

GoM backs GST rejig; states flag risk to revenue

GST Council likely to take up proposal in September; rate cuts expected in October

MONIKA YADAV

New Delhi, 21 August

The group of ministers (GoM) on rate rationalisation, comprising state finance ministers, has endorsed the Centre's proposal for a two-tier goods and services tax (GST) structure and will recommend it to the GST Council, said Samrat Choudhary, Bihar deputy chief minister and GoM convener, on Thursday.

The central government, on August 15, had proposed to retain only 5 per cent and 18 per cent GST slabs, while introducing a new 40 per cent rate for sin and luxury goods. "We discussed the Centre's proposal to remove the 12 per cent and 28 per cent slabs. We have supported this and will recommend it to the GST Council for a final decision," Choudhary told reporters after the GoM's meeting.

The decision comes a day after another GoM, on health and life insurance, agreed to propose exempting individual insurance premiums from GST. Currently, 18 per cent GST is levied on both health and life insurance premiums for individuals.

According to finance ministry sources, the GST Council will meet in the third week of September, with rate cuts expected to take effect from October.

But Thursday's meeting also saw several states voice concerns over potential

revenue losses and call for continued compensation. West Bengal Finance Minister Chandrima Bhattacharya said her state had suggested an additional levy over and above the proposed 40 per cent on certain goods.

"Items currently subject to compensation cess could attract an extra levy to offset state revenue losses," she said, adding that the Centre had yet to quantify the likely shortfall. "All states support pro-people decisions, but when states lose their revenue, that also has to be looked into," she added.

Uttar Pradesh Finance Minister Suresh Khanna

welcomed the move to abolish the 12 per cent and 28 per cent slabs, calling it a step that would benefit ordinary consumers. Industry experts said the GoM's support marked an important milestone, though the transition would require careful planning.

Pratik Jain, partner at Price Waterhouse & Co LLP, said: "This will simplify the tax structure, reduce disputes over product classification, and boost consumption. Since more than 70 per cent of GST collections come from the 18 per cent slab, the overall revenue impact may be limited, particularly as lower prices will spur demand." But the transition timeline is steep and industry needs to move quickly, he said.

Turn to Page 8 ►



GoM backs GST rejig, states flag risk to revenue

Manoj Mishra, partner and tax controversy leader at Grant Thornton Bharat LLP, said the shift of most items from 12 per cent to 5 per cent, and from 28 per cent to 18 per cent would bring relief to households and small businesses while advancing the government's growth and inclusion agenda. But he cautioned that "careful calibration will be essential to preserve revenue neutrality and avoid inflationary pressures".

Abhishek Jain, indirect tax head at KPMG, pointed to concerns over working capital and long-term costs in cases of inverted duty structures, where inputs are taxed at higher rates than final goods. "With the government indicating a review of refund mechanisms under the inverted duty structure, businesses are hopeful of constructive steps that will help ensure price reductions flow through to end products," he added.