



# Agenda for 32<sup>nd</sup> GST Council Meeting

10 January 2019

Volume – 2





**File No: 01/32<sup>nd</sup> GSTCM/GSTC/2019**  
**GST Council Secretariat**

Room No.275, North Block, New Delhi

Dated: 01 January 2019

**Notice for the 32<sup>nd</sup> Meeting of the GST Council scheduled on 10 January 2019**

The undersigned is directed to refer to the subject cited above and to say that the 32<sup>nd</sup> meeting of the GST Council will be held on 10<sup>th</sup> January 2019 (Thursday) at Main Committee Hall, Parliament House Annexe, New Delhi\*. The schedule of the meeting is as follows:

- Thursday, 10<sup>th</sup> January 2019: 10:30 AM to 01:30 PM

2. In addition, an Officer's Meeting will be held on 09<sup>th</sup> January 2019 at the same venue as per following schedule:

- Wednesday, 09<sup>th</sup> January 2019: 10:30 AM to 04:30 PM

3. The Agenda Items for the 32<sup>nd</sup> Meeting of the GST Council will be communicated in due course of time.

4. Please convey the invitation to the Hon'ble Members of the GST Council to attend the meeting.

**-Sd-**

**(Dr. Ajay Bhushan Pandey)**

**Secretary to the Govt. of India and ex-officio Secretary to the GST Council**

**Tel: 011 23092653**

Copy to:

1. PS to the Hon'ble Minister of Finance, Government of India, North Block, New Delhi with the request to brief Hon'ble Minister about the above said meeting.

2. PS to Hon'ble Minister of State (Finance), Government of India, North Block, New Delhi with the request to brief Hon'ble Minister about the above said meeting.

3. The Chief Secretaries of all the State Governments, Delhi and Puducherry with the request to intimate the Minister in charge of Finance/Taxation or any other Minister nominated by the State Government as a Member of the GST Council about the above said meeting.

4. Chairperson, CBIC, North Block, New Delhi, as a permanent invitee to the proceedings of the Council.

5. Chairman, GST Network

\* Note - The Venue of the Meeting was changed to Hall No 2-3, Vigyan Bhawan, New Delhi on both days, as communicated by email on 03.01.2019.

## **Agenda Items for the 32<sup>nd</sup> Meeting of the GST Council on 10<sup>th</sup> January 2019**

1. Confirmation of the Minutes of 31<sup>st</sup> GST Council Meeting held on 22<sup>nd</sup> December, 2018
2. Deemed ratification by the GST Council of Notifications, Circulars and Orders issued by the Central Government
3. Decisions of the GST Implementation Committee (GIC) for information of the Council
4. Interim Report of GoM (Group of Minister) on MSMEs
5. Issues recommended by the Fitment Committee for the consideration of the GST Council
  - i. Proposal for boosting real estate sector under GST regime by providing a composition scheme for residential construction units
  - ii. Proposal regarding rationalisation of GST rates on Lottery
  - iii. Request by CAPSI (Central Association of Private Security Industry) to bring the entire security services sector including body corporate under RCM (Reverse Charge Mechanism)
6. Issues recommended by the Law Committee for the consideration of the GST Council
  - i. Notification of provisions of the CGST (Amendment) Act, 2018; UTGST (Amendment) Act, 2018 and the GST (Compensation to States) Amendment Act, 2018 and the IGST (Amendment) Act, 2018
  - ii. Consequential amendments in notifications issued earlier in light of bringing into force the provisions of the CGST (Amendment) Act, 2018; the UTGST (Amendment) Act, 2018; the GST (Compensation to States) Amendment Act, 2018 and the IGST (Amendment) Act, 2018
  - iii. Consequential amendments in Circulars and Orders issued earlier in light of bringing into force the provisions of the CGST (Amendment) Act, 2018; the UTGST (Amendment) Act, 2018; the GST (Compensation to States) (Amendment) Act, 2018 and the IGST (Amendment) Act, 2018
  - iv. Proposal for amendment in CGST Rules, 2017
7. Review of Revenue position
8. Allowing ITGRC (IT Grievance Redressal Committee) to consider non-technical issues (errors apparent on the face of record)
9. Use of RFID (Radio-frequency Identification) data for strengthening enforcement of e-Way bill system under GST
10. Quarterly Report of the NAA (National Anti-profiteering Authority) for the quarter October to December 2018 for the information of the GST Council
11. Report of GoM on Revenue Mobilisation
12. Any other agenda item with the permission of the Chairperson
13. Date of the next meeting of the GST Council

## TABLE OF CONTENTS

<u>Agenda No.</u>	<u>Agenda Item</u>	<u>Page No.</u>
4	Interim Report of GoM (Group of Minister) on MSMEs	6
11	Report of GoM on Revenue Mobilisation	24

# Discussion on Agenda Items

## **Agenda Item 4: Interim Report of GoM (Group of Minister) for MSMEs**

In pursuance of the decisions of the GST Council taken in 29<sup>th</sup> Meeting held on 04<sup>th</sup> August 2018, the GoM for MSME was constituted on 14<sup>th</sup> August 2018 by the GST Council to make recommendations to the Council to address the concerns of Micro, Small and Medium Enterprises (MSME).

2. The GoM for MSME met on 6<sup>th</sup> January 2019 to discuss the issues referred by the GST Council in its 31<sup>st</sup> Meeting held on 22<sup>nd</sup> December 2018. Prior to that, as directed by the GST Council, the agenda items were discussed in the joint Meeting of the Law Committee and the Fitment Committee on 4<sup>th</sup> January 2019. The recommendations of the joint committee of the Law and Fitment was discussed by the GoM on 6<sup>th</sup> January 2019.

3. The issues discussed by the GoM and the recommendation made are in Table 1 below:

**Table 1**

<b>Sl. No</b>	<b>Agenda Note</b>	<b>Recommendation of the GoM</b>
1	Increase of limit of turnover for composition scheme to Rs. 1.5 crore with effect from 01 <sup>st</sup> April 2019	The GoM recommended to increase the limit of annual turnover for composition scheme to Rs 1.5 crore with effect from 01 <sup>st</sup> April 2019.
2	Simplification under composition scheme by way of quarterly payment with annual return.	The GoM recommended to simplify composition scheme by providing for quarterly payment of tax (along with suitable declaration statement) and filing of annual return.
3	Increasing exemption threshold for the suppliers of goods.	Following recommendations were made by GoM after due deliberation: i. The annual turnover threshold limit for payment of tax for supplier of goods needs to be raised; however, the final decision on new threshold, raising it from Rs 20 lakh to a level upto Rs 75 lakh, may be taken by the GST Council. ii. The threshold limit for goods should be raised and not for services as considerable base of service providers is at lower level of turnover. The concerns of compliance for small service providers is proposed to be addressed through a composition scheme separately being recommended. iii. Operational details for differential threshold limits for goods and services to be worked out by the Law Committee. iv. Till amendment in law is made to give effect to this change, the scheme may be made operational by notifying exemptions from tax as well as exemption from registration. v. The scheme may be made operational from the 1 <sup>st</sup> of April, 2019. vi. For Special Category States, view may be taken in the Council after due consultation with these States.

4	Composition scheme for small service providers	<p>Following recommendations were made by GoM after due deliberation:</p> <p>(i) There should be a composition scheme made available for services with a tax rate of 5% (2.5% CGST +2.5% SGST), to be applicable to service providers upto an annual turnover of Rs 50 lakhs.</p> <p>(ii) The scheme shall be available to both service providers as well suppliers of goods and services, who are not eligible for the presently available composition scheme for goods.</p> <p>(iii) Till amendment in law is made, the scheme has to be made operational by notifying a rate of 5% without input tax credit as has been done in the case of restaurants.</p> <p>(iv) The scheme may be made operational from the 1<sup>st</sup> of April, 2019.</p>
5	Provision of free Accounting and Billing Software to small taxpayers by GSTN	<p>(i) The GoM recommended that the software may be rolled out in a staggered manner, State-wise, similar to e-Way Bill.</p> <p>(ii) Planned rollout may be made from the first week of February, 2019.</p>

4. The record of discussion of the Meeting of GoM for MSME dated 6<sup>th</sup> January 2019 is at **Annexure 1**.

5. The recommendations made by the joint meeting of the Law Committee and Fitment Committee for deliberation by the GoM for MSME is at **Annexure 2**.

6. The recommendations of the GoM for MSME along with **Annexure 1** and **Annexure 2** are placed before the Council for consideration and decision.

## Annexure 1

### **Record of discussion of the Meeting of the GoM for MSME held on 06<sup>th</sup> January 2019**

The Group of Ministers (GoM) for MSME met on 6<sup>th</sup> of January, 2019 at 3:30 PM in Kalpavriksha, North Block, Ministry of Finance, New Delhi. The meeting was chaired by Shri Shiv Pratap Shukla, Hon'ble Minister of State (Finance), Government of India and Convenor, GoM for MSME. The meeting was attended by Shri Sushil Kumar Modi, Hon'ble Deputy Chief Minister of Bihar, Shri Manish Sisodia, Hon'ble Deputy Chief Minister of Delhi and Dr. T. M. Thomas Isaac, Hon'ble Finance Minister of Kerala.

2. The meeting began with the welcome address of Shri Shiv Pratap Shukla, Convenor, GoM for MSME. He highlighted the challenges being faced by the MSME sector and the need to support the small businesses to grow in size than to constrict them with excessive compliance of GST. He thereafter directed Member Secretary, GoM for MSME to present the agendas to be taken up the GoM.

3. The following agendas were presented before the GoM for deliberation and to make recommendation to the GST Council and the discussion and decision hereon is recorded in the subsequent paragraphs.

- I. **Increase of limit of turnover for composition scheme to Rs. 1.5 crore with effect from 01<sup>st</sup> April 2019;**
- II. **Simplification under composition scheme by way of quarterly payment with annual return;**
- III. **Increasing threshold exemption for suppliers of goods;**
- IV. **Composition scheme for small service providers;**
- V. **Provision of free Accounting and Billing Software to small taxpayers by GSTN.**

4. **Agenda I: Increase of limit of turnover for composition scheme to Rs. 1.5 crore with effect from 01<sup>st</sup> April 2019.**

4.1 At the outset, it was highlighted that the GST Council in its 23<sup>rd</sup> Meeting held on 10th November, 2017, had already taken a decision to increase the eligibility for composition upto annual turnover of Rs.1.5 crore. It was informed that accordingly, the CGST Act, 2017 had been amended and would become effective from 1<sup>st</sup> Feb, 2019. However, the same would need to be notified by the Government. It was also informed that in the joint meeting of the Law Committee and the Fitment Committee held on 04<sup>th</sup> January 2019, it was proposed that the aforesaid decision to raise the eligibility for the composition scheme for goods may be given effect from 1<sup>st</sup> of April, 2019 i.e. from the beginning of a new quarter. Further, it was highlighted that the decision would be a relief to the manufacturers who, during pre-GST period, were exempted from payment of Central Excise duty upto annual turnover of Rs 1.5 crore in the preceding year. The revenue implication of this decision for all taxes put together was likely to be approximately Rs 65 crore per month i.e. Rs.780 crore in a year.

4.2 **Recommendation of GoM: The GoM recommended to increase the limit of annual turnover for composition scheme to Rs 1.5 crore with effect from 1<sup>st</sup> April 2019.**

5. **Agenda II: Simplification under composition scheme by way of quarterly payment with annual return.**

5.1 In the joint meeting of the Law Committee and the Fitment Committee held on 04<sup>th</sup> January 2019, it was proposed that the taxpayers under composition scheme may be allowed to pay tax on



quarterly basis and file annual returns with quarterly payment along with declaration /statements. It was suggested that payment declaration should be designed with details necessary for compliance verification. Also, the annual GSTR-4 would need to be suitably amended to this effect.

**5.2 Recommendation of GoM: The GoM recommended to simplify composition scheme by providing for quarterly payment of tax (along with suitable declaration statement) and filing of annual return.**

**6. Agenda III: Increasing exemption threshold for the suppliers of goods.**

6.1 The Secretary to GoM recalled that the GST Council in its 31<sup>st</sup> Meeting held on 22<sup>nd</sup> December, 2018 had decided to refer the issue of increasing the threshold exemption limit for suppliers of goods (manufacturers and traders) to the GoM for MSME for consideration and make suitable recommendation to the Council. This issue was deliberated upon in the joint meeting of the Law Committee and the Fitment Committee on 04<sup>th</sup> January 2019. The joint committee felt that increasing the threshold limit to Rs 75 lakh was not desirable considering the revenue implication and proposed the following alternatives:

- i. To raise the threshold exemption for goods to Rs 40 lakhs; or
- ii. To raise the threshold exemption uniformly for goods and services to Rs 40 lakhs;
- iii. Though the preliminary view was to raise the limit to Rs 20 lakhs for Special Category States, separate decision needed to be taken for Special Category States after discussion with them.

**Discussion:**

6.2 GOM discussed the issue of raising threshold in detail taking into consideration the revenue implication of the decision. The discussion noted that the present turnover threshold of Rs 20 lakhs was very low for goods and there was a consensus that there was a need to raise the limit. Three possible thresholds were discussed, namely annual turnover upto Rs 40 lakh, Rs 50 lakh and Rs 60 lakh. The following advantages and disadvantages were noted in relation to raising the annual turnover threshold for registration: –

**6.2.1 Merits of raising threshold –**

- i. Economic cost and Multiplier effect: The revenue earned from small taxpayers is not commensurate with compliance cost in GST (For a turnover of Rs.60 lakh, the average tax payment per month is about Rs.5000/- while the compliance cost would be significantly higher). The money freed by lowering the compliance burden would add to the economy by way of multiplier effect;
- ii. Buoyancy of reporting in the economy: The taxpayers who are showing lower turnover at present may be induced to show an increase in turnover as there is crowding of reporting around the threshold;
- iii. Limited to intra-State B2C: The benefit of increased threshold shall be availed by taxpayers doing B2C transactions within the State and therefore the revenue implication would not be much.
- iv. Better administration: It is a settled principle in VAT that the threshold should be high so that tax administration does not waste energy on non-productive taxpayers.

**6.2.2 Demerits of raising threshold:**

- i. Loss of revenue: Higher threshold would lead to loss of revenue and also loss of data relating to economic activity.

- ii. Splitting: Higher threshold offers higher opportunity to suppress the threshold by splitting.
- iii. B2C reporting reduction: There would be a tendency to under-report B2C supplies as considerable economic activity can take place below the threshold.

6.2.3 The revenue loss due to raising of the threshold for goods was noted from the following table -

Threshold limit increased for dealer of goods to	Revenue foregone from composition taxpayers (Rs crore)	No of existing composition taxpayers getting relief	Revenue foregone from regular taxpayers (Rs crore)	No of regular taxpayers getting relief (excluding nil filers)	Total revenue (Rs crore)	Total Number
			[taken as 50% of revenue]	[taken as 50% of number in the slab]		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>20 lakh</b>	870	10,93,000	1,600	5,33,000	2,470	16,26,000
<b>40 lakh</b>	1,725	13,35,000	3,500	7,29,000	5,225	20,64,000
<b>50 lakh</b>	2,050	3,95,000	4,400	7,96,000	6,450	21,91,000
<b>75 lakh</b>	2,600	14,63,000	6,600	9,18,000	9,200	23,81,000

6.3 Various views were expressed during the discussion on the agenda. Three different streams of opinions were expressed.

6.4 A view was expressed that increasing the exemption limit was against the principle of GST of having wide tax base. It was further brought to fore that reducing the GST rate as well as GST base at the same time would not be conducive for the GST revenue. Furthermore, the exemption limit during the VAT regime in most of the States was even lower at Rs 10 lakh which had been increased to Rs 20 lakh in the GST regime and it was suggested that GST should be given time to stabilize. The tendency of businesses to split before hitting the threshold limit was also pointed out. A supporting view was that the compliance burden on the composition taxpayers would be drastically reduced in light of the proposal recommended earlier and the existing taxpayers may opt for the same.

6.5 Another view emerged that although the proposal would be highly beneficial to economically developed centres of the country, it would be rather skewed for those States where majority of the taxpayers came below the raised threshold limits. It was suggested that State-wise data of taxpayers who would become eligible to avail the benefit along with revenue implication may be presented before the GST Council to take an informed decision. The information loss about economic activity that would be coupled with the proposal also got discussed as an area of concern. After taking into consideration the revenue losses at various thresholds, there was a view expressed that the threshold should be at present raised to Rs 40 to 50 lakh.

6.6 An alternative view was expressed in light of the background of the proposal, that most of the MSMEs having turnover below Rs 1.5 crore under the Central Excise regime were exempt from taking registration and they needed to be facilitated. It was also noted that high compliance burden on the small tax payers yielded negative economic returns. The revenue earned from small taxpayers is not commensurate with compliance cost in GST (for a turnover of Rs.60 lakh the average tax payment per month is about Rs.5000/- while the compliance cost would be significantly higher). The money freed by lowering the compliance burden would add to the economy by way of multiplier effect. Accordingly,

a view was expressed that the annual turnover threshold should be raised to Rs 75 lakh as the benefits of raising the limits are considerable for the economy.

6.7. The GoM did not support the idea of raising the threshold limit for services along with goods as it could lead to considerable loss of revenue on the services side as seen from the table below.

<b>Turnover upto</b>	<b>No of taxpayers</b>	<b>Total turnover</b>	<b>Total tax payable</b>	<b>Tax paid in cash</b>	<b>Effective tax rate (%)</b>	<b>Cash tax/ turnover (%)</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>
<b>20 lakh</b>	25,88,534	2,04,797	33,861	15,433	16.5	7.5
<b>30 lakh</b>	29,13,872	3,18,696	49,998	23,107	15.7	7.3
<b>40 lakh</b>	31,47,078	4,35,136	66,153	30,352	15.2	7.0
<b>50 lakh</b>	33,23,766	5,56,840	81,949	37,046	14.7	6.7

6.8. **Recommendation of GoM:** Following recommendations were made by GoM after due deliberation:

- (i) The annual turnover threshold limit for payment of tax for supplier of goods needs to be raised; however, the final decision on new threshold, raising it from Rs 20 lakh to a level upto Rs 75 lakh, may be taken by the GST Council.
- (ii) The threshold limit for goods should be raised and not for services as considerable base of service providers is at lower level of turnover. The concerns of compliance for small service providers is proposed to be addressed through a composition scheme separately being recommended.
- (iii) Operational details for differential threshold limits for goods and services to be worked out by the Law Committee.
- (iv) Till amendment in law is made to give effect to this change, the scheme may be made operational by notifying exemptions from tax as well as exemption from registration.
- (v) The scheme may be made operational from the 1<sup>st</sup> of April, 2019.
- (vi) For Special Category States, view may be taken in the Council after due consultation with these States.

## 7. **Agenda IV: Composition scheme for small service providers**

7.1 In the joint meeting of the Law Committee and the Fitment Committee on 04<sup>th</sup> January 2019, it was proposed to introduce a composition scheme for services upto an annual turnover of Rs 50 lakh with tax rate of 8% (4% CGST+4% SGST), keeping the registration threshold for services unchanged.

7.2 The GoM discussed the need for a composition scheme for small service providers and took note of the fact that a simple composition scheme is needed for the services sector as these are often localized B2C service providers such as beauty parlour, dry cleaner, painter, household equipment maintainer etc. Even the professional service providers, having low turnover, needed to have a more moderate tax rate than the present rate of 18% tax with input tax credit.

7.3 The GoM noted that the tax rate of 8% was still high in services such as restaurant, a rate of 5% had been prescribed. As far as revenue loss due to a rate of 5% is concerned, it was noted that a very

large number of these service providers are works contractor who would like to remain in the input tax credit chain. Similarly, professional service providers etc., like architect, chartered engineers and consultants are also likely to remain in the input tax credit chain. Therefore, the revenue loss would be less than Rs 5000 crore annually, if a composition scheme at 5% is provided to the service providers and more than 50% of taxpayers stay in the input tax credit chain.

7.4 It was brought to notice that for implementation of composition scheme for services, amendment in law would be needed and till such time it may be made operational through a rate notification. Also, to address the issue of mixed suppliers of goods and services, and to keep the legal complexity at bay, it was suggested that composition scheme for services would be available as a residual scheme to every registered person, to whom composition scheme for goods is not available.

**7.5 Recommendation of GoM: Following recommendations were made by GoM after due deliberation:**

- (i) There should be a composition scheme made available for services with a tax rate of 5% (2.5% CGST +2.5% SGST), to be applicable to service providers upto an annual turnover of Rs 50 lakhs.
- (ii) The scheme shall be available to both service providers as well suppliers of goods and services, who are not eligible for the presently available composition scheme for goods.
- (iii) Till amendment in law is made, the scheme has to be made operational by notifying a rate of 5% without input tax credit as has been done in the case of restaurants.
- (iv) The scheme may be made operational from the 1<sup>st</sup> of April, 2019.

**8. Agenda V: Provision of free Accounting and Billing Software to small taxpayers by GSTN.**

8.1 The above issue was brought by GSTN and was discussed in the joint meeting of the Law Committee and the Fitment Committee on 04.01.2019 and was agreed upon.

8.2 The features of the software under development was explained to the GoM as below:

- i. Product with all features is offered free of cost to small tax payers.
- ii. No liability of GSTN.
- iii. Allow portability of data from one product to another.
- iv. Allow purging of data, if tax payer demands.
- v. Product may have Silver/Gold/Platinum packages which can be costed, but basic version remains free.
- vi. Provision not to misuse tax payers' data
- vii. Auto preparation of the relevant return would be done by the software viz GSTR 1 or 3B, 4, 9 etc.
- viii. Business will also get inventory management, Profit & Loss accounting, balance sheet preparation, income tax calculation, etc as basic features (free)
- ix. Easy to use software – both cloud and on-premise options available.

**8.3 Recommendation of GoM:**

- i. The GoM recommended that the software may be rolled out in a staggered manner, State-wise, similar to e-Way Bill.
  - ii. Planned rollout may be made from the first week of February, 2019.
9. The meeting of GoM for MSME ended with vote of thanks.

## Annexure 2

### Recommendation made in the joint meeting of Law Committee and Fitment Committee for deliberation by GoM for Micro, Small and Medium Enterprises (MSME)

It is submitted that the following four proposals were discussed by the Law Committee and Fitment Committee in its joint meeting held on 04.01.19: -

- I. Increase of limit of annual aggregate turnover for availment of composition scheme to Rs. 1.5 crore with effect from 01.04.2019 and simplification of compliance for such taxpayers by way of quarterly payment with annual return;
- II. Increasing threshold exemption for suppliers of goods (manufacturers and traders of goods not engaged in provision of services);
- III. Composition scheme for small service providers (i.e. those who are not presently eligible for composition scheme); and
- IV. Provision of free Accounting and Billing Software to small taxpayers.

2. The detailed agenda along with the decision taken in the said joint meeting are discussed in the below paras.

#### **3. Increase of limit of annual aggregate turnover for availment of composition scheme to Rs. 1.5 crore with effect from 01.04.2019 and simplification of compliance for such taxpayers by way of quarterly payment with annual return**

3.1 GST Council in its 23<sup>rd</sup> meeting held on 10<sup>th</sup> November, 2018 in regard to threshold limit of aggregate turnover for availing composition scheme, has decided the following: -

*“66. For agenda item 9, the Council approved the following:*

*i. ....*

*ii. ....*

*iii. Annual turnover eligibility for composition scheme shall be increased to Rs.2 crore from the present limit of Rs. 1 crore by changing the law. Thereafter, eligibility for composition shall be increased to Rs.1.5 crore per annum.*

*iv. ....*

*v. The changes recommended by GST Council at (iii) above to be implemented only after the necessary amendment of the CGST Act and SGST Acts.”*

3.2. It is submitted that amendment of the CGST Act, 2017 was carried out vide ‘The CGST (Amendment) Act, 2018’ as per the approval granted by GST Council in its 28<sup>th</sup> meeting held on 21.07.2018. The same will be brought into force from 01.02.2019. The relevant amendment with respect to increasing the aggregate turnover for the composition scheme is as follows: -

*“5. In section 10 of the principal Act,—*

*(a) in sub-section (1) —*

*(i) ....*

*(ii) in the proviso, for the words “one crore rupees”, the words “one crore and fifty lakh rupees” shall be substituted;”*

Hence, on enforcement of the said amendment Act w.e.f. 01.02.2019, proviso of the Section 10(1) of the CGST Act, 2017 will read as follows: -

*“Provided that the Government may, by notification, increase the said limit of fifty lakh rupees to such higher amount, not exceeding one crore and fifty lakh rupees, as may be recommended by the Council.”*

3.3 As per the data provided by GSTN (enclosed as Annexure A), the total tax payable from April, 2018 to September, 2018 by 16,22,529 taxpayers availing composition scheme was Rs. 1211.76 crore (including cess). On extrapolation of the same, **the amount of tax payable for the financial year 2018-19 by such taxpayers would be around Rs. 2423 crore**. It is further submitted that for the period April, 2018 to September, 2018, total number of regular taxpayers with aggregate turnover between Rs. 1 crore and Rs. 1.5 crore was 4,56,516 i.e. 5.23% of total taxpayers and tax payable by them was Rs. 34,815.16 crore i.e. 1.97% of the total revenue out of which Rs. 6,697 crore was paid in cash which works out to around 20% of the total liability. On extrapolation of the same **for the financial year, the amount of tax payable by such taxpayers would be around Rs. 69,630 crore (20% of this would be Rs. 13,926 crores)**. It is also submitted that these taxpayers would become eligible for opting for composition scheme but all of them may not opt for this scheme. Generally, those taxpayers opt for Composition Scheme who make B2C supply and therefore revenue implication may not be much.

3.4 In view of the above and in order to implement the decision of GST Council, following two issues were deliberated in the joint meeting of the Law Committee and the Fitment Committee held on 04.01.19: -

(i) To consider the proposal to increase the threshold limit of annual aggregate turnover to Rs. 1.5 crore for availing composition scheme and to decide the limit of the same for Special Category States.

(ii) To consider the following simplification of compliance for taxpayers under the composition scheme: -

“Taxpayers opting for composition scheme may be required to pay tax on quarterly basis. A challan may be devised which may incorporate details which are crucial for the tax authorities to ensure compliance from such taxpayers. Further, they may be required to furnish return only on annual basis.”

3.5 The issue was discussed in the said joint meeting and the following recommendations were made: -

(i) Proposal in paragraph 3.4(i) above (i.e. raising the annual turnover limit to Rs.1.5 crore) has already been recommended by the Council in its 23<sup>rd</sup> meeting. This may be implemented with effect from 01<sup>st</sup> April, 2019. The limit for Special Category States, currently with a lower composition threshold of Rs.75/50 lakh to be discussed separately with them.

(ii) The proposal at paragraph 3.4 (ii) above (i.e. filing of annual returns with quarterly payment along with declaration/statements) was also agreed and GSTR-4 may be suitably amended to this effect. This proposal would require amendment to the GST Law and the IT system.

#### **4. Increasing threshold exemption for suppliers of goods (manufacturers and traders of goods not engaged in provision of services)**

4.1 Present Position: In GST, the annual turnover threshold limit is Rs 20 lakh. For Special Category States it is Rs 10 lakh (except Jammu & Kashmir and after law amendments in six more Special Category States, namely Arunachal Pradesh, Assam, Himachal Pradesh, Meghalaya, Sikkim and Uttarakhand). Thus, only four Special Category States, namely Manipur, Mizoram, Nagaland and Tripura would have

threshold limit of Rs. 10 lakh. Any registered person above this annual threshold is required to take registration in GST. A person making inter-State sale, or making sale through e-Commerce is required to take registration even if his turnover is below the threshold limit. A composition scheme is available to supplier of goods (manufacturers and traders) having turnover of Rs 1 crore in a year. This limit is proposed to be increased to Rs 1.5 crore with effect from 01.04.2019 as per paragraph 3.5(i) above. It has been argued that MSME manufacturers having turnover of less than Rs 1.5 crore per annum were not required to take registration in Central Excise. This was an optional scheme. Therefore, only those manufacturers (below this threshold) took registration who were doing B2B business. MSME sector has been arguing that in GST, their compliance burden and tax incidence has increased significantly and that compliance cost is not commensurate with the tax that they pay, and hence a case has been made out for giving relief to these small taxpayers.

**4.2 Proposal for manufacturers and traders ('supplier of goods' for short) put before the joint committee:** There appears a strong case for increasing annual threshold from existing Rs.20 lakh to Rs. 75 lakh for supplier of goods. This proposal was also placed before the GST Council in its 31<sup>st</sup> Meeting held on 22<sup>nd</sup> December, 2018. In this meeting, it was a unanimous view that threshold needed a review. However, it was felt that the new threshold limit may be arrived at after due deliberations. The Council desired that GOM on MSME may examine this matter and make recommendations to the Council.

**4.3 Estimated revenue implication:** It is noticed that with increase in threshold for supplier of goods, the composition taxpayers falling under revised threshold would also get exempted from payment of taxes. Further, certain regular taxpayers may also opt for threshold exemption. The revenue implication has been worked out on the assumption that 50% of regular taxpayers will opt for threshold exemption and the same is indicated in Table below:

**TABLE**

**[Revenue in Rs crore]**

Threshold limit increased to	Revenue foregone from composition taxpayers (Rs crore)	No of existing composition taxpayers getting relief	Revenue foregone from regular taxpayers (Rs crore) [taken as 50% of revenue]	No of regular taxpayers getting relief (excluding nil filers) [taken as 50% of number in the slab]	Total revenue	Total Number
1	2	3	4	5	6	7
20 lakh	870	10,93,000	1,600	5,33,000	2,470	16,26,000
30 lakh	1,250	12,50,000	2,550	6,44,000	3,800	18,94,000
40 lakh	1,725	13,35,000	3,500	7,29,000	5,225	20,64,000
50 lakh	2,050	13,95,000	4,400	7,96,000	6,450	21,91,000
60 lakh	2,300	14,30,000	5,300	8,52,000	7,600	22,82,000
75 lakh	2,600	14,63,000	6,600	9,18,000	9,200	23,81,000

For Special Category States, most of the tax base is small. Hence any significant increase in threshold will wipe out their tax base. Accordingly, the threshold for these States may remain the same.

**4.4** The issue was discussed in the said joint meeting and the following was discussed: -

a) The Committee has been asked by the GST Council, in its 31<sup>st</sup> Meeting, to examine the proposal to increase the threshold. A majority of the members saw merit in the proposal to raise the threshold limit. Some of the merits advanced in favour of the proposal are as follows:

- 1) In the GST regime the compliance cost (including large payouts to various compliance professionals) of the small taxpayers has increased while the revenue earned from these taxpayers is not commensurate with the effort or the compliance burden;
- 2) The numbers suggest that upto an annual turnover of Rs.60 lakh the average tax payment per month is about Rs.5000/- and the compliance cost would be significantly higher. The money freed by lowering the compliance burden would add to the economy by way of multiplier effect;
- 3) The taxpayers who are showing lower turnover at present may be induced to show an increase in turnover as even upon increase in turnover, they would become eligible to exemption from registration on account of the raised threshold;
- 4) The benefit of increased threshold shall be availed by those taxpayers who are generally doing B2C transactions within the State and therefore the revenue implication would be lower.

b) A separate view may be taken from the remaining four Special Category States as well as all the States because the proportion of the number of small taxpayers and revenue therefrom is different in different States.

4.5 In view of the above, an alternative view that emerged was that the threshold limit for supplier of goods registration for States (excluding Special Category States) may be raised to an annual turnover of Rs.40 lakh and for the remaining four special category States currently at the lower threshold of Rs.10 lakh, the annual turnover limit may be raised to Rs.20 lakh.

4.6 It was also felt that in respect of taxpayers above this threshold, but between a certain range of turnover, may be required to pay a fixed sum (or a slab of flat taxes) with a one-line self-declaration which may be taken on an annual basis.

4.7 The Committee also felt that the following are the relevant factors for taking the decision:

- 1) the value of turnover of goods in the respective turnover slabs, in addition to the number of taxpayers and the total revenue involved;
- 2) the number of exclusions and/or exemptions should be minimal so that tracking of transactions in the value chain is ensured to a great extent;
- 3) the increase in threshold limit may lead to a tendency of non-declaration of B2C supplies thereby leading to further erosion of the tax base;
- 4) the compliance burden is likely to come down substantially once the benefit of quarterly returns is extended to taxpayers with a turnover less than Rs.5 crore (which covers around 93% of the total taxpayer base);
- 5) the increase in threshold may lead to decrease in direct tax collections;
- 6) too many changes may not be carried out at this stage and GST should be allowed to settle down;
- 7) increase in threshold may lead to further splitting of units;
- 8) threshold limit should be common for suppliers of goods and services;
- 9) since the constitution of taxpayers may vary from State to State, it will be better if the view of all the States is taken in the Officers' meeting and the Council before a final view is taken in the matter.
- 10) The above proposal requires amendment to the GST Law and the IT system



4.8 The GoM may take a final view in the matter as regards to the extent of increase in threshold limit.

**5. Composition Scheme for small service providers (i.e. those who are not presently eligible for composition scheme): -**

5.1. In case of services, the existing threshold of Rs 20 lakh (Rs. 10 lakh in Special Category States as stated above) appears grossly inadequate considering that even a small service provider like tutor, photographer, drycleaner, mechanic, painter etc. cross this turnover even though their net profit may be quite low as services also entail significant input costs. However, a very large base of services consist of taxpayers having small turnover. In service tax, the threshold limit was Rs. 10 lakh. Therefore, increasing threshold limit to Rs. 50 lakh for services may not be feasible at this stage (though desirable). It is proposed that for services, a composition scheme may be prescribed for small taxpayers whose turnover was upto Rs 50 lakh in the preceding year. Keeping in view that services has significant value addition (unlike goods), the composition rate may be prescribed as 5%. This would reduce compliance burden on a very large number of taxpayers while being revenue neutral at the same time. The revenue implication has been worked out considering that a large number of taxpayers are already paying GST even though their turnover is below Rs 20 lakh and they would continue to pay taxes under the regular regime even after benefit of composition scheme is extended. Therefore, revenue loss is likely to be less on account of composition scheme. Accordingly, revenue loss has been computed assuming 50% of existing taxpayers will avail composition on the revenue base for the period from July 2017 to June 2018. The same is shown in Table below:

**Revenue implications (Based on July 17- June 18 data)**

**TABLE**

**(Rs. in crore)**

Turnover upto	Total turnover	Total tax payable	Tax paid in cash	Effective tax rate (%)	Cash tax/ turnover (%)	Rev@ 5%	Revenue Implication (Comp@5%) [If 50% avail composition]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
20 lakh	2,04,797	33,861	15,433	16.5	7.5	10,240	2,597
30 lakh	3,18,696	49,998	23,107	15.7	7.3	15,935	3,586
40 lakh	4,35,136	66,153	30,352	15.2	7.0	21,757	4,298
50 lakh	5,56,840	81,949	37,046	14.7	6.7	27,842	4,602

Number of taxpayers likely to get benefit from composition scheme (taxpayers engaged in providing services and other supplies and not presently eligible for the composition scheme)- taking 50% of the base in the slab is as below:

State	Upto Rs. 20 lakh*	Upto Rs. 30 lakh*	Upto Rs. 40 lakh*	Upto Rs. 50 lakh*
All	12,94,267	14,56,936	15,73,539	16,61,883

\*excluding nil filers/50% of the base in the slab

5.2 The issue was discussed in the said joint meeting and the following recommendations have been made: -

a) Pursuant to the amended law, composition scheme is permitted to taxpayers whose turnover does not exceed Rs.100 lakh (Rs.75 lakh for certain Special Category States) and who deal only in goods subject to provision of services to the extent of 10% of the previous years' turnover or Rs.5 lakh, whichever is higher. Thus, service providers to whom the amended law does not apply are not eligible for composition even though they may be small service providers in terms of turnover.

b) The Council, in its 31<sup>st</sup> Meeting, accorded in principle approval to have a composition scheme for small service providers but turnover threshold and the rate of tax was to be discussed by the Law Committee and the Fitment Committee.

c) It is proposed that, in slight modification of the aforesaid decision of the Council, all those taxpayers who are not eligible for the composition scheme as per the amended law may be offered an alternate composition scheme if their turnover in the preceding financial year did not exceed Rs.50 lakh. Further, they would be liable to pay an amount of tax in lieu of the tax payable by them at the rate of eight percent of the turnover.

d) It was also felt that instead of extending composition to the aforesaid category of taxpayers, the benefit of raised threshold for registration of Rs.40 lakh, suggested in a separate agenda item, may be extended to suppliers of both goods and services. This will have the added advantage of avoiding differential treatment of goods and services.

e) The above proposal requires amendment to the GST Law and the IT system.

6. Provision of free Accounting and Billing Software to small taxpayers. The above issue was brought by GSTN (attached as **Annexure B**) and was discussed in the said joint meeting and was agreed. A separate presentation will be made by the GSTN to the GoM.

7. The recommendations of the joint meeting of the law committee and the Fitment Committee on the above issues related to MSMEs, as detailed in paragraph 3, 4 and 5 is submitted to the Group of Ministers for MSME for further deliberation.

## ANNEXURE A

REGULAR TAX PAYERS														
SLAB	COUNT	IN %	TOTAL TAX PAYABLE (APRIL 2018 TO SEP 2018)					IN %	TOTAL TAX PAID THROUGH CASH (APRIL 2018 TO SEP 2018)					IN %
			CGST	SGST	IGST	CESS	TOTAL TAX PAYABLE excl. CESS		CASH_CGST	CASH_SGST	CASH_IGST	CASH_CESS	TOTAL TAX PAID THROUGH CASH excl. CESS	
NIL	2069731	23.72	6770.67	6746.42	4836.29	745.72	18353.37	1.04	1749.54	1896.13	1181.52	280.54	4827.19	1.41
Upto 5 Lakhs	988128	11.32	1545.35	1543.55	677.95	44.56	3766.86	0.21	376.13	403.57	198.63	4.40	978.33	0.29
5 to 10 Lakhs	629148	7.21	1862.75	1860.57	679.94	53.90	4403.26	0.25	453.68	488.83	229.68	3.36	1172.19	0.34
10 to 20 Lakhs	855459	9.80	4255.06	4231.12	1626.00	185.27	10112.18	0.57	1098.98	1180.02	535.12	14.16	2814.12	0.82
20 to 30 Lakhs	580947	6.66	4417.79	4419.94	1532.13	199.50	10369.86	0.59	1161.34	1255.77	553.65	5.77	2970.76	0.87
30 to 40 Lakhs	421528	4.83	4298.66	4297.26	54335.68	180.11	62931.59	3.57	1052.43	1148.52	512.01	5.74	2712.96	0.79
40 to 50 Lakhs	324951	3.72	4162.50	4168.96	1440.67	204.71	9772.13	0.55	940.48	1047.27	480.27	6.25	2468.02	0.72
50 to 70 Lakhs	474029	5.43	7796.35	7795.35	2774.89	393.30	18366.58	1.04	1596.05	1798.60	873.27	16.23	4267.92	1.24
70 Lakh to 1 Crore	466518	5.35	10534.03	10518.83	4367.06	580.32	25419.92	1.44	1931.57	2234.08	1099.15	19.27	5264.80	1.53
1 Crore to 1.5 Crores	456516	5.23	14517.97	14583.78	5713.42	882.73	34815.16	1.97	2373.93	2839.85	1483.50	23.34	6697.28	1.95
1.5 Crores to 2 Crores	267233	3.06	11643.64	11689.45	4788.70	817.27	28121.79	1.59	1749.36	2156.67	1171.02	66.94	5077.04	1.48
2 Crores to 3 Crores	308246	3.53	18188.41	18211.90	7817.63	1229.91	44217.94	2.51	2536.00	3204.04	1803.23	34.83	7543.28	2.20
3 Crores to 4 Crores	177922	2.04	14111.49	14121.73	6502.82	1048.36	34736.04	1.97	1843.94	2415.92	1369.81	51.16	5629.66	1.64
4 Crores to 5 Crores	116253	1.33	11464.58	11462.21	10684.86	908.01	33611.65	1.91	1430.82	1917.98	1145.47	41.76	4494.27	1.31
5 Crores to 8 Crores	195031	2.24	25920.90	25880.03	13519.92	2116.64	65320.85	3.70	3002.48	4144.03	2582.49	74.45	9729.00	2.84
8 Crores to 10 Crores	72551	0.83	12445.07	12443.09	7264.27	1322.14	32152.43	1.82	1438.72	2028.84	1370.58	51.15	4838.15	1.41
10 Crores to 20 Crores	155588	1.78	39686.74	39646.77	26085.76	4606.56	105419.27	5.98	4397.95	6410.14	4807.86	314.16	15615.95	4.55
20 Crores to 50 Crores	97816	1.12	53199.58	53116.48	44031.17	7584.02	150347.22	8.53	6048.17	9287.51	7484.05	662.97	22819.74	6.65
50 Crores to 100 Crores	33982	0.39	41600.40	41468.38	39912.73	5970.58	122981.52	6.97	5039.48	8057.46	6989.21	497.59	20086.15	5.85
100 Crores to 500 Crores	28118	0.32	96924.87	96668.10	117069.19	14684.09	310662.16	17.62	12695.74	21194.82	22021.54	4560.06	55912.10	16.30
Above 500 Crores	5941	0.07	145049.54	144229.83	348323.60	48992.99	637602.97	36.16	30581.47	42786.70	83810.92	35580.31	157179.10	45.81
Overall	8725636	100	530396.35	529103.73	703984.66	92750.70	1763484.74	100.00	83498.26	117896.75	141702.99	42314.45	343098.01	100.00

### COMPOSITION TAX PAYERS

TURN OVER SLAB BASED ON 2017-18	Numbers of taxpayers	TOTAL TAX PAID (2018-19) -- JUNE & SEPTEMBER 2018				Total Tax Paid Excluding CESS
		CGST	SGST	IGST	CESS	
NIL	3,19,473	15.43	15.43	0.03	0.000	30.88
Upto Rs. 5 Lakhs	3,55,503	33.41	33.41	0.04	0.000	66.86
Rs 5 Lakhs to 10 Lakhs	2,43,986	52.60	52.60	0.06	0.000	105.27
Rs. 10 Lakhs to 20 Lakhs	2,87,041	109.56	109.56	0.11	0.000	219.23
Rs. 20 Lakhs to 30 Lakhs	1,56,784	96.18	96.18	0.09	0.000	192.44
Rs. 30 Lakhs to 40 Lakhs	94,755	78.96	78.96	0.08	0.000	158.00
Rs. 40 Lakhs to 50 Lakhs	59,611	62.87	62.87	0.07	0.000	125.80
Rs. 50 Lakhs to 60 Lakhs	38,599	48.68	48.68	0.08	0.001	97.45
Rs. 60 Lakhs to 70 Lakhs	24,832	35.98	35.98	0.03	0.000	71.99
Rs. 70 Lakhs to 80 Lakhs	15,494	25.01	25.01	0.05	0.000	50.06
Rs. 80 Lakhs to 90 Lakhs	9,222	15.76	15.76	0.02	0.000	31.54
Rs. 90 Lakhs to 1 Crore	5,747	10.16	10.16	0.03	0.000	20.34
Rs. 1 Crore to 1.10 Crore	3,562	6.54	6.54	0.01	0.000	13.10
Rs.1.10 Crore to 1.20 Crore	2,236	4.10	4.10	0.01	0.000	8.21
Rs.1.20 Crore to 1.30 Crore	1,464	2.77	2.77	0.01	0.000	5.55
Rs.1.30 Crore to 1.40 Crore	1,009	1.80	1.80	0.00	0.000	3.59
Rs.1.40 Crore to Rs. 1.50 Crore	746	1.34	1.34	0.00	0.000	2.68
Above 1.5 Crore	2,465	4.37	4.37	0.01	0.000	8.74
<b>GRAND TOTAL</b>	<b>16,22,529</b>	<b>605.51</b>	<b>605.51</b>	<b>0.74</b>	<b>0.001</b>	<b>1211.76</b>

## Annexure B

### Provision of Free Accounting and Billing Software to Small Tax Payers (annual turnover upto Rs. 1.5 crore)

1. **Background.** GST regime having been promulgated in the country w.e.f. 01<sup>st</sup> July 2017, taxpayers were required to file and submit returns electronically at the GST portal that was implemented by GSTN. The digitalization of the indirect tax regime from the legacy paper-based one to the electronic, single tax GST was quite revolutionary that resulted in several challenges to the small businesses. The businesses reached out and communicated their difficulties and measures were analyzed as to how the concerns and challenges being faced by the small taxpayers could be alleviated. One of the areas was automation of accounting and billing. The then Revenue Secretary tasked GSTN with exploring the possibilities of providing an accounting and billing software to small taxpayers (having annual turnover upto Rs 1.5 Crores) without any cost to the taxpayers.
2. **Objectives:** The following objectives were expected to be achieved by providing Accounting and Billing Software without any cost to small taxpayers:
  - a. A free utility that would address the concerns of cost to the small business.
  - b. An electronic platform that would digitalise their day-to-day business needs e.g. inventory management, accounting, billing, etc.
  - c. The taxpayers would be offered ready to use and mature products from established and professional product companies.
  - d. The utility would seamlessly offer the option of return filing, to enable compliance to GST.
  - e. Alleviate the compliance burden of the business and taxpayers through a software.
  - f. The utility would be chosen so as to be business friendly so that semi-literate businesses could also use it to remain compliant.
3. **Methodology:** An Expression of Interest was, accordingly published by GSTN in December 2017, calling for software product companies that were working in the financial technology domain, to participate in the offering of accounting and billing software that would alleviate the technical difficulties of small businesses and ease their burden of preparing electronic bills, invoices, returns etc. and enable them to file it seamlessly into the GST System. Basic features of the accounting and billing software as advertised in the EOI are at Annexure-II.
4. After receiving 43 bids and scrutinizing them for financial viability of the companies, the technical maturity and functionality of the products, 18 software providers were shortlisted based on recommendation of a Technical Evaluation Committee. Later three of them offered to provide the software free of cost for use by small taxpayers. Thus, remaining 15 product owners were also asked if they were ready to offer the products free of cost to small taxpayers and support them with NO LIABILITY towards GSTN. Total of 14 out of 18 companies responded confirming their willingness to provide the accounting software as per EOI free of cost for use by small taxpayers. They will be free to provide added features at a cost which will be determined by the market as there will be multiple providers. Also, they will sell the product to taxpayers having annual turnover above Rs 1.5 Cr.
5. ICAI (Institute of Chartered Accountants of India) was approached to finally perform a rigorous test of the products to ensure that they were in compliance with the necessary regulatory provisions and were easy to use and were offering all the basic features as asked in the EoI. The outcome of the stringent evaluation done by a team of CAs deputed by ICAI has now yielded 7 products of 7 providers, which their owners have agreed to provide free of cost to small taxpayers for all GST compliance activities to include billing, invoicing, return filing, ledger/inventory maintenance, P & L and balance sheet maintenance, etc.

6. It is proposed to provide access to these free software from the GST portal, after seeking the confirmation from the taxpayers on their turnover and de-risk GSTN from all liabilities that may arise out of their using the free utilities.
7. The proposed date of go live is from 01<sup>st</sup> Feb 2019 to be executed in a staggered manner starting with one to two states, as was done in case of e-way bill.
8. **Proposal for perusal of GoM on MSME.**

## **Annexure I**

### **LIST OF SELECTED COMPANIES & PRODUCT NAMES**

Final selection:

- a. **Adaequare Info Pvt Ltd:** UBooks (Cloud based)
- b. **Intuit India Software Solutions Pvt Ltd:** QuikBooks (Cloud based)
- c. **Zoho Corporation Pvt Ltd:** Zohobooks (Cloud based)
- d. **Marg ERP Ltd:** Marg (On-premises i.e. Offline)
- e. **Seshasai Business Forms Pvt Ltd:** GenieBooks (Cloud based)
- f. **Relyon Softech Ltd:** Saral Accounts (On-premises i.e. Offline)
- g. **Focus Softnet Pvt Ltd:** FocusLyte (Cloud based)

## **Annexure II**

### **Feature Set: Basic Version (Free)**

<b>Basic Features of Accounting and Billing Software</b>
System should have access for Single User
System should be in English and have all item Units , Financial Years Facility
Supplier, Customers Master Directory with all the required field
Sale / Purchase, Cash Bank Ledger
Should be able to Print invoices and ledger
Should have easy migration of data from one accounting & billing software to other accounting & billing software
Item (SKU) Search - Search Item by Bar Code, Short Code or by Description.
Item master with HSN code, description, Unit of measure (UoM), price, tax rate etc.
Taxation – Automatic calculation of Taxes (GST) payable. Rate of tax must be editable in the item master
Charges - Includes other charges in the bill.
Cancelling/ Voiding - Sales Bill can be cancelled any time before submission
Search Bill from history- By customer, date or bill number. Min 3 month period for search. For archival, period will be 5 years. Goods return facility
System should be able to issue/display Credit note Debit note including pending & Replacement Notes

Supplier Selection - Enter purchase bill either by Supplier or Cash Purchase. Manage supplier master.
Generation of purchase order and maintenance of purchase register
Linking of suppliers invoice with Purchase Order
Automated inventory update basis purchase
Taxation – Automated calculation of GST payable per Purchase Order.
Search purchase - By supplier, date and bill number, it also should show supplier Wise .Min 3 month period for search. For archival, period will be 5 years.
Generate Profit and Loss and Balance sheet
Sales/ Purchase Register Report - Detailed, Day wise, Item wise Month wise, Quarter for the period selected.
Sales / Purchase receivable and payable Report
Stock Report ,Return History Report
Cash and bank book
System should be able to export reports and all data to Excel/PDF or any other format as required for returns.
Generate outward supply return like GSTR3B, GSTR-1 ,GSTR-4 , GSTR 9 or any other returns as the case may be
Generating mismatch report between downloaded GSTR2A and Local purchase register to help prepare GSTR2.
Create mismatch report based on GSTR-2A downloaded from GST portal and Purchase register maintained by the system and then create GSTR-2
Create draft Annual Return based on monthly/quarterly returns filed.

**Agenda Item 11: Report of GoM on Revenue Mobilisation (Modalities for Revenue Mobilisation in case of Natural Calamities and Disasters)**

The Hon'ble Finance Minister of Kerala had submitted a proposal for levy of additional cess on SGST (State Goods & Service Tax) and other alternative measures like hike in borrowing limit of the State for raising funds for flood rehabilitation activities. The State of Kerala had specifically requested for levy of additional 10% cess on SGST in its State for flood relief. Considering the overall facts and circumstances under GST regime, with a view to provide additional funds for flood rehabilitation to Kerala, this issue was discussed in the 30<sup>th</sup> GST Council Meeting held on 28<sup>th</sup> September, 2018. Accordingly, on the recommendation of GST Council, a Group of Ministers (GoM) had been constituted to examine modalities for revenue mobilisation for natural calamities and disasters. Shri Sushil Kumar Modi, Hon'ble Deputy Chief Minister, Government of Bihar is the Convenor and Finance Ministers of States of Assam, Kerala, Maharashtra, Odisha, Punjab and Uttarakhand are the Members of this GoM.

2. The terms of reference (TOR) for the '**GoM on Revenue Mobilisation**' in a case of Natural Calamities and Disasters shall be to examine the following:

- i. Whether the mechanism of funding to the States through National Disaster Response Fund (NDRF) is sufficient in case of natural calamities and disaster;
- ii. Whether there should also be a supplementary mechanism for funding natural calamities and disasters through GST, and if so, whether it should be through additional cess or tax, and whether such levy should be State specific or across the country;
- iii. The circumstances in which a State shall become entitled to get funding over and above the funds obtained through NDRF mechanism;
- iv. Whether it is permissible under the relevant provisions of Constitution and the GST law to create an omnibus GST Disaster Relief Fund for natural calamities or whether resources can be raised only for a specific event qualifying as natural calamity or disaster;
- v. If a GST Disaster Relief Fund is created, what should be the mechanism for its collection, accountal and disbursement, including whether such disbursement should only be for a major natural calamity/disaster and the criteria thereof;
- vi. What changes in law, if any, would be needed to create a GST Disaster Relief Fund.

3. This issue was discussed in the GoM meeting held on 15.10.2018. As per deliberation/decision of the GoM vide Minutes dated 18.10.2018 of the aforesaid GoM, a set of questionnaire had been prepared and sent to all States seeking views/suggestions on the following points:

- i. Which of the following would be better and convenient mechanism to support the State in case of Natural Calamity or disaster:
  - (a) Increase in the borrowing limits of State
  - (b) Tweaking of NDRF Norms
  - (c) States specific disaster cess
- ii. Whether increase in GST rate or levy of cess would be a better mechanism to raise resources for supporting a State in case of natural calamities.
- iii. Whether increase in GST rate or increase of tax on non-GST goods would be better for mobilisation of revenue in case of Natural Calamity.
- iv. In case of State Specific disaster cess, such cess should be levied on all items or only on luxury goods over all GST (CGST/IGST/UTGST) or only on SGST.



- v. What would be the amount of revenue mobilized due to increase of 0.25% or 0.5% in SGST rate as suggested by Kerala Govt? Whether it would be sufficient for meeting the requirement on account of relief and rehabilitation?
  - vi. Mechanism for rising of resources for disaster management within the framework of Disaster Management Act, 2005 and how it should be dovetailed with the recommendations of Finance Commission.
4. So far, views of States received are as under:

**A. Views of Gujarat**

- i. It has been suggested to ease NDRF norms looking into the gravity of natural disaster/calamity.
- ii. As per provision in Section 12 of the Constitution Amendment Act, 2016 for levy of special rate/rates for specified period to raise additional resources during natural calamities/disaster on the basis of recommendation of GST Council, increasing GST rate and subsequently reversing ITC (Input Tax Credit) to the extent of such increase in the rate in case of inter-state transaction of such goods and services seems to be advisable, as it does not require enactment of new law and there will be no extra compliance cost on tax payer.
- iii. Resources may be mobilized by way of increasing GST rate as well as increasing tax on non-GST goods, leaving it to the concerned State to decide in case of natural calamities.
- iv. There should not be limitation with respect to levying tax on specific items and State should be allowed to generate resources by way of increasing rate on specific goods and services depending upon the amount of revenue required for natural calamity/disaster fund.
- v. The rate of tax will depend on extent of relief resources required which will vary from State to State.
- vi. Mechanism for raising of resources for disaster management within the framework of Disaster Management Act, 2005 should be dovetailed with the recommendation of Finance Commission.

**B. Views of Karnataka**

- i. As per provision in Article 279A (4) of the Constitution of India, the GST Council is empowered to make recommendation for levy of special rate/rates for specified period to raise additional resources during natural calamities/disaster.
- ii. Considering the fact that presently a cess is being levied for compensation to the state, it would be better if rate of tax is increased by 0.25% on supplies of goods and services or both.
- iii. Increase in GST rate is always better option as it would result in mobilisation of a considerable amount of additional revenue in comparison to non-GST goods.
- iv. Any state specific cess should be levied on all supplies of goods or services or both. It should also be levied on supplies attracting levy of both CGST and SGST or IGST to avoid distortion in tax levy so that it would facilitate easy flow of input tax credit within a State or from one State to another without any cascading effect. The ideal situation would be to levy such cess in all States for creating a Natural Calamity Fund in each State and a Central Fund through such cess on CGST.

- v. The amount appears to be negligible considering the amount required for relief works of any natural calamity or disaster.
- vi. No comments.

**C. Views of Tamil Nadu**

- i. It should be ensured that the cess or additional tax is levied on the SGST payable within the respective State. It should be ensured through the system that the tax only falls on taxpayers in Kerala State. It should not be applicable on IGST payable when goods are exported from Kerala so that those in Tamil Nadu and other States buying goods from Kerala are not adversely affected and do not face any cost increase.
- ii. The system changes needed should not adversely affect the functioning of the GSTN IT system in other States or cause any compliance burden on other States.
- iii. It is also suggested that the Council should fix the period during which such Cess will be levied, as per Article 279 A 4(f) of the Constitution. The period should be kept short and not indefinite, as otherwise, the basic objective of having a common national rate will be lost.
- iv. The Government of Tamil Nadu in principle agrees to the proposal to levy of State-specific additional cess on the SGST of the particular State for the purpose of creating additional resource for funding natural calamities and disasters through GST.
- v. The Government of Tamil Nadu does not support levy of any cess/additional rate of tax at all India level for purpose of Disaster Relief Fund or any other purpose. It should only be by the States which choose to levy it. Funding for National Disaster Relief Fund should come from the Centre and not from any GST cess or special levy.

**D. Views of Uttarakhand**

- (i) There are many States, which are prone to concurrent disasters, of varied scale, which might not be covered by the current NDRF norms, and when the cumulative effect of all such incidences are aggregated, it would require huge amounts of funds for mitigation, rehabilitation, reconstruction, currently not included in the norms. Hence, tweaking of NDRF norms is recommended. Also, providing for State specific disaster cess, would help, in case of emergency, as the extra revenue generation capacity of the States are severely restricted post-GST.
- (ii) Increase in GST rate is a better option, as identified commodities can be selectively targeted for revenue generation.
- (iii) Increase in GST rate is always a better option, as one can tax a wide array of commodities.
- (iv) In case of State Specific Disaster Cess, it should be levied on all items, over all GST.
- (v) Based on historical data on tax accrued, it should be decided, as to what rate of tax should be additionally charged, and during which period. The upper limit, if need to be fixed, should be at least 1%.
- (vi) The scope of disasters and relief required under disaster management and the funds should be suitably raised, with provisions for it being made in the Finance Commission too.

5. In the second meeting of GoM held on 06.01.2019, a detailed discussion took place with respect to mobilisation of additional revenue during natural calamities. GoM also took note of the legal opinion given by the learned Attorney General of India on imposition of cess wherein it has been opined that Parliament and the State Legislature have the authority to levy any cess for specific purpose. The GoM also considered the views given by the State Government. Following points were discussed and recommended by the GoM:

- (i) Hon'ble Finance Minister of Uttarakhand apprised the GoM about inadequacy in NDRF norms for various items of relief. He stated that this was leading to undue financial burden on States facing the natural disaster and which was already reeling under financial stress. **GoM recommended that the NDRF norms should be considered for revision after due consultation with State Governments.**
- (ii) The GoM discussed the pros and cons of the two ways of mobilizing revenue for natural disasters, viz increase in SGST rate and cess on supply of goods and services. While the GoM agreed that imposition would require a separate legislation, to ensure uniformity in SGST rates across the country, cess would be a better way to mobilise revenue for natural disasters. It will ensure that the revenue so realized could be clearly earmarked and would be outside the compensation arrangement. GoM noted that as per the Constitutional provisions, this will have to be recommended for a particular case of natural calamity for a specified period. Keeping in view the proposal of Kerala, GoM recommended that the Council may consider allowing levy of a cess on intra-State supply of goods and services within the State of Kerala at a rate not exceeding 1% for a period not exceeding two years.
- (iii) GoM also discussed the issue of relaxation of the FRBM limits of fiscal deficit and felt that for the purposes of reconstruction after the initial impact of natural calamities, Central Government may consider allowing States to incur a fiscal deficit higher than the FRBM targets for a specified period. This would enable States to take up reconstruction activities without impacting their ongoing development programmes. GoM felt that this could either be done by excluding the reconstruction expenditure outside the FRBM limits or by providing additional borrowings over and above the FRBM target over a specified number of years.

6. The recommendations of GoM on additional revenue mobilisation in case of natural calamities and disasters are placed before GST Council for further discussion and decision.