. It will also subsume entry tax. Entertainment tax collected by States will be subsumed.”

(Sourced from Business Line)

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