

# ***GOODS & SERVICES TAX / IDT UPDATE – 38***

## ***Amendment in the Notification No. 11/2017***

The Central Government vide *Notification no. 1/2018-Central Tax (Rate) dated 25<sup>th</sup> January, 2018* has amended Notification no. 11/2017 Central Tax dated 28<sup>th</sup> June, 2017. Following amendments have been made in the notification:

### **1. In Serial No. 3:**

**substitution in clause (c) of item (iv) :** a civil structure or any other original works pertaining to the “In-situ redevelopment of existing slums using land as a resource, under the Housing for All (Urban) Mission/ Pradhan Mantri Awas Yojana (Urban) .

Earlier CGST @6% was leviable when construction service was provided for civil structure constructed only for existing slum dwellers .Now; this rate will apply irrespective of condition of existing slum dwellers.

**Insertion of clause (da) of item (iv) :** This clause provides that CGST @ 6% will be leviable on construction service provided for construction of a civil structure or any other original works pertaining to the “Economically Weaker Section (EWS) houses” constructed under the Affordable Housing in partnership by State or Union territory or local authority or urban development authority under the Housing for All (Urban) Mission/ Pradhan Mantri Awas Yojana (Urban) .Earlier any construction service other than specified anywhere was taxable @ 9%

**Insertion of clause (db) of item (iv) :** This clause provides that CGST @ 6% will be leviable on construction service provided for construction of a civil structure or any other original works pertaining to the “houses constructed or acquired under the Credit Linked Subsidy Scheme for Economically Weaker Section (EWS)/ Lower Income Group (LIG)/ Middle Income Group-1 (MIG-1)/ Middle Income Group-2 (MIG-2)” under the Housing for All (Urban) Mission/ Pradhan Mantri Awas Yojana (Urban).

**Insertion of clause (g) of item (iv):** This clause provides that CGST @ 6% will be leviable on construction service provided for construction of a building owned by an entity registered under section 12AA of the Income Tax Act, 1961 (43 of 1961), which is used for carrying out the activities of providing, centralized cooking or distribution, for mid-day meals under the mid-day meal scheme sponsored by the Central Government, State Government, Union territory or local authorities.

**Substitution in clause (a) of item (v):** for the word “excluding”, the word “including” shall be substituted.

Earlier works contract service pertaining to railways excluding monorail and metro were leviable to CGST @ 6%. Now, works contract service pertaining to monorail and metro are also leviable to CGST @ 6% .

**Insertion in clause (da) of item (v):** This clause provides that CGST @ 6% will be leviable on construction service provided for construction of low-cost houses up to a carpet area of 60

square metres per house in an affordable housing project which has been given infrastructure status vide notification of Government of India, in Ministry of Finance, Department of Economic Affairs vide F. No. 13/6/2009-INF, dated the 30th March,2017.

**substitution in certain items identified by their clause number in 11/2017-Central Tax (Rate) dated 28 June, 2017 as amended to date** : Through this substitution GST rates has been notified for the following description of services:

(3)	Existing Rate	Revised Rate	(5)	<i>Reasons</i>
<p>“(ix) Composite supply of works contract provided by a sub-contractor to the main contractor providing services to the Central Government, State Government, Union territory, a local authority, a Governmental Authority or a Government Entity.</p> <p>(iii) services by way of construction , installation of historical monuments, archaeological site , canal dams, water pipeline etc or</p> <p>(vi) Services by way of construction erection commissioning of road , bridge , civil structures pertaining to schemes under Rajiv Awas Yojna , Pradhan Mantra Awas Yojna etc</p>	9	6	<p>Provided that where the services are supplied to a Government Entity, they should have been procured by the said entity in relation to a work entrusted to it by the Central Government, State Government, Union territory or local authority, as the case may be</p>	<p><i>To align the rate on services of sub-contractor to main contractor.</i></p>
<p>(x) Composite supply of works contract provided by a sub-contractor to the main contractor to the</p>	9	2.5	<p>Provided that where the services are supplied to a Government Entity, they should</p>	<p><i>Apart from alignment of rate applicable to sub-contractor with main-contractor, it</i></p>

<p>Central Government, State Government, Union territory, a local authority, a Governmental Authority or a Government Entity</p> <p>(vii) services involving predominantly earth work (that is constituting more than 75 percent of the value of the works contract )</p>			<p>have been procured by the said entity in relation to a work entrusted to it by the Central Government, State Government, Union territory or local authority, as the case may be.</p>	<p><i>is to be noted that supply does not involve transfer of land or share in land under this clause, it is a case of pure construction activity by sub-contractor</i></p>
<p>(xi) Services by way of housekeeping, such as plumbing, carpentering, etc. where the person supplying such service through electronic commerce operator is not liable for registration under subsection (1) of section 22 of the Central Goods and Services Tax Act, 2017.</p>	9	2.5	<p>Provided that credit of input tax charged on goods and services has not been taken [Please refer to Explanation no. (iv)].</p>	<p><i>This rate applies to the ECO and not underlying supplier. Also, this rate is not optional for ECO.</i></p>
<p>(xii) Construction services other than (i), (ii), (iii), (iv), (v), (vi), (vii), (viii),(ix), (x)and (xi) above.</p>	9	9	-	<p><i>All other cases not covered by the above clauses fall here. Also, since there is no 'or' appearing before clause (xii), the rates specified in the clause above are mandatory. There are views that one can opt to retain ITC and pay 9% CGST but that view is to be taken with great caution.</i></p>

**2. In serial no. 9 :**

**Substitution in item (v)** For the words “natural gas”, the words and brackets “natural gas, petroleum crude, motor spirit (commonly known as petrol), high speed diesel or aviation turbine fuel” shall be substituted. Therefore, Now transportation of petroleum crude, motor spirit (commonly known as petrol), high speed diesel or aviation turbine fuel through pipeline shall also be leviable to CGST @ 2.5%.

*Comment: Please note the corresponding changes in the notifications of 1 Feb, 2018 and 2 Feb, 2018 under Customs in respect of these products to maintain rate parity of taxes and duties.*

**3. In serial no. 10 :**

**Substitution in item (ii)** Through this substitution GST rates has been notified for the following description of services:

(3)	Existing Rate	Revised Rate	(5)	Remarks
“(ii) Time charter of vessels for transport of goods.	2.5	9	Provided that credit of input tax charged on goods (other than on ships, vessels including bulk carriers and tankers) has not been taken [Please refer to Explanation no. (iv)].	<i>Rate increase is prospective and not optional. Where ITC may not have been availed, the same can now be availed by in accordance with section 18 read with rule 43 in case ITC was not availed on recent purchases. ITC blocked in returns filed recently are not lost permanently due to this revision in condition. Also, the condition applicable will not restrict ITC to the Recipient.</i>
(iii) Rental services of transport vehicles with or without operators, other than (i) and (ii) above.	9	9	-	<i>Supplies falling in this category must be determined with great caution due to the expansive words in clauses (i) and (ii)</i>

**4. Substitution In serial no. 16 :** Through this substitution GST rates has been notified for the following description of services:

(3)	Existing	Revised Rate	(5)	Remarks
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	Rate			
(i) Services by the Central Government, State Government, Union territory or local authority to governmental authority or government entity, by way of lease of land.	9	Nil	-	<i>The prescribed rate itself is reduced to 'nil'. This rate applies only inter-Government lease and not to private entities.</i>
(ii) Supply of land or undivided share of land by way of lease or sub lease where such supply is a part of composite supply of construction of flats, etc. specified in the entry in column (3), against serial number 3, at item (i); sub-item (b), sub-item (c), subitem (d), sub-item (da) and sub-item (db) of item (iv); sub-item (b), sub-item (c), sub-item (d) and sub-item (da) of item (v); and sub-item (c) of item (vi).  Provided that nothing contained in this entry shall apply to an amount charged for such lease and sub-lease in excess of one third of the total amount charged for the said composite supply. Total amount shall have the same meaning for the purpose of this proviso as given in paragraph 2 of this notification	9	Nil	-	<i>Transfer of land or share of land 'leasehold' basis as part of composite supply of building is supply but rate is 'nil'. As such, it seems to suggest that transfer of land or share of land on 'freehold' basis is taxable.</i>  <i>This 'nil' rate is available only when the value of such 'leasehold' rights is not more than 1/3<sup>rd</sup> of the total value.</i>
(iii) Real estate services other than (i) and (ii) above	9	9	-	<i>Transfer on 'freehold' basis is taxable.</i>

**5. Substitution In serial no. 17 :** Through this substitution GST rates has been notified for the following description of services:

(3)	Existing Rate	Revised Rate	(5)	Remarks
(vii) Time charter of vessels for transport of goods	Same rate of central tax as applicable on supply of like goods involving transfer of title in goods	2.5	Provided that credit of input tax charged on goods (other than on ships, vessels including bulk carriers and tankers) has not been taken [Please refer to Explanation no. (iv)].	Refer sl. no. 10 above
(viii) Leasing or rental services, with or without operator, other than (i), (ii), (iii), (iv), (v), (vi) and (vii) above.	Same rate of central tax as applicable on supply of like goods involving transfer of title in goods	Same rate of central tax as applicable on supply of like goods involving transfer of title in goods	-	

**6. In Serial no. 23 :**

**Insertion in item (i) :** in condition 1 in column (5), after the words “supplying the service”, the words and brackets “, other than the input tax credit of input service in the same line of business (i.e. tour operator service procured from another tour operator)” shall be inserted

*Comment: This is a welcome change and now ITC of input services in the same line of business can be availed.*

**Substitution in item (ii):** Through this substitution GST rates has been notified for the following description of services:

(3)	Existing Rate	Revised Rate	(5)
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(ii) Services by way of house-keeping, such as plumbing, carpentering, etc. where the person supplying such service through electronic commerce operator is not liable for registration under sub-section (1) of section 22 of the Central Goods and Services Tax Act, 2017	9	2.5	Provided that credit of input tax charged on goods and services has not been taken [Please refer to Explanation no. (iv)].
(iii) Support services other than (i) and (ii) above.	9	9	-

**7. In serial no. 24**

**Insertion of clause (h) in item (i):** “(h) services by way of fumigation in a warehouse of agricultural produce with Nil rate .

**Substitution in item (ii):** Through this substitution GST rates has been notified for the following description of services:

(3)	Existing Rate	Revised Rate	(5)	Reasons
(ii) Service of exploration, mining or drilling of petroleum crude or natural gas or both.	9	6	-	Rate rationalization
(iii) Support services to mining, electricity, gas and water distribution other than (ii) above.	9	9	-	

**8. Substitution in In serial no. 25 :** Through this substitution GST rates has been notified for the following description of services:

(3)	Existing Rate	Revised Rate	(5)	Remarks
(i) Services by way of house-keeping, such as plumbing, carpentering, etc. where the person supplying such service through electronic commerce operator is	9	2.5	Provided that credit of input tax charged on goods and	This rate applies to the ECO and not underlying supplier.

not liable for registration under sub-section (1) of section 22 of the Central Goods and Services Tax Act, 2017.			services has not been taken [Please refer to Explanation no. (iv)].	<i>Also, this rate is not optional for ECO.</i>
(ii) Maintenance, repair and installation (except construction) services, other than (i) above	9	9	-	

**9. In serial no. 26**

**Insertion of column (ea) in item (i):** (ea) manufacture of leather goods or foot wear falling under Chapter 42 or 64 in the First Schedule to the Customs Tariff Act, 1975 (51of 1975) respectively.

**Substitution in item (iii):** Through this substitution GST rates has been notified for the following description of services:

(3)	Existing Rate	Revised Rate	(5)	Remarks
(iii) Tailoring services.	9	2.5	-	
(iv) Manufacturing services on physical inputs (goods) owned by others, other than (i), (ia), (ii), (iia) and (iii) above.	9	9	-	<i>Care should be taken to ensure that 'all' inputs that form part of the output must be provided by 'others' considering that sl. no. 27 also applies</i>

10. **Substitution in serial no. 32 :** Through this substitution GST rates has been notified for the following description of services:

(3)	Existing Rate	Revised Rate	(5)	Reasons
(i) Services by way of treatment of effluents by a Common Effluent Treatment Plant.	9	6	-	<i>Rate rationalization</i>



(ii) Sewage and waste collection, treatment and disposal and other environmental protection services other than (i) above.	9	9	-	
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#### 11. In serial no. 34

**Substitution in item (iii):** Through this substitution GST rates has been notified for the following description of services:

(3)	Existing Rate	Revised Rate	(5)	Remarks
(iii) Services by way of admission to amusement parks including theme parks, water parks, joy rides, merry-go rounds, go-carting and ballet.	14	9	-	<i>Note: In case of any similar venue, other than specified in (iii), it can be construed to fall under (iiia)</i>
(iiia) Services by way of admission to entertainment events or access to amusement facilities including exhibition of cinematograph films, casinos, race club, any sporting event such as Indian Premier League and the like.	14	14	-	<i>Those events/venues that do not fall within (iii) will fall here.</i>

[*Notification no. 1/2018-Central Tax (Rate) dated 25<sup>th</sup> January,2018*]

#### Amendment in the Notification No. 12/2017

The Central Government vide *Notification no. 2/2018-Central Tax (Rate) dated 25<sup>th</sup> January,2018* has amended Notification no. 12/2017 Central Tax dated 28<sup>th</sup> June,2017 .Following insertions / amendments have been made in the notification:

- Insertion of serial no. 3A:** This insertion provides exemption from tax leviable on composite supply of goods and services in which the value of supply of goods constitutes not more than 25 per cent of the value of the said composite supply **provided to the** Central Government, State Government or Union territory or local authority or a Governmental authority or a Government Entity by way of any activity in relation to any function entrusted to a Panchayat under article 243G of the Constitution or in relation to any function entrusted to a Municipality under article 243W of the Constitution. Reason:

2. **Substitution in serial no. 16:** For the words “one year”, the words “three years” shall be substituted.

Therefore, services provided under regional connectivity scheme will remain exempt upto a period of 3 years from the date of commencement of operations of Regional Connectivity Scheme.

3. **Insertion of serial no. 19A & 19B:** Following entries shall be inserted:

(1)	(2)	(3)	(4)	(5)	Remarks
19A	Heading 9965	Services by way of transportation of goods by an aircraft from customs station of clearance in India to a place outside India.	Nil	Nothing contained in this serial number shall apply after the 30th day of September, 2018.	<i>Limited duration exemption that has a pre-fixed expiration date</i>
19B	Heading 9965	Services by way of transportation of goods by a vessel from customs station of clearance in India to a place outside India	Nil	Nothing contained in this serial number shall apply after the 30th day of September, 2018.	<i>Same as above</i>

4. **Insertion of clause (c) in in serial no. 22:** This insertion provides exemption from tax leviable on service provided by way of giving on hire of motor vehicle for transport of students, faculty and staff, to a person providing services of transportation of students, faculty and staff to an educational institution providing services by way of pre-school education and education upto higher secondary school or equivalent.

*Comment: this exemption is corresponding to clause (b)(i) in serial no. 66. It would be interesting to see the implications of non-issuance of similar amendments on forward charge covered by clause b(ii) and (iii) in serial no. 66.*

5. **Insertion of serial no. 29A:** This insertion provides exemption from tax leviable on Services of life insurance provided or agreed to be provided by the Naval Group Insurance Fund to the personnel of Coast Guard under the Group Insurance Schemes of the Central Government.

*Comment: note the corresponding amendment made retrospectively in respect of Service tax also in Finance Bill, 2018.*

6. **Substitution in clause (c) of serial no. 36 :** For the words “fifty thousand”, the words

“two lakhs” shall be substituted. Therefore no GST will be leviable on service of life insurance provided under life insurance micro product having maximum amount of cover of two lakhs. Earlier, service provided under life insurance micro product having cover upto 50 lakh was exempt.

*Comment: welcome enhancement of limit to a meaningful threshold.*

7. **Insertion in Serial no. 39** : by an intermediary of financial services located in a multi services SEZ with International Financial Services Centre (IFSC) status to a customer located outside India for international financial services in currencies other than Indian rupees (INR).

*Comment: as a result of this exemption, services of an intermediary whose ‘place of supply’ is determined by rule 13(8) of IGST Act, will be enjoy a discriminatory treatment compared to other intermediaries (even located in SEZ) that earn foreign exchange. It needs to be seen if such exemption will extend and substantially eclipse 13(8), which has been another important representation to the Government from ICAI.*

8. **In serial no. 45**

**Insertion in item (a):** (iii) the Central Government, State Government, Union territory, local authority, Governmental Authority or Government Entity.

**Insertion in Item (b):** (iv) the Central Government, State Government, Union territory, local authority, Governmental Authority or Government Entity

**Insertion in Item (c):** (iii) the Central Government, State Government, Union territory, local authority, Governmental Authority or Government Entity.

*Comment: These insertions provides that services provided by an arbitral tribunal, partnership firm of advocates or individual advocates to the Central Government, State Government, Union territory, local authority, Governmental Authority or Government Entity are exempt from GST.*

9. **Insertion of serial no. 53 A:** This insertion provides exemption from tax leviable on Services relating to agriculture produce by way of fumigation in a warehouse of agricultural produce.
10. **Insertion of clause (h) in serial no. 54:** This insertion provides exemption from tax leviable on Services by way of fumigation in a warehouse of agricultural produce
11. **Omission in serial no. 60:** The words “the Ministry of External Affairs,” shall be omitted. Therefore, service by a specified organization in respect of religious pilgrimage facilitated by ministry of external affairs is no more exempt from GST.
12. **In serial no. 66 (Services provided by or to Educational Institution):**

**Insertion of item (aa) after item (a)** : This insertion provides exemption from tax leviable on Services by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee.

**Omission in sub-item (iv) of item (b)** : The word “upto higher secondary” shall be omitted.

**Insertion of sub-item (v) in item (b)** : This insertion provides exemption from tax leviable on supply of online journals or periodicals to an educational institution

**Insertion of Proviso to item (b)** : This proviso provides that **nothing** contained in sub-item (v) shall apply to an institution or an institution providing services by way of,-

- (i) pre-school education and education up to higher secondary school or equivalent; or
- (ii) education as a part of an approved vocational education course

*Comment: Institutions are free from tax for conducting entrance exams. And in case of supply of online journals or periodicals to an educational institution **other than** institution providing services by way of pre-school education and education up to higher secondary school or equivalent or providing education as a part of an approved vocational education course is exempt*

### **13. Substitution in serial no. 77**

In item (c) for the words “five thousand “, the words “seven thousand five hundred “shall be substituted. Therefore, Now service by an in unincorporated body or a non-profit entity registered under any law for the time being in force , to its own members by way of reimbursement of charges or share of contribution- upto an amount of Rs. 7500 per month per member for sourcing of goods or services from a third person is exempt. Earlier N amount upto Rs. 5000 only was exempt.

*Comment: RWAs now enjoy higher threshold of exemption but the implication to be borne by these RWAs is the loss of ITC under section 17(2) which will translate into higher cost-of-operating the Association because except utilities received, all inward supplies are taxed at 18%. Another issue is with the words ‘upto’ before the quantum of exemption. The view that this value limit operates like a ‘standard deduction’ to all owners-residents of an RWA has not been accepted by all experts and has not yet come up for examination by the judiciary.*

### **14. Substitution in serial no. 81**

Earlier services by way of right to admission to circus dance , award function , recognized sporting events etc. were exempt where the consideration for admission is not more than Rs. 250 per person . Now, through this substitution admission to planetarium has also been exempted. Further, exemption limit of consideration has been extended upto Rs. 500 per person.

*[Notification no. 2/2018-Central Tax (Rate) dated 25<sup>th</sup> January,2018]*

**Recipient is liable to pay tax on renting service received from Government**

The Central Government vide [Notification no. 3/2018 dated 25<sup>th</sup> January,2018](#) has notified that service by way of renting of immovable property when provided by the Central Government, State Government, Union territory or local authority to a person registered under the Central Goods and Services Tax Act, 2017 than registered person is the person liable to pay tax under reverse charge.

[\[Notification no. 3/2018 dated 25<sup>th</sup> January,2018\]](#)

*Comment: RCM scope expanded to apply in case of rental of immovable property from Governemnt not only to 'business entity' but to 'all' registered persons.*

**Liability to pay central tax shall arise at the time when the developer or construction company transfer possession**

The Central Government vide [Notification no. 4/2018- Central Tax \(Rate\) dated 25<sup>th</sup> January,2018](#) has notified that in case of supply of development rights to a developer or in case of supply of construction service to supplier of development rights the liability to pay central tax on supply of services shall arise at the time when the developer, builder, construction company or any other registered person, as the case may be, **transfers possession** or the right in the constructed complex, building or civil structure, to the person supplying the development rights by entering into a conveyance deed or similar instrument (for example allotment letter) .

*Comment: (i) clearly the notification implies that there is a 'barter' and the limb involving construction services it admittedly taxable but it is not clear from the notification if the limb involving 'development rights' is that taxable or not.*

*(ii) Experts have held the view (notwithstanding the substitution of sl.no.16(ii) to notification 11/2017-CT (R) which clearly excludes 'freehold' land) transfer of development rights by Landowner to Builder may not be taxable. Although clarity on this point is awaited, the present notification defers the 'time of supply' for the Builder while handing over the Landowner's share of units to the point which 'possession transfers'. The wordings of this notification are very similar to circular 151/2/2012-ST dated 10 Feb, 2012 at para B(i). While the issues arising from this circular under service tax are pending at various levels, there does not seem to be any reprieve in GST.*

*(iii) this notification avers to a 'registered person' who 'supply' development rights to developer or builder. And in doing so, implies that in the view of the Government Landowner's are decidedly taxable. This could be the epicenter of litigation in GST in the real estate sector.*

[\[Notification no. 4/2018- Central Tax \(Rate\) dated 25<sup>th</sup> January,2018 \]](#)

**Exemption on Intra-state supply of service by way of grant of license to explore or mine petroleum**

The Central Government vide [Notification no. 5/2018- Central Tax \(Rate\) dated 25<sup>th</sup> January,2018](#) has exempted the intra-State supply of services by way of grant of license or lease to explore or mine petroleum crude or natural gas or both, from so much of the central tax as is leviable on the consideration paid to the Central Government in the form of Central Government's share of profit petroleum as defined in the contract entered into by the Central Government in this behalf.

[\[Notification no. 5/2018- Central Tax \(Rate\) dated 25<sup>th</sup> January,2018\]](#)

## **GST Portal updates**

### Updation in functionalities

#### **(A) Returns:**

- a. Deemed Export details with payment of CGST and SGST can now be shown in Form GSTR-1.
- b. Features in Form GST ITC-04 filing has been enhanced, to allow multiple entries of items covered by a single challan.

**(B) Miscellaneous:** A new feature has been added in the Pre-login search facility of Taxpayer on GST Portal. Now along with the taxpayer details and jurisdiction, last five returns filing status of taxpayers will also be available, in pre-login search menu.

*[GSTN sent mail to taxpayers]*

**GST data reveals 50% increase in number of Indirect Taxpayers**  
**Economic Survey says-Maharashtra, Gujarat, Karnataka, Tamil Nadu & Telangana account for**  
**70% of India's exports**  
**India's internal trade in goods and services is 60 percent of GDP.**

A preliminary analysis of the Goods and Services Tax (GST) data reveals that there has been a 50% increase in the number of indirect taxpayers, besides a large increase in voluntary registrations, especially by small enterprises that buy from large enterprises and want to avail themselves of Input Tax Credits (ITC).

The Economic Survey 2017-18 presented in Parliament by the Union Minister of Finance and Corporate Affairs, Shri Arun Jaitley informs that as on December 2017, there were 9.8 million unique GST registrants slightly more than the total Indirect Tax registrants under the old system (where many taxpayers were registered under several taxes).

Therefore, adjusting the base for double and triple counting, the GST has increased the number of unique indirect taxpayers by more than 50 percent –a substantial 3.4 million. The profile of new filers is interesting of their total turnover, business-to-consumer (B2C) transactions account for only 17 percent of the total. The bulk of transactions are business-to-business (B2B) and exports, which account for 30-34 percent apiece.

There are about 1.7 million registrants who were below the threshold limit (and hence not obliged to register) who nevertheless chose to do so. Indeed, out of the total estimated 71 million non-agriculture enterprises, it is estimated that around 13 percent are registered under the GST. Maharashtra, UP, Tamil Nadu and Gujarat are the States with the greatest number of GST registrants. UP and West Bengal have been large increases in the number of tax registrants compared to the old tax regime. It also underlines that the distribution of the GST base among the States is closely linked to the size of their economies, allaying fears of major producing States that the shift to the new system would undermine their tax collections.



# ECONOMIC SURVEY 2017-18



## Information on GST yields Exciting Findings

- 50% increase in number of indirect taxpayers
- Large increase in voluntary registrations under GST
- Distribution of GST base among states closely linked to size of their economies
- Strong correlation between export performance and states' standard of living
- India's largest firms account for a much smaller share of exports than in other comparable countries
- India's formal sector is substantially greater than currently believed

Dwelling on the subject of International Trade, Inter-State Trade and Economic Prosperity, the Survey points-out for the first time in India's history that five States-Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana account for 70% of India's exports. New data on the international exports of States suggests a strong correlation between export performance and States' standard of living. Last year Survey had estimated that India's Inter-State trade in goods was between 30 and 50 percent of GDP. But the GST data suggests that India's internal trade in goods and services (excludes non-GST goods and services) is actually even higher and is about 60 percent of GDP.

The survey based on new GST data also provides a close look at the firm-level exports and states that India's exports are unusual in that the largest firms account for a much smaller share of exports than in other comparable countries. Export concentration by firms is much lower in India than in the US, Germany, Brazil, or Mexico. The top one percent of firms accounted for 72, 68, 67 and 55 percent of exports in Brazil, Germany, Mexico, and USA respectively but only 38 percent in the case

of India. Similarly, the top 5 percent accounted for 91, 86, 91 and 74 percent in those countries, compared with 59 percent in India and the top 25 percent of firms accounted for 99, 98, 99 and 93 percent in those countries, as opposed to 82 percent in India.

Referring to India's formal sector, especially formal non-farm payroll, the Survey says it is substantially greater than currently believed. Formality defined in terms of social security provision yields an estimate of formal sector payroll of about 31 percent of the non-agricultural work force; formality defined in terms of being part of the GST net suggests a formal sector payroll share of 53 percent.

The Chapter titled " A New, Exciting Bird's-Eye View of the Indian Economy Through the GST" sums up that most of the discussions in the run-up to the GST centered on the size of the tax base, and its implications for the Revenue Neutral Rate (RNR). The RNR Committee had estimated a base of Rs.68.8 lakh crore and the GST Council had estimated a base of Rs.65.8 lakh crore. Current data suggest that the GST tax base (excluding exports) is Rs.65-70 lakh crore, broadly similar to these two previous estimates. Based on the average collections in the first few months, the implied weighted average collection rate (incidence) is about 15.6 percent. So, as estimated by the RNR committee, the single tax rate that would preserve revenue neutrality is between 15 to 16 percent.

(Release ID :175977)

**Gross Tax Collections on Track for First Eight Months of GST Era;  
Fifty Percent Increase in the Number of Indirect Tax Payers**

The Union Minister for Finance and Corporate Affairs, Shri Arun Jaitley tabled the Economic Survey 2017-18 in Parliament.

Based on the firm footing provided by the discernible improvements in most fiscal indicators such as revenue buoyancy, expenditure quality, tax devolution and deficits, the Government, in partnership with the States, ushered in the long-awaited GST era with effect from July,2017. The GST was unveiled after comprehensive preparations, calculations and multi-stage consultations, yet the sheer magnitude of change meant that it needed to be carefully managed. The Government is navigating the change and challenges, including the possibility that a substantial portion of the last-month GST collections may spill over to the next year, the Survey says.

The data on Central Government finances available till November 2017 from the Controller General of Accounts (CGA) suggests that during the first eight months of the current year 2017-18 the Gross Tax Collections are reasonably on track; and the robust progress in disinvestment compensates to a great extent for the sluggish pace in non-tax revenue. The growth in direct tax collections of the Centre has kept pace with the previous year and is expected to meet targets, with a growth of 13.7 per cent while indirect taxes grew by 18.3 per cent during April-November 2017.

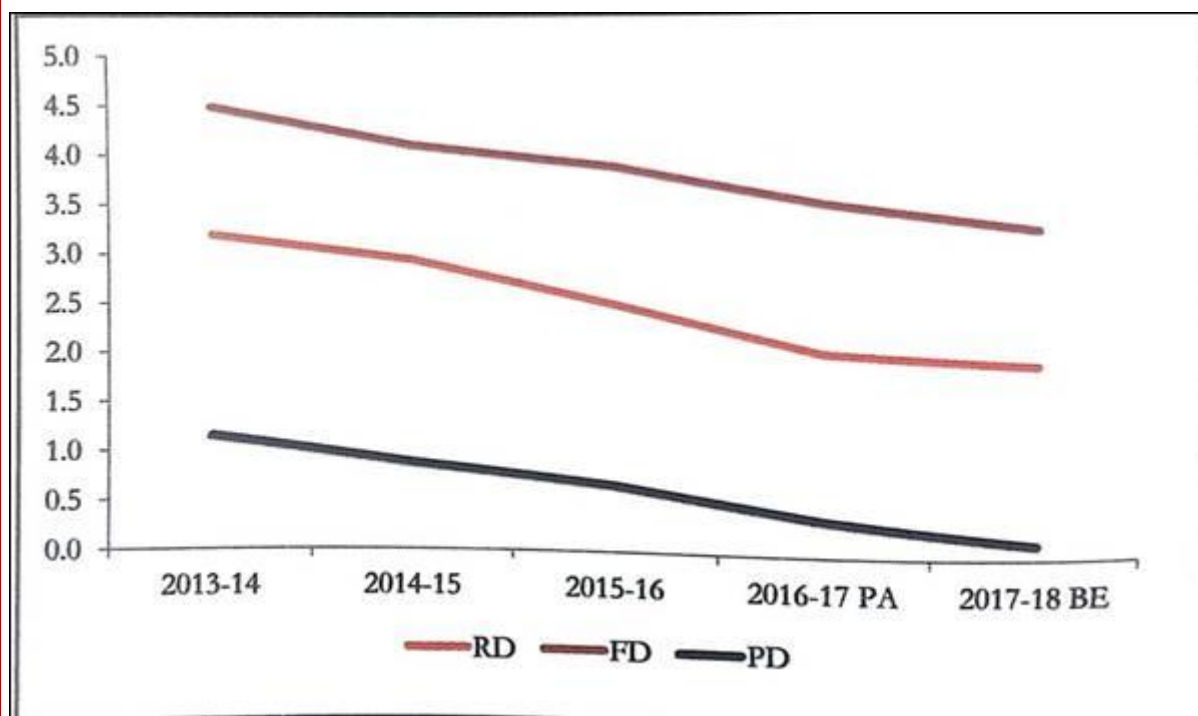
The eventual outcome in indirect taxes during this year will depend on the final settlement of GST accounts between the Centre and the States and the likelihood that only taxes for eleven months (excluding IGST on imports) will be realized. The States' share in taxes grew by 25.2 per cent during April-November 2017, much higher than the growth in net tax revenue (to Centre) at 12.6 per cent and of gross tax revenue at 16.5 per cent.



As an information repository, the Goods and Services Tax (GST) provides a radical change and a new insight into the understanding of the Indian economy. Preliminary analysis of this information yields the following feast of findings. There has been a fifty percent increase in the number of indirect taxpayers; and a large increase in voluntary registrations, especially by small enterprises that buy from large enterprises and want to avail themselves the input tax credits. The distribution of the GST base among the states is closely linked to the size of their economies, allaying fears of major producing states that the shift to the new system would undermine their tax collections. Data on the international exports of states (the first in India's history) suggests a strong correlation between export performance and states' standard of living. India's exports are unusual in that the largest firms account for a much smaller share of exports than in other comparable countries. India's internal trade is about 60 percent of GDP, even greater than estimated in last year's Survey and comparing very favorably with other large countries. India's formal sector, especially formal non-farm payroll, is substantially greater than currently believed. Formality defined in terms of social security provision yields an estimate of formal sector payroll of about 31 percent of the non-agricultural work force; formality defined in terms of being part of the GST net suggests a formal sector payroll share of 53 percent.

The advancing of the budget cycle and processes by almost a month gave considerable leeway to the spending agencies to plan in advance and start implementation early in the financial year, leading to a robust pace of progress of Central expenditure.

Sound Public financial management has been one of the pillars of India's macro economic stability in the last three years. In accordance with this, the Fiscal Deficit, Revenue Deficit as well as the Primary Deficit has been declining for the past 3 years.



### FISCAL INDICATORS AS PERCENTAGE OF GDP

The early pick-up in expenditure coupled with front-loading of some expenditure and increased interest outgo exerted pressure on fiscal deficit which expanded to 112 per cent of budget estimates by November 2017. A good part of this growth is likely to normalize as the year progresses.

If indications and patterns till November are to hold, then the States taken together may be able to meet their targeted level of fiscal deficit in 2017-18.

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