

## Despite odds, GST on track

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*Excise rates on several items raised to 8 per cent for uniformity.*

Announcing that the much-anticipated Goods and Service Tax, or GST, will be introduced on schedule from April 1 next year, Finance Minister Pranab Mukherjee today proposed to increase the rate of central excise on several products from 4 per cent to 8 per cent, so that the indirect duty rate became broadly uniform. Most items are now charged excise at 8 per cent, while the lowest rate for the indirect tax is 4 per cent.

GST, a consumption-based tax, is proposed to be passed on at every stage of production. For example, a producer who pays tax on inputs can set it off against tax paid on the final product. So the tax paid is only on the value addition. The view in several quarters was that it would be difficult to introduce it on schedule because so much remained to be done, including an amendment to the Constitution.

Pharmaceutical products, food items, water pumps and paper products stay with 4 per cent. Mukherjee said the indirect tax will have a central and a state rate, with legislation at both the levels.

"The announcement indicates that, apart from the two rates, some items may be charged at a lower rate," said Rajeev Dimri, partner and leader, indirect tax practice, BMR Advisors. In a recent speech, Vijay Kelkar, chairman of the 13th Finance Commission, had said that, once GST was in force, states should be compensated for their revenue losses while bringing construction, real estate and railways under the new tax.

In spite of the increase in the excise rates, indirect tax collection is expected to dip 1.7 per cent and to Rs 1,06,477 crore in 2009-10, as the global financial crisis slows production at factories. Mukherjee also sought to address the distortions in several areas of excise collections. This includes reducing excise rate on petrol trucks and the additional component of excise duty on cars with engines bigger than 2,000 cc.