

Select Committee Report Summary

The Constitution (122nd Amendment) Bill, 2014 (GST)

- The Select Committee constituted to examine the Constitution (122nd Amendment) Bill, 2014 submitted its report to Rajya Sabha on July 22, 2015. The Bill was passed in Lok Sabha on May 5, 2015, and referred to the Select Committee of Rajya Sabha for examination.
- The Bill amends the Constitution to enable Parliament and state legislatures to frame laws on the imposition of the Goods and Services Tax (GST). It also creates a GST Council, which includes representatives from the centre and all states, to make recommendations on the implementation of GST. The GST is an indirect tax system that would subsume various central and state indirect taxes, and apply on the supply of goods and services.
- **Additional tax up to 1%:** The Bill empowers the centre to levy an additional tax, up to 1%, on the supply of goods in inter-state trade. This tax will be given to the state from where the supply of the good originates. The Committee stated that the provision of 1% additional tax is likely to lead to cascading of taxes. Hence, it recommended that the term 'supply' be explained to mean "all forms of supply made for a consideration".
- **Compensation to states:** The Bill permits Parliament to make a law to provide compensation to states for any loss of revenue from the implementation of GST for a period of *upto* five years. The Committee recommended that compensation would be provided to states for a period of five years.
- **Functions of the GST Council:** The GST Council will make recommendations on the GST rates, including the bands of GST that may be levied. The Committee recommended that the term 'bands' must be defined to include the range of GST rates, over the floor rate, within which CGST and SGST may be levied on specific goods or services or classes of goods or services.
- The GST Council is also tasked with making recommendations on taxes that would be subsumed by the central and state GST laws. In this regard, the Committee recommended that in the drafting of state GST laws, revenue sources of Panchayats, Municipalities etc. must be protected. State governments must also take measures to ensure adequate revenue flow to local bodies.
- **Dispute resolution:** The Bill states that the GST Council would decide upon the modalities to resolve disputes. The Committee stated that the creation of a separate dispute settlement authority would hamper the functioning of the GST Council in general and the legislatures in particular.
- The Committee made certain other recommendations in relation to the implementation of GST. These included the levy of GST on banking services, the GST Network (GSTN) etc.
- **GST rates of banking services:** The Committee recommended that the GST rate for the banking industry should be minimum, to ensure international competitiveness. If possible, banking services could be outside the purview of GST.
- **GSTN:** The GSTN is the comprehensive back end infrastructure network for the management of tax data and reporting of the GST. The Committee noted that the non government shareholding in GSTN is dominated by private banks, and this is not desirable. It recommended that the non government institution shareholding be limited to public sector banks and financial institutions.
- It also stated that the information technology preparedness of states must be improved. Further, the IT infrastructure, unified tax credit clearing mechanism may be put in place.
- **Notes of Dissent:** Three Notes of Dissent were submitted by Members of Parliament. Mr. Madhusudan Mistry, Mr. Mani Shankar Aiyar, and Mr. Bhalchandra Mungekar (INC) submitted one note of dissent. A separate note was submitted by Mr. A. Navaneethakrishnan (AIADMK). A third note was submitted by Mr.K.N. Balagopal and Mr. D. Raja (CPI). The four Members of Parliament opposed the 1% additional tax. Further, Mr. Navaneethakrishnan suggested that instead of the additional 1% tax, states should be permitted to retain 4% of centre's share of IGST on all inter-state supplies of goods. All three notes were in favour of modifying the voting pattern in the GST Council, by giving states 3/4 of the weighted votes, and the centre 1/4.

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