

GST Council approves broad rate reductions, introduces simplified compliances and recommends amendments in the law in its 28th meeting

July 22, 2018

In brief

The GST Council, in its 28th meeting¹, approved a broad based reduction in rates on various goods and services, with focus on consumer durables. Further, the Council also approved a simplified compliance mechanism and recommended various amendments in the GST laws for approval by Parliament. This tax insight summarises the major decisions taken by the Council at the meeting.

In detail

Reduction in rates on goods

Grant of exemption

Sanitary napkins, *rakhi* (without containing precious or semi-precious items of chapter 71).

Reduction in rate from 12% to 5%

Handloom *dari*, chenille fabrics and other fabrics under heading 5801, phosphoric acid (fertilizer grade only) etc.

Reduction in rates from 18% to 12%

Bamboo flooring, zip and slide fasteners, etc.

Reduction in rates from 18% to 5%

Ethanol for sale to oil marketing Companies for blending with fuel, solid bio fuel pellets.

Reduction in rates from 28% to 18%

Paints and varnishes (including enamels and lacquers), refrigerators, freezers, washing machines, lithium-ion batteries, vacuum cleaners, domestic electrical appliances (such as food grinders, mixers, shaver, etc.), storage water heaters and immersion heaters, hair dryers, hand dryers, televisions upto 68 cm), special purpose motor vehicles (e.g. crane

lorries, fire fighting vehicles, etc.), works trucks, etc.

Reduction in rates from 28% to 12%

Fuel cell vehicle. Compensation cess also exempted on fuel cell vehicle.

Reduction in rates on services

Grant of exemption

- Services provided by FSSAI to food business operators.
- Administrative fees collected by National Pension Services Trust.
- Reinsurance services provided to specified insurance schemes.

¹ This alert has been prepared on the basis of the press conference addressed by the Finance Minister after the meeting of the GST Council and five press releases issued after the press conference. The notifications giving effect to the rate changes are likely to be issued soon and may be effective from 27 July, 2018. The alert only covers the major decisions of the GST Council and does not cover all the decisions. The amendments in law will need to be first approved by the Parliament and other State assemblies. After which, it would be in force from the date as may be notified, after the appropriate Presidential assent etc.

- Guarantees given by Central/ State Government or Union Territory administration to their undertakings/ PSUs.
- Services supplied by an establishment of a person in India to any establishment of that person outside India, if the place of supply is outside the taxable territory of India.

Reduction in rates

Rate reduced from 18% to 5% on supply of e-books for which a print version exists.

Clarifications and miscellaneous changes

- GST rate slabs on accommodation service over INR 7,500 per night would be based on transaction value instead of declared tariff.
- GST rate of 12% with full input tax credit (ITC) under forward charge for composite supply of multimodal transportation.
- Notification prescribing reduced GST rate on composite supply of works contract received by the Government or a local authority in the course of their sovereign functions amended.
- Outdoor catering services restricted to supplies in case of outdoor/ indoor functions that are event based and occasional in nature.
- Extension of exemption on outward transportation of all goods by air and sea by one year i.e. upto 30 September, 2019 as relief to the exporter of goods.
- Services provided by individual DSAs to banks/ NBFCs to be brought under reverse charge on the buying banks/ NBFCs.

Simplified GST compliances

- All taxpayers excluding small taxpayers and a few exceptions

like ISD etc. will have to file one monthly return.

- The return will have two main tables, one for reporting outward supplies and one for availing ITC based on invoices uploaded by the supplier.
- Invoices can be uploaded continuously by the seller and can be continuously viewed and locked by the buyer for availing ITC.
- Taxpayers would have facility to create their profile based on nature of supplies made and received. The fields of information which a taxpayer would be shown and would be required to fill in the return would depend on their profile.
- NIL return filers (no purchase and no sale) will be given facility to file return by sending SMS.
- Small taxpayers having turnover below INR 50 million, will have an option to file return on quarterly basis. However, the tax will be payable on monthly basis. This is expected to impact 90+% of taxpayers.
- The format of this quarterly return will be similar to the main return with different Forms for persons making only B2B supply, and persons making B2B as well as B2C supplies.
- The new return design provides a facility for amending invoices and other details filed in the return. Amendment would be carried out by filing an amendment return. Payment would be allowed to be made through the amendment return as it will help save interest liability for the taxpayers.

Amendments to GST laws

The proposed amendments to GST laws appear similar to the

draft amendments which the Government had released for public comments.

Reopening of facility for migration of registration

- The migration window for taxpayers who had received provisional IDs but could not complete the migration process will be reopened. A protocol is being prescribed for such situations.

The next meeting of GST Council will be held on 04 August 2018 to discuss issues pertaining to MSME sector.

The takeaways

The quantum of the items, especially consumer durables, on which rates have been reduced by the GST Council is surprising. The focus of the rate reduction exercise has clearly been on the items of mass use; and the GST Council has given significant relief to them. Businesses would need to examine the transitional impact of this rate reduction, including from an anti-profiteering perspective.

The exemption on services provided by an Indian branch to foreign branches of the same entity resolves one of the long standing demand of the industry as the current tax treatment resulted in an asymmetry between the tax treatment of revenues and expenses from transactions with overseas branches. However, the change was not implemented through an amendment in the definition of export of services, as represented by the industry, which may have been a better option.

The decisions to restrict rate reduction only on small TVs or e-books where print version is also available could lead to avoidable debates.

The simplification of compliance process continues with the

announcement of a return Form with only two major tables and allowing smaller taxpayers to submit return on quarterly (but paying tax on a monthly) basis is welcome. However, the said changes are not immediately implementable and will need to be rolled out over the near future.

While the said steps are welcome, the user experience of such changes will be critical in determining their success.

The amendment in GST laws seem to be largely in line with the draft amendments recently put in public domain by the Government. However, the final

language and date of effect of these amendments will need to be analysed.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact your local PwC advisor

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