



01 October 2016

GST Update

In a span of less than a week, the GST Council headed by Finance Minister Arun Jaitley has reached consensus on five key areas. In the second meeting held yesterday, issues related to area based exemptions and finalization of Rules related to compliances were discussed.

Key points discussed in GST Council meeting held on 30th September 2016

Refund mechanism to be adopted for area based exemptions and other incentives offered by the States

With regard to area based excise duty exemption given to 11 States (mainly in North Eastern and hilly regions) and other incentives offered by the States as incentive for setting up industry, the GST Council has decided on adopting a refund mechanism whereby businesses would be required to collect and discharge taxes to the exchequer and subsequently, it would be reimbursed from the annual budgets to these exempted categories

Comments

Dispensing with area based exemptions and allowing refund under GST appears to be logical step as the credit chain in the system would remain intact. However, instead of granting refund, alternative option which businesses may have favored is allowing them to retain GST collected as incentive considering that refund mechanism will increase the compliance hassles and blockage of working capital.

The entities currently enjoying area based exemption will now be able to take credit under GST as opposed to the existing scenario where excise duty paid on procurement becomes cost.

Finalization of Rules on Registration, Payment, Invoice, Return and Refund

The Government had published draft Rules on registration, payment, invoice, return and refund on 26 September 2016 for comments. In the meeting yesterday, the GST council has finalized on these rules and it has been stated that these rules would be notified on enactment of GST Act.





Comments

The proposed Rules were put into public domain for comments only on 26 September with industry being given less than 2 days to give their views. Considering the deadlines on tax audit, last date of IND-AS etc. it is questionable whether any concrete feedback has been provided or taken into consideration.

Divergent views on exclusive control over service tax assessees

Apart from above, it has been reported that the Centre & the State were in disagreement on the decision taken in the first meeting on exclusive control with the Centre on the assessment of 11 lakh service tax assessees. In this regard, the Finance Minister Arun Jaitley stated that the discussion on the said issue remained inconclusive and therefore it will continue in the next meeting.

Next GST Council meeting to be held on 18 October 2016.



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