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Abstract

This paper focuses on the process of introducing the Goods and Services Tax (GST), bringing out the perspectives of different stakeholders and the contentious issues. The GST was expected to subsume a variety of taxes and simplify the indirect tax regime. The Empowered Committee (EC) was mandated in 2007, to bring about consensus among the States to move towards GST. The important stakeholders in the process were the Government of India (GoI), individual States, industry and the committees commissioned by the GoI or EC. However, the EC faced challenges since there were issues of control between the Centre and States, perceived loss of revenue by some States, extent of uniformity across various commodities and their tax rates, input credit mechanism and dispute settlement. The deadline for the introduction of GST kept getting postponed due to the slow resolution of the challenging issues. Finally, it was tabled in the Parliament as the 122nd Constitutional Amendment Bill (CAB) in December 2014.

Keywords: GST, Constitutional Amendment, Indirect Tax, Federalism

Goods and Services Tax: The Introduction Process

On December 20, 2014, the Empowered Committee (EC) of the State Finance Ministers (FMs) agreed to support the 122nd Constitution Amendment Bill (CAB) if the States were adequately compensated for the loss of revenue. On December 19, 2014, the 122nd CAB was tabled in Parliament for the introduction of Goods and Services Tax (GST) that allowed a parallel levy of indirect taxes on the supply of goods or services or both by the Centre and State Governments (including Union Territories). It introduced a dual taxation system subsuming the various indirect taxes levied then (Exhibit 1). The 122nd CAB was a culmination of the sustained efforts of the EC, which had been working since its constitution on July 17, 2000 (Exhibit 2).

According to the 122nd CAB,[1] the term 'GST' was defined by introducing a clause 12A in Article 366 of the Constitution of India, to mean *"any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption."* 'Services' under the 122nd CAB means anything other than goods. 'State' with reference to articles 246A, 268, 269, 269A and article 279A includes a Union territory with the Legislature.

Thus, all the supply of goods or services or both would attract Centre level Goods and Service Tax (CGST; to be levied by the Centre) and State level Goods and Service Tax (SGST; to be levied by State) unless kept out of the purview of GST. As GST would be applicable to 'supply', the erstwhile taxable events such as 'manufacture', 'sale' and 'provision of services' would lose their relevance. GST would enable a larger tax collection base and prevent cascading of taxes[1].

The EC was formed on July 17, 2000 with FMs of seven states as its members with the objective to monitor the smooth implementation of the then proposed Value Added Tax (VAT) across the country. Later on, the reconstituted EC with FMs of all the States was registered as a society on August 17, 2004 with Asim Dasgupta (then FM, West Bengal) as its Chairman.[2]

Indirect Taxation Reforms in India

Charges levied by the State on consumption, expenditure, privilege, or right, but not on income or property are called Indirect Taxes (Exhibit 3). There was an effort to reform indirect taxes with the formation of an Indirect Taxation Enquiry Committee (ITEC) in 1976 (Annexure 1). The ITEC submitted its report in 1978. After a decade of submission of the report by ITEC, a Long Term Fiscal Policy report (Annexure I) was presented along with the Union Budget of 1985-86 under VP Singh, the then Union FM. Accepting its recommendations, a Modified Value Added Tax (MODVAT) was introduced on a few commodities on March 1, 1986. A Tax Reforms Committee with Raja J Chelliah as its Chairman was formed on August 29, 1991. The committee gave its recommendations to introduce VAT at the manufacturing level covering all

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[1] The Constitution (One Hundred and Twenty Second) Amendment Bill 2014, http://www.prsindia.org/uploads/media/Constitution%20115/SCR%20summary-%20GST.pdf, accessed on December 21, 2014

[2] http://www.empcom.gov.in/content/6_1_AboutUs.aspx, accessed on December 22, 2014

goods in December 1991. The recommendations were accepted and introduced partially by the Government of India (GoI) in the Budget of 1993-94.[3]

On November 16, 1999, it was decided by Yashwant Sinha, the then Union FM in a meeting of State Chief Ministers (CMs) to take steps for introduction of nationwide State level VAT in order to avoid the cascading effect of taxes. MODVAT was renamed as Central level Value Added Tax (CENVAT) wef April 1, 2000, which introduced new CENVAT Credit Rules. The EC formed was to supervise the implementation of VAT and to monitor the phasing out of the sales tax based incentive schemes. These Rules sought to introduce simplified CENVAT provisions and procedures for allowing credit of duty paid on specified inputs and capital goods used in or in relation to manufacture of specified final products. CENVAT Credit Rules were introduced wef March 1, 2002. The new rules contained complete provisions for taking credit of duty paid on inputs and capital goods.[4] A Task Force on Indirect Taxes, formed in July 2002 under the chairmanship of Vijay Kelkar, Adviser to Minister of Finance and Company Affairs, gave its view that "VAT is a major reform in the indirect tax system of India."[5] The EC had been working for the execution of State level VAT dealing with inside (State demands) and outside (industry, exporters and other stakeholders) pressures.

Moving towards GST

A Task Force on the implementation of Fiscal Responsibility and Budget Management Act was formed by the Central Government on February 18, 2004 under the chairmanship of Vijay Kelkar in 2003. The report submitted to the Central Government on July 16, 2004, strongly recommended the adoption of GST for the indirect taxation in India.[6]

The Kelkar Task Force report stated that India has been moving slowly but steadily towards VAT since 1986 but the system still had many problems leading to a low tax GDP ratio (Exhibit 4). Giving solution to the problems, they suggested the introduction of 'CGST'. The report said, "the tax on services should be fully integrated with the existing CENVAT on goods by a modern VAT type levy on all goods and services to be imposed by the central government (CGST)." The report also gave the features to be included in the design of CGST.[7]

The concept of GST was introduced in the Parliament for the first time on February 28, 2006 by P Chidambaram, the then Union FM in the Union Budget Speech of 2006-07. He remarked, "It is my sense that there is a large consensus that the country should move towards a national level GST that should be shared between the Centre and the States. I propose that we set April 1, 2010 as the date for introducing GST. The world over, goods and services attract the same rate of tax. That is the foundation of a GST."[8]

[3] **Sury**, M M (ed) (2006). *Taxation in India 1925 to 2007: History, Policy, Trends and Outlook*, Indian Tax foundation, New Delhi

[4] https://www.**welingkaronline**.org/DLP/FINANCE%20-%20CENVAT%20AND%20ITS%20IMPLICATIONS.pdf, accessed on January 22, 2015

[5] **Sury**, M M (ed) (2006). *Taxation in India 1925 to 2007: History, Policy, Trends and Outlook*, Indian Tax foundation, New Delhi

[6] http://www.**caaa**.in/Image/23ugsthb.pdf , accessed on January 22, 2015

[7] Report of Task Force on Implementation of **FRBM Act**, 2003 dated July 16, 2004

[8] http://indiabudget.nic.in/**ub2006-07**/bs/speecha.htm, accessed on Janurary 14, 2015

In the budget speech of 2007-08, P Chidambaram reiterated, "At my request, the EC of State FMs has agreed to work with the Central Government to prepare a roadmap for introducing a national level GST wef April 1, 2010."[9]

After the announcement made by P Chidambaram, the EC decided to set up a Joint Working Group on May 10, 2007, with Dr Parthasarthi Shome, the then Adviser to the Union FM and Satish Chandra, the Member-Secretary of EC as Co-conveners, and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the States as its members.

This Joint Working Group, after intensive internal discussions as well as interaction with experts and representatives of Chambers of Commerce and Industry, submitted its report[10] to the EC on November 19, 2007.

The objectives of this report were:

- To study the various models of GST existing globally
- To identify the possible alternative models for introduction of GST in India
- To examine their various characteristics and assess their suitability in India's fiscal federal context.
- To identify the Central Taxes and State Taxes which possess properties to be appropriately subsumed under GST
- To suggest a model for the base and rate structure of GST
- To constitute sub working groups

This report was then discussed in detail at the meeting of EC held on November 28, 2007. On the basis of this discussion and written observations of the States, certain modifications were made and a final version of the views of EC at that stage was prepared.

In his 2008 budget speech, P Chidambaram announced the reduction of Central Sales Tax (CST) from four percent to two percent. He also expressed the desire of GoI to introduce GST from April 1, 2010.

The views of the EC prepared in November was sent to the GoI on April 30, 2008. In the meantime, Manmohan Singh, the then Prime Minister (PM) took over as interim FM on November 28, 2008 from P Chidambaram. The comments of the GoI were received on December 12, 2008 and were duly considered by the EC on December 16, 2008."

However, the report was never made public. In the meantime, Parthasarthi Shome had quit his post as advisor to the FM on January 11, 2008, after being passed over for the post of Union Revenue Secretary.

A Committee of Principal Secretaries/Secretaries (Finance/Taxation) and Commissioners of Trade/Taxes of all States was set up to consider the comments of GoI and work out CGST and SGST rates. They had detailed deliberations on January 5 and 6, 2009 and submitted their recommendations to the EC. These were accepted by the EC on January 21, 2009.

On the same day, the EC also decided to constitute a Working Group consisting of Principal Secretaries/Secretaries (Finance/Taxation), Commissioners of Trade/Taxes of all States and

[9] Ibid.

[10] http://tinxsys.com/TinxsysInternetWeb/GSTJointWorkingGroup.pdf, accessed on January 22, 2015

senior representatives of GoI to give their recommendations concerning three issues. They were related to (i) commodities and services on the exempted list, (ii) rules and principles in taxing services and (iii) finalising the model of interstate stock transfers of goods and services.

Pranab Mukherjee took over as Union FM from Manmohan Singh on January 24, 2009. The Working Group met on February 10, 2009 and formed three sub working groups to study the three issues.

Structure of GST

The Working Group submitted their detailed recommendations on the three issues which provided a structure of GST. They submitted their report on November 11, 2009. The report favoured a dual GST system. The dual system implied that tax was to be levied concurrently, both at the Centre and at the State level called CGST and SGST respectively.

In the meantime, Sukumar Mukhopadhyay, former member of the Central Board of Excise and Customs (CBEC) called the dual GST system as the best solution for a country like India in June 2009. A single GST system was also not agreed upon by the States, fearing revenue loss because a single system of tax would be levied by GoI alone.

On June 29, 2009, Govinda Rao, then a member of Union FM's Economic Council had urged PM Manmohan Singh to delay the implementation of new tax rules till the Centre and the States reached a consensus. The FM of Tamil Nadu, K Anbazhagan had also shared the same viewpoint.

The new Union FM Pranab Mukherjee, while presenting the Budget on July 6, 2009 reiterated that GST would come into effect from April 1, 2010.

A FICCI-Technopak report on Fast Moving Consumer Goods (FMCGs) was released in July 2009. This report suggested that the GoI needed to rapidly implement GST to replace the multiple indirect taxes currently levied on FMCGs. This would lead to reduced prices and increased tax collections.

In September 2009, the States reached a consensus on a two rate system as suggested by Asim Dasgupta. This system implied a concessional rate for essential items and a standard rate for other goods. The two rate system proposed by the states also had a special GST for precious metals and a list of exempted items. In the same month, Asim Dasgupta also announced that a Joint Working Group would be formed to decide the framework of the dual tax system and issues relating to special rates. The committee was mandated to submit its report in two months time. Chattisgarh, Haryana, Tamil Nadu, Rajasthan and Madhya Pradesh expressed their reservations on the introduction of GST.

On October 17, 2009, Sushil K Modi, then Deputy CM of Bihar demanded adequate compensation from the Centre. In his view, Bihar would lose Rs 600 cr since entry tax would get merged with GST and another Rs 260 cr as service tax from the Centre would be subsumed under GST. At that time, entry tax was imposed by the States and service tax was levied by the Centre and distributed to the States. Following this, on October 26, 2009, Rajnath Singh, President of BJP, opposed the GST regime stating that the trader organizations should also be considered before bringing forward any new laws.

Saurabh Patel, the then Minister of State for Finance and Industry, Gujarat, asked the Central Government on November 2, 2009 for the protection of industries under GST administration. He also wanted an open debate on GST and the list of exempted items.

First Discussion Paper

A First Discussion Paper (FDP) was released by the EC inviting interactions with industry, trade, agriculture and common people on November 10, 2009. The FDP gave details of the structure of the GST model to be introduced in India and an Annexure on frequently asked questions and answers on GST. [11] This document also gave justification for adopting GST, stating that it would improve the existing VAT. It also described the process of preparation of GST and a comprehensive structure of the GST model.

Due to the ongoing talks related to shifting towards GST at that time, the States started asking the Central Government for compensations up to five years in order to overcome the revenue losses. It was feared that since some States were not big consumers of services, they would lose revenue. Also, having a single rate all over would remove the autonomy that the States had earlier to fix State tax rates.

On December 12, 2009, Asim Dasgupta announced that GST would have four slabs: a standard rate for the majority of goods and services, a moderate rate for essential items, 1 percent rate for precious metals and exempted items.

A Task Force on GST formed by the Thirteenth Finance Commission (FC) gave its report on December 15, 2009. This report said, "the discussions on the introduction of a comprehensive dual GST, both at the Centre and State level, have been in progress since early 2006. It is unfortunate that no agreement on the GST has yet been reached even though the target date for its introduction ie, 1st April, 2010, is less than six months." It also suggested pushing the date of implementation of GST to October 1, 2010.[12] The Task Force on GST was formed by the Thirteenth FC in June 2008, with Arbind Modi, the then Joint Secretary, Department of Revenue as its Chairman.

National Council of Applied Economic Research (NCAER) was asked by the Thirteenth FC to prepare a report on the impact of GST on India's growth and international trade. The study was done with Rajesh Chadha, Senior Fellow at NCAER as project leader. It was submitted in December 2009.

Soon after that, on December 20, 2009, the PM's Economic Advisory Council Chairman, C Rangarajan said that he favoured a single slab each for goods and services or one common rate for both, unlike the proposal mooted by the States. This was followed by the reports of the EC stating that while the 13th Financial Commission had recognised a single GST of 12 per cent, it had decided to adopt a two rate structure.

A discussion of FMs of BJP ruled states on January 7, 2010 revealed their preference for introducing GST in April 2011. The main concern raised at this meeting was that the GST rates were not yet confirmed. The states also feared revenue loss and low compensation packages. On January 13, 2010, Pranab Mukherjee met the state FMs as a pre budget exercise, to discuss the issues of GST rates, compensation packages and modalities of implementation of GST. It was

[11] **First Discussion Paper** on GST released on November 10, 2009, accessed on December 20, 2014

[12] Report of **Task Force on Goods & Services Tax**, accessed on December 19, 2014

confirmed at this meeting that the implementation of GST would be pushed to April 2011 as it would take seven to eight months to pass the Constitutional amendments necessary to introduce the GST bill.

On January 22, 2010 FC briefed the FM on its recommendations on sharing tax receipts between the GoI and the states. This had a significant bearing on GST. It was proposed that the CST would be subsumed in GST leading to a revenue loss to the states concerned.[13]

In the budget speech delivered on February 27, 2010 the FM revealed the GoI's intention to implement GST from April 2011. He also called for a Technology Advisory Group for Unique Project (TAGUP) "for an effective tax administration and financial governance system through the creation of IT projects that are secure and efficient" (Exhibit 5).

On May 22, 2010, the GoI decided to introduce Direct Tax Code (DTC) to replace the Income Tax Act, 1961 (Exhibit 6).

On June 8, 2010, the FM set up a seven member committee as TAGUP,[14] headed by Nandan Nilekani to recommend technical, regulatory and legal changes required to implement five projects including GST. TAGUP was asked to submit its recommendations in a report within six months to the FM.

In order to evolve a consensus with States on a single rate structure for GST, the FM met with EC on July 21, 2010. He proposed a three tier tax structure in which a combined rate of 20%, 12% and 16% were to be charged respectively for goods, essential items and services. Out of these rates, the States would receive rates of 10%, 6 % and 8 % respectively. Central indirect taxes like excise duty and service tax, and state indirect taxes like VAT and octroi would be subsumed in GST. The FM also considered stepping up the compensation package of the states above the rates prescribed by the Thirteenth FC.

In the National Development Council (NDC) meet on July 25, 2010, the State CMs expressed their reservations on the implementation of GST on account of lower compensation package and loss of revenue of the states. The Gujarat CM Narendra Modi suggested that adequate IT infrastructure should be in place before the implementation of GST. The Punjab CM Prakash Singh Badal took strong objection to the absorption of purchase tax on agricultural crops under the GST stating that states would lose revenue on a continuous basis.

Towards Constitutional Amendment

On August 4, 2010 the State CMs met for scrutinizing the CAB drafted by the Centre in order to introduce the GST. To pass the bill with two thirds majority, 362 members of Lok Sabha and 161 members of the Rajya Sabha had to give assent to the draft bill (Exhibit 7).

The States rejected the draft bill based on two reasons.[15] The draft bill provided for a GST Council consisting of State FMs, the Union FM, and the Union Minister of State (MoS) for Revenue to make recommendations with respect to GST. In matters where a consensus could not be reached, the Union FM had a veto over the State FMs. The States opposed this provision.

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[13] CST is the tax that the GoI levies on goods that pass among states and distributes it to the states.
[14] http://www.thehindu.com/news/national/**finance-ministry**-sets-up-technology-advisory-group/article449063.ece, accessed on January 31,2015
[15] http://www.thehindu.com/**todays-pape**r/tp-national/states-reject-gst-draft-bill-over-centres-veto-powers/article552468.ece, accessed on February 2, 2015

The draft bill also empowered Parliament to establish a GST Dispute Settlement Authority (GDSA), an executive body. This Authority would adjudicate disputes referred to it by a State or GoI and the final appeal lay with the Supreme Court of India (SC). The States viewed this provision as interference of the executive and the judiciary in legislative provenance.

After this meeting, the EC asked for a Second Discussion Paper. This move made it clear that the draft bill could not be introduced in the monsoon session of the Parliament.

On August 9, 2010, GoI discussed the draft bill with BJP, the main opposition party. Following this, on August 16, 2010, Pranab Mukherjee gave the BJP a revised draft bill removing the veto power of the Union FM. The BJP convened a meeting of eight FMs of the NDA ruled states (Karnataka, Madhya Pradesh, Gujarat, Chhattisgarh, Himachal Pradesh, Uttarakhand, Bihar and Punjab) to build consensus over the draft bill.

At the meeting convened on August 18, 2010, no consensus was reached. The States decided to individually present their views to the EC.

On August 31, 2010, Revenue Secretary Sunil Mitra announced that DTC would come into effect from April 1, 2012. This would bring down the revenue for the Centre by Rs 53,172 cr. He mentioned that this loss could be made up for, only with the simultaneous introduction of GST. On September 13, 2010, the DTC bill was introduced in the Parliament.

On October 31, 2010, the Finance Ministry clarified that the demand of EC for altering the basic structure of the GST including removing GST Council and GDSA was not acceptable. NDA ruled States and Uttar Pradesh (UP) continued their opposition.

On February 5, 2011, Nandan Nilekani submitted the TAGUP report to the FM.[16] TAGUP was asked to make detailed recommendations regarding the technological architecture of five IT intensive projects including GST. It was also asked to address and make recommendations regarding human resources to co-ordinate projects among GoI, State and local governments and between government and other organisations. The key recommendations of TAGUP were (i) setting up National Information Utilities (NIU) to handle IT systems for five projects, including GST and (ii) putting in place a Mission Execution Team with a dedicated mission leader to coordinate projects between governments and other organisations.

On February 13, 2011, Pranab Mukherjee decided to call for a meeting with State FMs during the recess[17] of the budget. The purpose of this meet was to build a consensus over the third version[18] of the draft GST bill that was presented on January 28, 2011. The FM clarified that GoI wanted to introduce the GST bill in the second half of the budget session, that was to take place between April 4 and April 21, 2011. The third draft empowered the Parliament to set up a GST council. The earlier drafts had endorsed the setting up of the GST council by a Presidential order.

[16] http://www.thehindu.com/news/national/**nilekani**-submits-tagup-report-to-pranab/article1156635.ece, accessed on February 4, 2015

[17] Recess of the budget is a month long interval between the first half of the budget session in which the budget is presented and the second half. Recess is used by PSCs to analyse ministry wise provisions given in the budget.

[18] The first version of the draft bill was made by GoI in July 21, 2010. The second version on August 11, 2010, immediately followed the opposition of State CMs, in which the veto of the FM in GST Council was removed.

On February 28, 2011, in his budget speech, Pranab Mukherjee announced that DTC would be implemented from April 1, 2012. He expressed the desire of GoI to simultaneously implement GST on the same day.

On March 22, 2011, Finance Bill 2011 was passed by the Lok Sabha (LS). In this bill, it was revealed that National Securities Depository Ltd would be the technical partner for operating the IT structure of the proposed GST.[19] On the same day, the 115th CAB, popularly called the GST bill, was tabled in the Parliament by Pranab Mukherjee.[20] On March 29, 2011, the bill was referred to the Parliamentary Standing Committee (PSC) on Finance, headed by Yashwant Sinha, to make a detailed examination (Exhibit 9).

On May 13, 2011, Asim Dasgupta lost assembly elections in West Bengal and stepped down as the Chairman of the EC.

In response to a public notice inviting views on the 115th CAB issued by the PSC, FICCI submitted its response through a letter dated June 24, 2011.[21] In its response, FICCI recommended (i) the speedy implementation of IGST in lieu of CST, (ii) uniform rate of GST on both goods and services, (iii) simple tax structure with minimal tax rates, (iv) uniform threshold limit for goods and services both at the Central and State level and (v) a unified appellate and adjudication authority for dispute settlement.

The PSC had two detailed sittings with the EC[22] on June 8 and June 27, 2011, in which concerns raised by the States regarding the 115th CAB were discussed.

At the EC meeting on July 18, 2011, Sushil K Modi was unanimously elected as the new chairman.[23] The EC also decided to meet in mid August to discuss the compensation package to be given to the States, due to the phasing out of the CST.

On August 4, 2011, Pranab Mukherjee met with Sushil K Modi to discuss how the EC would deliberate on the issues related to GST. On the same day, Nandan Nilekani had a meeting with Pranab Mukherjee on introducing a centralised IT infrastructure for GST.

The EC met on August 19, 2011, to discuss the IT infrastructure for GST, the compensation package in lieu of CST and the 115th CAB. Due to further delay in implementing GST, the States concurred to extend the CST compensation package to the year 2010. In this meeting, the States also raised their concerns about the loss of their fiscal autonomy and the powers of GDSA. They wanted the GoI to empower them to levy a cess in case of natural calamity.

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[19] http://www.jsalaw.com/Admin/uplodedfiles/PublicationFiles/Budget%20news%20letter.pdf, accessed on February 4, 2015

[20] This refers to the third draft of the 115th Constitutional Amendment Bill.

[21] http://www.ficci.com/spdocument/20238/Towards-the-GST-Approach-Paper-Apri-2013.pdf, accessed on February 5, 2015

[22] The first meeting was attended by Asim Dasgupta to represent the views of the EC during his chairmanship. The second meet was attended by Sushil K Modi, representing the concerns to be considered by EC in the coming months.

[23] http://www.thehindu.com/news/states-to-look-for-new-chief-to-steer-gst/article2016033.ece, accessed on February 5, 2015

Compensation for the States

In response to the outcome of the EC meet, GoI asked the States to file for CST compensation for the previous financial year of 2010-11.

In the next meet of the EC on October 14, 2011, three issues were discussed. The first issue was about the unresolved taxation concerns of GoI and the States with respect to VAT. The States mulled over the possibility of additional excise duty on textiles, tobacco and sugar. They also considered imposing VAT on textiles and sugar. The States discussed their views on online payment of taxes. The EC decided to come out with a report on its experience of its 'GST Team' that recently visited Europe to study GST issues.

On January 10, 2012, the EC made four recommendations. The EC asked GoI (i) to remove the upper limit of professional tax,[24] (ii) to end 'centrally sponsored schemes' and to provide funds directly to the States according to their needs and with suitable guidelines, (iii) to transfer health and education funds to the Consolidated Fund of the States instead of districts, and (iv) to empower the States to impose VAT on imports.

In the pre budget discussion with State FMs on January 19, 2012, Pranab Mukherjee assured the States on their concerns raised during the previous EC meeting. He also discussed the issue of improved and inclusive growth as the country was about to enter the 12th Five Year Plan (FYP).

Pranab Mukherjee presented the Union budget on March 16, 2012. In his budget speech, he alluded to the model legislation for the Centre and the States for CGST and SGST that was under progress. Referring to the structure of GST Network (GSTN) approved by the EC, he said that GSTN would be set up as a National Information Utility (NIU) by August 2012.[25]

On March 4, 2012, the EC asked for an adequate compensation package in lieu of CST. They put out a negative list of 35 services to be kept out of the GST. It was decided that implementation of GST would be postponed to April 1, 2013. On March 5, 2012, Pranab Mukherjee constituted a PSC to look into the litigation of indirect taxes.

Subir Gokarn, the Deputy Governor of the Reserve Bank of India addressed the Confederation of Indian Industries (CII) annual meet on March 30, 2012.[26] In his address, he conjectured that the proposed GST would create space for the interest rate to come down and contribute to growth. He also said that GST would bring down inflation.

On March 30, 2012, the GoI set up a study team headed by MK Gupta, Vice Chairman of the Central Excise and Customs Settlement Commission.[27] The mandate of the study team was (i) to evolve a common tax code, (ii) to look into the proposal to subsume service tax and Central

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[24] Professional Tax could be levied by the States under article 176 of the Constitution. Based on a 1988 amendment, the upper cap was set at Rs 2500. The States wanted this cap removed since professional remuneration had increased substantially in the intervening years.

[25] The GSTN was a proposed system through which GST returns filing and payments processing for all States was based on a shared platform through registered PAN network.

[26] http://www.thehindu.com/business/Economy/**gst-will-help**-contain-inflation/article3263158.ece, accessed on February 6, 2015

[27] http://www.thehindu.com/business/Economy/**centre**-sets-up-study-team-to-evolve-common-tax-code/article3297428.ece, accessed on February 6, 2015

excise duty under the GST, (iii) to simplify the input tax credit system and (iv) to make the procedure of GST trade friendly. The study team was asked to weigh in the inputs from various segments of the industry and submit a report to the FM by September 30, 2012.

In the second consultative meeting of the committee attached to his ministry, Pranab Mukherjee outlined the benefits of the proposed GST to the Centre, State and the consumer, on May 23, 2012. He mentioned that the GST would (i) remove cascading effect of the indirect taxes at the Centre, (ii) encourage the States to realise tax commensurate with consumption and (iii) make the tax regime, transparent to the consumer and reduce the tax burden by 25-30 per cent.

On June 26, 2012, Pranab Mukherjee stepped down as Union FM, in order to file his nominations as the Presidential candidate.[28] PM Manmohan Singh assumed role of the interim Union FM.

On July 1, 2012, the new service tax regime came into force.[29] This was based on a uniform rate of 12 per cent and a negative list of 28 activities.

Commerce and Industries Minister Anand Sharma in an interaction with the industry on July 15, 2012, mentioned that GST would attract investment. On July 31, 2012, P Chidambaram took over as the Union FM.

On October 25, 2012, the EC met with P Chidambaram to discuss their concerns regarding the GST. The EC argued for (i) restoration of CST pending further compensation after 2010-11 and (ii) petroleum products to be kept in the exempted list. The talk ended in an impasse.

On January 2, 2013, the Fourteenth FC was constituted by Pranab Mukherjee under the chairmanship of Y V Reddy.[30] The FC was mandated to recommend fiscal policy reforms for the period 2015-16 to 2020-21.

On January 25, 2013, the Ministry of Petroleum and Natural Resources asked the Union FM to bring crude oil, petrol, diesel, Air Turbine Fuel (ATF) and natural gas under the GST. The 13th FC had also recommended the same and had stated that the States could levy additional excise tax on these items over the GST. But the FDP and PSC report had specified petroleum products in the exempted list.

In his budget speech of 2013-14,[31] P Chidambaram announced that (i) the first instalment of the CST compensation package for the States of Rs 9000 cr would be immediately released and (ii) the DTC would be introduced in the second half of the budget session. He also called for the speedy implementation of the GST.

In an interaction with ASSOCHAM on March 22, 2013,[32] Parthasarathi Shome, Advisor to the Union FM, mentioned that the EC was examining the structural and administrative reforms

[28] http://www.thehindu.com/news/national/**pranab**-takes-leave-pm-sees-void/article3569281.ece, accessed on February 6, 2015

[29] http://www.thehindu.com/business/Economy/**new-service**-tax-regime-comes-into-effect-from-sunday/article3589492.ece, accessed on February 7, 2015

[30] http://finmin.nic.in/**14fincomm**/14fcrengVol1.pdf, February 28, 2015

[31] http://indiabudget.nic.in/**budget2012-2013**/ub2012-13/bs/bs.pdf, accessed on February 8, 2015

[32] http://www.thehindu.com/business/Industry/**gst-has-a-**good-probability-in-tax-horizon-parthasarathi-shome/article4535047.ece, accessed on February 11, 2015

required for the introduction of GST. He also said that GST could not be implemented unless there was a seamless distribution of input credits, facilitating interstate trade and getting refunds from one State to another.

At the meet on May 10, 2013, the EC decided that there would be no dichotomy between the exemption list of the Centre and the States. The EC approved 12 out of 96 items in the State exemption list and asked the Centre to prune their list of 243 items. The EC also asked for increasing the threshold of exemption of dual GST of small traders from Rs 25 lakhs to Rs 1.5 cr. The EC also asked for compensation for the States for five years from 2009-10, after the phasing out of CST.

On May 28, 2013, the PM in an interaction with Japanese and Indian businessmen, expressed the hope that GST would be implemented after the 2014 general elections.

On July 17, 2013, Sushil K Modi resigned as EC chairman following the split of Janata Dal (U) and the BJP in Bihar. On July 22, 2013, Abdul Rahim Rather was elected the third chairman of the EC.[33]

In an interaction with the PSC on August 9, 2013,[34] the 13th FC Chairman Vijay Kelkar mentioned that after the implementation of the GST, (i) agricultural prices would increase by 0.61-1.18 per cent, (ii) manufacturing foods would be available at a reduced price of 1.22-2.53 per cent (iii) about 20 million high end jobs were expected to emerge in the economy and that (iv) inflation would come down[35].

On August 7, 2013, the PSC tabled its 73rd report in the Parliament.[36] The main recommendations of the report were that GST could be implemented only after (i) studying its impact on State revenues and (ii) delineating the compensation for the States. The PSC report also recommended Modified Bank Model of GST (Exhibit 8) as suggested by the 13th FC than the IGST suggested by the FDP.

The Finance Ministry set up the Tax Administration Reform Commission (TARC) on October 22, 2013. The mandate of the committee was to (i) prevent economic offenses, (ii) review existing mechanism of dispute resolution, (iii) devise methods to widen the tax base, (iv) strengthen inter agency information sharing and (v) propose methods to increase voluntary tax compliance.

Exemption List of Goods

At the EC meet on November 23, 2013, the States rejected the GoI's proposal to include alcohol and petroleum in the GST and the power to notify declared goods.[37] The States also argued for

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[33] http://www.thehindu.com/news/national/**gst-will-be-in-place**-by-2014/article4758993.ece, accessed on February 12, 2015

[34] http://www.thehindu.com/business/Industry/**agricultural**-commodity-prices-to-rise-post-gst-kelkar/article5007105.ece, accessed on February 12, 2015

[35] The figures given were based on a study commissioned by the FC to study implication of GST on the economy. Refer **Task Force on Goods & Services Tax** (2009), pp.92-94

[36] http://www.**prsindia.**org/uploads/media/Constitution%20115/SCR%20summary-%20GST.pdf , accessed on February 12, 2015

[37] Article 286(3)(a) of Constitution of India authorises Parliament to declare some goods as of 'special importance' and to impose restrictions and conditions in regard to power of States in regard to levy, rates and other incidence of tax on such goods.

an independent mechanism to compensate the States for their loss of revenue. The States wanted special status for Jammu & Kashmir.

On December 19, 2013, Indian Council of Research on International Economic Relation (ICRIER) report[38] on food processing industry in India mentioned the impact of GST on non alcoholic beverages. The report suggested that GST should treat food and non alcoholic beverages with uniform low tax. It also mentioned that fiscal and regulatory barriers should be removed to facilitate interstate movement of goods.

On February 3, 2014, P Chidambaram confessed that GST was unlikely to be passed in the interim budget session. In his interim budget speech of February 17, 2014, he identified GST as a key to augmenting State revenue and moving towards a modern tax regime.

The Indian National Congress (INC) released its election manifesto on March 27, 2014 in which it promised to pass the GST bill within a year, if voted to power.[39] Aam Aadmi Party (AAP) put forth the idea of a tax system of 'simplicity, transparency and certainty' without explicitly mentioning GST in the election manifesto released on April 4, 2015.[40] In its election manifesto released on April 7, 2014, BJP mentioned that 'simplifying and rationalising tax policy' was a priority. The BJP promised to bring on board all the States for the implementation of GST and address their concerns.[41].

On May 26, 2014, Arun Jaitley became the Union FM following the general elections.[42] He met the EC on June 10, 2014 where he emphasised that GST was a key policy of the new GoI to facilitate economic revival.

At the EC meet on July 3, 2014, Andhra Pradesh FM Yanamala Ramakrishnudu brought up three concerns of the States. They were (i) the non receipt of CST compensation from the Centre since 2009-10, (ii) petroleum products, food, alcohol and tobacco to be kept out of the purview of GST and (iii) clarity on the roles of GDSA and FC.

In his pre budget meet with the EC on July 6, 2014, Arun Jaitley discussed four issues. They were (i) introduction of the 122nd CAB, (ii) release of the CST compensation package, (iii) proposal to merge service tax and Central excise duty into GST and (iv) effective Revenue Neutral Rate (RNR).[43] On the same day, Microsoft, National Association for Software and Services Companies (NASSCOM) and Blackberry asked for clarity on GST and tax on software licenses.

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38 http://www.thehindu.com/business/Industry/gst-will-benefit-food-processing-industry-pawar/article5478407.ece, accessed on February 12, 2015

39 http://www.thehinducentre.com/multimedia/archive/01816/Indian_National_Co_1816826a.pdf, accessed on February 17, 2015

40 http://www.aamaadmiparty.org/aap-manifesto-2014, accessed on February 17, 2015

41 http://www.bjp.org/images/pdf_2014/full_manifesto_english_07.04.2014.pdf, accessed on February 17, 2015

42 http://www.thehindu.com/news/national/gst-govt-wants-quick-consensus/article6098433.ece, accessed on February 13, 2015

43 RNR is a taxing procedure in which the taxing authority receives the same tax amount after changing the tax rates. This is done by off setting lower tax incomes from one group with higher tax income from another

In his Union budget speech on July 10, 2014, Arun Jaitley called for the speedy implementation of the GST.[44]

In a letter to the Union FM on August 6, 2014, the Madhya Pradesh CM Shivraj Singh Chauhan raised four concerns.[45] He said that the 122nd CAB was a departure from the division of power between the Centre and the States as envisaged in the Constitution. He also said that timely compensation of CST was a concern. He asked the GoI to operationalize Article 268 A that has been inactive for the past ten years. He also hoped that the GST Council was a recommendatory body.

On November 17, 2014, the GoI agreed to include compensation to the States in the 122nd CAB. Arun Jaitley floated a draft Cabinet note on the 122nd CAB for inter ministerial consideration.[46] It was decided that further discussion was required to determine (i) RNR for GST and (ii) threshold limit for imposing GST on small traders.

On December 1, 2014, the Finance Ministry came out with a roadmap for GST implementation.[47] It was decided that the 122nd CAB would be tabled in the winter session of the Parliament. The operationalization of the GST was decided to be from April 1, 2016.

The 14th FC was commissioned to look into indirect taxation issues. The subcommittees attached to the Finance Ministry looked into the RNR and suggested a rate of 27 per cent.

At the EC meet on December 11, 2014, the States rejected the 122nd CAB. The States welcomed the GoI's announcement to release the CST compensation of Rs 11,000 cr and asked the compensation clause to be included in the 122nd CAB. They also argued for petroleum products, stamp duties and alcohol to be kept on the exemption list.

On December 13, 2014, Arun Jaitley met with the EC to resolve the contentious issues. Maharashtra FM asked the service tax coming from Mumbai to be kept out of GST. Gujarat had apprehensions about the compensation package. The meet ended inconclusively.

On December 15, 2014, the Fourteenth FC submitted its report to the President on its recommendations on various issues including GST.

In a meet with EC again on December 17, 2014, to resolve the impasse, the following proposals were put forth by Arun Jaitley. On the compensation package, GoI agreed to pay compensation to the States for five years beginning from 2009-10. This payment was to be made in three phases. On keeping the petroleum products out of GST, GoI rejected the States' demand and decided to keep it within GST with 'nil' rate. GoI also agreed to keep alcohol out of GST.

On December 18, 2014, the Union Cabinet gave its approval to the 122nd CAB on GST.[48] The bill envisaged (i) all indirect taxes to be subsumed under the GST, (ii) all petroleum products and

[44] http://indiabudget.nic.in/FM_Speech_Delhi_Budget_2014_2015.pdf , accessed on February 14, 2015

[45] http://www.thehindu.com/news/national/madhya-pradesh-chief-minister-shivraj-singh-chouhan-fires-salvo-on-gst/article6285079.ece, accessed on February 14, 2015

[46] http://www.thehindu.com/news/national/jaitley-mulling-to-introduce-gst-bill-in-winter-session/article6651331.ece, accessed on February 13, 2015

[47] http://www.thehindu.com/business/Economy/gst-compensation-to-be-included-in-constitutional-bill/article6608322.ece, accessed on December 13, 2015

real estate transactions to be brought under the GST and (iii) the compensation clause for CST for the first five transitional years to be included in the draft bill.

On December 19, 2014, Arun Jaitley told the Rajya Sabha that the 122nd CAB would be taken up in the next session of the Parliament. On December 20, 2014, the EC raised concern that the draft bill was not discussed by the States before the Cabinet cleared the bill (Exhibit 9). The EC agreed to extend its support if the States were adequately compensated.

[48] http://www.thehindu.com/business/Industry/**cabinet**-nod-for-amended-bill/article6701784.ece, accessed on February 13, 2015

Exhibit 1

The Evolving Tax Structure towards GST

Table 1
Tax before VAT

Levied by	Type	Name
Centre	Direct	• Personal Income • Corporate Income • Capital Gains • Fringe Benefit • Securities Transaction • Banking Cash Transaction
	Indirect	• Service • Customs Duty • Additional Customs • Basic Excise • Special Excise • Additional Excise • National Calamity Contingent Duty • CST • Education Cess • Surcharge
State	Direct	• Estate • Gift • Inheritance • Payroll • Self Employment • Wealth • Endowment
	Indirect	• Flat Rate Fuel • Entertainment • Lottery, Betting, Gambling • Entry • Transfer • Usage • General Sales • Additional Surcharge • Turnover
Local Government		• Octroi or Entry Tax'[49] • Utilities (electricity, water and drainage) • Property

[49] http://business.mapsofindia.com/india-tax/system.html, accessed on February 15, 2015

Table 2
Taxes Subsumed under VAT and GST

VAT	
(CENVAT)[50] (Subsume the Following of the Central Tax)	**(State VAT)[51] (Subsume the Following of the State Tax)**
Basic Excise Special Excise Additional Excise National Calamity Contingent Duty Education Cess	Usage General Sales Additional Surcharge Turnover

GST
CENVAT State VAT Service CST Entertainment Lottery, Betting, Gambling Entry (State) Octroi Utilities Surcharge

Source: **ctax**.kar.nic.in/what_vat/About%20vat%20nnew.pdf, accessed on February 16, 2015

[50] https://www.**welingkaronline**.org/DLP/FINANCE%20-%20CENVAT%20AND%20ITS%20IMPLICATIONS.pdf, accessed on February 17, 2005
[51] http://www.**archive**.india.gov.in/citizen/taxes.php?id=5, accessed on February 17, 2015

Exhibit 2

EC Mandate and Constitution

Mandate of the EC

The objective of the EC when it was formed was (i) to monitor the implementation of uniform floor rates of sales tax in the States and UTs, (ii) to monitor the sales tax based incentive schemes in the States, (iii) to decide the milestones and methods of States to switch over to VAT and (iv) to monitor the reforms in Central Sales Tax (CST). [52]

In the year 2007-08, the mandate of the EC was expanded. In addition to the above objectives, the EC was mandated 'to work with the Central government to prepare a roadmap for introducing GST in country wef April 1, 2010, and to deal with all related matters'.[53]

Constitution of the EC

The EC was formed on July 7, 2000, by the GoI. The founding members of the EC were the nine State FMs of West Bengal, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Uttar Pradesh, Delhi, Gujarat and Meghalaya. On August 12, 2004, the EC was reconstituted with the State FMs or Taxation Ministers of all the States and Union Territories (UT) as its members. On August 17, 2004, it was decided that EC would be registered as a Society under the Societies Registration Act (XXI of 1860).[54] Two additional members of the bureaucracy, Additional Secretary (Revenue), GoI and Member Secretary, EC, were then added to the EC.

On December 12, 2006, further reconstitution of the EC was considered at the annual general meeting. As per the bye laws of the Society, three resolutions were adopted. The first resolution was that the existing structure of the EC with all the State FMs, Additional Secretary (Revenue) and Member Secretary was reconstituted for a period of three years from 2006. It was also decided that if the CM of a State or UT who is also the FM of the State, could nominate another member who is a minister or a political representative in the rank of a minister, to the EC. This nominated member may be from any political party. The third resolution was to implement the first two resolutions by changing the Rules of the EC. The Member Secretary was empowered to make changes to the Rules.

[52] http://www.empcom.gov.in/WriteReadData/UserFiles/file/Annual%20Report/Annual_Report_2007_2008_en.pdf, accessed on February 9, 2015
[53] Ibid., pp.23
[54] http://www.empcom.gov.in/WriteReadData/UserFiles/file/Annual%20Report/Aunual%20Report%202006-2007_Eng.pdf, accessed on February 9, 2015

The EC Secretariat

The EC Secretariat had the Member Secretary, EC as the highest ranking official. The Member Secretary was to be a retired senior level bureaucrat. There was also an Advisor to EC, who was a former bureaucrat. Officer on special duty was usually selected from the senior level bureaucracy in the sales tax department of any member State. There were also two officers in the role of a Senior Administrative Officer and Principal Private Secretary in the Secretariat. In addition, there was a part time finance and an assistant finance officer. All the officers were designated as members on an annual basis and their tenure extension was considered at the annual meeting of the EC.

Consultative Committee

On December 6, 2004, a consultative committee was formed for discussing issues at the national and State level, related to the implementation of VAT. Apart from the Chairman and member secretary of the EC, the committee had representatives from the Confederation of Indian Industries (CII), Federation of Indian Chambers of Commerce and Industry (FICCI), The Associated Chambers of Commerce of India (ASSOCHAM), Conferederation of All India Traders, Federation of All India Trader's Association and Bharatiya Udyog Vyapar Mandal (BUVM).

Exhibit 3

Taxation Structure in India before VAT

Taxes in India are classified as Direct and Indirect taxes. A tax that is paid directly by an individual or organization to the imposing entity is called a direct tax.[55] Direct taxes are those in which the impact and incidence of tax are on the same agent. A tax that is shifted from one agent to the other till the last agent incurs the tax burden is an indirect tax. Indirect taxes are those in which the impact and incidence of the tax are on different agents.

Before the introduction of VAT on April 1, 2005, tax collection in India was divided between the Central, State and Local governments.

Schedule VII of the Constitution states the tax structure in India that was divided between the three tiers of government.

Table 1
Direct Tax

Levied by	Name
Centre	• Income other than agricultural income • Corporate
State	• Land Revenue • Agricultural income • Land and buildings • Capital value of an asset except agricultural land • Succession and estate duties on agricultural lands • Vehicles, animals and boats • Profession, trade, calling and employment
Centre and Appropriated by the States	• Estate and succession duties other than on agricultural land

Source: http://nacen.gov.in/inspire/uploads/downloads/53ce2a715edb1.pdf, accessed on February 16, 2015

[55] http://www.investopedia.com/terms/d/directtax.asp, accessed on February 15, 2015

Table 2
Indirect Tax

Levied by	Name
Centre	• Customs Duty • Sale or purchase of goods in interstate trade
State	• Sale and purchase of goods, except newspapers • Excise on alcohol and narcotics • Entry of goods into a local area • Consumption and sale of electricity • Mineral rights (subject to limitations imposed by the Parliament) • Stamp duty except on financial documents • Goods and passengers carried by inland waterways
Levied by the Centre, Collected and Appropriated by the States	• Excise Duty except on alcohol and narcotics not contained in medical or toilet preparation • Rates of stamp duties on financial documents
Levied and Collected by the Centre, Appropriated by the States	• Railway freight and fares • Goods or passengers carried by rail or air • Tax other than stamp duties on transactions in stock exchanges and futures markets • Sale and purchase of newspaper or advertisements therein

Source: http://nacen.gov.in/inspire/uploads/downloads/53ce2a715edb1.pdf, accessed on February 16, 2015

Exhibit 4

Tax to GDP Ratio and Indirect Taxes

The ratio of total government tax collection to a country's Gross domestic Product (GDP) is called the tax to GDP ratio.[56] Tax to GDP ratio over the years indicates, how much tax collection as a percentage of GDP has gone up, for a given country. When tax collected grows slower than the GDP, the ratio drops.

Trends in Tax to GDP Ratio since 1971

As per estimates, for a developing country, tax to GDP ratio must be in the ratio of 18 per cent, in order to ensure economic growth. For a developed country, the ratio is in the range of 70 per cent. At 16.49 per cent, India had one of the lowest tax to GDP ratio and third lowest tax base among the G20 countries in 2013. The tax to GDP ratio for direct and indirect taxes stood at 5.97 and 10.52 respectively.

Table 1
Tax to GDP Ratio from 1950-51 to 2013-14

Tax	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2005-06	2010-11	2013-14
Direct Tax to GDP Ratio	2.22	2.24	2.12	2.18	2.09	3.31	4.54	5.78	5.97
Indirect Tax to GDP Ratio	3.81	4.86	7.04	9.22	11.09	9.23	9.98	9.35	10.52
Total Tax to GDP Ratio	6.03	7.10	9.16	11.40	13.18	12.54	15.52	15.13	16.49

Source: Public Finance Statistics 2013-14[57]

India's tax to GDP ratio can be analysed before and after the 1991 comprehensive tax reforms. Till 1980s, we an observe a steady increase in Tax to GDP ratios due to two important reasons. There was a steady growth rate of the economy and quantitative restrictions were progressively

[56] http://www.investopedia.com/terms/t/tax-to-gdp-ratio.asp, accessed on February 10, 2015
[57] http://finmin.nic.in/reports/IPFStat201314.pdf, accessed on February 10, 2015

substituted by tariffs in the beginning of the 1980s through the first attempts at economic liberalization. For instance, tax to GDP ratio increased from 11.40 percent in 1970-71 to 13.4 percent in 1991 (Table 1). There was a severe drought in 1987 followed by economic stagflation. This was succeeded by economic crisis of 1991 that led to a drop in the tariff collection and a declining tax to GDP ratio of 14.4 in 1996.[58]

"In terms of tax composition, the proportion of direct taxes has been decreasing from 21 percent in 1970-71 to 14 percent in 1990-91. After the economic reforms, the share of direct taxes has grown steadily to 24 per cent in 1997-98. This was due to an increase in both increase in income and corporate tax. However, it is not clear how much of the increase is due to the increase in the pay omission wages and how much of the increase is attributable to better tax compliance."[59]

The fastest growth rate of any tax category during the period was for customs that steadily increased from 11 per cent in 1970-71 to 23 per cent in 1990-91. After the introduction of import duties in 1992, the revenue from customs fell due to reduction in tariff rates as part of Structural Adjustment Program (SAP).[60]

The decline in tax to GDP ratio after the reforms is hence attributable to the decline in the yield of indirect taxes. One reason for the lower revenue from indirect taxes was the reduction of tariff rates that was drastically high before the reforms. This was not offset by calibrating the excise duties. Therefore, both tariffs and excise duties showed a decline of 2.6 and seven percentage points respectively.

The tax to GDP ratio of the Centre and States during the period can be compared. The decline in the ratio for Centre has been faster than the States due to the reduction of tariffs.

[58] http://www.unescap.org/sites/default/files/apdj-7-2-3-rao.pdf, accessed on February 10, 2015
[59] Ibid., pp. 71.
[60] Structural Adjustment Programs (SAPs) are economic policies for developing countries that have been promoted by the World Bank and International Monetary Fund (IMF) since the early 1980s by the provision of conditional loans.

Exhibit 5

Mandate and Key Recommendations of TAGUP

Constitution and Mandate

TAGUP was a seven member GoI advisory group set up by the FM on June 8, 2010. The mandate of TAGUP[61] was to look into technology part of five large financial sector projects. It was headed by Nandan Nilekani. The other members were

i. C. B. Bhave - Former SEBI chairman
ii. R. Chandrasekhar - IT Secretary
iii. Nachiket Mor - Board Member RBI
iv. Dhirendra Swarup
v. S. S. Khan
vi. P. R. V. Ramanan

The committee was mandated to make recommendations on the roadmap to roll out the following five financial projects

- Tax Information Network (TIN)
- New Pension Scheme (NPS)
- National Treasury Management Agency (NTMA)
- Expenditure Information Network (EIN)
- Goods and Services Tax (GST).

Key Recommendations

TAGUP submitted its report on February 5, 2011. It had two key recommendations.[62]

The TAGUP has suggested that for complex IT-intensive projects, NIUs working in the spirit of partnership with the government be put in place to handle all aspects of IT systems. NIUs should be financially independent and empowered to take quick and efficient business decisions pertaining to attracting and retaining talent, procurement, rapid response to business exigencies and adopting new technologies, among other things.

The report also mentioned that, "every project should have a dedicated Mission Leader within the government with a Mission Execution Team. The team should be manned by personnel, who possess a diverse set of skills, including intimate familiarity with the government processes, specialisation in verticals such as technology, outreach, law, as well as the ability to manage a large decentralised organisation, among others. The group also recommends certain monetary and non-monetary incentives for the team." [63]

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[61] http://en.wikipedia.org/wiki/TAGUP, accessed on February 5, 2015
[62] http://www.thehindu.com/news/national/nilekani-submits-tagup-report-to-pranab/article1156635.ece, accessed on February 5, 2015
[63] Ibid.

Exhibit 6

Main Provisions of the DTC Bill 2010

DTC 2010[64] sought to consolidate and amend the law relating to all direct taxes. The Act repeals the Income Tax Act 1961 and Wealth tax Act 1957. DTC 2010 proposed the following changes.

Existing Rate of Income Tax

DTC changed the existing rates of income taxes in India. Companies and unincorporated bodies would be taxed at 30 percent of their total income. A non profit organisation would not have to pay tax for income below Rs 1 lakh. For income above Rs 1 lakh, they would be charged at the rate of 15 percent of their total income. For individuals, income tax was exempted for income below two lakh rupees. Tax rate was 10 per cent, 20 percent and 30 per cent respectively for incomes between 2-5 lakhs, 5-10 lakhs and above ten lakhs.

Minimum Alternate Tax

The DTC proposed a minimum alternate tax on companies. The tax had to be paid in case the normal income tax of a company was less than the tax on the book profit of a company, applicable at 20 per cent.

Marginal Tax

The DTC had proposed a marginal tax on certain investments such as provident funds and pension schemes at the time of redemption.

Wealth Tax

Wealth above one crore rupees would be taxed at one per cent. Wealth below one crore rupees was exempted from the wealth tax.

Tax Deductions

The DTC allowed deductions of savings up to one lakh rupees to approved funds, five lakh rupees to life insurance and Rs 50,000 for health insurance or education of children. Deduction on housing loans would be up to Rs 1,50,000. There would be no limit on deductions on loans for higher education.

[64] http://www.prsindia.org/uploads/media/Direct%20Tax%20Code,%202010.%20Bill%20Summary.pdf, accessed on February 15, 2015

Capital Gains Tax

For assets on which securities transaction tax is payable, the long term capital gains (if held for more than one year) would not apply. Short term capital gains would be computed as half of the actual gains. For other investment assets, long term capital gains would be given indexation benefits.

Exhibit 7

Note on Amendment Procedure in India for CAB

Amendment to the Indian Constitution is the process of making changes to the nation's fundamental law. The procedure of amendment in the Constitution is laid down in Part XX (Article 368) of the Constitution of India.[65]

Types of CAB

There are two types of bills that seek to amend the Constitution.[66] They are

i. Bills that have to be passed by Parliament by Special Majority.[67]
ii. Bills that have to be passed by Special Majority and also to be ratified by not less than one-half of the State Legislatures.

(i) **By Special Majority**

'The procedure for such bills is prescribed under Article 368 (2) of the Constitution. These can be introduced in either House of Parliament. Such bills can never be treated as Money Bills or Financial Bills. No recommendation of the President is needed for introducing these bills. These bills have to be passed by a majority of the 'total membership' of that House and by a majority of not less than two-thirds of the members of that House present and voting.

(ii) **By Special Majority and Ratification**

This comprises of Constitutional Amendment Bills which seek to make any change in articles relating to the following.

a. The Election of the President.
b. The extent of the Executive Power of the Union and the States.
c. The Supreme Court and the High Courts.
d. Any of the Lists in the Seventh Schedule.
e. The representation of States in Parliament.
f. The provisions of Article 368 itself'.[68]

Consensus Building for CAB

The consensus building procedure for CAB have procedures mandated under the Rules of Procedures and Conduct of Business in the Lok Sabha.[69] The procedures for CAB is covered under Chapter XI in sections 155-159.

[65] http://en.wikipedia.org/wiki/Amendment_of_the_Constitution_of_India, accessed on February 15, 2015
[66] http://www.desikanoon.co.in/2014/05/amendment-procedure-in-india.html, accessed on February 15, 2015
[67] Special majority of Parliament refers to two thirds of its members present and voting
[68] Ibid.

The setting up of Parliamentary Committees including EC is under section 254 of the Rules. The formation of PSC is mandated under section 331C of the Rules. Its functions and mandate are given under 331E.

Under the mandate of the EC and PSC, there are provisions to present discussion papers, form sub committees, focus groups and special advisory groups.

[69] http://164.100.47.132/**LssNew**/rules/RULES-2010-P-FINAL_1.pdf, accessed on February 15, 2015

Exhibit 8

PSC Report Summary on 115th CAB

The PSC report made nine suggestions about the 115th CAB.[70]

1. Implementation of GST

The PSC noted that implementation of the GST should be preceded by adequate groundwork on the experience of other countries and a credible study on the impact of the GST regime on state revenues.

2. Compensation Mechanism

PSC recommended a well defined and permanent compensation mechanism. For this purpose, it suggested the creation of a GST Compensation Fund under the administrative control of the GST Council.

3. On IGST and Modified Bank Model

Under the 115th CAB, CST was to be replaced by IGST giving exclusive rights to GoI to levy tax on interstate trading of good and services and imports. In principle, IGST was thought of as revenue neutral.

The PSC favoured the Modified Bank Model propose by the 13th FC. Under this model, the GoI and the States were to identify a nodal bank that would receive the CGST and SGST and act as a 'clearing house' for the tax.

4. Special Powers

PSC recommended that though the power to notify declared goods vested with GoI, the Parliament should have the power to restrict and impose conditions on the recommendations of the GST council regarding the same.

The PSC also recommended the addition of a subclause that enabled the Parliament to raise additional taxes in exceptional circumstances.

PSC recommended that Jammu & Kashmir and the northeastern States should be specified under the 'special status category'.

Another recommendation of the PSC was that the States must be allowed to increase GST based on a predetermined floor rate.

[70] http://www.prsindia.org/uploads/media/Constitution%20115/SCR%20summary-%20GST.pdf, accessed on February 15, 2015

5. GDSA

The PSC recommended that GDSA be replaced by the GST council that is empowered to settle disputes.

6. Harmonized Tax Structure (HTS)

The PSC recommended that HTS should be the guiding principle and not the obligatory feature of the GST.

7. IT Infrastructure

Regarding the IT infrastructure, the PSC proposed that the Centre provide the finance and capacity building facilities in the States.

8. Monitoring

The PSC also suggested the formation of a GST evaluation committee to monitor and evaluate the implementation of GST. The mandate was to study the immediate impact of GST on inflation, GDP, retail price and other parameters.

9. Delegated Legislation

The PSC opined that specific concerns of the State like exemptions, threshold and rates be included in the bye laws and rules and not in the CAB itself.

Exhibit 9

Contentious Issues and their Resolution

Issue	Original Proposal by GoI	Demand of EC	Modified Proposal by GoI	Final version in the 122nd CAB (December 19, 2014)	Status
Basis of Claims	FC, TAGUP, subcommittee attached to FM, Industry	PSC, FDP	EC- FM meet		
Exempted List of Goods and Services	All goods and services to be subsumed under GST	Alcohol, petroleum products, tobacco, essential food, stamp duties No dichotomy between Union and State list	Unprocessed food article, education and health services by NGOs, select public services[71]	Alcohol, unprocessed food article in the exemption list Petroleum products with nil rate under GST Education, health services of the NGOs	Resolved without consensus[72]
CST Compensation	CST to be completely subsumed under GST Compensation to be yearly based on State claim	CST Compensation for five years since 2009-10 Compensation mechanism to be independent of GoI	Compensation on a tapering basis[73] of Rs 33,000 crores from GoI to the States in three phases from 2013-14	Compensation clause in 122nd CAB making it a constitutional provision independent of the GoI Compensation for five years from 2009-10	Resolved
Dual System of Tax (CGST and SGST)	Uniform CGST and SGST Threshold limit of small traders to be removed	CGST and SGST to be different Threshold limit to 1.5 crore turnover from existing Rs 25 lakh	CGST and SGST to be fixed based on a floor rate and a narrow tax band to be allowed	CGST and SGST to be fixed based on a floor rate and a narrow tax band to be allowed In addition GoI to levy IGST	Resolved

[71] Public services will not include Railways, Post and Telegraph, other commercial Departments, Public Sector enterprises, banks and Insurance, health and education services

[72] This category refers to those areas without unanimous consensus from the States

[73] This means 100% compensation for the first three years, 75% for the fourth year and 50% for the fifth year

Two Rate System	Single tax rate	Two tax rates of standard rate for goods, moderate rate for essential goods, with a special rate for precious metals and an exemption list	Three tier structure of tax with 12 percent for essential for goods, 16 percent for other goods and 20 percent for services	Three tier structure of tax with 12 percent for essential for goods, 16 percent for other goods and 20 percent for services	Resolved
GST Council and GDSA	Consisting of Union FM, State FMs and MoS Revenue Formed by presidential order Veto for union FM if consensus not reached Dispute settlement referred to by GoI or the States SC final appellate authority	To be dropped because of veto, Presidential order To be differentiated from FC role	Without veto for FM Parliamentary order	Without veto Parliamentary order Recommendatory powers on tax rate and exemption list Modalities of Dispute settlement No mention of GDSA	Unresolved (who would be the dispute settling /appeal authority)
Input Credit	IGST with GoI acting as a clearing house for input tax credit	Modified Bank Model with nodal bank acting as a clearing house for input tax credit.	IGST	GoI to levy IGST	Resolved without consensus

Annexure 1

Indirect Taxation Reforms before GST

ITEC 1976[74]

ITEC was formed by the GoI to review the existing structure of the indirect tax system on July 19, 1976 under the Chairmanship of LK Jha, the former governor of the RBI. ITEC submitted its report in January 1978.

The report studied the taxes being imposed for different goods at various levels. It found major differences in the rates and methods of taxes being imposed in several States. ITEC suggested VAT to overcome the prevalent multiple tax rate structure. The report defined VAT as "a tax to be paid by all sellers of goods and services, other than those specifically exempted, on the basis of value added by their respective firms."

It stated that implementation of VAT in other countries was "preceded by a detailed public debate in chambers of commerce, industry, associations and other firms; in Parliament and educational institutions."

The report concluded that from an economic point of view, a tax system covering the addition of value at all points of progression and trade is the best, as long as it does not generate difficulties of cascading and distortion in relative factor prices.

On the other hand, the report also said that even though one integrated system based on VAT is the best possible solution, India should opt for the second best solution.VAT was to be applied to the manufacturing State (MANVAT) along with a restructured system of sales tax.

The long term objective of MANVAT would be to apply it not only at the manufacturing stage, but extends it to cover imports, thereby freeing inputs from taxation which is the crucial principle of VAT. The report further gave the details of how the MANVAT would be applied to the then current taxation system.

Long Term Fiscal Policy (LTFP) 1985[75]

LTFP was announced in the Union budget of 1985-86 by V P Singh.

The LTFP set out the broad direction and strategy for fiscal reforms, mainly taxation, to further the objectives of growth and social justice. The policy proposed reforms in the structure of customs and excise duties by the merging of various central excise duties into a single rate.

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[74] **Sury**, MM (2006). *Taxation in India: History, Policies, Trends and Outlook*, Indian Taxation, New Delhi

[75] http://indiabudget.nic.in/**es1985-86**/6%20Fiscal%20Policy%20and%20Government%20Budget.pdf, accessed on February 16, 2015

It stated that VAT is the solution for removing cascading of taxes, but due to "the problems of incorporating the sales tax of States into a centrally administered VAT," a modified VAT or MODVAT should be introduced.

A system of giving proforma credit to select excisable commodities was already in place, but the number of commodities was very less. It was suggested that all the commodities be brought under MODVAT. Small scale industries were not to be included initially.

The recommendations of the LTFP were accepted and MODVAT was introduced on a few commodities on March 1, 1986 with reference to specified Chapters of the Central Excise Tariff Act, 1985.

Tax Reforms Committee (TRC) 1991[76]

A committee of experts was constituted by the GoI through its Resolution dated August 29, 1991 to examine the direct and the indirect tax structure. It was headed by Raja J Chelliah with five other members.

It recommended the adoption of 'a simple broad based domestic indirect tax system' which would cover almost all commodities except a few raw produce of agriculture and many services with a few rates of duties.

The committee gave its view that the then excise system should be steadily converted into a VAT at the manufacturing level. The report of the committee gave steps to transit the indirect taxes into VAT at the Central Level. Extension of the VAT to the wholesale stage was also recommended. The committee suggested that the sales tax could be converted to a 'State VAT within the manufacturing sector'.

Reforms in the 90s

Yashwant Sinha, the Union FM called a conference asking the State FMs to study the sales tax on goods and services including CST in December 1995. In a meeting of all State CMs on November 16, 1999 by the then Union FM, it was decided to take steps for introduction of State level harmonized VAT.

On April 1, 2000, the three existing VAT rates on manufacture, imports and sales, further merged into a single rate called the CENVAT. The tax base was also widened as some exemptions were replaced by an eight per cent tax.

EC of State FMs was formed on July 17, 2000 for the smooth implementation of State level VAT.

[76] http://www.finmin.nic.in/the_ministry/dept_revenue/Executive_Summary.pdf, accessed on February 16, 2015

Task Force on Indirect Taxes 2002[77]

A Task Force on Indirect Taxes was formed in September 2002 under the Chairmanship of Vijay Kelkar, Advisor to Ministry of Finance and Company Affairs. The Task Force brought out a consultative paper in October 2002.

In its recommendations, the Task Force envisaged a constitutionally backed implementation of VAT from April 1, 2003. The compensation for States had to be through a mutually agreed upon additional resource mobilization and not through budgetary support. It also suggested that an Harmonised SyatemSN of goods and services and a uniform tax rate must be in place.

[77] http://www.finmin.nic.in/**kelkar**/report.pdf, accessed on Februray 16, 2015

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