

## Four-tier GST rate structure finalised

Our Bureau



Finance Minister Arun Jaitley

*GST Council decides on slabs of 5%, 12%, 18%, 28%; goods may turn cheaper, services costlier*

New Delhi, November 3:

The Goods and Services Tax Council has opted for a four-tier rate structure of 5, 12, 18 and 28 per cent.

While essential items like foodgrains will have a zero tax rate, demerit and luxury goods will be taxed at the highest rate and also attract a cess.

Thursday's decision will see goods becoming cheaper under the GST, but services could turn more expensive as most will be taxed at the standard rate of 18 per cent against the current 15 per cent.

"We have finalised the rate structure. Hopefully, the burden of indirect tax on the common man will reduce under GST," said Finance Minister Arun Jaitley after the GST Council meeting, adding that a consensus has been reached on levying a cess to compensate States for their revenue loss.

According to the decision, 150 essential items in the consumer price index basket will attract zero tax, while most mass consumption products will continue to attract 5 per cent tax. There will be two standard rates of 12 per cent and 18 per cent.

White goods, cars and other items that are currently taxed at 30-31 per cent will be taxed at 28 per cent.

### **Inflationary impact**

To lower the inflationary impact of GST, a number of items such as soaps and shaving sticks that are currently taxed at 30 per cent will be moved under the 18 per cent slab.

A senior Finance Ministry official said that depending on the abatement, some services may be taxed at lower rates of 5 per cent and 12 per cent.

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The tax rate on gold will be decided later based on revenue implications.

Luxury cars, tobacco products, pan masala and aerated drinks will be taxed at 28 per cent and also attract a cess to take the total tax incidence to the current rate.

Jaitley said the proceeds from this cess and the clean energy levy will jointly constitute the pool from which States would be compensated for any revenue loss.

"It will have a sunset clause of five years," said Jaitley, adding that the proposal for higher tax rates instead of a cess was rejected as it would have been burdensome on taxpayers.

In the fourth year, the GST Council will decide on what to do with the cess and how to tax demerit goods. It will also decide on the distribution of any surplus revenue from the cess.

The Centre expects that about ₹50,000 crore will be required for compensating States in the first year.

While welcoming the decision on rates, industry and tax experts were not enthusiastic about the cess.

"The cess needs to be levied only at the final product and total tax including cess on demerit goods should be kept within the present overall indirect tax incidence," said CII.

## 'A backward step'

Calling it a "backward step from a true GST structure", Rajeev Dimri, Leader, Indirect Tax, BMR, said, "Though proposed for an initial five years, this would transit the complexities of existing tax regime to the GST which could have been easily avoided."

Jaitley said a committee of officers/secretaries will finalise the exact tax rate on each item, and bring it to the slab closest to current tax.

The GST Council will continue its meeting on Friday to decide on administrative control and cross empowerment.

(This article was published on November 3, 2016)

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