



Roadmap to the Goods and Services Tax

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Agenda



- Current Indirect Tax Structure
- Major Milestones in Indirect Tax Reform
- Outline of GST – Union Budget 2006
- Nature of GST
- Proposed Road Map to GST
- International Experience – Petroleum Sector
- Implications for Petroleum Sector
- Challenges
- Conclusions

Current Indirect Tax Structure



Central Taxes

- Customs Duty - tax on imports
- CENVAT - tax on manufacture
- Service Tax - tax on specified services

State Taxes

- Central Sales Tax (CST) – tax on inter-State sale of goods
- State Value Added Tax/State Sales Tax - tax on intra-State sale of goods
- Works Contract Tax - tax on contracts involving sale of goods and services
- Entry Tax - tax on entry of goods into a State
- Other local levies

Major Milestones in Indirect Tax Reform

1974



Report of L. K. Jha Committee
- suggests VAT

1986



Introduction of a restricted VAT
called MODVAT

1991



Report of the Chelliah Committee
- recommends VAT/Goods &
Services Tax (GST)
- recommendations accepted by
Government

Major Milestones in Indirect Tax Reform

1994



Introduction of Service Tax

1999



Formation of Empowered Committee on State VAT

Jan 2000

- Implementation of uniform floor sales tax rates (1%, 4%, 8% & 12%)
- Abolition of tax related incentives granted by States

Major Milestones in Indirect Tax Reform

April 2003

VAT Implemented in one State

Sept 2004

Significant progress towards a Central VAT/ GST - Integration

April 2005

VAT Implemented in 21 States

April 2006

VAT implemented in 5 more States





Outline of GST – Union Budget 2006



“It is my sense that there is a large consensus that the country should move towards a national level Goods and Services Tax (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. World over, goods and services attract the same rate of tax. That is the foundation of a GST. People must get used to the idea of a GST.”

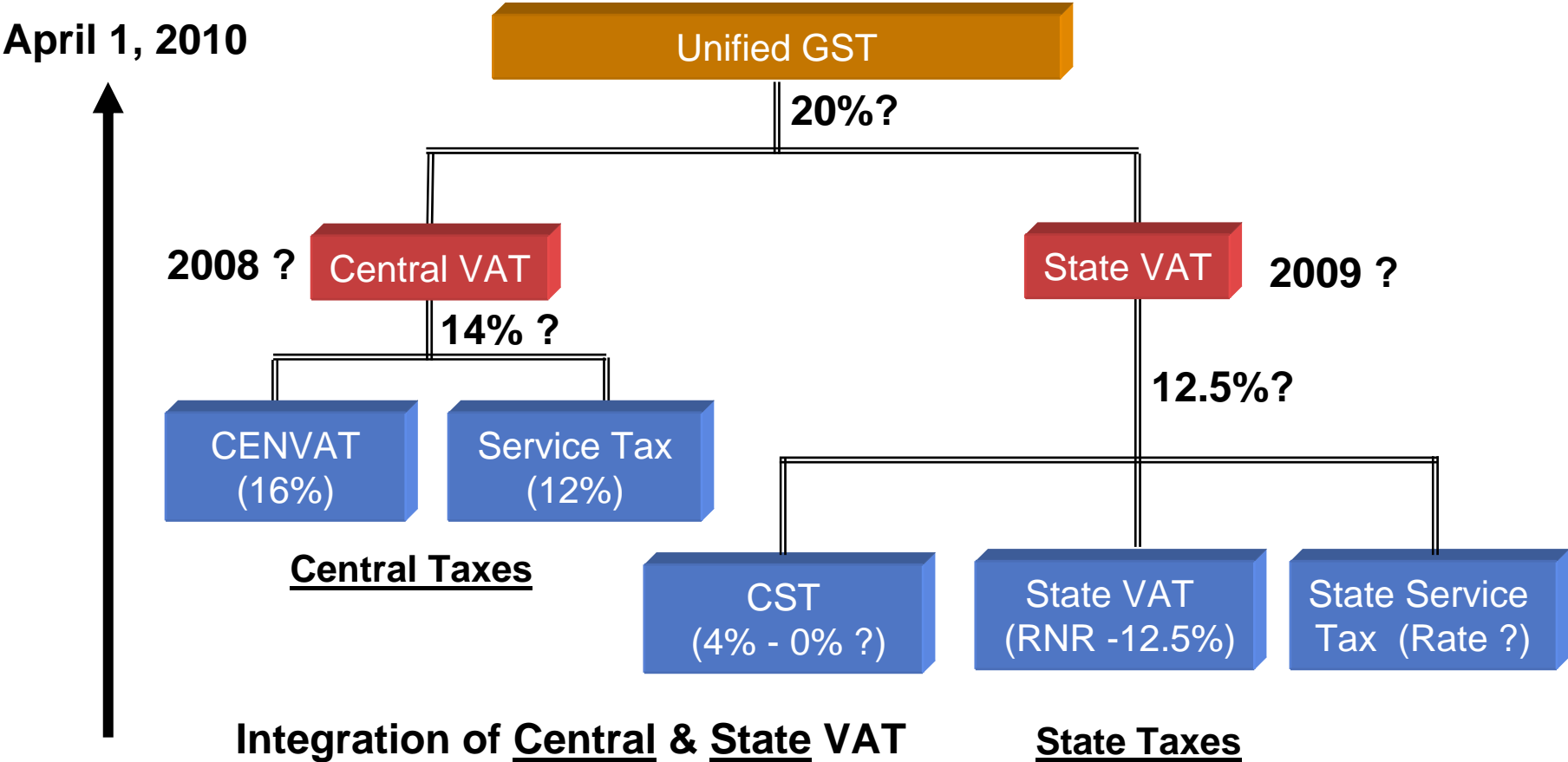


Nature of GST



- In most countries of the world, a single VAT exists which covers both goods and services
- Typically it is a single rate VAT but two/ three rate VAT systems are also prevalent
- All sectors are taxed with very few exceptions/ exemptions
- Full tax credits on inputs – 100% set off
- Canada and Brazil alone have a dual VAT
- India has also adopted a dual VAT i.e. a Central VAT and a State VAT – with independent goods & services taxes

Proposed Road Map to GST



- Petroleum products are treated no differently than other goods
- Implementation challenges encountered by few countries (Australia)
- Simple Tax structure/Transparency in tax administration
- VAT documentation reduced evasion & promoted compliance
- Revenue buoyancy – petroleum sector is large in most countries

International Experience – Petroleum Sector



Head of Study	Australia	New Zealand	Singapore	Thailand	United Kingdom
Rates of GST	10%	12.5%	5%	7%	17.5%
Eligibility of crude oil for input tax credit	Yes	Yes	Yes	Yes	Yes
Eligibility of petro products for input tax credit	Yes	Yes	Yes (except where the petroleum products are used directly in connection with a motor vehicle by the user)	Yes	Yes
Different treatment to petroproducts	No	No	No	No	No, except where they are warehoused. Sales of warehoused goods not chargeable to GST



Implications for Petroleum Sector



- Lower VAT rates vs present sales tax rates?
- ITC availability across the entire supply chain
- Degree of pricing freedom
- Elimination of irrecoverable taxes
- Declared goods status for natural gas ? (on par with crude) – 4% VAT
- Industrial fuels to be taxed on par with other industrial inputs
- Uniformity in VAT rates
- Treatment of incentives



Challenges



- Transition to GST poses several challenges for Government and business
- Uniform GST Act across Centre/ States and across goods and services
- Preserving State revenues
- Revenue sharing mechanisms
- Constitutional changes
- CST phase out
- Implications for business models, supply chains, product pricing



Conclusions



- Timeline for the GST laid down
 - the introduction of GST in India would be a major inflection point
 - it will present both an opportunity and a risk
 - an opportunity to create value and a risk that should be managed
- Roadmap spelling out the milestones and timelines is an urgent imperative
- Tax Administration Reform

GST could change the competitive landscape in India !



Thank You

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