Impact of Inclusion of Purchase Tax in GST

Dr. Geeta Das*

Synopsis: The taxes to be subsumed in GST are an ongoing debate between the State and the Centre. Purchase tax is one such tax being debated. The author applauds the Centre for bringing about a consensus among states opposing the purchase tax being subsumed in GST.

Goods and Services Tax: Goods and Services Tax (GST) is proposed to be the biggest indirect tax reform for India. It is an attempt to consolidate, simplify and widen the indirect tax structure, which currently consists of excise duty, value added tax (VAT), service tax and the like. The essential purpose of GST is the creation of a truly unified Indian market by enabling free movement of trade and commerce throughout the country, unhindered by tax barriers and disparities. It is believed that the new tax regime would be easy to implement, curb tax avoidance, boost revenue, create a common market and benefit multiple stakeholders, government, business and consumers.

Purchase tax: Purchase tax is just another form of sales tax but levied on the buyer rather than the seller. It is imposed by the states on specified list of items such as foodgrain. The list varies from state to state. It covers foodgrains, cotton, jute and sugarcane, among other primary products. States like Madhya Pradesh and Chhattisgarh impose purchase tax on minerals also. In some states, oil cakes, oil seeds and salt are also included. The tax is generally applicable when the goods are not resold in state and above a certain threshold limit.

First Discussion Paper: The First Discussion Paper released by the Empowered Committee of State Finance Ministers disclosed that in case of purchase tax, some of the states felt that they are getting substantial revenue from purchase tax and, therefore, it should not be subsumed under GST while majority of the states were of the view that no such exemptions should be given. The difficulties of the food grains producing states and certain other states were appreciated as substantial revenue is being earned by them from purchase tax and it was, therefore, felt that in case purchase tax has to be subsumed then adequate and continuing compensation has to be provided to such states. This issue is being discussed in consultation with the Government of India.

Subsuming the tax: The First Discussion Paper has already mentioned that GST would subsume Central Taxes like Central Excise Duty, Additional Excise Duties, The Excise Duty levied under the Medicinal and Toiletries Preparation Act, Service Tax, Additional Customs Duty or Countervailing Duty (CVD), Special Additional Duty of Customs (SAD), Surcharges, and Cesses.

The states taxes such as VAT/Sales tax, Entertainment tax (unless it is levied by the local bodies), Luxury tax, taxes on lottery, betting and gambling would be subsumed under GST.

One of the taxes under consideration was purchase tax. Shri S Dutt Majumdar, Special Secretary and Member, Central Excise, recently mentioned that decision on subsuming certain taxes and levies under GST has been deferred. "One of these is purchase tax on foodgrains, a major source of revenue for Punjab and Haryana. These states have

---

* The author is chartered accountant, working as Assistant Director in an apex chamber in New Delhi. Her research papers and articles have been published in various journals, magazines and newspapers. She is also the guest faculty (taxation) of FMS, University of Delhi.

opposed bringing purchase tax under GST as they may not be able to get such high revenue under it. Punjab makes over Rs 1,000 crore from purchase tax annually and Haryana Rs 600 crore."

But the continuous interaction of the state and the Ministry finally led to positive results. In line with the Thirteenth Finance Commission's recommendations, states would be compensated for initial four years for loss of VAT and purchase tax revenues. For the further period, special reference was made to the next Finance Commission. If not subsumed, it would have meant additional taxes on many commodities like foodgrain, some minerals and even milk, which would defeat the purpose of introducing GST.

Impact: If purchase tax is included in GST, the prices of foodgrains, especially wheat and rice, may rise. At present, about half the states do not levy VAT on wheat and rice, though they are allowed to tax these foodgrains at 4 per cent. In GST, these items may be taxed at 12 per cent at the concessional rate or 20 per cent at the standard rate, unless the Union and state governments decide to exempt these. Currently, there is no proposal to exempt these grains from GST.

The Centre is pruning its exemption list to align it with states' exemption list for VAT, which includes 99 goods. Foodgrains do not feature in these items. Even if the government decides to tax wheat and rice at the lower rate of 12 per cent, consumers will end up paying more than the current rate. Foodgrains will become cheaper only if these are exempted from GST.

Apart from VAT, various "statutory charges" are levied on foodgrains by local governments in the existing regime. While the 4 per cent purchase tax, levied in Haryana, Punjab and Uttar Pradesh, will be subsumed in GST, other charges like rural development fee, market fee (*mandi* tax), infrastructure development tax and commission to societies and sub-agents may continue in the new regime.

Local taxes on foodgrain, except purchase tax are unlikely to be submerged in GST. As it is not a part of the chain, these will be levied along with GST.

In the existing set-up, total tax on rice and wheat is highest in Punjab at 13.5 per cent, followed by Andhra Pradesh (12.5 per cent on rice) and Haryana (10.5 per cent). In the GST regime, tax on foodgrains in Punjab could go up to 21.5 per cent if the 4 per cent VAT/purchase tax is replaced by 12 per cent GST. Other levies add up to 9.5 per cent in the state.

In states like West Bengal, Bihar and Gujarat, the tax is only 3 per cent and it mainly comprises other levies which will not be subsumed in GST. Kerala has exempted rice from tax but charges a market fee of 7 per cent. Impact of taxing foodgrains in GST will have maximum impact on such zero-VAT states.

Conclusion: With the introduction of GST, purchase tax will come to an end. The Centre has done a commendable job in ensuring that consensus is made on various issues. It is estimated that GST's implementation can boost growth by 1.5 percentage points, and rapidly turn India into a $2 trillion economy. The Centre and states must keep that larger picture in mind instead of deviating from GST's essential design for short-term and eventually counterproductive considerations. But for GST to be rolling in April 2011, a lot needs to be done and time is indeed running short.