Ref. No. CCC-5H/09 Date: 20-11-2009

Dr. Asim Kr.Dasgupta
Hon'ble Minister of Finance
Govt. of West Bengal
Writers' Buildings
Kolkata - 700 001

Respected Sir,

On behalf of Calcutta Chamber of Commerce, we have pleasure in forwarding for your kind consideration a Memorandum giving our suggestions and comments on “First Discussion Paper on Goods and Services Tax in India”.

Thanking you,

Yours faithfully,

S.K. Agrawal

SUSHIL KR. AGRAWAL

Encl. As above.

CALCUTTA CHAMBER OF COMMERCE

Views and Comments on
First Discussion Paper on Goods and Services Tax in India

At the outset we congratulate you for bringing out the First Discussion Paper on Goods and Service Tax in India under your Chairmanship of the Empowered Committee of State Finance Ministers. No doubt indirect taxes in India will be having a new sun and the object of the Central Government and the Empowered Committee is laudable.

We are pleased to present our views and comments as under:

1. **Absence of rates of GST**: Since Rates of GST had not been disclosed in the discussion paper, it is difficult for us to finalise and provide our suggestions on the basic issue of costing or addition to cost. However, we would like to mention here that the rate of tax, be it in place of excise or customs or service tax or VAT, should not be more than the existing levy.

   For example, present rate of service tax is 10% for all categories of services. Both CGST and SGST would be applied for levy of service tax. Therefore, the aggregate of both application of tax should not exceed the present level of 10% of tax. In other words it may be 5% CGST and 5% SGST or any other rate aggregating to 10%.

   The 13th Finance Commission Chairman Shri Vijay Kelkar stated, while addressing the FICCI's National Executive Committee meeting in New Delhi on 12th October, 2009, – ***"Our manufacturing sector is one of the highest taxed sector in the world. Even a 2% deduction in production cost will increase profit by 20%, giving headroom for reducing prices and benefiting en-users."***
   [Source:http://news.webindia123.com/news/articles/india/20091012/1360168 html]

2. **Attempt to remove cascading effect of tax (Tax on Tax)**:

   The major thrust for introduction of GST is to remove the bottlenecks in removal of tax on tax problem and related burden of the cascading effect of tax. On introduction of VAT in place of states sales tax levies, burden of Central Sales Tax (presently rate of tax is 2%) problem of cascading effect could not be removed. It appears from the study of First Discussion Paper that input of IGST can not be set off against SGST and others as appears from following table.

SET-OFF/ADJUSTMENTS OF GST NOT ALLOWED UNDER PROPOSED

DUAL GST MODEL

Output	Input
CGST	SGST
CGST	IGST
SGST	CGST
SGST	IGST

It was expected that on introduction of GST, the goal of removal of cascading effect of tax would be removed in toto, but this expectation is yet to be fulfilled.

3. In the present law the payment of service tax of input service of a trader is a cost and not vatable against output tax, since traders in general, has no output tax under service tax law or under excise law. It appears that even under the proposed GST model this grievance of trader community would not be addressed and removed. We feel that no indirect tax should be cost to traders who acts as intermediaries. We will appreciate Sir, that no consumer goods can reach the users and consumers from the manufacturers without effective role of traders. Ultimately the consumers in general who has to bear the cascading effect of tax on their shoulders.

4. **Taxes Subsumed under GST**

While looking at the list of taxes subsumed under GST, we find that Octroi and Profession Tax had been left out from SGST. We propose that both should be included in SGST list, even if a separate rate is fixed within SGST in order to avoid multiplicity of furnishing the returns, challans and facing the assessment procedure.

5. In the discussion paper goods has been discussed at various places but very few matters are covered for services, which is one of the prime source of revenue of Central Government. Therefore, what is the fate of service tax levy under GST module is totally in dark to the trade, industry and commerce. It requires little elaboration in the final White Paper on GST.

6. **<u>Transition Provisions</u>** are required to be discussed in the White Paper about treatment of stock as on date of transaction, closing balance of CENVAT credit line, where and whom to approach for CGST and SGST and so on.

7. **Key infrastructure sector and financial service sector i.e. real estate, power, insurance** does not find any place or discussed in the discussion paper not there is any reference to works contract, stamp duty etc. which directly hit the real estate sector.

8. **<u>Composition Scheme</u>**
   Under the composition scheme Rs.50 lacs has been declared as cut off point of gross annual turn over. In this regard attention is drawn to the Draft Direct Tax Code which would replace the Income Tax Law from 1st April 2011, referred 14th Schedule for determination of income on presumptive basis. In this case the cut off turn over or gross receipts of the assessee in a financial year from the business is Rs. one crore.

   Therefore, it is suggested that harmony should be maintained between Direct Tax Code and GST and maintaining the harmony the code of point should be increased from 50 lacs to Rs.1 crore under composition/ compounding scheme for the purpose of GST.

9. **<u>Purchase Tax</u>**

   Purchase Tax has been left out from GST. It amounts to putting additional burden on a dealer to furnish a separate return under Prof Tax Act, Payment of challan, facing tax assessment procedures, maintaining separate set of registers and records and so on. We strongly object for multiplicity of administrative responsibility on the shoulders of trade and industry people on this count. We feel that purchase tax must be subsumed under GST along with VAT.

10. **<u>GST on Exports</u>**

    Export has to be zero rated and same benefit must be provided to Special Economic Zone (SEZ) and 100% Export Oriented Units (EOU), sales in between SEZ units or EOU units or in between SEZ and EOU units. Moreover sales by dealers of Domestic Tariff Area (DTA) a tax on exporters which causes claim for refunds in the hands of exporters. There is big bottleneck under the present system in process of refunds. This bottleneck must be addressed and proper solution is required to be given to the exporters.

11. **<u>Industrial Incentives & Special Industrial Area Scheme</u>**

After the introduction of GST, the tax exemptions, remissions etc. related to industrial incentives should be converted, if at all needed, into cash refund schemes after collection of tax, so that the GST scheme on the basis of a continuous chain of set-offs is not disturbed.

Regarding Special Industrial Area Schemes, it is clarified that such exemptions, remissions etc. would continue up to legitimate expiry time both for the Centre and the States. Any new exemption, remission etc. or continuation of earlier exemption, remission etc. would not be allowed.

12. **<u>Date of introduction of GST</u>:**

Although the target date for implementation of GST is 1st April, 2010, as on date neither Bill has been placed before the Parliament nor a Draft Model of State GST legislations has been released for inviting views of the Trade, Industry and Commerce & all other stake holders. Moreover, after enactment of a new law it requires notification of Rules. The time being very short in hand, the implementation date may be postponed to 1st April, 2011 and in the meanwhile it should be ensured that by 31st March, 2010, the Draft Bill and Rules are published in public domain and views of all concerned i.e. tax payers and tax gatherers (administrator) are invited and after full consultation and consideration thereof the enactment is made. At the same time taxpayers' education and tax gatherers proper training, implementation of information technology in tax administration would be required which will consume considerable time.

S.K. Agrawal

Dated: 21st November 2009. President.