

GST delay to impact Budget

Consensus seems a problem before the current session of Parliament ends

DILASHA SETH & INDIVJAL DHASMANA

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A delay in enforcing the proposed national goods and services tax (GST) from the target date of April 1, 2017, also the start of the next financial year, would cast a shadow on the Union Budget exercise for 2017-18.

GST is presently stuck for want of a consensus on some details of administrative jurisdiction between the Centre and states. And, the Budget proposals for the coming year would have to take into account the revenues from excise duty and service tax for the initial months and then from the new indirect tax for the later part of the year.

Business would probably be happy about a slight delay but worried if it gets put off beyond three months, say experts.

The GST Council, a body comprising the Union finance minister and state representatives, particularly finance ministers, met on Saturday. It was not able to find a solution to the issue of division of administrative control between Centre and states over assesses. It is to now meet on December 11 and 12 over the issue. By then, only three days would be left for the winter session of Parliament to be over. If GST is rolled out from April 1, 2017, then Part-B of the Budget (which, incidentally, is to be presented earlier this time, on February 1) could contain only proposals on direct taxes and Customs duty. If GST cannot be introduced from this date, Part-B of the Budget has to deal with central excise and services tax as well.

"In that case, the finance ministry might make only those changes that are in sync with GST," said M S Mani, of Deloitte Haskins & Sells.

He felt excise duty rate might be retained at the current level, while service tax could be increased from 15 per cent to 16-16.5 per cent,



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as a transition to the GST rate of 18 per cent.

Prashant Agarwal of PwC said the Budget calculations would become complicated. The government will have to extrapolate numbers for three months on service tax and excise duty, and GST for nine months. Revenues from GST will be anybody's guess at the moment, he said.

Sachin Menon, partner and head of indirect tax, KPMG India, said the chance of a consensus between Centre and states on administrative turf looks difficult before the Parliament session ends. The government will have to go ahead with the current laws on service tax and excise duty in the coming budget for at least the first quarter of the next financial year, he said.

Mani of Deloitte felt business would prefer a deferral, as they'd get time to study the rules and make adjustments. He said at least six months was needed for business to do so. If GST begins from April 1, only four months are left and even the final law is not in place, let alone the rules. He said Malaysia gave the final law and

rules 18 months before GST was to kick in.

Poddar said, "I think a slight delay of two-three months will be welcomed by industry. But, if it is further delayed, particularly beyond September 16 (this is because of a legal problem, explained a little later), there will be nervousness, as the process would be closer to elections and may be subject to a re-think."

Saloni Roy of Deloitte said Canada gave around a year for implementation preparations after the law got official assent. In Singapore, six months was given.

Agarwal said even if the GST Bills are passed in the Budget session of Parliament, rollout of GST from April 1 seemed unlikely.

"The GST Council will meet on December 11-12, but so far they have only discussed nine chapters in the central and state GSTs, of the 27 chapters. Then, there is IGST (integrated GST) and the compensation laws to be also discussed. After that, there is the rate of taxation to be discussed for (specific) goods and services which will be out of the laws. So, from that perspective, July 1 seems pragmatic,"

he said.

He said companies need six months to prepare for GST. "They need to factor in the information technology processes. The uncertainty gives them the buffer time to prepare," he added.

Legal issue

The thing is that on September 16 this year, the central government had notified the coming into force of various sections of the GST, after the Constitutional amendment permitting the tax fulfilled all the enactment requirements. And, Finance Minister Arun Jaitley has warned, if GST does not get enforced from September 16, 2017, there would be a legal vacuum, which is not permissible. "The Constitution does not permit delay in GST implementation. The government notified GST on September 16 and the constitutional amendment itself says the current indirect tax system can continue for one year, after which the GST has to come," Jaitley had said.

However, Poddar said the current taxes could be renamed as GST and this issue could be solved. Alternatively, the Constitutional amendment could itself be changed.

However, while it is technically possible to roll out GST after September 1, 2017, this would be closer to the next general election and there would be worries on it taking off, said Poddar and others.

Menon feels if GST is not rolled out by September 16, 2017, other laws will get abolished and Parliament might have to do some re-enactments.

"But, in the worst-case scenario, it seems that they will be able to roll out GST by July 1. They will have to do Budget calculations accordingly and estimate revenue based on service tax and excise duty for the first few months and GST for the remaining part of the year," he said.