

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

STARRED QUESTION NO:184  
ANSWERED ON:06.08.2010  
INTRODUCTION OF GST  
Baske Shri Pulin Bihar

**Will the Minister of FINANCE be pleased to state:**

- (a) whether he met the State Finance Ministers recently in connection with the introduction of Goods and Service Tax (GST) regime in the country;
- (b) if so, the details of the deliberations held and the follow- up action taken thereon; and
- (c) the manner in which the States are likely to be compensated in the event of loss of revenue to them as a result of introduction of GST?

**Answer**

FINANCE MINISTER (SHRI PRANAB MUKHERJEE)

- (a) to (c): A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (A TO (C) OF LOK SABHA STARRED QUESTION NO. 184 FOR ANSWER ON 06-08-2010

(a) to (b): Yes, Sir. The Union Finance Minister held a meeting with State Finance Ministers on 21-07-2010 to discuss issues related to introduction of Goods & Services Tax (GST). The Union Finance Minister communicated the Centre's position on some key outstanding issues to the State Finance Ministers. A gist of the discussions held and broad agreement reached on some issues is as follows:

i. Centre offered that there would be a dual rate structure for goods under GST in the year of introduction. Services however would attract a single rate under GST. This was generally agreed to.

ii. As for the rate structure, the Centre proposed to prescribe a merit rate of 6% and standard rate of 10% for goods for CGST at the time of introduction of GST in April 2010 and a standard rate of 8% CGST for services. In the following year i.e. the year beginning April 2012 (CGST component), the standard rate for goods would be reduced to 9% and the merit rate would be increased to 8%. In the third year, the standard rate of CGST for goods would be further reduced to 8% so that it is at par with the standard rate for services. The States were requested to agree to the adoption of the same rate structure for SGST. The States agreed to examine the suggestions and communicate their views through the Empowered Committee.

iii. The Centre proposed that there should be a common exemption threshold of Rupees 10 lakh per annum for goods and services both for CGST and SGST and the threshold for composition/ compounding by small dealers should also be common, whether it is Rs. 50 lakh or Rs. 1 crore per annum. Some States however maintained that CGST exemption to the manufacturers should be retained upto the annual turnover of Rs.1.5 crore as is currently available under Central Excise duty regime.

iv. The list of exemptions for CGST would be aligned to the existing list of exemptions under VAT i.e. 99 product categories currently exempt from VAT (including goods of local importance) would also be exempt from CGST and SGST.

v. The remaining exemptions (around 360 items) from Central Excise would be withdrawn and these items would be taken to the merit rate under CGST.

vi. The issue regarding CST loss compensation was also discussed. It was agreed that the Empowered Committee of State Finance Ministers would make recommendations to the Union Finance Ministry for CST compensation package for 2010-11 shortly.

vii. States requested that petroleum products, alcoholic beverages and natural gas should be kept outside the purview of the GST.

viii. The draft Constitution (Amendment) Bill proposed by the Centre was circulated to the State Finance Ministers through the Empowered Committee. The States agreed to communicate their views through the Empowered Committee at the earliest.

(c): As regards the compensation for GST, the Union Finance Minister reiterated the Centre's assurance that in the early stages of introduction of GST, the States would be fully compensated for their revenue loss, if any, on the basis of a mutually agreed formula.