

## **GST exemptions list to have under 100 items**

### **These exemptions will be over and above those already excluded from GST in Constitution Amendment Bill itself**

In an effort to minimize the number of exemptions under the goods and services tax (GST), the centre and the states have agreed to restrict this list to less than 100.

In a GST regime, the centre and the states will have one common list of exempted goods and services. At present, while the states put together have around 99 exempted items under value-added tax (VAT), the centre has around 250 exempted items under central VAT or excise duty.

It has been decided to adopt the states' exempted list under the GST regime as and when it is rolled out, said a senior finance ministry official who did not want to be identified.

Typically, those goods that are consumed by the lower strata of society and those that are considered to be of national importance are exempted from taxes. Food items such as rice, wheat, salt, fresh vegetables and fruits, milk and milk products are some of the items that are typically exempted from VAT by states.

“The aim is to keep the exemptions at a minimum. The lesser the exemptions, the better it will be,” the official said. “The centre and the states have agreed to only exempt those items under GST that are exempted by states at present.”

Since both the states and the centre are taxing goods, the exemption list varied.

To be sure, these exemptions will be over and above those that have already been excluded from GST in the Constitution Amendment Bill itself.

The 122nd Constitution Amendment Bill proposes to exclude alcohol from GST. Though petroleum products have been brought under GST's ambit in the Constitution

Amendment Bill, GST will not be levied till the GST council—the representative body of the centre and the states—decides on it.

Bipin Sapra, a tax partner at EY, said the restricting exemption is a good move.

“Under GST, exemptions should be at a minimum. At present, exemptions vary across the centre and the states, and among states as well. So, the fact that the centre and the states have arrived at a consensus to keep the exemptions to less than 100 is welcome,” he said.

This problem does not arise for services since only the centre has been levying service tax so far based on a so-called negative list of services.

Under a negative list-based taxation of services, only those services that are part of the negative list are not taxed. All other services that are not in this list are taxed.

Keeping the exemption list to a minimum has also been one of the key demands of industry.

“Proposed GST structure intends to widen the tax base and eliminate exemption... Therefore, the list of exempted items should be meticulously prepared based on the principles behind exemptions and practice in other jurisdictions,” said a report prepared by consulting firm Deloitte and industry body Assocham.

Both the centre and the states have been working together in various subcommittees to finalize the fineprint of GST. Though the government is still targeting a 1 April 2016 deadline, its failure to get the Constitution Amendment Bill passed in the monsoon session of Parliament can delay it.

Speaking at an event on Wednesday, V.S. Krishnan, member, Central Board of Excise and Customs, said it is possible to introduce GST even in the middle of a fiscal year.

This means that the delay does not necessarily mean that GST's implementation will be pushed to 2017. As and when the bills get passed, the government can roll out GST from 1 July or 1 October 2016.