Minutes of 25th GST Council Meeting held on 18 January 2018

The twenty fifth Meeting of the GST Council (hereinafter referred to as 'the Council') was held on 18 January, 2018 in Vigyan Bhawan, New Delhi under the Chairpersonship of the Hon'ble Union Finance Minister, Shri Arun Jaitley (hereinafter referred to as the Chairperson). A list of the Hon'ble Members of the Council who attended the meeting is at **Annexure 1.** A list of officers of the Centre, the States, the GST Council, the Goods and Services Tax Network (GSTN) and Infosys who attended the meeting is at **Annexure 2.**

2. The following agenda items were listed for discussion in the 25th Meeting of the Council: –

1. Confirmation of the Minutes of 24th GST Council Meeting held on 16 December 2017
2. Revenue collected in the month of November and December 2017 under Goods and Services Tax, including the revenue accruing to Centre and States through settlement of funds
3. Deemed ratification by the GST Council of Notifications, Circulars and Orders issued by the Central Government
4. Decisions of the GST Implementation Committee (GIC) for information of the Council
5. Minutes of 4th and 5th Meeting of Group of Ministers (GoM) on IT Challenges in GST Implementation for information of the Council and discussion on GSTN issues
6. Recommendations of the 'Committee on Returns Filing' on Simplification of Returns under GST
7. Issues recommended by the Law Committee for consideration of the GST Council
8. Recommendations of the Committee on Handicrafts
9. Changes proposed to be made in the CGST Act, 2017, SGST Acts, the IGST Act, 2017 and the GST (Compensation to States) Act, 2017
10. Issues recommended by the Fitment Committee for the consideration of the GST Council
    - i. Recommendations on Goods
    - ii. Recommendations on Services
11. Carry forward items from the previous Council Meeting
    - i. Presentation on GST in Real Estate sector
    - ii. Incentivising Digital Payments in GST regime
12. Transfer of shares of Empowered Committee (EC) in GSTN to the State of Telangana
13. Any other agenda item with the permission of the Chairperson
    - i. Proposal to declare the sale of goods in Customs bonded warehouse and goods sold as high sea sales as 'no supply' under Schedule III of the CGST Act, 2017

CHAIRMAN'S INITIALS

ii. Proposal to reduce penalty under section 122(1)(xiv) of CGST Act, 2017 (e-way bills) in exercise of powers under section 128 of the Act
iii. Restriction of Transitional Credit in certain cases through the provision for removal of difficulty under Section 172 of CGST Act
iv. Exclusion of Cesses not specified in the list of eligible duties from Transition

14. Date of the next Meeting of the GST Council

3. The Hon'ble Chairperson welcomed the Hon'ble Members of the Council. He welcomed Shri Jai Ram Thakur, Hon'ble Chief Minister of Himachal Pradesh as the new Member of the Council. He placed on record the Council's appreciation of the contribution of Shri Prakash Chaudhary, the earlier Member of the Council from Himachal Pradesh. After these preliminary comments, the Hon'ble Chairperson took up discussion on the agenda items.

Discussion on agenda items

Agenda item 1: Confirmation of the Minutes of the 24th GST Council meeting held on 16 December, 2017

4. Dr. Hasmukh Adhia, Union Finance Secretary and Secretary, GST Council (hereinafter referred to as 'the Secretary') informed that the Government of Rajasthan had requested for a change in the version ("The Hon'ble Minister from Rajasthan suggested to start inter-State and intra-State e-Way Bill system together from 1 February, 2018 or 1 April, 2018") of the Hon'ble Minister from Rajasthan recorded in paragraph 6.13 of the Minutes with the following: 'The Hon'ble Minister from Rajasthan stated that they were a part of the pilot programme of e-Way Bill implementation starting from 20.12.2017 and that they were ready for inter and intra-State implementation from 1.2.2018 or 1.4.2018, on whatever date the Council decided. He supported the view of the Hon'ble Minister from Haryana as there should not be any distinction between the date of implementation of e-Way Bill for both inter and intra-State transactions.' The Council agreed to change the version of the Hon'ble Minister from Rajasthan recorded in paragraph 6.13 of the Minutes, as proposed above. The Secretary invited any other comments on the Minutes. No other comments were received.

5. In view of the above, for **agenda item 1,** the Council decided to adopt the Minutes of the 24th Meeting of the Council with the following change:

5.1. To replace the version of the Hon'ble Minister from Rajasthan in paragraph 6.13 of the Minutes with the following: 'The Hon'ble Minister from Rajasthan stated that they were a part of the pilot programme of e-Way Bill implementation starting from 20.12.2017 and that they were ready for inter and intra-State implementation from 1.2.2018 or 1.4.2018, on whatever date the Council decided. He supported the view of the Hon'ble Minister from Haryana as there should not be any distinction between the date of implementation of e-Way Bill for both inter and intra-State transactions.'

Agenda item 2: Revenue collected in the month of November and December 2017 under Goods and Services Tax, including the revenue accruing to Centre and States through settlement of funds

6. The Secretary invited Shri Udai Singh Kumawat, Joint Secretary, Department of Revenue (DOR), to make a presentation on this Agenda item.

CHAIRMAN'S INITIALS

6.1. The Joint Secretary, DOR, made a presentation (attached as **Annexure 3** of the Minutes). He informed that revenue collection during the month of November, 2017 was Rs. 85,931 crore and during December, 2017, it was Rs. 83,716 crore. He stated that the revenue collection showed a declining trend. He stated that the combined revenue shortfall for States during the month of November, 2017, after taking into account 14% assured rate of growth and the CGST and SGST settlement, was Rs. 8,989 crore and during December, 2017, it was Rs. 8,894 crore. He stated that as the monthly collection of Cess was around Rs. 7,500 crore, the combined revenue shortfall of the States in excess of this amount was a cause for concern. He added that steps had already been initiated to improve revenue collection by introduction of e-Way Bill system and initiating the proposal for invoice matching. He observed that States with less than 10% revenue shortfall were Mizoram, Arunachal Pradesh, Manipur, Tamil Nadu and Maharashtra. He pointed out that for Tamil Nadu and Maharashtra, revenue shortfall, after taking into account 14% assured growth rate, was very small at 6% and 7% respectively, which was very commendable. He stated that eight States had revenue shortfall between 10% and 20% and these were Telangana, Delhi, Nagaland, Andhra Pradesh, Haryana, Uttar Pradesh, Gujarat and Rajasthan. He stated that the biggest area of concern was with respect to States having shortfall of more than 20% in December, 2017, which included 18 States.

6.2. The Hon'ble Minister from Jammu & Kashmir stated that for smaller States like Jammu & Kashmir, the tax base would be small whereas the tax base of a big State like Maharashtra would be very large, and therefore, even a 7% revenue shortfall in terms of absolute quantum of revenue would be much higher for Maharashtra than 36% revenue shortfall for the State of Jammu & Kashmir. He added that the higher tax revenue collection of Tamil Nadu and Maharashtra need not necessarily be on account of better tax collection effort but it was because they would be getting a substantial share of tax revenue from services, which they were not getting earlier. He added that the results of revenue collection figures were so far counter-intuitive as the consumption States were not getting higher revenue as they were expected to. The Secretary stated that for bigger States, higher revenue could also be explained by higher consumption in addition to additional revenue from Service Tax.

6.3. The Hon'ble Minister from Punjab stated that his State had suffered a huge shortfall of revenue of about 45% in December, 2017 and requested Dr. Arvind Subramanian, Chief Economic Advisor, Ministry of Finance, to conduct a study as to why the tax revenue of Punjab had fallen so steeply which was not expected. The Secretary stated that earlier Punjab was getting revenue on the purchase tax for food grains exported to all other States, whereas now under GST, due to it being a destination-based tax, Punjab was getting revenue only to the extent of consumption by its citizens.

6.4. The Hon'ble Deputy Chief Minister of Bihar stated that an amount of Rs.1,35,000 crore was lying in the IGST account, which had not been settled as yet. He suggested that this amount could be distributed among the States. The Secretary stated that there was a big gap of time between the point of production of goods and the point of sale and that the revenue would accrue to both the Central Government and the State Governments when goods were actually sold in the market. Until then, IGST would remain accumulated and expressed hope that after three months, revenue would pick up with goods being actually sold to buyers. He stated that this would lead to reduction in the accumulated amount of IGST and increase in the IGST settlement amount. He added that some amount from the IGST kitty, such as the input

CHAIRMAN'S INITIALS

tax credit on exempt goods, would get devolved to the States. However, as per the law, this could be done after the expiry of due date for furnishing the annual return. He suggested that a provisional settlement from IGST account could be done on the basis of the accrued amount and final settlement could be done later on. The Hon'ble Chairperson observed that the settlement amount for CGST and SGST was increasing over the months and expressed the hope that surplus in the IGST account would come down in the coming months. He stated that Punjab's concern would also partly be met by increase in the IGST settlement amount. The Hon'ble Deputy Chief Minister of Delhi suggested that the accumulated amount of Rs.1,35,000 crore should be reflected in the State ledgers. The Secretary explained that IGST amount was a pooled amount and it was not reflected State ledger-wise. A supplier in one State could use the IGST credit though IGST was paid in another State. He stated that only a provisional settlement of some amount could be given which could be based on the base revenue figure of 2015-16 and States' share in the same. The Hon'ble Deputy Chief Minister of Delhi observed that a large amount was lying idle under IGST. The Secretary clarified that this amount actually constituted part of the Consolidated Fund of India.

6.5. The Hon'ble Minister from Jammu & Kashmir suggested to transfer 50% of the surplus IGST amount to create a Transition Financing Facility, and use this amount for purposes like export refund, compensation to States and for liquidity management issues. The Hon'ble Minister from Kerala suggested that the amount in excess of Rs.1 lakh crore could be taken out from the accumulated IGST account and distributed to the States on *pro rata* basis. The criteria can be the proportionate rate of the total amount of the IGST credit hitherto distributed among the States. The Secretary stated that the amount collected under IGST could not be used for any purpose other than settlement of funds between Centre and States. He further suggested that out of Rs.1,35,000 crore lying in IGST account, a sum of Rs. 35,000 crore could be taken out and divided equally between the Centre and the States and from the States' share, it could be distributed as a provisional settlement to different States based on their share of collection of taxes subsequently subsumed under GST during the base year 2015-16. He added that necessary changes in rules could be made for this. The Hon'ble Deputy Chief Minister of Bihar supported this suggestion. The Council agreed to this suggestion.

6.6. The Hon'ble Minister from Kerala stated that the data presented showed that percentage of return filing had gone down and the projection of revenue for December 2017 was based on low return filing. He stated that the other question was regarding other forms of leakage of revenue. He observed that the consumer States were lagging in revenue collection and their settlement from IGST should have been higher. He added that presently, the figures of tax from SGST and IGST settlement were almost the same, whereas due to the destination principle, higher taxes should have accrued to the consumer States through IGST settlement. He added that if the SGST collection is 'x', then IGST settlement should be around '2x' for the consumer States like Kerala. He observed that this showed substantial revenue leakage in the inter-State movement of goods.

6.7. The Secretary stated that the experience showed that initially, due to fear of matching etc., return filing was high but now over a period of time, the taxpayers had started taking it easy. He stated that e-Way Bill system was being introduced to plug revenue leakage. He observed that the return filing system also needed to have a method of invoice-wise matching. He added that difference between GST and VAT period was that in the GST regime, the power of information technology could be harnessed. He stated that it would be preferable to

CHAIRMAN'S INITIALS

start a system of return filing with invoice matching from 1 April, 2018. He observed that the e-Way Bill system was to be introduced from 1 February, 2018. He stated that from now onwards, all officers of State Governments and the Central Government would need to get into some kind of enforcement action as the figures of revenue collection from composition taxpayers was shockingly low.

6.8. The Hon'ble Chairperson observed that IGST was part of the answer to Punjab's question and another reason for the problem could be due to non-compliance. He observed that the problem of non-compliance would be common to all States. He stated that presently, the tax administrations were working on the basis of trust but analysis of data showed that some anti-evasion steps would also need to be taken. Shri R.K. Tiwari, Additional Chief Secretary (ACS), Uttar Pradesh, stated that his State had one of the largest number of composition dealers (about 3 lakh) and their turnover was also on the lower side. Despite this, the revenue of Uttar Pradesh had been good and one reason for this could be their early implementation of e-Way Bill system from August, 2017 and imposition of heavy penalty for violation of the e-Way bill rules. He stated that this would have helped them in better revenue recovery. He supported undertaking enforcement action.

6.9. The Hon'ble Chief Minister of Puducherry stated that there was a large inflow of tourists in his State but revenue was not growing. He hoped that with the introduction of e-Way Bill system, evasion of tax would be reduced. He emphasised the need for the States to keep a watch on the traders, especially the big ones. Shri Somesh Kumar, Principal Secretary (Revenue), Telangana, stated that his State had been collecting arrears under the VAT regime to the tune of Rs.100 crore per month and this should get deducted while calculating compensation amount. He suggested that in the information sheet circulated by the Department of Revenue on compensation, a column should be added to indicate the amount of tax recovered from the earlier VAT period in order to get an idea as to how arrears collection was progressing across the States. He also suggested that compensation should be paid every month. Joint Secretary, DOR, pointed out that the provision of bi-monthly compensation was part of the law. The Secretary supported the first suggestion of the Principal Secretary (Revenue) and stated that the compensation figures sent to the States should also have a column indicating the amount of arrears of VAT collected during the relevant months. The Council agreed to this suggestion. The Secretary added that it was important for the State Government officers to also focus their attention on recovery of arrears of revenue.

7. For **agenda item 2,** the Council took note of the GST revenue analysis for the months of November and December, 2017. Furthermore, the Council approved the following:

i. Out of Rs.1,35,000 crore lying in the IGST account, a sum of Rs. 35,000 crore shall be provisionally settled between the Centre and the States. 50% of this amount shall be allocated to the Central Government and the remaining 50% shall be provisionally distributed between the States based on their share of collection of taxes subsequently subsumed under GST during the base year 2015-16, and necessary changes in rules shall be made for this;

ii. The figures of compensation sent to the States shall have a column indicating the amount collected by each State by way of recovery of VAT arrears during the relevant months.

CHAIRMAN'S INITIALS

Agenda item 3: Deemed ratification by the GST Council of notifications, circulars and orders issued by the Central Government

8. The Secretary stated that the Notifications No. 55 to 75 of 2017 and 01 of 2018 of Central Tax, Notifications No. 41 to 47 of 2017-Central Tax (Rates), Notifications No.12 of 2017 of Integrated Tax, Notifications No. 43 to 50 of 2017 of Integrated Tax (Rate), Notification No.01 of 2018 of UT Tax and Notifications No. 41 to 47 of 2017 of UT Tax (Rate) were placed before the Council for deemed ratification. Similarly, Circulars No. 14 to 26 of 2017 and 27 and 28 of 2018 issued under CGST Act and Orders No. 09 to 11 of 2017 were placed before the Council for deemed ratification. He informed that this was also part of the presentation of Shri Upender Gupta, Commissioner (GST Policy), CBEC, which was circulated to the Members of the Council (attached as **Annexure 4** of the Minutes).

9. The Council agreed to the deemed ratification of the notifications, circulars and orders as listed in the agenda note which are available on the CBEC website, namely www.cbec.gov.in.

10. For **Agenda item 3**, the Council approved deemed ratification of the notifications, circulars and orders mentioned at paragraph 8 above which are available on the CBEC website, www.cbec.gov.in.

Agenda item 4: Decisions of the GST Implementation Committee (GIC) for information of the Council

11. The Secretary stated that the decisions taken by GIC were discussed during the meeting of the officers of the Central Government and the State Governments held on 11 January, 2018. He added that the decisions of GIC were summarised in the presentation of the Commissioner (GST Policy), CBEC, circulated before the Meeting of the Council (attached as **Annexure 4** of the Minutes) and it was placed before the Council for information. The Council took note of the decisions of the GIC.

12. For **Agenda item 4**, the Council took note of the decisions of the GIC.

Agenda item 5: Minutes of 4th and 5th Meeting of Group of Ministers (GoM) on IT Challenges in GST Implementation for information of the Council and discussion on GSTN issues

13. The Secretary invited the Hon'ble Deputy Chief Minister of Bihar, the Convenor of the Group of Ministers (GoM) on IT Challenges in GST Implementation to brief the Council regarding the deliberations of GoM. The Hon'ble Deputy Chief Minister of Bihar stated that the GoM had held a meeting on 17 January, 2018 and the review showed that overall, there was a good progress and that Infosys was performing well. There were much fewer complaints regarding the network and the system. He further stated that NIC made a presentation on e-Way Bill system and they suggested to delay implementation of intra-State e-Way Bill system by another 15 days to a month so that taxpayers/transporters get a chance to first work on the inter-State e-Way bill system and then proceed to intra-State e-Way bill system. During this one month, e-Way Bill system for intra-State movement could be operated on a trial basis. As regards the functioning of GSTN, he stated that glitches and mismatch count were reduced. Further, the reconciliation between count of records

CHAIRMAN'S INITIALS

(registration, challan and returns) sent as consolidated report daily and the records pulled by CBEC and Model-1 States had improved a lot and less than 1% data reconciliation was left for States of Tamil Nadu, Maharashtra and Kerala for returns. He added that Infosys had placed resident engineers in all 37 locations and they were assisting in resolving issues. He informed that out of 43 prioritised functionalities, 93% had been operationalised. As regards prioritised Forms, he informed that out of 69 such Forms, 47 had been made available. He further added that on 10 January, 2018, more than 12 lakh returns were filed on a single day. In short, the progress was satisfactory and the issues and complaints had reduced, when compared to the situation earlier. He then invited Shri Prakash Kumar, Chief Executive Officer, GST Network (CEO, GSTN) to make a more detailed presentation, giving GST system update.

13.1. The CEO, GSTN, in his presentation (attached as **Annexure 5** of the Minutes) gave an overview of the services made available on GST portal; highlights from GoM Meeting; e-Way Bill status; and statistics on Return Filing. He informed that as regards services made available on GST portal, majority of services, such as Registration, Return, Payment and Transitional Forms had been made available. As regards Refund, some workaround was done as GSTR-2 had been suspended. They were working on making the services fully functional. He stated that as on 16 January, 2018, a total of 5.25 crore returns were filed; 154.47 crore invoices were processed; 35.21 lakh new registrations were approved; 64.11 lakh migrated taxpayers were registered; 17.08 lakh taxpayers opted for composition scheme; and 1.83 crore payment transactions were processed. He also informed that 1.46 crore GSTR-1 returns had been filed till 10 January, 2018 and that the GSTR-1 filing from 1 January to 10 January, 2018 was 48.07 lakh, which was about 33% of the GSTR-1 returns filed. He informed that the taxpayer base as on 18 January, 2018, which was validated and approved, was 99.32 lakh and this showed an increase in the taxpayer base by 53% from the commencement stage and 15% from enrolment stage. He stated that GSTR-3B filing for the month of July, 2017 (till 14 January, 2018) was 92% and some taxpayers were still filing GSTR-3B for July, 2017. He further stated that GSTR-3B filing was 87% for August, 2017; 83.51% for September, 2017; 78.99% for October, 2017 and 72.18% for November, 2017. The periods for which late fee waiver was given, the filing continued even after 6 months. The GSTR-4 filing by composition dealers was 66.74% of the registered taxpayers during the first quarter and 3.26 lakh GSTR-4 returns had been filed for the second quarter. He informed that GSTR-1 filing was 80% for July, 2017, 57% for August, 2017, 62% for September, 2017; 47% for October, 2017 and 40% for November, 2017. He observed that the total percentile was quite low and this needed to go up.

13.2. On e-Way bill system, he stated that the system software had been operational since September, 2017 in Karnataka and they were issuing about 1.2 lakh e-Way bills every day. He informed that 32 States and UTs were working on e-Way bill system after it was opened to all the States/UTs and the trial period was till the month-end. He informed that all modes of e-Way bill system were in use like web, SMS, mobile app, and Bulk upload through Excel Tool. APIs would be released shortly. He added that training was imparted to the master trainers of all States and one training had been done for CBEC and another would have been done on 18 January, 2018. The master trainers were training officers, taxpayers and transporters of their jurisdiction. He informed that a few States, which did not have e-Way bill system like Rajasthan, had adopted the new system very quickly. He added that Central Helpdesks and State Helpdesks had been made operational and the portal was available for all

CHAIRMAN'S INITIALS

States. He stated that as on 16 January, 2018, 14 States had started using the e-Way bill system.

13.3. The CEO, GSTN, also gave some analysis of data arising out of GSTR-4 (on composition taxpayers). He informed that 7.45 lakh taxpayer had filed their GSTR-4 return for the quarter ending September, 2017, out of which 6,97,925 taxpayers had made some payment in their return. The total tax paid was Rs.307.01 crore and the total cumulative turnover was Rs. 30,430.88 crore for this quarter. He stated that taking these figures into account, per taxpayer turnover came to Rs.4.36 lakh per quarter or Rs.13.44 lakh per annum. The Secretary observed that taxpayers with an annual turnover of Rs.13.44 lakh need not have taken registration and this was indeed mysterious. Shri Tuhin Kanta Pandey, Principal Secretary (Finance), Odisha, stated that this pointed to evasion of tax by composition taxpayers. The CEO, GSTN, stated that they also conducted a deeper analysis by looking at individual returns and found that there were 4,91,024 or 70.4% dealers below annual turnover of Rs.5.00 lakh and their quarterly average turnover was Rs.1.20 lakh, which would translate to Rs.4.80 lakh of annual turnover. The CEO, GSTN, informed that about 9% of 64,059 taxpayers had shown an average quarterly turnover of more than Rs.12 lakh. The Secretary stated that 70% of composition taxpayers were showing very low turnover and they only wanted to take registration and then were paying tax according to their own will. He stated that only about 2 lakh taxpayers appeared to be genuine composition taxpayers whose average quarterly turnover was Rs.11.87 lakh, which would amount to an average annual turnover of Rs.47.48 lakh. He stated that in view of these figures, there appeared no case for increasing the annual turnover threshold for composition dealers to Rs.2 crore in the law. The ACS, Uttar Pradesh, stated that their margin also appeared to be as high as 30% and it appeared that they were under-reporting their turnover. He stated that there was also a case for upward revision of the rate of composition tax.

13.4. The CEO, GSTN, further stated that an analysis of GSTR-3B returns indicated that 80% GSTR-3B filers filed consistent returns in all five months (July to November 2017). A comparison of GSTR-1 and GSTR-3B indicated that about 10.96 lakh filers did not file the GSTR-1 returns and the Tax Administration would need to examine why they did not file returns. He further stated that around 485 of big taxpayers i.e. those with an annual turnover of more than Rs.1.00 crore, had filed only one return and rest of the returns were either Nil or of very low amount. He stated that this number was constantly increasing from July (164) to November (485) and their number showed that they were getting emboldened not to pay tax. He stated that these details would be shared with tax authorities for further follow up. He added that about 4.5 lakh taxpayers did not file GSTR-3B from July to November, 2017 and a list of such taxpayers had been shared with the Central and the State tax administrations. The Hon'ble Deputy Chief Minister of Delhi suggested to give a combined State-wise list of such taxpayers to understand the trend across the States. The CEO, GSTN, stated that a combined list would be made available to the Central and the State tax administrations.

13.5. The Council took note of the presentation of the CEO, GSTN.

13.6. The Chief Economic Advisor (CEA) made a presentation showing key and preliminary GST findings (attached as **Annexure 6** of the Minutes). He stated that the information available for the economy was dazzling and that analysis was done till December, 2017. He stated that as on 31 December, 2017, there were 98 lakh registrants comprising 93

CHAIRMAN'S INITIALS

lakh unique corporate entities. He stated that there were about 34 lakh new filers registered under GST, which represented 50% increase in taxpayers. He further stated that about 17 lakh taxpayers who were below the threshold limit, had registered under GST and about 19 lakh taxpayers, who could have opted for composition scheme had opted as regular taxpayers. He stated that based on the five months' data, the GST base was estimated at Rs.65-70 lakh crore and this gave an implied tax rate of 15.6%, which could be a potential revenue neutral rate in the range of 15%-16%. He stated that the figures also indicated that the States' share in the GST base was same as it was in GSDP, which made a very nice symmetry. He stated that many taxpayers, who did not need to file returns, were actually filing returns because they were small taxpayers, buying from big taxpayers, and selling B2C and hence needed input tax credit. He also pointed out that 53% of non-agricultural workforce was part employed in the GST net and this was more than what was expected. He stated that more details would be appearing in this year's Economic Survey

13.7. For **Agenda item 5**, the Council took note of the presentations made by the CEO, GSTN and the CEA.

Agenda item 6: Recommendations of the 'Committee on Returns Filing' on Simplification of Returns under GST

14. The Secretary invited Dr. A.B. Pandey, Chairman, GSTN, and Chairman of the Committee on Return Filing, to present the recommendations of the Committee before the Council. The Chairman, GSTN, stated that keeping in view the criticism regarding the present procedure of return filing, which involved filing 37 returns in a year, the Committee, after discussing the issue with the officers of the Law Committee, had recommended that instead of three returns in a month, only one return could be filed. On the basis of the uploaded invoices of the seller, input tax credit could be made available. He added that the switch over should not be abrupt; rather, there should be a transition plan to get into invoice-based input tax credit system. He then invited the CEO, GSTN, to make a presentation on the recommendations of the Committee on Return Filing.

14.1. The CEO, GSTN, in his presentation (attached as **Annexure** 7 of the Minutes), stated that the stakeholders had reported several challenges with regard to the present system of return filing like filing of three returns in a month, returns being inter-linked and thus in case one return was missed, no further return could be filed. He added that tax rate-wise entries being made in GSTR-1 doubled the work of taxpayers – one while creating GSTR-1 and the other during comparing with GSTR-2A. Linking of credit note and debit note with invoices was a tedious process; linking details as per HSN code increased their work and B2C reporting of large transactions did not serve any purpose and increased compliance. He stated that the Committee's recommendation was to track credit at invoice level supplies as it provided a clear mechanism for counter-parties to reconcile accounts and mismatches and eliminated subjective assessment by tax officials. It also helped in integrating with the e-Way bill system. He stated that 92.53% of taxpayers uploaded invoices in the range of 1-50 and 98.64% uploaded invoices in the range of 1-300. For auto-populated invoices in GSTR-2A returns (B2B) where a taxpayer has to confirm, accept or reject the invoices, 90.62% of the returns had invoices in the range of 1-50 and 99% returns had invoices in the range of 1-300.The Hon'ble Deputy Chief Minister of Delhi observed that data analysis needed to be

CHAIRMAN'S INITIALS

reinforced with ground level surveys as the business model did not seem to operate in this fashion.

14.2. The CEO, GSTN stated that the Committee recommended that the invoice data should be accepted at Item Level along with an Item Number field and HSN code. This could be implemented in phases – in Phase 1 to take data at invoice level with HSN level data in a separate table and in Phase 2 (after the system stabilises), take information at line item level along with HSN code and remove the HSN table. Regarding the present separate periods of return filing, he informed that the current return filing was a workflow driven system, requiring cut off dates. He stated that this was equivalent to intersections on the road, which caused co-ordination delays. The Committee's recommendation was that there should be no cut off dates and there should be one-way traffic of data. He stated that the basic principle of return filing would be to establish an incentive-based system aligned with clear responsibility and accountability in which sellers would need to upload invoices as soon as possible, otherwise they would not get payment (tax component from buyers). The buyers would need to accept and lock invoices else they could not take input tax credit, leading to increased working capital requirement. Regular uploading and acceptance (locking) would significantly even out the load on the system, thereby reducing spikes.

14.3. The CEO, GSTN, stated that Committee's recommendation was to file only one return per period and suggested two options to achieve this. **Option I** could be the workflow driven in which provisional credit could be taken on the basis of seller's data plus buyer-declared additional purchase details at invoice level. Under Option I, up to a particular date, say 10th of the month, the buyer could accept the invoices and lock it. Any invoices uploaded beyond that date would go to the next month. The system would draft returns on the 11th of the month. The purchaser could add the missing purchase invoices not uploaded by sellers. He stated that Option I feature would be any time uploading of data, offline tools for matching, no interest from the buyer for the initial two-month period as the seller would be paying the interest when he added the missing invoices to his GSTR-1. He stated that where supplier did not accept an uploaded invoice, there should be a separate provision in law to address this. The Committee recommended it to be one monthly return for all. **Option II** could be simultaneous uploading of sale and purchase data with system matching. Under this Option, buyer-declared input tax credit could be availed by filing purchase details at invoice level. This Option also involved any time uploading of invoices and mismatched invoices could be matched on daily basis. Under this option also, the periodicity would be monthly.

14.4. The CEO, GSTN further stated that during the meeting with the Law Committee held on 4 January, 2018, Option I was discussed. One of the suggestions of the officers was to study Option II, which was the model adopted under some VAT administrations. Some officers felt that under Option I, current GSTR-2 and GSTR-3 forms were joined together and GSTR-1 was replaced by invoice upload, which was nothing but old wine in new bottle. He stated that on this basis, the issue was discussed with representatives of four States, namely Karnataka, Andhra Pradesh, Maharashtra and Gujarat. The experience of these four States regarding system matching models and various features were analysed. The filing of returns and annexures were linked in Maharashtra but delinked in Andhra Pradesh, Karnataka and Gujarat. All four States had invoice level filing. Two States, namely, Karnataka and Maharashtra had invoice level matching whereas the other two States, namely, Andhra Pradesh and Gujarat had counter-party system of matching. All four States provided a correction mechanism by way of revision of returns. He stated that the mismatch level in

CHAIRMAN'S INITIALS

these four States ranged from 12% to 30% and that no State had a system of auto reversal of input tax credit. He also stated that in all States, invoice number mismatch constituted 90% of mismatches. He informed that both the Options were presented before the meeting of the officers of the Central Government and the State Governments held on 11 January, 2018 and the Officers Committee was inclined towards Option II. He also presented the proposed gradual transition plan.

14.5. Shri Nandan Nilekani, Co-founder and Non-Executive Chairman of the Board of Directors of Infosys Ltd., (and former Chairman of UIDAI and Chairman of TAGUP Committee) also made a presentation on the subject of return filing (attached as **Annexure 8** to the Minutes). He stated that he had looked at both the Options and tried to synthesise the two to achieve compliance simplification. He stated that the core principle of any indirect tax model should be that input tax credit would be provided only on "matched" invoices i.e. legitimate invoices where the supplier had admitted tax liability by uploading the invoices on the portal. This would mean either denial or automatic reversal of credit on unmatched invoices. He stated that this principle was even more important in GST regime because settlement of IGST became a lot more complex and harder to audit where transactions would have to be settled possibly at invoice level. He stated that without matching of invoices, benefit of other related initiatives like e-Way bill system would be diluted. He stated that those models were doomed to fail which increased the burden on the taxpayer to correct mismatches or which relied on tax official's intervention to reduce the mismatches. He added that any solution that permitted, in the first place, higher level of mismatch would also fail as it would not permit automatic reversal.

14.6. Shri Nilekani further stated that the biggest risk of having a mechanism in which the system would do the matching was like taking the monkey on one's back. He added that it was not desirable to entrust the responsibility of invoice matching to the Government. He stated that a high rate of mismatch of 30% to 40% would provide sufficient cover to fraudsters to easily split the fraudulent claims knowing fully well that detection would be hard. He stated that in the GSTR-1, 2A and 1A model, acceptance-based matching on the basis of comparison of supplier's invoices with purchase books was considered to be too much of a burden. He stated that this was not a correct understanding and the basic problem was some design-based issues. He added that it was important to remember that every business - large or small, automated or manual – routinely compared supplier's invoices with the purchase books and that it was a necessary step before releasing payment. He added that most taxpayers had very few invoices and that 93% of the taxpayers have less than 50 sales invoices that needed to be uploaded and 91% of the taxpayers have less than 50 purchase invoices that needed to be accepted. He stated that GSTR-2 created a separate process and matching and return filing were duplicated, which made it difficult for the taxpayers. He suggested that in order to remove the burden of GSTR-2, it was desirable to align this process with the natural cycle of verification and payment. Comparing supplier's invoices with purchase books all over again for tax claim purpose was a burden. He stated that by modelling "invoice upload" and "acceptance" as tax "returns" (GSTR-1 and GSTR-2), the model created a perception that there were three returns per month. The structure of forms was so complex that it required a tax professional's help. The concepts like tax on advance payments, its utilisation to offset liability, separate reporting of different types of invoices made GSTR-1 and GSTR-2 more like a tax return form than a statement. Reporting of invoices at rate-level instead of line-item level created more work for the supplier.

CHAIRMAN'S INITIALS

14.7. Shri Nilekani stated that a successful model would be one which aligns with the natural business cycle of verification and payment of supplier invoices. Taking all this into account, he suggested a revised model in which suppliers "upload" sales invoices on the GST system which automatically calculates his tax liability. The invoices should also be made available to the buyer for acceptance. The key difference from GSTR-1 would be that it would simply mean invoice "upload" and not "filing" of tax return. He stated that invoice format and data granularity should match with the actual invoice submitted by supplier for payment, namely, invoice item level right from day one and that it should not be rolled up at tax rate or commodity level. Upload should happen on a continuous basis, which would imply that verification and acceptance coincided with the actual business transaction. Invoices uploaded after the 10th of the month would automatically be included in the next return. He stated that market forces would evolve a model where invoice would be paid for only after upload on the GST system. Buyer should accept supplier's invoices on the GST system, which would automatically determine the input tax credit. He stated that the key contrasts from GSTR-2 and pure system matching model was that it was simply an invoice "acceptance" and not "filing" of return and that acceptance could happen on continuous basis, not waiting for all GSTR-1 to be filed. Invoices, once accepted, would be locked and could not be modified by the supplier, thus bringing finality to the transaction. The system should provide robust tools to facilitate smooth acceptance including for offline matching of supplier invoices with purchase books, auto-acceptance capabilities and improved support to GSPs/ASPs for tighter integration with accounting packages.

14.8. He proposed to eliminate the concept of "Provisional Credit". However, buyers could "notify" supplier through the system to upload any missed invoice but could not upload or modify it themselves. In this model, there would be no "mismatch" in the traditional sense and hence there would be no question of any reversal. He stated that reversal of input tax credit due to non-payment of tax by the supplier was widely perceived to be unfair to the buyer and recommended that the criteria for legitimate invoice should be redefined as one where supplier has admitted liability by uploading onto the portal and make provisions to recover dues from the supplier rather than penalising the buyer. The GST system would offer multiple channels for uploading and acceptance of invoices and filing of returns as 91% of taxpayers had fewer than 50 invoices in a month i.e. hardly 2-3 invoices per day; small taxpayers with no automated accounting systems could view and accept pending invoices directly on the portal. Small/medium taxpayers with some level of automation could use excel based offline tool to download, compare and accept pending invoices. Large taxpayers with fully automated accounting systems would do reconciliation and acceptance directly in their systems and upload results directly through APIs. He also proposed a gradual transition to eliminate risk to tax collection and provide sufficient time to stabilise the system and for the taxpayer to adapt to the new model and to enable eco-system to develop tools/application for automated uploading of sale invoices and reconciliation of purchase invoices.

14.9. He explained that the gradual transition would involve, in transition phase 'A', to continue with self-declaration of GSTR-3B for payment of taxes and replacement of GSTR-1 with invoice uploading. In transition phase 'B', to continue with self-declared GSTR-3B for payment of taxes; to enable invoice acceptance feature, which accepts input tax credit; introduce system generated GSTR-3 as a read only declaration; have a GSTR-3B versus GSTR-3 comparison report. Under this, the input tax credit compared would include missed invoices. At the end stage, GSTR-3B would be discontinued and would be replaced by

CHAIRMAN'S INITIALS

GSTR-3; to continue with invoice uploading/acceptance features and enable filing of system generated GSTR-3 as a return including payment capability. He emphasised that this system would work well as it was incentive aligned where, if the supplier did not report invoices on time, he would not get paid and the buyer who did not accept invoices in time, would not get input tax credit.

14.10. The Secretary observed that the presentation of Shri Nandan Nilekani suggested matching responsibility to be entrusted to the buyer and the seller which made the job simpler. The other option was to make everyone report his sale and purchase invoices and then computer would generate mismatches. He expressed that it could take months to rectify the mismatches. For mismatched invoices, either the tax administration would need to go after the buyer and the seller or there would be auto-reversal of input tax credit which would be a big pain point for the taxpayers. He observed that in the initial period, one would continue with GSTR-3B; upload sales invoices and have a separate missed invoices table for filling up the details by the buyer and the input tax credit claim in GSTR-3B should be roughly matching with his declaration. However, it should only be informational. The percentage of mismatch should be observed over a period of time and once mismatch was minimal, a system could be brought into force in which input tax credit would not be given until the seller uploaded the invoice(s). He then sought comments of the States on the proposed model.

14.11. The Hon'ble Minister from Kerala raised a question regarding the fate of B2C invoices. The Secretary stated that on the sales side, no invoice level details for B2C supplies were to be given. The Hon'ble Deputy Chief Minister of Delhi observed that the proposed system was good for large taxpayers but there could be practical difficulties for small taxpayers, in whose case, normally, Chartered Accountants filed returns. He added that if the small taxpayers themselves filed returns, then the system could work, but if they entrusted the work to the Chartered Accountants, it could lead to hue and cry.

14.12. Shri V.K. Garg, Advisor (Finance), Punjab, expressed two concerns. The first was that there was no provision to take input tax credit for the tax paid on advance payment and it was not clear how the system would take care of this requirement. The other concern was regarding the missing trader, as there was no mechanism to check whether the supplier, after uploading the invoices, had paid the taxes to the treasury. He added that in a federal GST structure, until the taxes had been paid at the origin State, the money could not reach the destination State. Dr. P.D. Vaghela, CCT, Gujarat, stated that two options were discussed by the Committee on Return. Option I supported by some of the States envisages uploading of supply and receipt details simultaneously by the taxpayer. Option II envisages only the details of supply to be uploaded by the supplier. In this option, there are two models, say, Model A which envisages grant of provisional credit to the recipients for missing supplies and Model B which envisages admissibility of input tax credit only if supplier uploads the invoices. The model proposed by Shri Nandan Nilekani is nothing but Model B of option II with a new feature that credit will be allowed even when tax is not paid by the supplier.

14.12.1. The CCT, Gujarat, further stated that the model proposed by Shri Nandan Nilekani was a harsher one, which was not earlier agreed to by the Law Committee. He stated that in this model, too much of power was being placed in the hands of the suppliers. He further stated that in the model proposed by Shri Nandan Nilekani (i.e. revised version of Model B), once an invoice was uploaded by the supplier and accepted by the buyer, the buyer would get credit automatically. However, the structure on which GST has been designed has two

CHAIRMAN'S INITIALS

elements: (i) the seller uploads the invoices; (ii) the payment of tax against the invoice should have been made. If the proposed model was accepted, where the buyer would get credit on the basis of invoice uploaded by the seller without ascertaining payment of tax against the invoice, this would create a huge problem in IGST transfer as funds might be transferred from the State of the supplier to the State of the recipient, whereas the supplier might not have paid the tax. This would lead to a situation of tax administration of one State running after the defaulting suppliers located in another State which would be very difficult.

14.12.2. He further stated that under Model A of Option II, input tax credit was being made available provisionally on the basis of missing invoices uploaded by the buyer subject to its acceptance later by the seller. He stated that this model could be acceptable to trade and chartered accountants, but Model B of option II would never be acceptable to the stakeholders. He added that for 98% of taxpayers, average number of invoices to be uploaded may be only 9, but a single chartered accountant or consultant handled returns of 100 to 150 taxpayers, both as a supplier and recipient. He gets all the details from taxpayers just 3-4 days before the due date of return filing, and he would need to verify how many invoices were uploaded and all this would lead to a lot of difficulties. The stakeholders would find it easier to receive a mismatch report and accept reversal of credit if mismatch persisted beyond a period of time, as may be approved by the Council. He stated that the best model would be where the buyer accepts invoices with a mechanism for provisional credit for missing invoices of the buyer. He stated that in the said Model, Departmental intervention would not be needed. He suggested to accept Model A of Option II with provisional credit for the buyer subject to payment of tax by the supplier.

14.13. The Hon'ble Minister from Kerala stated that the basic difference in the model suggested by Shri Nandan Nilekani and the other model was to do away with return filing. The returns would be generated by the computer on the basis of invoices uploaded. He observed that there could be some interim revenue losses in first three months. The Hon'ble Deputy Chief Minister of Bihar stated that in Option I, only sales invoice had to be filed whereas in Option II, both sale and purchase invoices would have to be uploaded by the taxpayer and that this would lead to double work. He added that as per the current system of States, mismatch report was generated by the system and as per the present experience of four States, mismatch was in the range of 25% to 40% and nation-wide mismatches could be very high. He supported the proposal of Shri Nandan Nilekani to upload only sales invoice and that sale and purchase details need not be matched by the system. He stated that some of the concerns like Chartered Accountants filing returns of small traders would need to be addressed.

14.14. The Hon'ble Minister from Jammu & Kashmir stated that the compelling argument in the model presented by Shri Nandan Nilekani was to integrate the tax system with the business process and this was key to the entire model, which would involve uploading of invoices by the supplier and matching them between the buyer and the seller and not the system. The Hon'ble Chairperson stated that the concern of the Hon'ble Deputy Chief Minister of Delhi regarding hue and cry being raised by small traders would also need to be considered. The Hon'ble Minister from Jammu & Kashmir stated that today, there was a genuine compliance complaint, which needed to be redressed through a revised procedure. The Hon'ble Deputy Chief Minister of Delhi stated that the model proposed by Shri Nandan Nilekani appeared to be good. The Hon'ble Deputy Chief Minister of Bihar stated that the

CHAIRMAN'S INITIALS

burden of tax consultants would increase as they would need to upload both purchase details along with sale details and would also need to resolve mismatches. Shri Nandan Nilekani observed that money would be a big stake for the buyer and the seller. In the proposed model, no return was being filed and only invoices were being uploaded, which was not a big burden. He stated that there should not be undue concern regarding the reaction of the tax professionals.

14.15. The Principal Secretary (Finance), Odisha, stated that the fact that accounts department of the taxpayer would need to check the invoices uploaded before making payment might need a change in the business practice of small taxpayers. He further observed that instead of return filing being once a month process, now it would become a daily process. Shri Nandan Nilekani responded that the choice lay with the seller as to at what interval he would upload the invoices. The Principal Secretary (Finance), Odisha, stated that if availment of input tax credit was delinked from tax payment, it had the risk of increasing the gaming behaviour of taxpayers. He added that it was also important to take into account the issue of tax consultants *vis-à-vis* small taxpayers. The Chairman, GSTN, stated that Maharashtra allowed input tax credit on the basis of declaration of seller's invoice in his return without checking for payment of tax. He observed that returns contained aggregation of information for which services of Chartered Accountants was required. He recalled that earlier for rail travel, one needed to book tickets through agents but now most passengers were able to book train tickets on their own on the IRCTC web portal. He observed that if the tax return process was simplified and it was made available through multiple modes, like mobile app, online tools, offline tools, etc., then taxpayers need not depend upon Chartered Accountants/tax consultants to file returns. He observed that invoices were issued by suppliers and not tax consultants.

14.16. The Hon'ble Minister from Punjab made three points – first, that for any business with turnover above Rs.5-10 crore, all invoices should be generated online; second, that for larger suppliers, uploading of invoices could be on weekly basis; and the third, that if a taxpayer received money in advance, an invoice must be generated mandatorily. Ms. Smaraki Mahapatra, CCT, West Bengal, stated that the model of provisional input tax credit was provided because the practical experience was that large taxpayers were bigger defaulters in uploading invoices and small taxpayers were the major sufferers. She suggested that views of a cross-section of stakeholders should be ascertained regarding the acceptability of the proposed return model.

14.17. The ACS, Uttar Pradesh, stated that the model proposed by Shri Nandan Nilekani had several positive features but the proposal that the supplier should only upload invoices did not always happen in reality. If a large taxpayer sold goods to a small taxpayer and did not upload his invoice for 2-3 months, it could badly hit the business of the small taxpayer. He further stated that purchasers/small taxpayers should be given an option to give additional information to Government on buying so as to get the benefit of input tax credit. He added that where both buyer and seller were colluding and did not pay tax, the return should be linked with e-Way bill system. He also raised an issue that if a registered taxpayer purchased from an unregistered taxpayer without payment of tax under reverse charge mechanism, he was under no compulsion to upload the invoice, and then how information would come regarding purchases from unregistered taxpayers. Therefore, in case of purchases from unregistered dealers also, there should be a provision of uploading the invoice by the buyer. The Secretary observed that the last phase of the return filing would not be implemented right

CHAIRMAN'S INITIALS

from the beginning. At the initial stage, small taxpayers would take self-declared input tax credit of the entire amount. Simultaneously, the gap in terms of number of missing invoices would need to be narrowed. The provision of denial of input tax credit for missing invoices should be implemented only after the transition period was completed. Once the gap in matching of sale and purchase invoice was reduced, input tax credit would be made available only on the basis of sales invoice and the computer would auto generate the return. He stated that the salient/selling point of the new model would be only filing of GSTR-3B and taking only invoice level details.

14.18. The Hon'ble Deputy Chief Minister of Gujarat raised an issue that if despite mismatch, the seller did not upload the invoice, whether input tax credit would be available to buyer. The Secretary stated that input tax credit would be allowed in such cases in the initial phase, based on GSTR-3B details, even though the mismatch in the uploaded invoices of the seller and the buyer would be known and available on the system. The Hon'ble Deputy Chief Minister of Gujarat suggested that stakeholders' opinion regarding the two options should be taken before taking a decision on the issue.

14.19. The Hon'ble Minister from Haryana stated that the proposal made by Shri Nandan Nilekani seemed to be simple and acceptable. He expressed that in principle, it could be accepted and a Committee could look into it to resolve the issues and concerns raised. Shri M.S. Srikar, CCT, Karnataka, stated that acceptability of the option should depend upon certain parameters like ease of compliance, agnostic to the size of the dealer, alignment to business process without additional burden, and alignment to tax administration regulations. He stated that based on VAT experience, Karnataka broadly supported Option II. He observed that the proposal of Shri Nandan Nilekani appeared positive but one needed to ascertain whether the eco-system, the consultants and others could cope with the proposed process.

14.20. Shri J.S. Syamala Rao, Chief Commissioner (Commercial Tax), (CCCT) Andhra Pradesh, stated that the purchaser could reach dead-end if the seller did not upload the invoice and, in the model, proposed by Shri Nandan Nilekani, tax officials would need to ascertain who was the culprit. He stated that this was not certain in the suggested model. He further added that while mismatch would be minimal, it would take much more time to implement it than the proposed Option II. He stated that auto-reversal could be done in the first month itself in Option II. He stated that Option II was better as it would have data of both the seller and the buyer and one would come to know as to who was the culprit for the missing invoices. In Option II, there would be no scope for the purchaser to reach a dead-end and matches could increase over a period of time. He observed that both Option I and the Option proposed by Shri Nandan Nilekani carried the risk of the purchaser reaching a dead-end. He added that no tax administration had tried Option I or the new model proposed by Shri Nandan Nilekani whereas Option II had been in use by a few State administrations. He suggested that this Option should be used along with direct auto-reversal. The Secretary observed that no new demand was being made in the model proposed by Shri Nandan Nilekani whereas burden on taxpayer was getting reduced. In this model, self-credit could be taken by the purchaser without disturbing GSTR-3B and the purchaser would only give details of missing invoices instead of furnishing his entire purchase invoices. Through this method, tax information would come and could be used by the tax administration for various purposes including for enforcement. He suggested not to apply auto-reversal in either of the two Options, but there could be greater burden under Option II. He added that in the model proposed by Shri

CHAIRMAN'S INITIALS

Nandan Nilekani, a taxpayer can be further incentivised by placing a mechanism in the system for auto generation of return in case of 100% match of sales invoice.

14.21. Shri Jagdish Chander Sharma, Principal Secretary (E&T), Himachal Pradesh, stated that smaller traders had manual system and it would need to be integrated with the GST system. He added that collusive activity of the buyer and the seller could be taken care of through the e-Way bill system. The CCT, West Bengal, stated that at the end stage of the proposed model, it was proposed to disallow input tax credit for invoices not uploaded by the supplier whereas there could be genuine business purchases and this could amount to denial of the right of doing business. She suggested that a legal perspective should also be taken before going in for any model. The Secretary observed that it might be difficult to delink payment of tax by supplier from availing input tax credit by the buyer.

14.22. The Hon'ble Chairperson observed that from the discussions held so far, the way forward appeared to be to continue with GSTR-3B, upload invoices on sales side and bring mismatches to the notice of both the buyer and the seller. The Secretary stated that once mismatch percentage became less, say 10%, one could go to the end stage where there would be no GSTR-3B return; all invoices would be uploaded by the seller and a return would be generated accordingly. There would be a table to explain the mismatch of invoices declared by the supplier and the buyer without any corresponding action of denying input tax credit. After a few months, one could move towards complete invoice upload-based return generation. The Hon'ble Deputy Chief Minister of Gujarat stated that if a supplier uploaded invoices at a later date, a question could arise as to why it was not uploaded earlier. The Secretary stated that such questions could arise but during the observation phase, no action need to be taken on this. The Hon'ble Chairperson stated that at present, one could continue with GSTR-3B and a date could be given from which uploading of sale invoices would begin, which would be visible to the buyer and could be locked by him.

14.23. The Hon'ble Minister from Kerala stated that he supported Option II and suggested that one should not take a hasty decision. He added that another week's time be taken to decide the issue and then take a decision during a Council's meeting through video conference. The Hon'ble Minister from Andhra Pradesh also suggested to give more time to decide on the options. The Hon'ble Minister from Telangana suggested that the options should be discussed with the stakeholders before coming to a final decision. The Hon'ble Chairperson stated that the issue should be discussed with the stakeholders after the Committee on Return Filing and the Law Committee had further examined the suggestions of Shri Nandan Nilekani and thereafter the issue could be decided by the Council through video conference. The Hon'ble Minister from Jammu & Kashmir stated that the proposal should not be condemned by putting it before the officers' committee for consideration as they had already made up their mind that the proposal of Shri Nandan Nilekani was not workable. He suggested that a small Group of Ministers could examine this proposal. He further stated that intuitively, it seemed to be a good model. The Hon'ble Chairperson stated that the model proposed by Shri Nandan Nilekani could be examined by the Group of Ministers on IT Challenges in GST Implementation, headed by the Hon'ble Deputy Chief Minister of Bihar, in consultation with the members of the Committee on Return Filing and Shri Nandan Nilekani. The issue could then be decided by the Council through video conference. The Council agreed to this proposal.

CHAIRMAN'S INITIALS

15. For **agenda item 6,** the Council approved that the model proposed by Shri Nandan Nilekani shall be examined by the Group of Ministers on IT Challenges in GST Implementation, headed by the Hon'ble Deputy Chief Minister of Bihar, in consultation with the members of the Committee on Return Filing and Shri Nandan Nilekani. The issue could then be decided by the Council.

Agenda item 7: Issues recommended by the Law Committee for consideration of the GST Council

16. The Secretary stated that some changes were proposed by the Law Committee in the Rules and Forms. He informed that these were discussed in the meeting of the officers of the Central Government and the State Governments held on 11 January, 2018 and were agreed to. He proposed that these could also be agreed to by the Council. The Commissioner (GST Policy), CBEC, stated that the presentation circulated before the Meeting of the Council (attached as **Annexure 4** of the Minutes) contained the proposed changes. He stated that there was one modification in the proposal in respect of Agenda item 7(i)(v), wherein it was proposed to delete proviso to sub-Rule 5 of Rule 32 and to insert a new sub-Rule 5(A) in Rule 32 to provide for purchase value of goods repossessed from a defaulting borrower. He stated that the Council might not approve this proposed change as it needed further consideration. The Council agreed to the proposal and approved the other proposals under Agenda item 7 proposing changes in certain CGST Rules and Forms.

17. For **Agenda item 7**, the Council approved the proposed changes in CGST Rules and Forms, as contained in Agenda item 7, except for Serial No.5 of Agenda item 7(i)(v) relating to purchase value of goods repossessed from a defaulting borrower.

Agenda item 8: Recommendations of the Committee on Handicrafts

18. The Secretary invited Ms. Vanaja N. Sarna, Chairman, CBEC to introduce this Agenda item. The Chairman, CBEC, stated that the Committee on Handicrafts had finalised its report after numerous meetings of the Committee and deliberations in the sub-committees. She stated that inputs had been received from various States for including items as handicrafts and after the completion of the report, further suggestions had been received from the States of Odisha and Gujarat. She stated that these would also be considered by the Committee on Handicrafts and that the goods which were agreed to be considered as handicrafts would be referred to the Fitment Committee for recommending rate of tax on them. She then invited Shri G.D. Lohani, OSD, TRU-I, CBEC, to make a brief presentation on the report of the Committee on Handicrafts.

18.1. The OSD, TRU-I in his presentation (attached as **Annexure 9** of the minutes) stated that in respect of TOR (Terms of Reference) 1, relating to definition of handicrafts, the Committee took note of definitions of handicrafts by UNESCO and other national and international bodies and the observations of the Hon'ble Supreme Court on handicrafts and concluded that any definition of handicrafts must have three elements, namely, predominant use of hands; sufficient artistic and traditional elements; and distinct output from machine made goods. He stated that after several iterations, the Committee arrived at the following definition of handicrafts:

"Handicrafts are goods predominantly made by hand even though some tools or machinery may also have been used in the process; such goods are graced with visual appeal

CHAIRMAN'S INITIALS

in the nature of ornamentation or in-lay work or some similar work of a substantial nature; possess distinctive features, which can be aesthetic, artistic, ethnic or culturally attached and are amply different from mechanically produced goods of similar utility."

18.2. As regards TOR 2, i.e. identification of HSN Codes for handicrafts, he stated that inputs were received from States as well as the Office of the Development Commissioner (Handicrafts) in the Ministry of Textiles and based on these, 40 HSN Codes were proposed to be included in the list of handicrafts. He stated that the additional suggestions for inclusion in the list of handicrafts received from Odisha and Gujarat would also be deliberated upon by the Committee. He added that few items were added by name in the list on the basis of inputs received from States. He stated that as regards suggestions on handmade goods, the Committee felt that any differential rate for handmade goods without adequate safeguards would be prone to misuse and that one possible way could be to consider particular handmade products produced and marketed exclusively by specified federations/self-help groups on a different pedestal.

18.3. As regards TOR 3 regarding specific issues of handicraft sector, he stated that the Committee had requested inputs from States and from the Union Ministries to identify specific issues. He stated that the examination of these issues indicated that they were mostly related to the drawback, rates of tax, export issues like market access, concessions in GST rates related to exhibitions, etc. and such issues were already being dealt with by other Committees like the Drawback Committee, the Fitment Committee and the Export Committee. The Committee proposed to refer these issues to the respective Committees.

18.4. Initiating discussion on this Agenda item, Shri P. Srivastava, Chief Resident Commissioner, Tripura, stated that their State had suggested to add Tripura silk and cotton sarees and bamboo made gift items in the list of handicrafts and also suggested that the rate of tax on bamboo and cane-based items should be 5%. The OSD (TRU-I), CBEC, clarified that items made of bamboo were already covered in the list and classifiable under Chapters 44, 46 and 96 (recommended rate of tax for Chapter 46 is already 5%). As regards sarees and clothes, he stated that the Committee deliberated on this issue and decided not to treat them as handicrafts. He stated that the Office of the Development Commissioner also did not recommend to treat these goods as handicrafts and as such sarees etc. from none of the States had been taken in the list of handicrafts.

18.5. The Hon'ble Minister from Jammu & Kashmir stated that first, handicrafts should be defined and then rate on handicrafts items could be looked at separately. The Hon'ble Chairperson observed that different States had different kinds of handicrafts and they were mostly out of the tax net till now. He added that this sector generated mass employment and, therefore, rate of tax on handicrafts should not be very high. He further stated that pending fitment decision on these items, the Committee could look into the issues relating to handmade carpets. The Chairman, CBEC suggested that the Council could accept the report of the Handicrafts Committee and then the issue of rates could be taken up by the Fitment Committee separately. The Hon'ble Chairperson suggested that the Council could accept the report and the recommendations of the Committee on Handicrafts and States could give additional items to be considered as handicrafts which would be considered by the Committee on Handicrafts. The Council agreed to this suggestion.

CHAIRMAN'S INITIALS

19. For **Agenda item 8**, The Council accepted the report of the Committee on Handicrafts and its following recommendations:

i. Definition: "Handicrafts are goods predominantly made by hand even though some tools or machinery may also have been used in the process; such goods are graced with visual appeal in the nature of ornamentation or in-lay work or some similar work of a substantial nature; possess distinctive features, which can be aesthetic, artistic, ethnic or culturally attached and are amply different from mechanically produced goods of similar utility;"
ii. To include 40 HSN Codes in the list of handicrafts as listed in the report of the Committee;
iii. To refer the issues identified by the Committee on Handicrafts to the respective Committees like the Drawback Committee, the Fitment Committee and the Export Committee;
iv. The Committee on Handicrafts to consider the recommendations of the States of Odisha, Gujarat and any other State for inclusion of additional items in the list of handicrafts.

Agenda item 9: Changes proposed to be made in the CGST Act, 2017, SGST Acts, the IGST Act, 2017 and the GST (Compensation to States) Act, 2017

20. Introducing this Agenda item, the Secretary stated that a Law Review Committee had been constituted in pursuance of a decision of the GST Council in its 22nd meeting held on 6 October, 2017. This Committee had received suggestions/representations from various trade associations and field formations of the Centre and the State taxes which it examined. It also examined the recommendations of the Advisory Group of the Law Review Committee. Based on these inputs, the Law Review Committee submitted its report containing recommendations for changes in Law on 4 January, 2018. These recommendations and the suggestions of the GST Policy Wing of CBEC were discussed in a joint meeting of the Law Review Committee and the Law Committee held on 10 January, 2018. The combined recommendations of the Law Review Committee and the Law Committee were discussed in the meeting of the officers of the Central and the State Governments on 11 January 2018 and the consolidated recommendations of the officers meeting of 11 January 2018 was placed before the Council for consideration. The Secretary invited Commissioner (GST Policy), CBEC to brief the Council about the important recommendations under this agenda item. The Commissioner (GST Policy), CBEC stated that what was placed before the Council for approval was only the broad proposals contained in the second last column of the Annexure I of Agenda Item 9 (hereinafter referred in this section as Annexure I) and the suggested formulations contained in the last column would undergo substantial modification based on consultation with the Law Committee and the Union Ministry of Law. He stated that one change was envisaged in the proposal contained in Sl. No.11 of Annexure I, namely, to replace the expression "employees without charging a consideration" with the expression "Employees with or without charging a consideration". He further stated that some new proposals were added which were not discussed in the Officers' meeting held on 11 January, 2018. The first one was the proposal at Sl. No.21 of Annexure I, which related to a proposal to insert an explanation in Section 13 of the CGST Act, 2017 to clarify the term 'supply is identifiable' in case of vouchers in Sections 12 and 13 of the CGST Act, 2017. The second was the proposal at Sl. No. 46 of Annexure I to

CHAIRMAN'S INITIALS

amend the explanation to the definition of "continuous journey" which does not consider single ticket flights with stopovers as continuous journey.

20.1. The Commissioner (GST Policy), CBEC, highlighted some important changes which are discussed as follows:

i) **S.No.17 of Annexure I**: The Commissioner (GST Policy), CBEC stated that section 9(4) of the CGST Act and section 5(4) of the IGST Act related to payment on reverse charge basis and under these sections, it was proposed to impose tax on reverse charge basis on composition taxpayers on purchase from unregistered suppliers. The Secretary stated that if tax on reverse charge was not imposed on composition taxpayers, a lot of evasion of tax would take place. The Hon'ble Deputy Chief Ministers of Bihar and Delhi agreed to this proposal. The second proposal for these two sections was to have an enabling provision to impose tax under reverse charge on specified classes of taxpayers when they obtained supplies from an unregistered person. A third proposal was to have a provision to provide details of supplies received from unregistered persons in the return on the basis of PAN/Aadhaar. The ACS, Uttar Pradesh suggested that in the Law, an enabling power could be provided to make reverse charge mechanism on all products except those which would be exempted through notification. He stated that otherwise many composition dealers would opt out of registration.

ii) **S.No.23 of Annexure I**: The Commissioner (GST Policy), CBEC informed that the proposal was to amend Section 10 to increase the threshold for eligibility for composition scheme to Rs.2 crore per annum and then fix the threshold through a notification to Rs.1.5 crore per annum. The ACS, Uttar Pradesh stated that in view of the fact that 91% of composition dealers had shown a turnover of less than Rs.5 lakh per quarter, it needed to be considered whether the annual turnover threshold limit for composition scheme should be increased to Rs.1.5 crore or Rs.2 crore per annum in the Law. The Hon'ble Chairperson stated that it was already decided by the Council that the annual turnover threshold for composition would be raised to Rs.1.5 crore and that the same limit should be kept in the Law. The Hon'ble Deputy Chief Minister of Delhi stated that the original discussion was in regard to schemes relating to small scale industries and SMEs but then the discussion went on to composition scheme. The Hon'ble Chairperson stated that the results of relaxation under the composition scheme was not very encouraging, and in this view, it was not desirable to increase the annual turnover threshold for composition to Rs.2 crore and it should be limited to Rs.1.5 crore. The Council agreed to this suggestion.

20.2. The Commissioner (GST Policy), CBEC, stated that another proposal was to permit supply of services by a composition dealer up to 10% of the total turnover or Rs.5 lakh whichever was higher with the condition that the taxes on the services would be little higher. This would include supplies by way of job work. For these services, a composition rate could be notified by the government on the recommendations of the Council but not exceeding a total rate of 18% (9% each for CGST and SGST). In addition, restaurant service was proposed to be defined. It was also proposed that composition scheme should not be extended to persons making inter-state supplies; no input tax credit should be allowed to purchasers buying from composition taxpayers; and manufacturers of aerated water should be kept out of composition scheme through a notification. The ACS, Uttar Pradesh suggested that like aerated water, brick kiln should also be kept out of the composition scheme or there should be a separate composition scheme for brick kiln based on its capacity. The Hon'ble Deputy

CHAIRMAN'S INITIALS

Chief Minister of Bihar stated that under VAT regime, brick kiln had a separate composition scheme and they had been demanding a similar composition scheme under GST. The Commissioner (GST Policy), CBEC, stated that during the discussions in the Law Committee, it was felt that composition scheme should be linked to turnover and it should not be activity based, but if so required, this issue could be relooked at a later date. The Council agreed to these suggestions.

iii) **S.No. 27 of Annexure I:** To keep in abeyance the provisions relating to TDS and TCS namely, sections 51 and 52 respectively of the CGST and the SGST Acts for at least six more months or such further period as may be decided by the Council.

iv) **S.No. 41 of Annexure I:** To introduce a new section making an enabling provision to issue exemption notification with retrospective effect for a period of 3 years from the appointed date, if the Council so decides.

v) **S.No.42 of Annexure I:** In case of B2B supply of accommodation services like hotels, etc. the place of supply of service should be the location of the registered person and not where the hotel etc. is located in order to permit availment of input tax credit to the registered person. The Hon'ble Minister from Kerala stated that a hotel service was availed where the place of consumption was, that is, where the hotel was located and it was not a B2B transaction. The Commissioner (GST Policy), CBEC stated that on account of place of supply rules, persons registered, say in Bengaluru or Mumbai, were not organising conferences etc. in Kerala or any other State as they were not getting input tax credit and they were moving these conferences to cheaper destinations in the South-East Asian countries. The Hon'ble Minister from Kerala stated that this issue should be discussed along with the issue of the rate of tax on accommodation services. The Hon'ble Minister from Goa supported the proposal of the Hon'ble Minister from Kerala and stated that it was ironical that when they raised the same issue of business moving out of India because of high rate of tax of 28% on such services, then no heed was being paid and now the same argument was being offered for place of supply related provision. The Hon'ble Minister from Haryana stated that another reason for tour business moving out of the country was that the Indian tour operators were getting VAT refunds from those countries on official business conducted abroad. The Hon'ble Chairperson suggested that both the place of supply provision and the rate of tax on hotels, etc., should be discussed together and a proposal be brought before the Council. The Council agreed to this proposal.

vi) **S.No.47 of Annexure I:** Compensation Cess: The Commissioner, (GST Policy), CBEC stated that it was proposed to insert an enabling provision in the GST Compensation Act to provide for levy of cess at the manufacturing stage on parameters such as production capacity for certain categories of supplies such as pan masala and other evasion prone commodities. The Hon'ble Minister from Punjab suggested that the Constitutional validity of the proposed amendment should be ascertained. The Secretary stated that this issue would be got examined both Constitutionally and through the Law Committee.

20.3. The Hon'ble Chairperson stated that on the basis of the approval of the proposed changes in the Law, the Law Committee would draft the legislative changes and after its vetting by the Union Law Ministry, it would be brought before the Council for approval.

CHAIRMAN'S INITIALS

20.4. For **Agenda Item 9,** the Council agreed to the proposals for changes in the GST Law as presented in Annexure I to Agenda Item 9 with the following modifications / suggestions: -

i. For Composition Scheme (Sl.No.23 of Annexure I), the eligible annual turnover threshold shall be Rs.1.5 crore per annum instead of Rs.2 crore per annum;
ii. The place of Supply Rules for B2B supply of accommodation services (Sl.No.42 of Annexure I) to be discussed along with the rate of tax on accommodation services;
iii. To ascertain the Constitutional validity of the amendment under the Compensation Cess Act.

Agenda item 10: Issues recommended by the Fitment Committee for the consideration of the GST Council

Agenda item 10(i): Recommendations on Goods

21. The Secretary introduced this Agenda item and stated that the recommendations on goods had two Annexures. Annexure I contained a list of 29 items where the Fitment Committee had recommended changes in the GST rates in respect of certain goods or suggested issuance of clarification regarding classification or rate of tax. He added that Annexure II related to goods where the Fitment Committee had not recommended any change in the GST rates. A record of discussion with reference to the specific items of **Annexure I and Annexure II** is as below:

Discussion on Annexure I of Agenda item 10(i):

Serial No.9 of Annexure I: Used motor vehicles (HSN Code 8702)

21.1. The Hon'ble Minister from Punjab stated that this proposal seemed to cause double taxation. The Secretary explained that the proposal was not to impose double taxation but only to impose tax on the margin of the supplier of a motor vehicle and the GST rate recommended by the Fitment Committee was 12% and Nil Compensation Cess on all motor vehicles under HSN Code 8702 (other than medium and large cars and SUVs), and 18% and Nil Compensation Cess on medium and large cars and SUVs, on the margin of the supplier of such motor vehicles. He added that these rates would apply on supply of used motor vehicles by a person who had not availed input tax credit on such motor vehicles. He further added that for a registered entity, value for tax purpose shall be the difference between the sale value and the depreciated value of the motor vehicle.

21.2. After discussion, the Council agreed to the tax proposal of the Fitment Committee in respect of used motor vehicles, contained at Serial No.9 of Annexure I of this Agenda item.

Serial No.10 of Annexure I: Diamonds of all type (Precious stones) (HSN Codes 7102, 7103)

21.3. The Hon'ble Minister from Kerala raised an issue as to why tax on diamonds, other than rough diamonds and including cut and polished diamonds was proposed to be reduced from 3% to 0.25%. He pointed out that tax on exported diamonds was fully refundable and if there was delay in granting refund, it should be addressed through appropriate administrative mechanism. He observed that there was no rationale to reduce tax on diamonds as it was a luxury product. The Secretary stated that the diamond industry had informed that in one city in Gujarat, 8-9 processes were carried out on one diamond, and therefore, it involved 8-9 movements of one diamond. He stated that it would be cumbersome to levy 3% tax for each

CHAIRMAN'S INITIALS

such movement. He informed that the initial proposal was to have a separate low rate of tax for diamonds for B2B transactions or to have a scheme like that adopted in Belgium to charge no tax for supplies within a Closed User Group. He informed that the Fitment Committee did not agree to have separate rates of tax for diamond supplied to B2B and B2C. He stated that 90% of diamonds were exported and 10% were used in jewellery industry. As jewellery was taxed at the rate of 3%, value addition on diamond would be captured at the level of jewellery, where diamond was supplied as part of jewellery. He stated that it would be better to tax transactions in diamonds *per se* at a lower rate.

21.4. The Council agreed to the suggestion and the proposal in respect of diamonds of all type (precious stones), contained in Serial No.10 of Annexure I.

Serial No.14 of Annexure I: Fertilizer grade Phosphoric Acid (HSN Code 2809)

21.5. The Hon'ble Deputy Chief Minister of Gujarat stated that instead of reducing the tax on fertilizer grade phosphoric acid from 18% to 12%, it should be reduced to 5%. The Secretary stated that the exchequer already stood to lose Rs.800 crore by the proposed tax reduction from 18% to 12%. He added that reduction of tax rate to 5% would lead to blockage of input tax credit for the domestic manufacturers of fertilizer grade phosphoric acid. The Council agreed to the proposal of the Fitment Committee to reduce tax on fertilizer grade phosphoric acid from 18% to 12%.

Serial No.18 of Annexure I: All goods (HSN Codes 4601, 4602)

21.6. The Principal Secretary (Finance), Odisha, stated that plates made of *sal* and *siali* leaves, and *sabai* grass ropes made of *sabai* grass should be exempt from tax as otherwise livelihood of tribal people would be affected. He added that there was no issue of input tax credit as well. He stated that these were eco-friendly goods and were earlier exempted from tax. The Secretary stated that the exemption limit of Rs.20 lakh would take care of small tribal producers. The Principal Secretary (Finance), Odisha, responded that the materials had become costlier when it was sold by dealers. The Joint Secretary (TRU-I), CBEC, stated that all items of bamboo cane, *rattan*, etc. of the entire Chapter were kept at 5% tax rate and it would be desirable to retain these products also at the rate of 5%.

21.7. The Hon'ble Minister from Odisha reiterated that there should be a carve out for plates made of *sal* and *siali* leaves, and ropes made of *sabai* grass, and that this could be taken up by the Fitment Committee in its next meeting. The Council agreed to this suggestion.

Serial No.21 of Annexure I: Parts and accessories specifically used for manufacture of hearing aids (Any chapter)

21.8. The Joint Secretary (TRU-I), CBEC, stated that the Fitment Committee had given two options for consideration of the Council, namely, either to provide an end-use based exemption for parts and accessories specifically used for manufacture of hearing aids or to impose a nominal 5% GST on hearing aids so that the domestic manufacturers were not at disadvantage *vis-à-vis* imports. The Secretary suggested that the end-use based exemption might be more desirable.

21.9. The Council agreed to exempt parts and accessories specifically used for manufacture of hearing aids through end-use based exemption.

CHAIRMAN'S INITIALS

Serial No.22 of Annexure I: (a) Rice Bran for use as aquatic, shrimp feed, prawn feed, poultry feed and cattle feed, (b) Rice bran for other uses (HSN Code 2302)

21.10. Dr. D. Sambasiva Rao, Special Chief Secretary, Andhra Pradesh, stated that rice bran for cattle and poultry feed was not the same as used for extracting oil, and therefore, rice bran being mostly used for cattle feed, should be exempt from tax. The Hon'ble Minister from Telangana supported this view. The Joint Secretary (TRU-I), CBEC, stated that only two States, namely, Tamil Nadu and Telangana had informed that in their States, rice bran was used as cattle feed and that in other States, rice bran was not exempt in the pre-GST period. He informed that oil was extracted from rice bran through solvent extraction plants. The Hon'ble Minister from Telangana observed that both oil and de-oiled rice bran were used as cattle feed, and therefore, both should be exempt from tax. The Hon'ble Deputy Chief Minister of Gujarat stated that cotton oil cake was exempt from tax but this led to reversal of input tax credit, which was causing dissatisfaction amongst traders. He suggested to put 1% tax on cotton oil cake and rice bran. The Joint Secretary (TRU-I), CBEC stated that when tax was charged on reverse charge basis on raw cotton, the traders were paying tax under reverse charge mechanism. However, with reverse charge mechanism provision [Section 9(4) of CGST and SGST Acts] being kept in abeyance, the standalone cotton seed millers were put to disadvantage *vis-à-vis* integrated units (who directly bought raw cotton from farmers). To resolve this issue, supply of raw cotton by an agriculturist to a registered person was put under reverse charge mechanism under Section 9(3) of CGST and SGST Acts. The Hon'ble Deputy Chief Minister of Gujarat stated that due to difficulties faced by ginners industry, they had gone on strike and suggested to impose 1% tax on cotton oil cake and rice bran and to continue with the reverse charge mechanism. The Secretary stated that it would not be desirable to have a new rate of tax of 1%. He suggested that the ginners could get refund and the process of refund could be expedited.

21.11. The Council agreed to the tax proposal recommended by the Fitment Committee for Serial No.22 of Annexure I, namely, to tax rice bran at the rate of 5% and de-oiled rice bran at Nil rate.

Handmade Carpets

21.12 The Hon'ble Minister from Jammu & Kashmir stated that he was requesting for the fourth time in the Council to reduce the rate of tax on handmade carpets from 12% to 5%. He informed that before carpets were sold, they were supplied to other States and at that stage, carpets were being taxed at the rate of 12%. The Hon'ble Chairperson suggested that this could be discussed by the Fitment Committee. The Council agreed to this suggestion. The Hon'ble Minister from Haryana stated that the State of Jammu & Kashmir deserved a special consideration in respect of the rate of tax on handmade carpets. The Secretary stated that the problem was regarding upfront payment of tax on handmade carpets and suggested that the Committee on Handicrafts could examine this issue and suggest a solution. The Council agreed to this suggestion.

Agenda item 10(i): Discussion on Annexure II

Serial No.6 of Annexure II: Pickle (HS Code: 2106)

22. The ACS, Tamil Nadu, stated that pickles should be exempted from tax. He stated that the Fitment Committee had not reached a consensus for reduction in the rate of tax on pickles from 12% to 5%. The Joint Secretary (TRU-I), CBEC, stated that generally, the GST

CHAIRMAN'S INITIALS

rate of tax for processed food was 12% with a few exceptions, like unbranded *namkeens, chikki,* etc. The Hon'ble Minister from Tamil Nadu stated that pickle manufacturers were in cottage industry, and, therefore, pickles should be taxed at the rate of 5%. The Hon'ble Minister from Kerala stated that these were ready to eat items, and therefore, these should be taxed at the rate of 5%. The ACS, Tamil Nadu, stated that except oil, the other inputs used for manufacturing pickles were taxed at the rate of 5% or 0%, and therefore, pickles should also be taxed at the rate of 5%. However, ready to eat food was taxed at the rate of 12%.

22.1. The Hon'ble Chairperson suggested that once the revenue position improved, the rate of tax on pickles could be revisited.

Serial No.7 of Annexure II: Ready to eat/Ready to cook products, papad (HS Code:21)

22.2. The Hon'ble Minister from Uttarakhand stated that *papad* was exempted from tax earlier but it was not defined. He stated that, as a result, pasta was also being sold as *papad* and suggested that *papad* should be defined.

Serial No.28 of Annexure II: Fishing twine, ropes and fishnets (HSN Code: 5608) and Serial No.63 of Annexure II: Fishing Line, Lead Weight and Buoys (HSN Codes:5404/ 3916)

22.3. The Hon'ble Minister from Kerala stated that the rate of tax on fishing line and lead weight should be reduced from 12% to 5%. The Hon'ble Minister from Tamil Nadu supported this suggestion. The Hon'ble Minister from Goa also supported the proposal. He stated that fishing line was complementary to fishnet, and therefore, it should also be taxed at the rate of 5% as a final product. The Secretary stated that the Fitment Committee could re-examine this issue in their next meeting as they had earlier considered it as an intermediate product. The Council agreed to this suggestion. He also observed that in order to move to a single rate, it was better not to reduce the rate of tax to 5%. The Council approved that the Fitment Committee would re-examine the rate of tax on fishing line and lead weight.

Serial No.72 of Annexure II: Biscuits (HS Code:1905)

22.4. The Hon'ble Deputy Chief Minister of Delhi stated that bakery items were taxed at the rate of 12% but in spite of the fact that the tax rate on biscuits was 18%, they were getting billed at 12% tax rate. He suggested to keep the rate of tax on biscuits at 12%. The Joint Secretary (TRU-I), CBEC, stated that biscuits were in organised sector and had a market of about Rs. 36,000 crore. Half of this market constituted low priced biscuits and the other half constituted high energy biscuits. He stated that reducing the rate of tax on biscuits from 18% to 12% would lead to substantial loss of revenue.

Serial No.74 of Annexure II: Materials used by disabled persons

22.5. The Hon'ble Minister from Kerala stated that spare parts for cochlear implants were being taxed at the rate of 28% and suggested that this rate should be reduced. The Joint Secretary (TRU-I), CBEC, stated that only batteries for cochlear implants would be taxable at the rate of 28%. Shri Mansur M.I., Assistant Commissioner (Commercial Tax), Kerala, informed that some cables, parts and accessories of cochlear implants needed to be replaced periodically and these were presently taxable at the rate of 28%. The Hon'ble Minister from Kerala suggested that the rate of tax on spare parts of cochlear implants should be re-examined by the Fitment Committee. The Council agreed to this suggestion.

CHAIRMAN'S INITIALS

22.6. For Serial No.74 of Annexure II, the Council agreed to the recommendations of the Fitment Committee and also directed it to re-examine the rate of tax on spare parts for cochlear implants.

Serial No.95 of Annexure II: Sanitary napkins (HSN Code: 9619):

22.7. The Hon'ble Minister from Kerala stated that the rate of tax on eco-friendly sanitary napkins should be lowered from the present rate of 12% which were produced by Women Groups and that there should be some distinction between eco- friendly products and those made from Polyesters. The Hon'ble Chairperson stated that a few Women Self Help Groups were making eco-friendly sanitary napkins but they would fall within the turnover threshold of Rs.20 lakh per annum. He observed that other normal taxpayers, which were Indian Companies, would get input tax credit. He added that if the rate of tax on sanitary napkins was reduced to 5%, the domestic industry would suffer severely and imports would increase. The Hon'ble Minister from Kerala stated that a distinction could be made between the Indian products and foreign products of these types. The Hon'ble Deputy Chief Minister of Bihar stated that a lot of media campaign was going on with regard to sanitary napkins. The Hon'ble Chairperson stated that 5% rate of tax on sanitary napkins would be advantageous only to foreign suppliers. The Hon'ble Deputy Chief Minister of Bihar stated that in that case, a self-explanatory and comprehensive advertisement should go out. The Secretary suggested that the Fitment Committee could re-examine the rate of tax on cotton eco-friendly sanitary napkins and could come up with a separate classification for products other than polyester sanitary napkins. The Council agreed to this suggestion.

22.8. The Council agreed to the recommendations of the Fitment Committee contained in Annexure II of Agenda item 10(i).

23. For **Annexure I of Agenda item 10(i),** the Council approved the proposals of the Fitment Committee, with the following additions/changes:

i. For Serial No.21, to exempt parts and accessories specifically used for manufacture of hearing aids through end-use based exemption;
ii. For Serial No.18, the Fitment Committee to re-examine the rate of tax on plates made of *sal* and *siali* leaves and ropes made of *sabai* grass; and
iii. The Fitment Committee to re-examine the rate of tax on handmade carpets from 12% to 5% and the Committee on Handicrafts to examine the problem of upfront payment of tax on handmade carpets from Kashmir, when sent to various States for eventual sale.

23.1. For **Annexure II of Agenda item 10(i),** the Council approved the recommendations of the Fitment Committee and also directed it to re-examine the following:

i. The rate of tax on fishing line and lead weight (Serial No.28 and Serial No.63 of Annexure II);
ii. The rate of tax on spare parts of cochlear implants (Serial No.74 of Annexure II); and
iii. The classification and rate of tax on cotton eco-friendly sanitary napkins (Serial No.95 of Annexure II).

CHAIRMAN'S INITIALS

Agenda item 10(ii): Recommendations on Services

General discussion relating to Hotels

24. The Hon'ble Minister from Kerala stated that the tax rate on hotels in most countries was low, like 6% in Singapore and China, 7% in Thailand and Malaysia, 10% in France and 15% in Sri Lanka and USA. However, India had a very high rate of tax of 28%. He observed that bulk of the conferences were moving away to South East Asian countries. He suggested that there should be some rationalisation of rate of tax on room rents in hotels to make it competitive *vis-à-vis* other countries. The Hon'ble Minister from Goa supported this proposal and stated that once tourists went elsewhere, they would not come back to India in future. The Hon'ble Chairperson stated that this was a good case for review once the revenue position improved.

24.1. The Hon'ble Ministers from Goa and Kerala stressed that the high rate of tax on hotels was counter-productive and that the Fitment Committee should give a report on the rate of tax on room rents of hotels. The Hon'ble Chairperson observed that in order to keep their room tariff at less than Rs. 7,500 per day, hotels had also come up with innovative practices, like charging separately for guest pick up, breakfast, etc.

24.2. With these preliminary discussions, the Council took up discussion on the summary sheet containing the recommendations of the Fitment Committee on Services. A record of discussion is as follows:

Serial No.26 of Summary Sheet: To exempt supply of service by Parliament and State Legislatures by way of transportation service by road of Hon'ble MPs/MLAs/MLCs and sale of souvenirs/publications to visitors and Hon'ble MPs/MLAs/MLCs

24.3. The Hon'ble Minister from Punjab stated that this exemption would not go down well with the public and suggested not to accept this proposal. He observed that the Hon'ble MPs/MLAs/MLCs should be able to pay taxes for transportation services. Shri Amitabh Kumar, Joint Secretary (TRU-II), CBEC, stated that there should not be compliance and registration burden on the Parliament Secretariat as it required fulfilment of various procedures. The Hon'ble Chairperson observed that the law regarding registration was approved by the Parliament itself and it need not seek exemption from the same. He further observed that the pick-up charges by road for MPs was very small and they could afford to pay tax on the same.

24.4. The Council agreed to remove Serial No.26 of Summary Sheet of Agenda item 10(ii) from the proposed list of exemptions.

Serial No.54 of Summary Sheet: To exempt Government's share of profit petroleum from GST and to clarify that cost petroleum is not taxable *per se*

24.5. The Hon'ble Minister from Haryana stated that the exemption of the share of profit petroleum paid to the Central Government from the purview of the levy of GST was similar to various contracts that the State Governments enter into with business entities and the same should also be exempted. The agencies of the State Government of Haryana like HSIIDC (Haryana State Industrial Infrastructural Development Corporation) and Pollution Control Board (PCB) have such contracts in place. The Joint Secretary (TRU-II), CBEC, explained that the part of profit petroleum given to the Central Government by the contractor was not

CHAIRMAN'S INITIALS

allowed to be recovered as cost of production under the production sharing contract and thus it may not to be subject to tax. The Hon'ble Minister from Haryana stated that five States, which collected licence fee on liquor for human consumption needed to be exempted from tax as was suggested during the earlier meetings of the Council but till now, no notification had been issued to this effect. The Secretary stated that it was agreed during the earlier meeting that in future, there would be change in the revenue model under which more tax would be charged. He stated that for past cases, some way needed to be found out, may be in the form of exemption. The Hon'ble Minister from Haryana stated that on this issue, several representations had been sent but no solution had been found as yet. The Secretary stated that this issue would be discussed separately to find a solution.

25. For **Agenda item 10(ii),** except Serial No.26, the Council approved the other recommendations of the Fitment Committee, contained in the Summary Sheet of this Agenda item.

Agenda item 11: Carry forward items from the previous Council Meeting

Agenda item 11(i): Presentation on GST in Real Estate sector

26. The Secretary suggested that discussion on this Agenda item could be deferred due to paucity of time. The Hon'ble Minister from Punjab stated that bringing petroleum products under GST should also be discussed in the next Meeting of the Council along with the real estate sector. The Hon'ble Deputy Chief Minister of Bihar requested for a presentation on electricity in the next meeting. The Hon'ble Chairperson stated that in the next Meeting of the Council, issues relating to real estate, electricity and petroleum products could be discussed. The Council agreed to this suggestion.

27. For **Agenda item 11(i),** the Council approved to defer its consideration and further agreed to take up discussion on real estate, petroleum products and electricity in the next meeting of the Council.

Agenda item 11(ii): Incentivising Digital Payments in GST regime

28. Consideration of this Agenda item was deferred due to paucity of time.

Agenda item 12: Transfer of shares of Empowered Committee (EC) in GSTN to the State of Telangana

29. The Secretary stated that previously, the Empowered Committee had been nominating Directors on the Board of Directors of GSTN from Group B (State Governments). He stated that during the 14th Meeting of the Council held on 18 and 19 May, 2017, it was decided to nominate the Additional Secretary, GST Council Secretariat as an *ex-officio* Director on the Board in place of the erstwhile Member Secretary of the Empowered Committee and to amend Articles of Association of GSTN to the effect that all references to the Empowered Committee of State Finance Ministers may, post amendment, refer to GST Council. He stated that as a result of these decisions of the Council, 80,000 shares (0.8% of the total) of Rs.10 each of the Empowered Committee needed to be assigned/transferred to the other stakeholders. He suggested that the share of the Empowered Committee could be assigned to the State of Telangana, which was carved out (after bifurcation of Andhra Pradesh) in the year 2014, and therefore, it did not presently have any equity shares in GSTN. The Council agreed to this proposal.

CHAIRMAN'S INITIALS

30. For **Agenda item 12,** the Council approved to transfer 80,000 shares of Rs.10 each of the Empowered Committee of the State Finance Ministers to the State of Telangana.

Agenda item 13: Any other agenda item with the permission of the Chairperson

Agenda item 13(i): Proposal to declare the sale of goods in Customs bonded warehouse and goods sold as high sea sales as 'no supply' under Schedule III of the CGST Act, 2017

31. Introducing this Agenda item, the Secretary stated that this agenda item was to alleviate the difficulty of double taxation. He explained that sales within a Customs bonded warehouse attracted IGST and when goods were cleared from the Customs bonded warehouse, they were again charged to IGST. In order to alleviate this problem of double taxation, it was proposed to amend the valuation provisions of the imported goods for the purposes of payment of integrated tax by amending the Customs Tariff Act. The amendment would result in integrated tax being levied on the enhanced sale value or the last sale value in case of multiple sales or value determined under Section 3(8) of the Customs Tariff Act, whichever was higher. Concomitantly, it was proposed to exempt/declare the sale of warehoused goods within the Customs bonded warehouse as 'no supply' under Schedule III of the CGST Act, 2017 in order to ensure that no integrated tax was payable in case goods were sold by the importer while these were kept in the Customs bonded warehouse. It was also proposed to declare high sea sale of goods as 'no supply' under Schedule III of the CGST Act. The Council agreed to the proposal.

32. For **Agenda item 13(i)**, the Council approved the following:

i. Sale of goods within the Customs bonded warehouse shall be declared as 'no supply' under Schedule III of the CGST Act, 2017;
ii. High sea sale of goods shall be declared as 'no supply' under Schedule III of the CGST Act, 2017.

Agenda item 13(ii): Proposal to reduce penalty under Section 122(1)(xiv) of CGST Act, 2017 (e-Way Bill) in exercise of powers under Section 128 of the Act.

33. Introducing this Agenda item, the Commissioner (GST Policy), CBEC, explained that under Section 122(1)(xiv) of the CGST Act, 2017, if a taxable person transported any taxable goods without the cover of documents, as specified in this behalf, he shall be liable to pay a penalty of Rs. 10,000 or an amount equivalent to the tax evaded, whichever was higher. He stated that similar provisions existed in the SGST Acts, 2017 and the UTGST Act, 2017 and hence an offence in all such cases would lead to a minimum penalty of Rs. 20,000. He stated that as e-Way bill system was going to be implemented for the first time under the GST regime, it would take time for the stakeholders to become aware of the various provisions of the e-Way bill Rules, and therefore, in order to ensure smooth implementation of e-Way bill system, the proposal on the table was that by exercising power conferred under Section 128 of these Acts, minimum penalty of Rs.10,000 for violation of Section 122(1)(xiv) of the CGST Act, 2017 may be reduced to Rs.500 for the first six months. The Secretary stated that a similar reduction could be done under the relevant provisions of the SGST and UTGST Acts, 2017. He further stated that this would give a reasonable time to the administration and other stakeholders to get accustomed to the system and would also prevent harassment to trade and industry.

CHAIRMAN'S INITIALS

33.1. Initiating discussion on this Agenda item, the Hon'ble Minister from Kerala stated that imposing penalty for not carrying e-Way bill was a deterrent measure and a penalty of Rs.500 would not be a sufficient deterrent. Shri V.P. Singh, CCT, Punjab, stated that in their experience, invoice was often destroyed after the goods reached the destination, and therefore, in case penalty was very small, there would be a perverse incentive to pay a penalty of Rs. 1,000 and carry on the evasion activities. The Secretary stated that this proposal was only for the initial period and that there was a risk that too high a penalty might cause obstruction to smooth transportation of goods.

33.2. Shri Jagdish Chander Sharma, Principal Secretary (E&T), Himachal Pradesh, stated that in his State, e-Way bill system was already in place and e-Way bill declarations were being filed and penalty for not carrying e-Way bills was 50% of the value of goods. The Hon'ble Minister from Kerala stated that in his State, penalty for not carrying e-Way bills was twice the amount of tax involved. The CCT, Punjab, stated that instead of reducing the penalty amount, some other mechanism could be considered like not imposing penalty on first two instances of not carrying e-Way bill and to impose full penalty for the third default and onwards. The CCCT, Andhra Pradesh, stated that in his State, penalty for not carrying e-Way bill was 200% of the total tax involved and they had so far collected approximately a sum of Rs.15 crore as penalty. He stated that the violators were mostly dealers from other States. He expressed that penalty should not be as low as Rs.500.

33.3. The ACS, Uttar Pradesh, stated that in his State, penalty for not carrying e-Way bill was 40% of the tax evaded amount and traders were paying this amount. He added that checks were only to the extent of 3%-4% and suggested that penalty for not carrying e-Way bill should be 30%-40% of the value of goods. The Hon'ble Minister from Punjab stated that in order to prevent transporters from going on strike, e-Way bill system should be gradually launched and the time limit for travel up to 100 km by a truck should be two days instead of one day. The Secretary stated that the time prescribed for travel up to 100 km was quite reasonable and it should not be changed at this stage. The Principal Secretary (Finance), Odisha, stated that in his State, under the VAT system, penalty for not carrying e-Way bill for inter-State movement of goods was five times the tax involved and it would not be advisable to reduce the penalty amount. The Hon'ble Deputy Chief Minister of Gujarat supported the proposal to reduce the penalty amount during the initial period. The Hon'ble Minister from Uttarakhand stated that e-Way bill system needed certain improvements. For example, in case of River Bedded Material (RBM), the value transported in trucks was mostly below Rs. 50,000 and they would go without e-Way Bill. He suggested that if the RBM was more than 5 tonnes, then provision should be made to make e-Way Bill mandatory. With regard to bricks, he suggested that if more than 1000 numbers of bricks were being carried, e-Way Bill should be made mandatory. He further stated that there should be a provision to block generation of e-Way bills once any material started moving, as presently, there was a possibility that any material moving without e-Way bill, when likely to be caught, could generate an e-Way by sending SMS. He added that a penalty of Rs. 20,000 was reasonable as a deterrence against evasion.

33.4. The Hon'ble Deputy Chief Minister of Delhi suggested that for inter-State movement of goods, penalty for not carrying e-Way bill should be 100% of the tax amount and for intra-State movement, discretion for imposing penalty should be left to the State concerned. The Secretary stated that from 1 February, 2018, e-Way bill system would compulsorily be introduced for inter-State movement of goods and 15 States had opted to introduce the e-Way

CHAIRMAN'S INITIALS

bill system for intra-State movement of goods and that for other States, the last date was 1 June, 2018. The Hon'ble Deputy Chief Minister of Delhi stated that it would not be practical for them to put check posts for intra-State movement of goods. The Secretary stated there already existed a clause for relaxing the requirement of e-Way bill for intra-State movement of goods through a Committee of officers of State and Central Government.

33.5. The Hon'ble Minister from Kerala again raised a question regarding the issue of penalty for violation for e-Way bill rules. The Secretary stated that the general suggestion was either to keep the penalty same or keep it somewhere around Rs.3000–Rs.4000. The Hon'ble Minister from Kerala stated that there was no justification to reduce penalty. He added that various States had experience in implementation of e-Way bill system and suggested that penalty should not be reduced. The Hon'ble Minister from Jammu & Kashmir supported this suggestion. Shri Khalid A. Anwar, Senior Joint Commissioner, West Bengal, stated that penalty for carrying goods without documents is up to Rs. 10,000. Assuming that the tax amount itself came to say Rs.1000– Rs.2000, in such case, the penalty amount would become very high. Therefore, it should be kept at an average level, preferably in the range of Rs. 3,000. The Hon'ble Deputy Chief Minister of Gujarat stated that penalty amount should be linked to the tax evasion amount. He stated that a few taxpayers might commit genuine mistakes and that every taxpayer should not be regarded as an evader. The Hon'ble Deputy Chief Minister of Bihar stated that penalty amount should not be more than Rs. 5,000-Rs. 6,000 and suggested that penalty amount should be in the range of Rs. 2,500 and Rs. 3,000 each under CGST and SGST Acts. He also suggested to appoint nodal officers in every State to look into issues relating to implementation of e-Way bill system. He also suggested to establish a Central Help Desk and other institutional mechanism for trouble shooting. He further suggested to provide MIS to States so that they could track the issues relating to e-Way bill system. He further suggested that the e-Way bill system should be integrated with the data base of the Ministry of Road Transport and Highways (MoRTH) so that details of vehicles could be pulled out from the database of MoRTH. He suggested that there should be some guidelines by way of standard operating system or a mechanism should be evolved to tackle difficulties that might arise during initial implementation of the e-Way bill system. He also suggested to delay implementation of intra-State e-Way bill system by one month. He suggested that the month of February, 2018 should be treated as trial run for e-Way bill system for intra-State movement of goods and it should formally be implemented from March 1, 2018 for the States opting to introduce intra-State e-Way bill system.

33.6. The Hon'ble Chairperson observed that one way forward could be to keep the amount of penalty as Rs. 1,000 or the amount of tax evaded, whichever was higher, and power should also be given to waive off penalty. The CCCT, Andhra Pradesh, stated that Section 129 had precedence over other Sections and power to waive off penalty under Section 128 should also have a reference to Section 129 of the CGST Act, 2017. The CCT, Punjab, stated that Section 129 of the CGST Act was attracted only where evasion of tax was involved. The Secretary suggested that for intra-State movement of goods, an understanding could be reached not to impose any penalty during the first month of implementation of the e-Way bill system and this could be treated as a trial period. The Hon'ble Minister from Jammu & Kashmir stated that the validity period of e-Way bill for remote areas, like Ladakh, should be more as vehicles could be stranded for 5-6 days due to natural causes. He stated that there should be an enabling provision to increase the validity period of e-Way bill in such remote areas. The

CHAIRMAN'S INITIALS

Commissioner (GST Policy), CBEC, stated that such a provision already existed under the second proviso of rule 138(10) of the CGST Rules, 2017.

33.7. The Hon'ble Minister from Kerala strongly raised the question as to why gold should be exempted from e-Way bill system. He stated that law and order was a State subject and they could take care of public security. He informed that 10 cases of tax evasion involving seizure of 100 kg of gold had taken place in his State in last 3 months. He also stated that organised trade transported gold through specialised precious cargo transporters and cargo was presently being declared by such transporters. He added that with the present declaration, not a single case of law and order issue had come to light and that law and order issue should not be mingled with taxation aspect. He observed that tax on gold had already been reduced and coupled with this loophole, a lot of gold could be transported without payment of tax. The Secretary stated that there was a possibility of a large quantity of gold being carried in one's bag and in such cases, there was a possibility of no transport carrier detail being given in the e-Way Bill. The Hon'ble Minister from Telangana stated that the whole purpose of this discussion was to reduce the human interface. Evasion could be checked through use of technology. He observed that costly items were transported on duplicate invoices carried for some other goods and the value of the goods on the invoice was suppressed. Therefore, one needed to impose fine to check evasion.

33.8. The Hon'ble Minister from Kerala stated that if gold was not being brought in a vehicle, then Part B of e-Way bill need not be filled up, otherwise there should be no special dispensation for gold. The Secretary stated that this issue could be referred to the Law Committee for examination. The Council agreed to this suggestion. The ACS, Tamil Nadu, stated that there should be some standard operating procedure for situations like when a vehicle not carrying e-Way bill was stopped; in what form penalty for not carrying e-Way bill would be taken or show cause notice issued. Therefore, such FORMS needed to be prescribed. He stated that they had given suggestions for improvement in implementation of e-Way bill system and these should be examined separately and immediately.

33.9. The Secretary reiterated that for the first month of implementation, no penalty should be imposed relating to e-Way bill for intra-State movement of goods. The ACS, Uttar Pradesh suggested to implement e-Way Bill system for intra and inter State movement of goods from 1 March, 2018. The Secretary stated that the date for introduction of intra-State e-Way bill system could be 1 February, 2018 but the penalty could be waived off during the first month. The Hon'ble Minister from Haryana stated that a lot of stock of goods had piled up and there was a risk of tax evasion. He stated that there could be pressure for deferment of e-Way Bill but he suggested that intra-State and inter-State e-Way bill systems should be started simultaneously if NIC was ready for the same. He stated that initially, one could take a lenient view with regard to implementation of e-Way bill system. The Secretary stated that this was a reasonable suggestion and that the 15 States, which were starting implementation of intra-State e-Way bill system for movement of goods from 1 February, 2018 (along with inter-State movement of goods) would need to go slow with regard to imposition of penalty. The Hon'ble Deputy Chief Minister of Bihar stated that guidelines should be worked out to avoid any clash between the Central and the State Governments in the enforcement of the e-Way bill system and for better coordination. The Secretary stated that in the Officer's meeting, it had been conveyed that for any enforcement action in regard to e-Way bill, the two administrations should work out joint action plan and that there should be no excessive use of authority.

CHAIRMAN'S INITIALS

34. For **Agenda item 13(ii),** the Council did not approve the proposal to reduce penalty under Section 122(1)(xiv) of CGST Act, 2017. However, the Council approved to defer imposition of penalty on informal basis for failure to take e-Way bill for movement of goods during the month of February, 2018. The Council further agreed that the desirability of introducing e-Way bill system for movement of gold shall be examined by the Law Committee.

Agenda item 13(iii): Restriction of Transitional Credit in certain cases through the provisions for removal of difficulty under Section 172 of CGST Act

35. Introducing this Agenda item, the Commissioner (GST Policy), CBEC stated that it was proposed to issue an order under Section 172 of the CGST Act, 2017, in consultation with the Union Law Ministry, to remove difficulty and to give effect to the following actions:

i. Ensure that the taxpayers do not avail of credit in cases under dispute (disputed credit) under the transition provisions;
ii. Ensure that the taxpayers do not avail of any credit which has been blocked under sub-section (5) of section 17 of the CGST Act, 2017;
iii. To take appropriate administrative steps as may be necessary to ensure that input tax credits which are not eligible for transition in terms of these orders or any other situation involving large revenue are not utilized for payment of tax.

35.1. The Secretary stated that if States so wanted, necessary orders could also be issued by the Central Government, making them applicable under the SGST Act, 2017. The Council agreed to the proposal.

36. For **Agenda item 13(iii),** the Council approved to issue a removal of difficulty order under Section 172 of the CGST Act, 2017 for giving effect to the actions, as stated in paragraph 35 above and to apply similar orders under the SGST Acts, 2017, if the States so desired.

Agenda item 13(iv): Exclusion of Cesses not specified in the list of eligible duties from transition

37. Introducing this Agenda item, the Secretary stated that it had come to light that a large amount of credit of various types of Cess, such as Education Cess, Secondary and Higher Education Cess, Krishi Kalyan Cess had been claimed as transitional credit, which was not allowed under the CGST law. Similarly, Cess collected as Additional Duty of Customs under Section 3(1) of the Customs Tariff Act, 1975, such as Clean Environment Cess, was also being claimed as transitional credit as the law did not specifically exclude them from the list of eligible duties. He stated that to remove any ambiguity and to prevent credit of Cess to be transitioned under Section 140 of the CGST Act, 2017, it was proposed that credit of Cesses could be specifically excluded from the list of 'eligible duties' under Explanations 1 and 2 of Section 140 of the CGST Act, 2017. He stated that accordingly, it was proposed to amend the following provisions of Section 140 of the CGST Act, 2017:

i. Sub-section (1) of Section 140 to provide that only credit of eligible duties can be transitioned;
ii. Explanations 1 and 2 of Section 140 to include reference to sub-section (1) of Section 140;

CHAIRMAN'S INITIALS

iii. Insert an Explanation 3 to Section 140 of CGST Act, 2017 to clarify that the expression "eligible duties and taxes" does not include any Cess which has not been specified in Explanation 1 or Explanation 2 above and any Cess which is collected as Additional Duty of Customs under sub-section (1) of Section 3 of the Customs Tariff Act, 1975;

iv. The above changes to apply retrospectively with effect from the appointed day i.e. 01.07.2017.

37.1. The Council agreed to the above proposals.

38. For **Agenda item 13(iv)**, the Council approved the proposals contained in paragraph 37 above.

Other Issues

39. The Hon'ble Minister of Tamil Nadu circulated a written speech during the Council Meeting. In the written speech, the Hon'ble Minister welcomed the recommendations of the Committee on Return Filing, which recommended to bring down the compliance workload. He expressed a note of caution that generation of monthly report of the taxpayer for a mismatch between input tax credit claimed and input tax credit mismatched in return and the follow up action by the jurisdictional tax officers would create a level of human interface. He suggested that while simplification of return filing was welcome, the process of input tax credit matching and auto reversal should be put in place at the earliest. He expressed happiness that their request to classify certain goods as handicraft items were agreed to by the Committee on Handicrafts. He stated that the rates of handicraft items should be fixed in a manner so as to encourage this sector. He added that based on representations received from stakeholders, Tamil Nadu had submitted a list of 60 goods and services for consideration of the Council. He was happy to note that the Fitment Committee recommended to the Council further changes in the GST rates of 29 goods and services and these included items like fertilizer grade phosphoric acid; *vibhuti*; de-oiled rice bran; drip irrigation; packaged drinking water in 20-litre bottle; sugar boiled confectionaries; micro-nutrients; admission to theme parks, water parks, joy rides, merry-go-rounds, go carting and ballet; allowing input tax credit on input services in the same line of business of tour operators; job work of leather goods and footwear; exemption from tax on services relating to conduct of examination and entrance examination by educational institutions; and reduction of tax on common effluent treatment plant services, etc. He suggested that the Council should also consider their other long pending requests, such as grant of exemption for handloom and power loom products; sago; safety matches; pickles; butter; ghee; sanitary napkins; agricultural implements; textile machinery parts and pump sets. He also suggested reduction in the rate of tax on aluminium utensils from 12% to 5%, on aluminium raw material such as aluminium circles and sheets from 18% to 12% and on aluminium scrap from 18% to 12%. He noted that aluminium utensils were used by lower and middle-class houses and aluminium utensils were mostly recycled.

39.1. The Hon'ble Minister from Kerala circulated a written speech during the meeting of the Council wherein he highlighted certain issues of concern. He suggested that the IGST amount should be distributed provisionally among States on the basis of the proportion of the IGST fund already transferred till now. He expressed reservation regarding Centre's request to reduce the rate of tax on diesel and instead suggested that the Centre should bring down the recent duty hike subsequent to reduction in crude price in proportion to the price increase. He expressed concern regarding slow pace of notification of procedures and methodology and

CHAIRMAN'S INITIALS

guidelines on determining what constitutes anti-profiteering by the National Anti-Profiteering Authority. He suggested that the Council should take measures to discuss issues relating to passing on the benefit of duty reduction to consumers. He expressed reservation regarding the suggestion to bring stamp duty under GST. He suggested to take a considered decision regarding reverse charge mechanism as without it, cash transactions could increase and could result in tax evasion in respect of goods having fast moving inventory, such as agricultural produce, old gold, etc. He did not support the proposal to define the place of supply for accommodation services to be the place of registration in case of registered recipients.

Agenda item 14: Date of the next Meeting of the GST Council

40. The Hon'ble Chairperson stated that, in all likelihood, the next meeting of the Council shall take place through video conference during which the procedure for return filing and amendment to CGST Act, 2017 and SGST Act, 2017 could be taken up. He stated that the date for the next meeting would be informed in due course.

41. The meeting ended with a vote of thanks to the Chair.

(Arun Jaitley)
Chairperson, GST Council

CHAIRMAN'S INITIALS

Annexure 1

List of Hon'ble Ministers who attended the 25th GST Council Meeting on 18 January, 2018

Sl. No	State/Centre	Name of Hon'ble Minister	Charge
1	Govt of India	Shri Arun Jaitley	Finance Minister
2	Govt of India	Shri S.P. Shukla	Minister of State (Finance)
3	Andhra Pradesh	Shri Yanamala Ramakrishnudu	Minister - Finance, Planning, CT and Legislative Affairs
4	Arunachal Pradesh	Shri Chowna Mein	Deputy Chief Minister
5	Bihar	Shri Sushil Kumar Modi	Deputy Chief Minister
6	Chhattisgarh	Shri Amar Agrawal	Minister of Commercial taxes
7	Delhi	Shri Manish Sisodia	Deputy Chief Minister
8	Goa	Shri Mauvin Godinho	Minister for Panchayat
9	Gujarat	Shri Nitinbhai Patel	Deputy Chief Minister
10	Haryana	Capt. Abhimanyu	Minister - Excise & Taxation
11	Himachal Pradesh	Shri Jai Ram Thakur	Chief Minister
12	Jammu & Kashmir	Shri Haseeb. A. Drabu	Finance Minister
13	Jharkhand	Shri C.P. Singh	Minister - Department of Urban Development, Housing and Transport
14	Kerala	Dr. T. M. Thomas Isaac	Minister for Finance
15	Madhya Pradesh	Shri Jayant Malaiya	Minister of Finance &CT
16	Maharashtra	Shri Sudhir Mungatiwar	Finance Minister
17	Manipur	Shri Yumnam Joykumar Singh	Deputy Chief Minister
18	Mizoram	Shri Lalsawta	Finance Minister
19	Odisha	Shri Shashi Bhusan Behera	Finance Minister
20	Puducherry	Shri V. Narayanaswamy	Chief Minister
21	Punjab	Shri Manpreet Singh Badal	Finance Minister
22	Rajasthan	Shri Rao Rajendra Singh	Deputy Speaker
23	Tamil Nadu	Shri D. Jayakumar	Minister for Fisheries and Personnel & Administrative Reforms
24	Telangana	Shri Etela Rajender	Finance Minister
25	Uttar Pradesh	Shri Rajesh Agarwal	Finance Minister
26	Uttarakhand	Shri Prakash Pant	Finance Minister

CHAIRMAN'S INITIALS

Annexure 2

List of Officials who attended the 25th GST Council Meeting on 18 January, 2018

Sl No	State/Centre	Name of the Officer	Charge
1	Govt. of India	Dr. Hasmukh Adhia	Finance Secretary
2	Govt. of India	Dr. Arvind Subramanian	Chief Economic Adviser
3	Govt. of India	Ms Vanaja N. Sarna	Chairman, CBEC
4	Govt. of India	Shri Mahender Singh	Member (GST), CBEC
5	Govt. of India	Dr. John Joseph	Member (Budget), CBEC
6	GST Council	Shri Arun Goyal	Special Secretary
7	Govt. of India	Shri P.K. Mohanty	Advisor (GST), CBEC
8	Govt. of India	Shri Vinay Chhabra	Pr DG, DG-GST, CBEC
9	Govt. of India	Shri M. Vinod Kumar	Pr. Chief Commissioner, CBEC
10	Govt. of India	Shri P.K. Jain	DG, DG-Audit
11	Govt. of India	Shri Sandeep M. Bhatnagar	DG, DG-Safeguards, CBEC
12	Govt. of India	Shri Alok Shukla	Joint Secretary (TRU I), DoR
13	Govt. of India	Shri Amitabh Kumar	Joint Secretary (TRU II), DoR
14	Govt. of India	Shri Upender Gupta	Commissioner (GST), CBEC
15	Govt. of India	Shri Udai Singh Kumawat	Joint Secretary, DoR
16	Govt. of India	Shri Manish Kumar Sinha	Commissioner (Ce.Ex), CBEC
17	Govt. of India	Shri G.D. Lohani	OSD, TRU I
18	Govt. of India	Shri Yogendra Garg	ADG, GST, CBEC
19	Govt. of India	Shri S.K. Rehman	ADG, GST, CBEC
20	Govt. of India	Shri Sanjay Gupta	ADG, ARM, CBEC
21	Govt. of India	Shri Sachin Jain	Addl. Commissioner, Delhi South, CBEC
22	Govt. of India	Shri D.S. Malik	DG (M&C)
23	Govt. of India	Ms Sheyphali B. Saran	ADG (M&C)
24	Govt. of India	Shri S.K. Rai	Director (UT), MHA
25	Govt. of India	Shri Nagendra Goel	Advisor to CBEC
26	Govt. of India	Shri Parmod Kumar	OSD, TRU-II, DoR
27	Govt. of India	Shri Pramod Kumar	Deputy Secretary, TRU-II, DoR
28	Govt. of India	Shri N Gandhi Kumar	Deputy Secretary, DoR
29	Govt. of India	Shri Ravneet Singh Khurana	Joint Comm., GST Policy Wing
30	Govt. of India	Ms Himani Bhayana	Joint Comm., GST Policy Wing
31	Govt. of India	Shri Mahipal Singh	Technical Officer, TRU-I, DoR
32	Govt. of India	Shri Devranjan Mishra	Technical Officer, TRU-I, DoR
33	Govt. of India	Shri Susanta Mishra	Technical Officer, TRU-II, DoR
34	Govt. of India	Ms Nisha Gupta	Asst. Comm., GST Policy Wing
35	Govt. of India	Shri Siddharth Jain	Asst. Comm., GST Policy Wing
36	Govt. of India	Shri Vikash Kumar	Asst. Comm., GST Policy Wing
37	Govt. of India	Ms Gayatri PG	Asst. Comm., GST Policy Wing
38	Govt. of India	Shri Satvik Dev	Asst. Comm., GST Policy Wing

CHAIRMAN'S INITIALS

39	Govt. of India	Shri Paras Sankhla	OSD to Union Finance Minister
40	Govt. of India	Shri Mahesh Tiwari	PS to MoS
41	Govt. of India	Shri Nikhil Varma	OSD to MoS (Finance)
42	Govt. of India	Shri Debashis Chakraborty	OSD to Finance Secretary
43	Govt. of India	Shri J S Kandhari	OSD to Chairman, CBEC
44	Govt. of India	Ms Sucheta Sreejesh	OSD to Chairman, CBEC
45	GST Council	Shri Shashank Priya	Joint Secretary
46	GST Council	Shri Dheeraj Rastogi	Joint Secretary
47	GST Council	Shri Rajesh Kumar Agarwal	Addl. Commissioner
48	GST Council	Shri G.S. Sinha	Joint Commissioner
49	GST Council	Shri Jagmohan	Joint Commissioner
50	GST Council	Shri Rahul Raja	Under Secretary
51	GST Council	Shri Mahesh Kumar	Under Secretary
52	GST Council	Shri Rakesh Agarwal	Under Secretary
53	GST Council	Shri Sandeep Bhutani	Superintendent
54	GST Council	Shri Shekhar P. Khansili	Superintendent
55	GST Council	Shri Vipul Sharma	Superintendent
56	GST Council	Shri Sunil Kumar	Inspector
57	GST Council	Shri Amit Soni	Inspector
58	GST Council	Shri Anis Alam	Inspector
59	GST Council	Shri Dipendra Kumar Singh	Inspector
60	Infosys	Shri Nandan Nilekani	Board Member
61	Infosys	Shri Venkat Narayan S	AVP
62	GSTN	Dr. A B Pandey	Chairman
63	GSTN	Shri Prakash Kumar	CEO
64	GSTN	Shri Nitin Mishra	EVP (Technology)
65	GSTN	Ms Kajal Singh	EVP (Services)
66	GSTN	Shri Jagmal Singh	VP (Services)
67	Govt of India, CBEC, (Zones)	Shri Kishori Lal	Commissioner, Chandigarh
68	Govt of India, CBEC, (Zones)	Shri Ashish Chandan	Commissioner, Nagpur
69	Govt of India, CBEC, (Zones)	Shri Pradeep Kumar Goel	Commissioner, Meerut
70	Govt of India, CBEC, (Zones)	Shri Neerav Kumar Mallick	Commissioner, Bhopal
71	Govt of India, CBEC, (Zones)	Shri Pramod Kumar	Commissioner, Delhi
72	Govt of India, CBEC, (Zones)	Shri Javed Akhtar Khan	Commissioner, Ahmedabad
73	Govt of India, CBEC, (Zones)	Shri G. V. Krishna Rao	Pr. Commissioner, Bengaluru
74	Govt of India, CBEC, (Zones)	Shri R.C. Sankhla	Commissioner, Lucknow

CHAIRMAN'S INITIALS

75	Govt of India, CBEC, (Zones)	Shri Mandalika Srinivas	Commissioner, Hyderabad
76	Govt of India, CBEC, (Zones)	Shri W.L. Hangshing	Chief Commissioner, Shillong
77	Govt of India, CBEC, (Zones)	Shri S. Kannan	Commissioner, Chennai
78	Govt of India, CBEC, (Zones)	Shri Vijay Mohan Jain	Commissioner, Rohtak
79	Govt of India, CBEC, (Zones)	Shri Virender Choudhary	Commissioner, Vadodara
80	Govt of India, CBEC, (Zones)	Shri B.K. Mallick	Commissioner, Kolkata
81	Govt of India, CBEC, (Zones)	Shri C.K. Jain	Commissioner, Jaipur
82	Govt of India, CBEC, (Zones)	Shri Milind Gawai	Commissioner, Pune
83	Govt of India, CBEC, (Zones)	Shri B. Hareram	Pr. Commissioner, Vishakhapatnam
84	Govt of India, CBEC, (Zones)	Shri Sanjay Mahendru	Commissioner, Mumbai
85	Govt of India, CBEC, (Zones)	Shri Deep Shekhar	Commissioner, Bhubaneshwar
86	Govt of India, CBEC, (Zones)	Dr. V. Santhosh Kumar	Commissioner, Thiruvananthapuram
87	Andhra Pradesh	Dr D. Sambasiva Rao	Special Chief Secretary, Revenue
88	Andhra Pradesh	Shri J. Syamala Rao	Chief Commissioner, CT
89	Andhra Pradesh	Shri T. Ramesh Babu	Additional Commissioner, CT
90	Arunachal Pradesh	Shri Anirudh S Singh	Commissioner (Tax & Excise)
91	Assam	Dr. Ravi Kota	Principal Secretary (Finance)
92	Assam	Shri Rakesh Agarwala	Jt. Commissioner, CT
93	Bihar	Smt. Sujata Chaturvedi	Principal Secretary, Finance and CT
94	Bihar	Dr. Pratima S.K. Verma	Commissioner, CT
95	Bihar	Shri Arun Kumar Mishra	Additional Secretary, CTD
96	Bihar	Shri Ajitabh Mishra	Deputy Commissioner, CTD
97	Chandigarh	Shri Parimal Rai	Advisor to Administrator
98	Chandigarh	Shri Sanjeev Madaan	ETO
99	Chhattisgarh	Shri Amitabh Jain	Principal Secretary finance & CT
100	Chhattisgarh	Smt. Sangeetha P	Commissioner, CT
101	Chhattisgarh	Shri Shankar Agrawal	Addl. Commissioner, CT

CHAIRMAN'S INITIALS

102	Daman &Diu and Dadra &Nagar Haveli	Shri Sajjan Singh Yadav	Advisor to Administrator
103	Delhi	Shri H. Rajesh Prasad	Commissioner, State Tax
104	Delhi	Shri Anand Kumar Tiwari	Addl. Commissioner, GST
105	Delhi	Shri M. T. Kom	Addl. Commissioner
106	Goa	Shri Dipak Bandekar	Commissioner, CT
107	Gujarat	Dr. P.D. Vaghela	Commissioner of State Taxes
108	Gujarat	Shri. Sanjeev Kumar	Secretary (Economic Affairs) Finance Department
109	Gujarat	Shri V.K. Advani	OSD (GST)
110	Haryana	Shri Sanjeev Kaushal	Addl. Chief Secretary
111	Haryana	Smt. Ashima Brar	E&T Commissioner
112	Haryana	Shri Vijay Kumar Singh	Addl. E&T Commissioner
113	Haryana	Shri Rajeev Chaudhary	Jt. Excise & Taxation Commissioner
114	Himachal Pradesh	Shri Jagdish Chander Sharma	Principal Secretary (E&T)
115	Himachal Pradesh	Shri R. Selvam	Commissioner of State Tax and Excise
116	Himachal Pradesh	Shri Sanjay Bhardwaj	Additional Commissioner Grade-1
117	Himachal Pradesh	Shri Rakesh Sharma	Joint Commissioner
118	Jammu & Kashmir	Shri P. I. Khateeb	Commissioner, CT
119	Jammu & Kashmir	Shri P.K. Bhat	Additional Commissioner, CT (Tax Planning)
120	Jharkhand	Shri K.K. Khandewal	Principal Secretary-Cum-Commissioner, CT
121	Jharkhand	Shri Ajay Kumar Sinha	Addl. Commissioner of State Taxes
122	Jharkhand	Shri Brajesh Kumar	State Tax officer
123	Karnataka	Shri Srikar M.S.	Commissioner, CT
124	Kerala	Dr. Rajan Khobragade	Commissioner, State GST Dept.
125	Kerala	Shri Mansur MI	Asst. Commissioner
126	Madhya Pradesh	Shri Raghwendra Kumar Singh	Commissioner, CT
127	Madhya Pradesh	Shri Sudip Gupta	Dy. Commissioner, CT
128	Maharashtra	Shri Rajiv Jalota	State Tax Commissioner
129	Maharashtra	Shri Dhananjay Akhade	Jt. Commissioner, State Tax
130	Maharashtra	Shri Sudhir Rathod	OSD to Finance Minister
131	Manipur	Shri Hrisheekesh Modak	Commissioner, CT
132	Mizoram	Shri Vanlalchhuanga	Secretary, State Tax

CHAIRMAN'S INITIALS

133	Odisha	Shri Tuhin Kanta Pandey	Principal Secretary Finance
134	Odisha	Shri Saswat Mishra	Commissioner, CT
135	Odisha	Shri Sahadev Sahoo	Jt. Commissioner, CT
136	Puducherry	Shri Dr. V. Candavelou	Secretary to Govt. (Finance)
137	Puducherry	Shri G. Srinivas	Commissioner (ST)
138	Punjab	Shri M. P Singh	Addl. Chief Secretary-cum-Financial Commissioner (Taxation)
139	Punjab	Shri V.K Garg	Advisor (Finance)
140	Punjab	Shri Vivek Pratap Singh	Excise & Taxation Commissioner
141	Punjab	Shri Pawan Garg	Dy. Excise & Taxation Commissioner
142	Rajasthan	Shri D.B. Gupta	Addl. Chief Secretary
143	Rajasthan	Shri Praveen Gupta	Secretary Finance (Revenue)
144	Rajasthan	Shri Alok Gupta	Commissioner, CT
145	Rajasthan	Shri Ketan Sharma	Jt. Commissioner (GST)
146	Sikkim	Shri V.B. Pathak	Principal Secretary, Finance
147	Sikkim	Smt. Dipa Basnet	Secretary, CT
148	Sikkim	Shri Manoj Rai	Jt. Commissioner, CT
149	Tamil Nadu	Dr. C. Chandramouli	Addl. Chief Secretary CT & Registration Dept.
150	Tamil Nadu	Shri C. Palani	Jt. Commissioner, CT
151	Telangana	Shri Somesh Kumar	Principal Secretary (Revenue)
152	Telangana	Shri Anil Kumar	Commissioner (CT)
153	Telangana	Shri Laxminarayana jannu	Add. Commissioner (CT)
154	Tripura	Shri P Srivastava	Chief Resident Commissioner
155	Uttar Pradesh	Shri Rajendra Kumar Tiwari	Addl. Chief Secretary
156	Uttar Pradesh	Ms Kamini Chauhan Ratan	Commissioner, CT
157	Uttar Pradesh	Shri Vivek Kumar	Addl. Commissioner, CT
158	Uttar Pradesh	Shri M.N. Verma	Joint Secretary
159	Uttarakhand	Smt. Sowjanya	Commissioner, State Tax
160	Uttarakhand	Shri Piyush Kumar	Additional Commissioner of State Tax
161	West Bengal	Smt. Smaraki Mahapatra	Commissioner, CT
162	West Bengal	Shri Khalid A Anwar	Senior Joint Commissioner

CHAIRMAN'S INITIALS

Annexure 3

AGENDA NO. 2 – REVENUE COLLECTED IN NOV AND DEC 2017 UNDER GST INCLUDING SETTLEMENT OF FUNDS

25th GST Council Meeting

18th January, 2018

Vigyan Bhavan

1

CHAIRMAN'S INITIALS

GST REVENUE FOR MONTH OF NOVEMBER, 2017

(Figures in Rs. Crore)

	November receipts	Funds transferred due to settlement	Net revenue after settlement
CGST	13692	10145	23837
SGST	20295	13882	34177
IGST	44784	-24027	20757
Cess	7160		7160
Total			**85931**

Revenue shortfall of States : Rs. 8989 crores

2

GST REVENUE FOR MONTH OF DECEMBER, 2017

(Figures in Rs. Crore)

	Decembe r receipts	Funds transferred due to settlement	Net revenue after settlement
CGST	13986	10348	24334
SGST	19767	14488	34255
IGST	42114	-24836	17278
Cess	7848		7848
Total			**83716**

Revenue shortfall of States : Rs. 8894 crores

3

CHAIRMAN'S INITIALS

State	Revenue shortfall upto 10% in Dec'17
Mizoram	-18%
Arunachal Pradesh	-1%
Manipur	1%
Tamil Nadu	6%
Maharashtra	7%

4

State	Revenue shortfall between 10-20% in Dec'17
Telangana	13%
Delhi	14%
Nagaland	15%
Andhra Pradesh	17%
Haryana	18%
Uttar Pradesh	18%
Gujarat	19%
Rajasthan	19%

5

CHAIRMAN'S INITIALS

State	Revenue shortfall more than 20% in Dec'17
Puducherry	51%
Himachal Pradesh	49%
Punjab	45%
Uttarakhand	44%
Meghalaya	40%
Bihar	39%
Odisha	39%
Chhattisgarh	37%
J & K	36%
Karnataka	31%
Jharkhand	29%
Tripura	28%
Assam	25%
Goa	24%
Madhya Pradesh	24%
Kerala	23%
West Bengal	22%
Sikkim	21%

STATES WITH MAXIMUM REVENUE SHORTFALL

Sl. No.	Name of the State	Percentage shortfall in October 2017 revenue	Percentage shortfall in December 2017 revenue
1.	Puducherry	59.5	51.5
2.	Uttarakhand	50.0	43.8
3.	Himachal Pradesh	46.8	48.8
4.	Chhattisgarh	43.3	37.2
5.	Bihar	41.5	39.3
6.	Goa	41.5	24.0
7.	J & K	40.1	35.9
8.	Meghalaya	39.6	39.9
9.	Punjab	39.0	45.3
10.	Nagaland	35.4	14.7
11.	Jharkhand	31.8	28.7
12.	Odisha	27.9	39.2
13.	Arunachal Pradesh	27.8	-0.9
14.	Assam	26.8	25.4
15.	Sikkim	26.7	21.1
16.	Madhya Pradesh	25.6	23.6
17.	Karnataka	25.3	30.8

7

CHAIRMAN'S INITIALS

STATES WITH LEAST SHORTFALL IN REVENUE

Sl. No.	Name of the State	Percentage shortfall in October 2017 revenue	Percentage shortfall in December 2017 revenue
1.	Delhi	-0.2	14.3
2.	Maharashtra	2.6	6.7
3.	Andhra Pradesh	4.4	16.8
4.	Tamil Nadu	4.4	5.5
5.	Telangana	6.5	13.4
6.	Kerala	14.4	22.7
7.	Haryana	16.5	18.1
8.	Gujarat	16.6	18.6
9.	Uttar Pradesh	17.2	18.1

8

STATES SHOWING MAXIMUM IMPROVEMENT UPTO DECEMBER 2017

Sl. No.	Name of the State	Percentage shortfall in revenue in August 2017	Percentage shortfall in revenue in December 2017	Percentage reduction in shortfall in December 2017 vis-à-vis- August 2017
1.	**Mizoram**	47.7	-17.6	65.3
2.	**Manipur**	46.6	0.8	45.8
3.	**Arunachal Pradesh**	42.6	-0.9	43.5
4.	**Nagaland**	50.5	14.7	35.8
5.	**Tripura**	59.4	28.5	30.9
6.	**J & K**	63.9	35.9	28.0

9

CHAIRMAN'S INITIALS

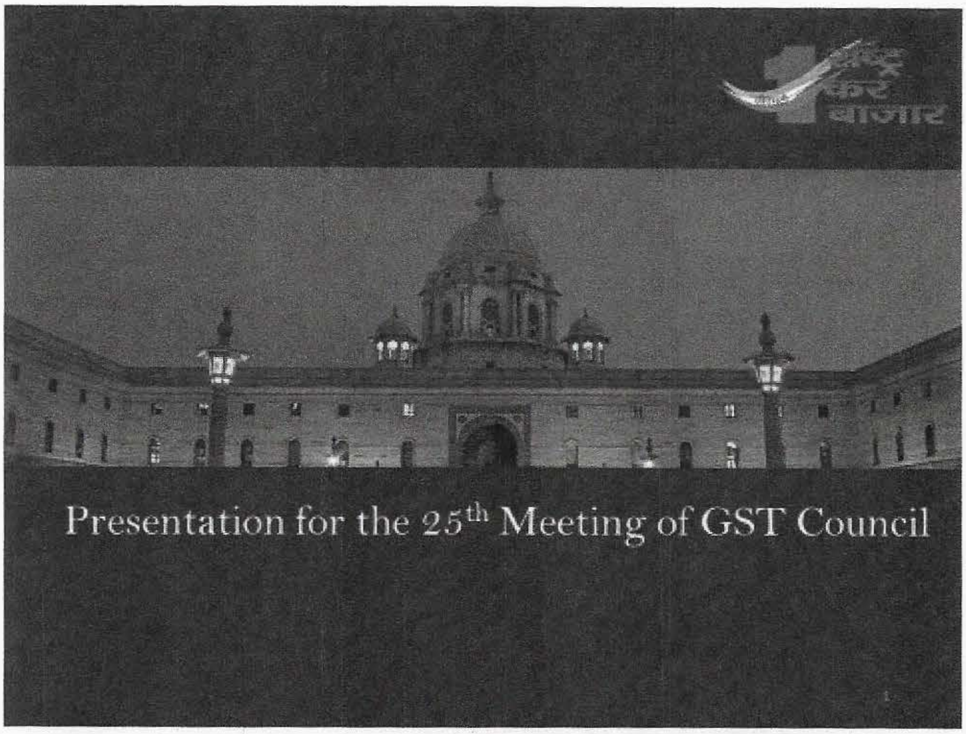
STATES SHOWING MAXIMUM IMPROVEMENT UPTO DECEMBER 2017- CONTD...

Sl. No.	Name of the State	Percentage shortfall in revenue in August 2017	Percentage shortfall in revenue in December 2017	Percentage reduction in shortfall in December 2017 vis-à-vis- August 2017
7.	Haryana	40.3	18.1	22.2
8.	Madhya Pradesh	43.4	23.6	19.8
9.	Rajasthan	34.8	18.9	16.0
10.	Goa	39.9	24.0	15.9
11.	Telangana	27.8	13.4	14.4
12.	Assam	39.5	25.4	14.1

10

CHAIRMAN'S INITIALS

Annexure 4



Agenda

- Deemed Ratification of Notifications / Circulars etc.
- Decisions taken by GIC
- Issues for approval of GST Council

2

CHAIRMAN'S INITIALS

Ratification of Notifications, Circulars and Orders

- Ratification of following notifications, circulars & orders issued after 23rd GST Council meeting :

Act/Rules	Type	Notification / Circular / Order Nos.
CGST Act	Central Tax	55 to 75 of 2017 01 of 2018
	Central Tax (Rate)	41 to 47 of 2017
IGST Act	Integrated Tax	12 of 2017
	Integrated Tax (Rate)	43 to 50 of 2017
UTGST Act	Union territory Tax	01 of 2018
	Union territory Tax (Rate)	41 to 47 of 2017
Circulars	CGST Act	14 to 26 of 2017 27 & 28 of 2018
Orders	CGST Act	09 to 11 of 2017

Decisions of GIC post 9.11.2017 (1/6)

- **Decision by Circulation (08.12.2017)**
  - Extension of the time limit for filing of **FORM GST ITC-01** upto 31.12.2017
    - ✓ Notification No. 67/2017 – CT dated 21.12.2017 issued
  - Clarification on issues regarding treatment of supply by an artist in various States and supply of art works from galleries
    - ✓ Circular No. 22/22/2017-GST dated 21.12.2017 issued
  - Manual filing of applications for Advance Ruling and appeals before Appellate Authority for Advance Ruling
    - ✓ Circular No. 25/25/2017-GST dated 21.12.2017 issued
  - Maintenance of books of accounts relating to additional place of business by a principal or an auctioneer for the purpose of auction of tea, coffee, rubber etc.
    - ✓ Circular No. 23/23/2017-GST dated 21.12.2017 issued

CHAIRMAN'S INITIALS

Decisions of GIC post 9.11.2017 (2/6)

NATION TAX MARKET

- **Decision by Circulation (12.12.2017)**
  - Extension of time limit for filing of **FORM GSTR-5** & **FORM GSTR-5A** for the months of July, 2017 to December 2017 upto 31.01.2018
  - Extension of time limit for filing of **FORM GST CMP-03** upto 31.01.2018
    - ✓ Notification No. 68/2017 – CT dated 21.12.2017
    - ✓ Notification No. 69/2017 – CT dated 21.12.2017
    - ✓ Order No. 11/2017-GST dated 21.12.2017 issued

5

Decisions of GIC post 9.11.2017 (3/6)

NATION TAX MARKET

- **Decision by Circulation (13.12.2017)**
  - To insert columns 10 to 15 in Table 6 of **FORM GSTR-1**
  - To provide for both supplier & recipient of supplies declared as deemed exports supplies to claim refund
  - To insert Statement 6A in **FORM GST RFD-01** & **FORM GST RFD-01A** to capture details of invoices of outward supplies in case of deemed export supplies
  - To amend declaration required to be submitted under rule 89(2)(g) in **FORM GST RFD-01** & **FORM GST RFD-01A** to include the declaration of supplier also in case of deemed export supplies
  - To insert Statement 1A in both these forms to capture details of invoices of inward & outward supplies in case of inverted duty structure refund
    - ✓ Notification No. 70/2017 – CT dated 21.12.2017 issued

6

CHAIRMAN'S INITIALS

Decisions of GIC post 9.11.2017 (4/6)

- **Decision by Circulation (13.12.2017- contd.)**
    - Circular on manual filing & processing of refund claims on account of inverted duty structure, deemed exports & excess balance in electronic cash ledger
        - ✓ Circular No. 24/24/2017-GST dated 21.12.2017 issued
- **Decision by Circulation (26.12.2017)**
    - To provide for Centralized UIN for Foreign Diplomatic Missions / UN organizations
        - ✓ Notification No. 75/2017 – CT dated 29.12.2017 issued
    - Amendment of **FORM GST REG-10** for registration of OIDAR service providers
    - Amendment of rule 89(4) to provide separate treatment of ITC availed in respect of inward supplies (obtained at concessional rate) for merchant exports, domestic supplies & common inputs

Decisions of GIC post 9.11.2017 (5/6)

- **Decision by Circulation (26.12.2017- contd.)**
    - Insertion of rule 96(9) to limit refund of IGST to persons availing the benefit of notification No. 40/2017-CT (Rate) & notification No. 41/2017-IT (Rate) both dated 23.10.2017 & notification No. 48/2017-CT dated 18.10.2017
        - to the amount of IGST on such exports paid through the utilization of balance available in the electronic cash ledger
        - to mandate that such person shall not be eligible to claim refund of IGST
    - To insert a proviso to rule 19(1) to provide for amendment to any particular of the application for registration w.e.f. a date earlier than the date of application only with approval of Commissioner
    - To delete Table 5 of **FORM DRC-07**
        - ✓ Notification No. 75/2017 – CT dated 29.12.2017 issued

CHAIRMAN'S INITIALS

Decisions of GIC post 9.11.2017 (6/6)

- **Decision by Circulation (26.12.2017- contd.)**
  - Extension of time limit for filing of **FORM GSTR-1** (Quarterly return for July - September, 2017) & **FORM GSTR-1** (Monthly return for the months of July, 2017 to December, 2017) to 10.01.2018
    - ✓ Notification No. 71/2017 – CT dated 29.12.2017 issued
    - ✓ Notification No. 72/2017 – CT dated 29.12.2017 issued
  - Reduction of late fee in case of delayed filing of **FORM GSTR-4** to bring it on par with late fee payable in case of delayed filing of the return in **FORM GSTR-3B**
    - ✓ Notification No. 74/2017 – CT dated 29.12.2017 issued
  - Circular on return filing
    - ✓ Circular No. 26/26/2017-GST dated 29.12.2017 issued

9

Agenda Note No. 7(i) - Amendments in the CGST Rules (1/5)

S. No.	Proposed Change	Rationale/ Reason
1	**FORM GST ITC-03**: Proposal to increase the time period for filing the statement from *90 days* to *180 days*	Functionality not available on the common portal
2	**Composition scheme** rates under Rule 7	To align with notification No. 1/2018-CT(R) dated 01.01.2018
3	Omit proviso to Rule 20	Allowing application for cancellation of voluntary registration within 1 year of date of registration
4	**FORM GST REG-29:** Proposal to extend date till 31.03.2018	Large number of taxpayers yet to avail the facility

10

CHAIRMAN'S INITIALS

Agenda Note No. 7(i) - Amendments in the CGST Rules (2/5)

S. No.	Proposed Change	Rationale/ Reason
4	Proviso to sub rule (5) of Rule 32 to be converted to a separate sub-rule	It was observed that situation being dealt with is quite different from the main sub-rule (5) & also that the said proviso was silent about the method of valuation for value of goods repossessed from a defaulting borrower who is a registered person
5	Insertion of sub-rule (1A) in Rule 54 for issuance of special invoice by a normal registered person to an ISD	No mechanism for an ISD to receive and pay tax on services under reverse charge & no mechanism for the normally registered entity to transfer credit, in respect of such common services received under reverse charge, to the ISD

11

Agenda Note No. 7(i) - Amendments in the CGST Rules (3/5)

S. No.	Proposed Change	Rationale/ Reason
6	Insertion of rule 55A	To prescribe document required to be carried by the person-in-charge of the conveyance, where e-way bill is not required to be carried
7	To replace sub-rules (4A) and (4B) of rule 89 w.e.f. 23.10.2017	To correct typographical errors & bring in reference to Customs notification No. 78 & 79/2017-Customs (NT) both dated 13.10.2017
8	To amend rule 96 w.e.f. 23.10.2017 to provide for refund of integrated tax on export of services in **FORM GST RFD-01** in accordance with rule 89	To prescribe the following: - To insert the words "goods" in rule 96(1), 96(2) & 96(3) - To insert rule 96(3A) - To bring in reference to Customs notification No. 78 & 79/2017-Customs (NT) both dated 13.10.2017

12

CHAIRMAN'S INITIALS

Agenda Note No. 7(i) - Amendments in the CGST Rules (4/5)

S. No.	Proposed Change	Rationale / Reason
9	Amendments to the e-way bill rules viz., Rules 138, 138A and 138B and **FORM GST EWB-01, FORM GST EWB-02, FORM GST EWB-02 & GST INV-01**	To prescribe the following: - consignment value of goods for the purpose of e-way bills will be inclusive of tax - for transport of goods by railways, air or vessel, the registered person shall generate the e-way bill and furnish information in **Part B** of the **FORM GST EWB-01** - for change in conveyance in course of transportation, the transporter to update the details of the conveyance in the e-way bill - making the e-commerce operator liable for furnishing information - Making a reference to notification No. 2/2017-Central tax (Rate) dated 28.06.2017 instead of the complete list of exempted goods - improvements in the **FORM**

13

Agenda Note No. 7(i) - Amendments in the CGST Rules (5/5)

S. No.	Proposed Change	Rationale / Reason
10	Inclusion of Statements 2, 3 and 4 in **FORM GST RFD-01A**	To capture the details of documents required for processing refund claims on account of export of services on payment of integrated tax, export without payment of tax and supplies made to SEZ unit or SEZ Developer (on payment of tax)

14

CHAIRMAN'S INITIALS

Agenda Note No. 7(ii) – Reduction in late fees (1/2)

S. No.	Proposed Change	Rationale / Reason
1	**FORM GSTR-5** and **GSTR-5A**: late fee proposed to be reduced to - Rs. 50/- per day (Rs. 25/- per day under CGST Act & Rs. 25/- per day under the respective SGST Act) - Rs. 20/- per day (Rs. 10/- per day under CGST Act & Rs. 10/- per day under the respective SGST Act) in case the amount of central tax payable is nil	Bringing the late fee on par with late fee for **FORM GSTR-3B** & **GSTR-4**

15

Agenda Note No. 7(ii) – Reduction in late fees (2/2)

S. No.	Proposed Change	Rationale / Reason
2	**FORM GSTR-1**: late fee proposed to be reduced to - Rs. 50/- per day (Rs. 25/- per day under CGST Act & Rs. 25/- per day under the respective SGST Act) - Rs. 20/-per day (Rs. 10/- per day under the CGST Act & Rs. 10/- per day under the respective SGST Act) in case there is no outward supply in a month/quarter	Bringing the late fee on par with late fee for **FORM GSTR-3B** & **GSTR-4**
3	**FORM GSTR-6**: late fee proposed to be reduced to Rs. 50/- per day (Rs. 25/- per day under CGST Act & Rs. 25/- per day under the respective SGST Act)	

16

CHAIRMAN'S INITIALS

Agenda Note No. 7(iii) – Extension of filing date

NATION TAX MARKET

S. No.	Proposed Change	Rationale/ Reason
1	Extending the due date for filing return in **FORM GSTR-6** by an Input Service Distributor for the months of July, 2017 to February, 2018 till 31.03.2018	Non availability of offline utility on the common portal

17

Agenda Note No. 7(iv) – Notification of e-way bill portal

NATION TAX MARKET

S. No.	Proposed Change	Rationale/ Reason
1	Notification of www.ewaybillgst.gov.in as the Common Goods and Services Tax Electronic Portal for generating the electronic way bill	Coming into force of e-way bills w.e.f. 01.02.2018 for inter-State supply, etc.

18

CHAIRMAN'S INITIALS

Agenda Note No. 7(v) – Cross empowerment

NATION TAX MARKET

S. No.	Proposed Change	Rationale/ Reason
1	Amendment of notification No. 39/2017-CT & notification No. 11/2017-IT both dated 13.10.2017	Cross-empowerment of State tax officers for processing and grant of refund for export of services on payment of IGST in terms of newly inserted Rule 96(3A)

19

Table Agenda Note No. 13(ii) – Reduction in penalty for non carrying of e-way bill

NATION TAX MARKET

S. No.	Proposed Change	Rationale/ Reason
1	Issuance of notification mandating reduction in penalty from Rs. 10,000/- to Rs. 500/- for not carrying e-way bill along with conveyance as per section 122(1) of the CGST Act, for an initial period of six months	To give time to get accustomed to the new system & prevent harassment to the trade & industry

20

CHAIRMAN'S INITIALS

Table Agenda Note No. 13(iii) – Disallowance of disputed credit upon transition

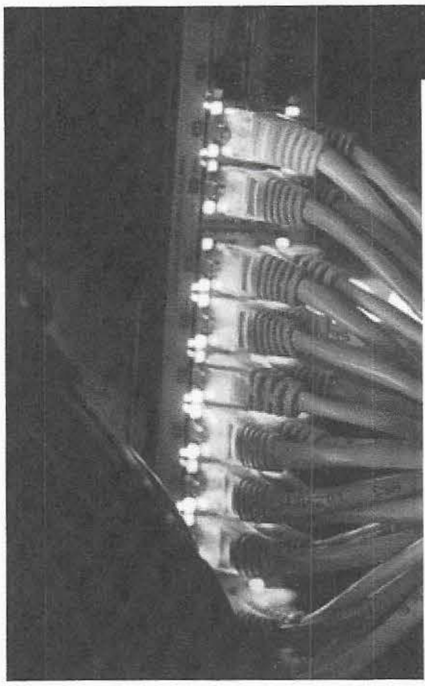
NATION TAX MARKET

S. No.	Proposed Change	Rationale / Reason
1	Issuance of Order under Section 172 to clarify that in certain cases, credit of taxes & duties paid under the existing laws shall not be allowed to be claimed as transitional credit	To remove difficulty & ensure that the taxpayers do not avail of credit : a) in case of disputed credit under transition provisions b) which has been blocked under section 17(5) of Act c) to take appropriate administrative steps such as blocking the credit

21

CHAIRMAN'S INITIALS

Annexure 5



GST System Update For 25th GST Council Meeting

Date : 18th Jan 2018

Agenda

1. Services made available on GST Portal
2. Highlights from GoM Meeting
3. E-Way Bill Status
4. Statistics on Return Filing

CHAIRMAN'S INITIALS

Services Made Available on the Portal & Stats

3

Services made available on GST Portal

Registrations
New Registration for Normal Taxpayer
ISD Registration
Enrolment for GSTP
Opt for Composition scheme
Casual dealer registration
Amendment of Registration – for non-core fields
Revocation of rejected application
Processing of Registration of Migrated dealers
TDS Registration
Opt out from composition scheme
Cancellation of Registration of migrated taxpayers
Intimation of details of stock (CMP-03)
Non-Resident Taxable Person Registration
Engage/ disengage GST Practitioner, GSTP Dashboard, and Locate GSTP
Application of cancellation of new taxpayer

Returns
GSTR-1 + Offline Utility
GSTR-2A viewing by Buyer
GSTR-3B
GSTR-2
GSTR-1A
Offline Utility for **GSTR-2**
Offline Tool for **GSTR-3B**
Offline tool for **ITC-04**
Edit of GSTR-3B
Offline Tool for **GSTR-4**
GSTR 6, (for Input Service Distributor (ISD)
GSTR-5A for OIDAR (Online Data Access or Retrieval Services)
ITC 02: Declaration for transfer of ITC in case of Sales merger etc.
GSTR 5: Return for Non Resident Taxpayer
GSTR 11: Return for UN bodies.
ITC 01: Facility for declaration for claim of ITC.

4

CHAIRMAN'S INITIALS

Services made available on GST Portal

Payments
Online Payments through **Internet Banking and NEFT/ RTGS**
Offline Payments-**Over the Counter** (Authorised Bank) for amount upto Rs 10,000/-
Creation and maintenance of **Electronic Cash Ledger**
Form **GST PMT-07** - Grievance for payment

Transitional Forms
Tran Form 1 - Transitional ITC / Stock Statement
Tran Form 3 - Credit distribution
Edit of Tran Form -1
TRAN Form 2- Credit on goods held in stock on the appointed day
TRAN 2 Offline Tool

Refund
Table 6A of GSTR 1 (facility to file their export data) for Refund
RFD-01- Refund of ITC of the inputs/input services attributed to export of goods
RFD-01- Refund of Excess Balance in Electronic Cash Ledger (Released on 29th Nov 2017)

1. Exports of services with payment of Tax (Alternate Flow 02)
2. ITC accumulated due to inverted tax structure [under clause (ii) of first provision to section 54(3)] (AF 05)
3. On account of supplies made to SEZ unit/ SEZ Developer (with payment of tax) (AF 06)
4. On account of supplies made to SEZ unit/ SEZ developer (without payment of tax) (AF 07)
5. Recipient of deemed exports (AF 08)
6. Pre-login tracking of refund status with ARN

5

GST System – Overall Stats

Functionalities	Counts
Number of Returns Filed till date	5,25,63,087
Number of Invoices Processed	154,47,74,967
New Registration Approved	35,21,334
Number of Migrated Taxpayers (net of cancelled)	64,11,471
Taxpayers Opted for Composition	17,08,076
Number of Payments Transactions	1,83,39,184

- GSTR-1 Filing till Jan 10, 2018 (from Sep,2017) : 1,46,49,297
- GSTR-1 Filing till Dec 31, 2017 : 98,42,049
- GSTR-1 Filing from Jan 1 to Jan 10, 2018 : 48,07,248 (33% in last 10 days)
- GSTR-3B Filling% for last 3 days for consecutive 5 months : ~69%

- Estimated Taxpayer Base at the commencement of the project : 65 Lac
- Estimated Taxpayer Base during Enrolment stage(Apr'17) : 86.87 Lac
- Taxpayers base as on Jan'18 (validated and approved Taxpayers) : 99.32 Lac
- Increase in Taxpayer Base % (from Commencement stage) : 53%
- Increase in Taxpayer Base % (from Enrolment stage) : 15%

6

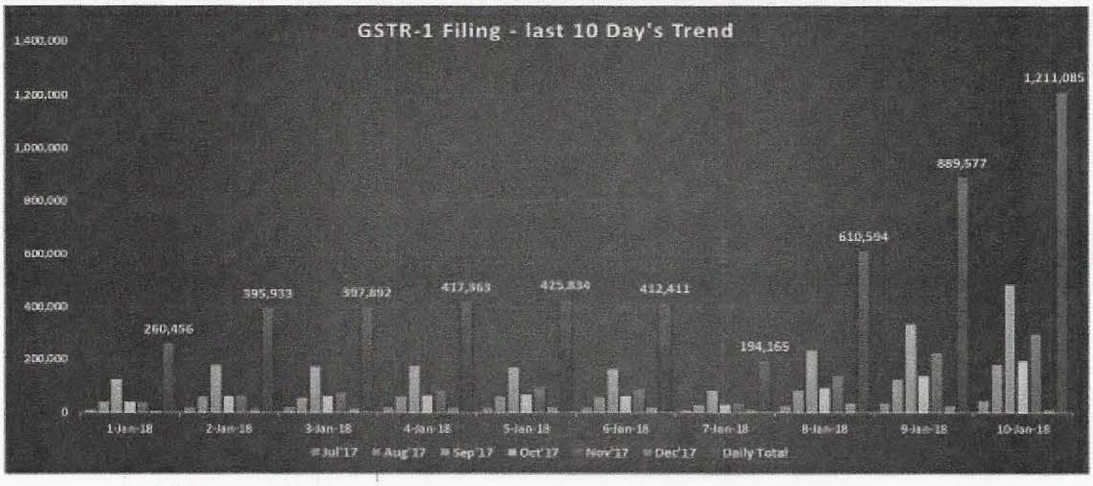
CHAIRMAN'S INITIALS

GST System – Filing Compliance Stats

Returns Filing	Eligible	Opted for Quarterly	Eligible	Filed till Last day of Filing	Filed till Jan14 2018	% Completion till Jan14 2018
Returns : GSTR-3B (Monthly Summary Return) (Jul)	66,86,012	-	66,86,012	38,34,877	61,52,666	92.02%
Returns : GSTR-3B (Monthly Summary Return) (Aug)	74,21,661	-	74,21,661	27,25,183	64,60,283	87.05%
Returns : GSTR-3B (Monthly Summary Return) (Sep)	78,84,955	-	78,84,955	39,34,256	65,84,977	83.51%
Returns : GSTR-3B (Monthly Summary Return) (Oct)	77,79,225	-	77,79,225	43,68,711	61,44,925	78.99%
Returns : GSTR-3B (Monthly Summary Return) (Nov)	80,62,358	-	80,62,358	49,13,065	58,70,114	72.81%
Returns : GSTR4 (September Quarterly Return)	11,48,165	-	11,48,165	-	7,66,292	66.74%
Returns : GSTR-1 (Outward Supplies) (July)	66,86,012	-	66,86,012	53,30,468	53,58,972	80.15%
Returns : GSTR-1 (Outward Supplies) (August)	74,21,661	42,21,881	31,99,780	17,69,344	18,46,355	57.70%
Returns : GSTR-1 (Outward Supplies) (September)	78,84,955	-	78,84,955	47,21,559	49,31,818	62.55%
Returns : GSTR-1 (Outward Supplies) (October)	77,79,225	42,21,881	35,57,344	15,60,471	16,81,691	47.27%
Returns : GSTR-1 (Outward Supplies) (November)	80,62,358	42,21,881	38,40,477	13,96,053	15,37,715	40.04%

7

GST System – GSTR-1 Filing Trend for last 10 days

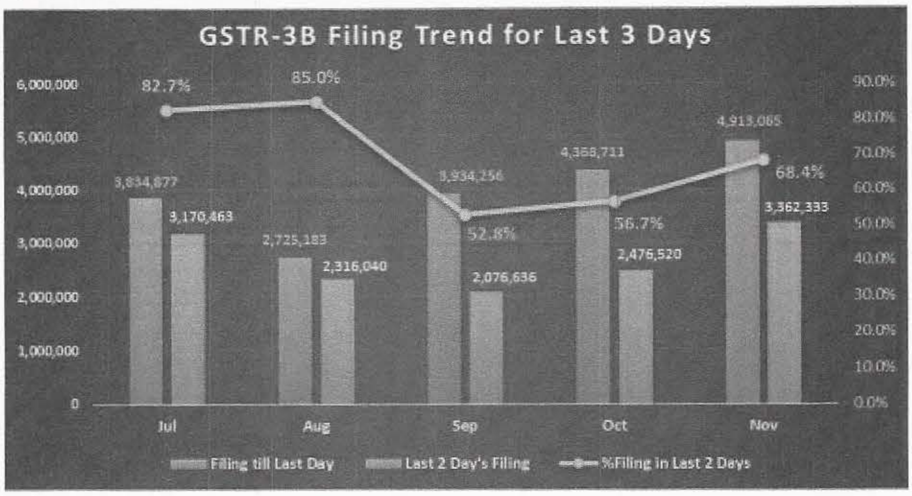


- 7th Jan was a Sunday
- 8th Jan – there was an issue with delay in summary generation, addressed on the same day
- Total Filing till 14th Jan: 1,153,56,551

8

CHAIRMAN'S INITIALS

GST System – GST3-B Filing Trend for Last Days of a Month



- Trend is increasing from Sep onwards
- 20th of next month is the last day of Filing previous month's return; Jul had an extended last day

9

6th GoM Meeting Highlights

10

CHAIRMAN'S INITIALS

Updates on Issues raised in GoM

Issues	Updates from 6th GoM Meeting (Held on 17th Jan '2018)
Data Reconciliation Issues	No Issues in Registration, Payments Some gaps (<2%) in Returns data, being reconciled
API Release and Support	API calendar is being refreshed every fortnightly
Deployment of Resident Engineers	Complete, REs have been deployed in CBEC/States/UTs
Relevant & accurate Error Messages on Portal after review by an expert	Completed for most of the cases
Make user interface & experience more intuitive & friendly	Work in progress
Updates on MIS to Model-2 States	1. 5 Reports are available on Tax officials' dashboard, Rest of data is being shared over email. 2. Views to Tax-officers of Model 2 States : a) Full view of GSTR-3B/GSTR-1/TRAN-01 b) Full view of ITC Ledger c) Full view of Cash ledger d) Full view of Liability register e) Full view of Registration Forms
Making available all 69 prioritized forms on the GST portal in a time bound manner	Details covered in next slide

11

Updates on GOM Prioritized Functionalities

Details	Count
Initial Prioritized Functionalities (as per first GoM Meeting)	47
New Functionalities identified in 28th Oct meeting	8
Functionalities removed in view of decision of GST Council	12
Prioritized Functionalities being tracked	43
Functionalities due on/before 17th Jan 2018	42
Functionalities Made operational on GST Portal	39
Operational Percentage	92.85%
Functionalities Made operational with a delay of 3 - 5 days	2
Functionalities Made operational with a delay of more than 5 days	23

12

CHAIRMAN'S INITIALS

Making available 69 Prioritized Forms on GST Portal

GSTN

Functional Module	Total Forms	Current Status
Composition Forms	4	All 4 forms are Operational
Registration	21	1. 15 forms are Operational 2. 2 forms are Operational with workaround (Registration of OIDAR and UN Bodies) 3. 4 forms are in progress, these are a) Application for extension of registration period by casual / non-resident taxable person. b) Show Cause Notice for cancellation of provisional registration c) Order for cancellation of provisional registration d) Form for Field Visit Report
ITC	3	1. 2 forms are Operational 2. 1 form (ITC-03) is in Testing
GSTP	5	All 5 forms are Operational
Returns	10	1. 8 forms are Operational 2. 2 forms (GSTR-3, GSTR-7 and GSTR8) are on hold
Registers and Ledgers	7	1. 7 forms are Operational 2. 1 form (GST PMT-03) is in development

13

Making available 69 Prioritized Forms on GST Portal

GSTN

Functional Module	Total Forms	Current Status
Appeal	3	3 Form is various phases of design and development
Advance Ruling	1	Form is Operational
Transitional Forms	3	All 3 Forms are Operational
Refund	11	1. All 11 Forms are different phases of design and development 2. Following workarounds for RFD-01 are operational: a) With IGST b) Excess Bal in cash leger c) ITC accumulated for exporters d) Inverted Duty e) SEZ Unit/ Developer: With/ without payment of Tax f) Deemed exports 3. Following will be made operational this month: a) Assessment/Appeal/any other order b) On account of tax paid on advance/refund voucher c) RFD-1B d) RFD-10 e) Furnishing of bond or Letter of Undertaking for export of goods or services

14

CHAIRMAN'S INITIALS

GIN

E-Way Bill

15

GIN

e-Way Bill System Implementation Status

- E-way bill software is operational since Sep 2017
- All modes of generation of EWB are in place and in use – WEB, SMS, Mobile App, API, Bulk
- Training has been imparted to the master trainers of all states
- One training for master trainers of CBEC has been done and other one will be done on 18th
- The states have conducted the workshop for stakeholders

16

CHAIRMAN'S INITIALS

e-Way Bill System Implementation Status

GSTN

- Central helpdesk as well as state level helpdesks have established
- As per feedback of the stakeholders, some amendments have been proposed in the Rules.
- Portal opened for trial for all States
- 14 States onboard on 16th
- 1.4 lakhs e-way bills being issued daily

17

GSTN

E-Way Bill Format

PART A

- GSTIN of Recipient - GSTIN or URP
- Place of Delivery - PIN Code of Place
- Invoice/Challan No - Number
- Invoice/Challan Date - Date
- Value of Goods -
- HSN Code - At least 2 digit of HSN Code
- Reason for Transport - Supply/Exp/Imp/Job Work/...
- Transporter Doc. No - Document No provided by trans.

PART B

- Vehicle Number - Vehicle Number

NIC

18

CHAIRMAN'S INITIALS

ICT Deployment Status

1
- Hardware (Server, storage, network) and Software installation: Completed

2
- Security Auditing of the application and infrastructure is completed. Application testing in progress

3
- Integration with external agencies (UIDAI, GSTN, NSDL,SMS, email) is in progress

19

ICT Deployment Status

4
- Application testing on new Infrastructure is in progress

5
- Moving to the new infrastructure is planned during next week

6
- DR set-up under progress

20

CHAIRMAN'S INITIALS

Preliminary Analysis of Return Data

GSTR-4

6,97,925 Taxpayers who have filed GSTR-4 for the quarter ending Sep'17.

	CGST	SGST	IGST	CESS	TOTAL
				(Rs. In Crore)	
CREDIT/DEPOSIT	166.54	167.30	0.88	0.07	334.79
DEBIT/UTILIZED	**153.38**	**153.38**	**0.24**	**0.01**	**307.01**
BALANCE	13.17	13.92	0.65	0.06	27.79

Cumulative turnover of all these taxpayers is Rs 30430.88 Crores per quarter

Per Taxpayer turnover comes to 4.36 lakhs per quarter or 13.44 lakhs per annum.

CHAIRMAN'S INITIALS

Some Statistics: GSTR-4

6,97,925 Taxpayers who have filed GSTR-4 for the quarter ending Sep'17.

Cumulative turnover of all these taxpayers is Rs 30430.88 Crores per quarter
Average tax rate comes to 1.009% (tax rates are 1%; 2% and 5%)
This shows that most of them are charging 1% and 2% & 5% is being charged by very few. (5% is for restaurants. 2% is for manufacturers)

Quarterly Figures				
Turn Over	Number of Tax Payer	Turn Over (Rs in Cr)	Average Quarterly Turnover (in lakhs)	**Average Annual Turnover**
>5L	2,06,901 (**29.6%**)	24,562.46	11.87	47.48
Below Rs 5 Lakhs	4,91,024 (**70.4%**)	5868.42	1.20	4.8
Those above Rs 12 Lakhs	64,059 (**9.2%**)	13,062.45	20.39	81.56

80% of 3B filers filed seemingly consistent returns in all the 5 months

- Finding consistent transactions based on turnover will be misleading because of seasonality and other factors
- Implied tax rate is considered to be good measure (will address seasonality problem automatically)
- CV of tax liability to turnover ratio is used to measure the consistent returns
- With CV 0-5, 70% returns are consistent and 80% with CV<=10

CHAIRMAN'S INITIALS

Comparison of GSTR-1 and GSTR-3B for July

• Total GST-R3B Filed for July -- 6132123
•Total GST-R1 Filed for July -- 5306650
•Common Filers found -- 3307930 (Found both in GSTR1 summary and GSTR3b Supplies, which are populated from H Base)

GST3B – Item considered : 3.1.(a) – Outward Taxable supplies (other than zero rated, nil, exempted)
GST-R1 – Item considered : B2B (Table 4), B2CL (Table 5), B2Cs (Table 7).
(Rs. In Crore)

RETURN	TOTAL TAXABLE	CGST	SGST	IGST	CESS	TOT_LIAB
GSTR-3B	4577890.04	58569.70	60164.89	72692.99	10544.06	201971.65
GSTR-1	1260602.64	57388.99	57399.68	71534.10	10144.53	196467.30
DIFFERENCE	3317287.40	1180.71	2765.21	1158.89	399.54	5504.35

If we count from Return filing status the common taxpayers are 52,82,979. However, from GSTR1 Summary and GSTR3B supplies it comes to 3307930, which may be due to NIL filers.

Missing Registered Tax-Filers : Purchased from Registered GST Dealer but Purchaser Never File Return

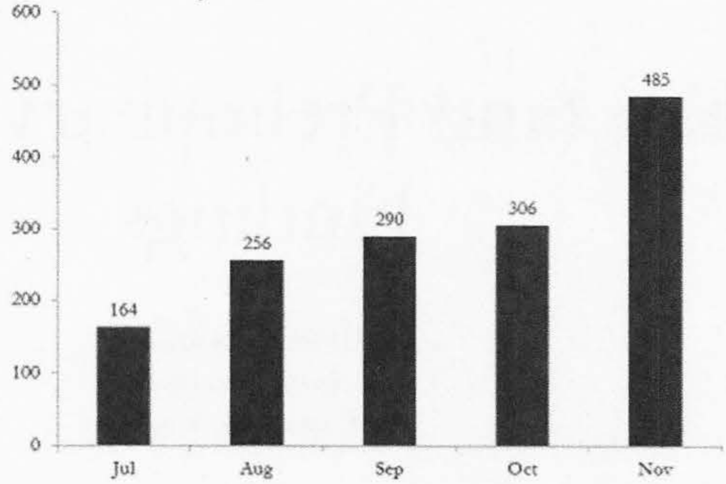
Based on GSTR2A and GSTR1

Particulars	Filers
Purchased from Registered Dealer but didn't file GSTR1 (A)	17,67,400
Don't have Purchase Record but Filed GSTR1 (B)	**11,77,551**

Out of 17.67 lakh purchaser of goods /services, who didn't file return 6.53 filers are under Composition Scheme. Out of 10.96 lakh filers around 4 lakh filers filed at least one 3B returns. Still the 7 lakh filers are missing.
But why the remaining 10.96 lakh filer didn't file returns?

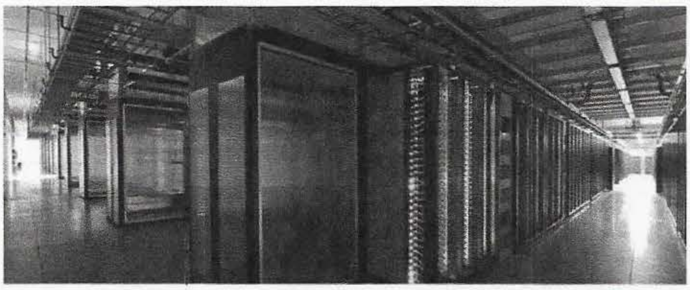
CHAIRMAN'S INITIALS

Big Guys, with turnover greater than 1 crore and implied tax rate greater than 2%, are trying to be out of Tax Net: Number is constantly increase



Others

- Non-Filers for last 5 months of GSTR-3B (migrated category):4,44,438
- List shared with state and central tax authorities
- Data after comparison of GSTR-1 and GSTR-3B & GSTR-2A and GSTR-3B will be provided to States



Thank You!!!

CHAIRMAN'S INITIALS

Annexure 6

Key (and Preliminary) GST Findings

25th GST Council Meeting
Arvind Subramanian
Chief Economic Adviser

1

A large increase in the number of taxpayers

- As of December 31, 2017, there were 9.8 million unique registrants, comprising 9.3 million unique corporate entities
- About 3.4 million new filers registered under GST. After adjusting for overlap under old systems, this represents a 50 percent increase in taxpayers
- About 1.7 million dealers who are below threshold have nevertheless registered
- About 1.9 million (53 percent) who could have opted for composition instead registered as regular filers

2

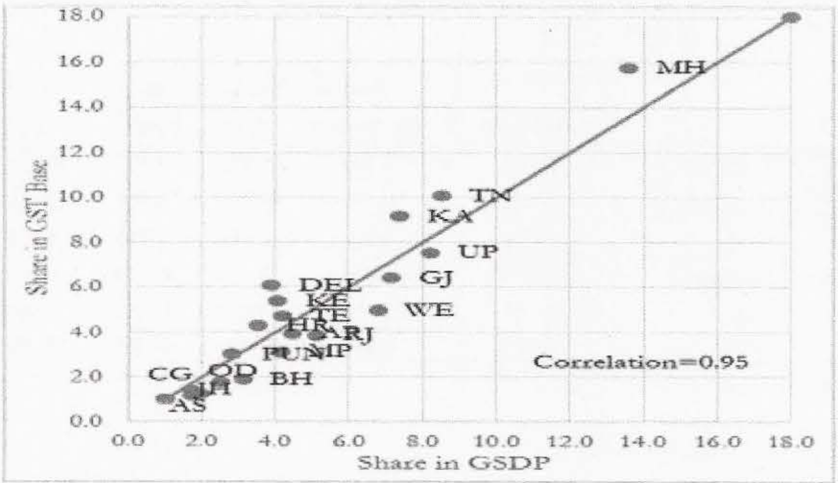
CHAIRMAN'S INITIALS

Estimated GST Base Close to Base calculated by RNR Committee

- Based on first five months data, GST base is estimated to be 65-70 lakh crore
- This gives an implied tax rate of 15.6 percent [0.85*12/65].

3

Beautiful Symmetry: States' Share in Base is their Share in Total GSDP



4

CHAIRMAN'S INITIALS

Turnover Distribution by Transaction Type and Size:

Small are Equally in B2B and B2C.

Big are more in B2B and account for nearly all Exports

	Transaction Type					
	B2B	B2C	Exports	Nil[1]	**Total**	Share of Filers
Below-Threshold	0.2%	0.2%	0.0%	0.0%	**0.4%**	32.2%
Composition	1.2%	1.1%	0.0%	0.1%	**2.4%**	36.0%
SME	3.8%	2.3%	0.1%	0.5%	**6.8%**	22.0%
Medium	15.5%	4.3%	1.5%	2.8%	**24.1%**	9.2%
Large	36.5%	4.9%	7.7%	17.1%	**66.2%**	0.6%
Total	**57.3%**	**12.8%**	**9.4%**	**20.5%**	**100.0%**	**100%**

Who Deals with Whom: Small Buy from Large In Addition to Selling to Large

		Purchaser Turnover Category					
		Threshold	Composition	SME	Medium	Large	**Total**
Supplier Turnover Category	Threshold	0.0%	0.1%	0.1%	0.1%	0.1%	**0.3%**
	Composition	0.2%	0.4%	0.5%	0.6%	0.4%	**2.2%**
	SME	0.5%	1.0%	1.6%	2.2%	1.3%	**6.7%**
	Medium	1.0%	2.0%	4.8%	10.9%	8.3%	**27.0%**
	Large	0.7%	1.1%	4.1%	17.3%	40.6%	**63.8%**
	Total	**2.5%**	**4.6%**	**11.1%**	**31.1%**	**50.7%**	**100.0%**

6

CHAIRMAN'S INITIALS

Formal non-farm payroll (employment) is substantially greater than currently believed

- Formality can be defined under the multiple criteria
- Based on social security provision (EPFO/ESIC), formal sector payroll is about 7.5 million or 31 percent of the non-agricultural work force;
- Based on being part of GST, formal sector payroll is 12.7 million or 53 percent of non-agricultural workforce

7

A large increase in the number of GST taxpayers

- Major share of new filers' turnover is in the B2C and Exports categories (Table below)

New Filers Turnover Distribution under Different Categories of Transaction

	B2B	B2C	Exports	Nil	Total
Share of turnover under different categories	34.0%	16.8%	29.8%	19.4%	100.0%

Note: NIL category includes supplies that are outside the scope of the GST such as petroleum, health, education, and electricity.

8

CHAIRMAN'S INITIALS

Annexure 7

Simplification of Return Filing Report

18-Jan-2018

2

Contents

- Mandate of Committee
- Challenges faced by taxpayers and other Stakeholders
- Issues deliberated by Committee
  - Mechanism of credit (ITC) tracking
  - What data of Invoice to be taken in return
  - Auto drafted return based on sales data OR simultaneous upload of sales and purchase data
  - Number of returns to be filed in a return period
  - Reversal of credit and its handling
  - Roadmap for rollout
  - Transition Plan

3

Mandate of Committee

- Based on decision taken in the 23rd GST Council Meeting held on 10 November 2017 at Guwahati,
- The "Committee on Returns Filing" was entrusted to
  - **look into the issues and the requirements of filing returns by taxpayers in the GST regime.**
  - **to analyse the issues and requirements of the various types of returns being/to be filed by the tax payers under GST regime.**
  - **to suggest modifications/simplifications required in the Returns, if any, including related changes in Laws, Rules, Format etc.**
- **Agenda Note contains broad recommendations of the Committee**

CHAIRMAN'S INITIALS

Current Challenges reported by Stakeholders

- Three returns in a month leading to 37 returns in a year
- Returns are interlinked and thus missing one means no further return can be filed
- Instead of line items, tax rate-wise entry made in GSTR-1 leads to double work, one while creation of GSTR-1 and the other while matching with GSTR-2A (both times line item has to be collapsed to tax rate).
- Linking of CN/DN (Credit Note/Debit Note) with invoices is a tedious process and not in conformity with industry practice.
- Reporting details as per HSN code increases work. HSN should be taken in the line item of invoice itself.
- Once invoice number is being reported in GSTR-1, table 13 containing document details leads to double work.
- B2C Large reporting does not serve any purpose and increases compliance

Simplification in Process

Issue1: Mechanism of Credit Tracking

*Aside remittance of tax, **Credit Tracking** is the second most important goal of the compliance process. It essentially ensures that Receivers do not claim undue or excess credit than what they are entitled to.*

- What should be the ***granularity*** of tracking?
- What should be the ***mechanism*** of tracking?
- How should ***mismatches*** be handled? Who is at fault?

CHAIRMAN'S INITIALS

17

At what granularity should credit be tracked?

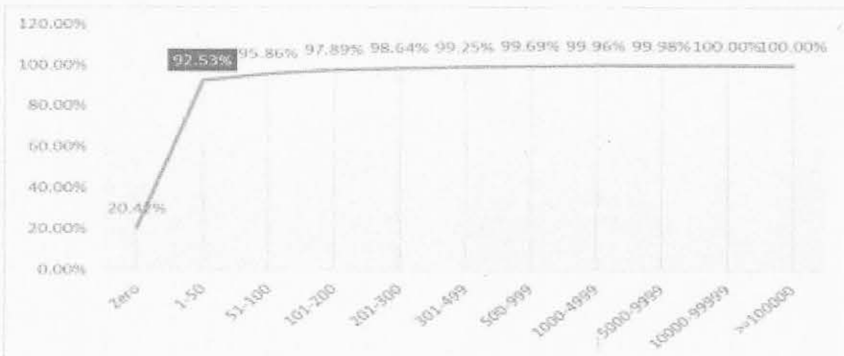
None	Counter-Party	Invoice
Self-declared gross amount in GSTR-3B	*Purchase and Supply statement at counter-party level*	*Invoice level supply / purchase statements*
✗ Potential for undue credit claims (both intentional & unintentional)	✗ Introduces "fuzziness" in matching due to goods-in-transit and other scenarios	✓ Provides clear mechanism for counter parties to reconcile accounts and mismatches
✗ No systemic mechanism to track credit	✗ Rely on assessment by tax officials for reversal	✓ Eliminates subjectivity of assessment by tax officials
✗ Rely on assessment and interface with tax officials	✗ IGST Committee rejected this option	✓ Integration with e-Waybill and good tracking
		✓ Enables future innovative applications like credit/loan against certified invoices etc.

Recommendation: Tracking of ITC at Invoice Level

18

Data from GSTR1/2A shows that 91% of tax payer have fewer than 50 invoices t

Sales

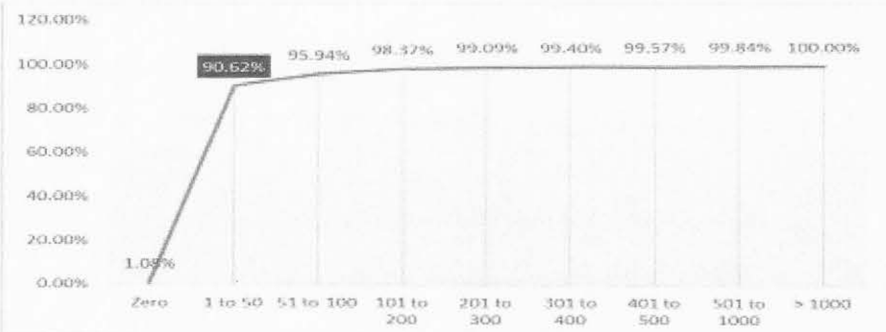


- **93%** of the tax payers have less than 50 sales invoices that need to be uploaded

19

Data from GSTR1/2A shows that 91% of tax payer have fewer than 50 invoices to accept

Purchase



- **91%** of the tax payers have less than 50 purchase invoices that need to be accepted

CHAIRMAN'S INITIALS

10

Issue2: Granularity of Invoice data

- Currently GSTR-1 expects taxpayer to upload invoice data summarized at a rate-level.
  - While rate-level summary reduces the "volume" of data submitted, it does not make it more *convenient* to tax payer. On the contrary, it introduces more "work" for taxpayers
  - The artificial rollup at rate-level complicates matching and acceptance to both GSP/ASPs and small tax payers

Recommendation

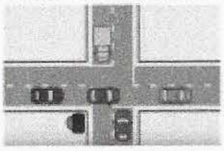
Invoice data be should accepted at Item Level along with an Item Number field and HSN code. Implementation in phases.

- Phase-1 only at invoice value with HSN level data in a separate table
- Phase-2 (after system stabilizes): At line item level with HSN code there thus removing the HSN table

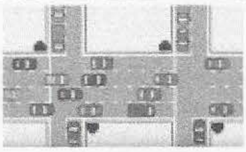
11

Issue3: Should there be separate periods for filing returns?

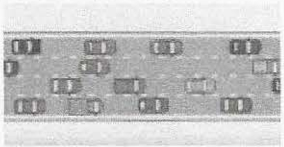
- Current Return filing (GSTR-1, GSTR-2, GSTR-1A, GSTR-6) is a workflow driven system.
- Multiple entities cannot simultaneously add/modify the same invoice data. It requires some kind of cut-off.
  - Each "cut-off" translates to a filing of return – GSTR-1, GSTR-2, GSTR-1A, GSTR-6
  - It is a system equivalent of an intersection on the road which causes coordination delays. An intersection free highway model on the other hand allows more people to accomplish more work



An intersection causes coordination delays



More the intersection, more the need for coordination

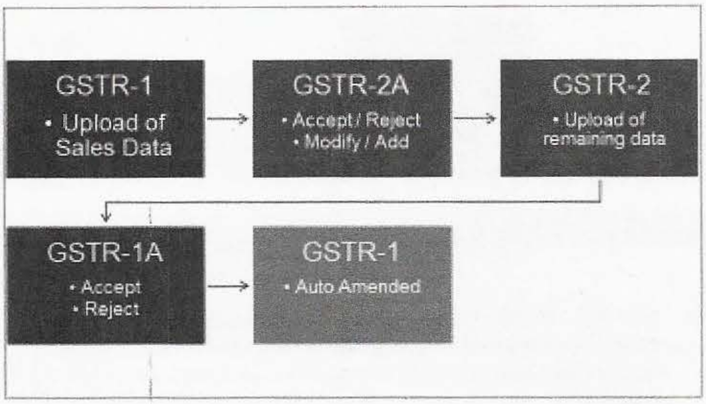


An intersection-free highway allows free flow of traffic

Recommendation: Not cut-Off. One way traffic

12

Workflow Driven Return



CHAIRMAN'S INITIALS

| 13

Benefits of one-way flow of Invoices

- Simplification of Process
- Establishes an incentive-aligned clear responsibility and accountability
  - Sellers need to upload invoices as soon as possible otherwise they will not get payment (tax component) from buyers.
  - Buyers need to accept and lock invoices else they cannot claim ITC. Otherwise will lead to increased working capital as more tax will need to be paid through cash
- Regular Upload / Acceptance (locking) significantly evens out the load on the system, thereby reducing spikes

| 14

Issue4: Number of Returns to be Filed

Recommendation

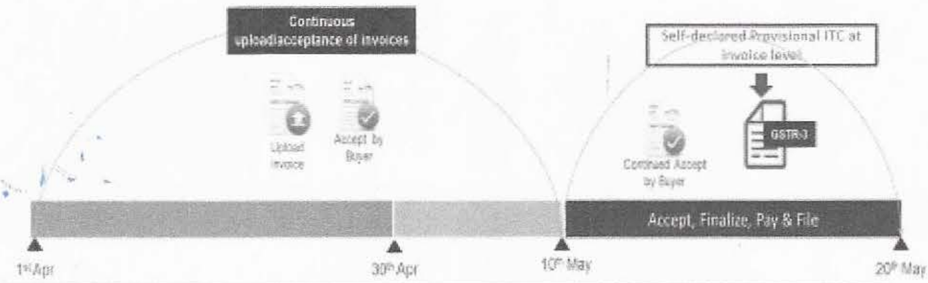
- **One return per period**

Two options to achieve this

- **Workflow driven**
  - Provisional Credit on the basis of Seller's Data + Buyer-declared additional Purchase details at Invoice level (**Option-1**)
- **Simultaneous Upload of Sales/Purchase data (System matching)**
  - Buyer-declared ITC by way of filing of Purchase details at Invoice level (**Option-2**)

| 15

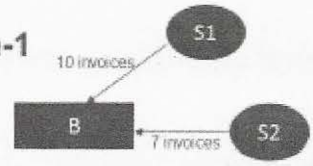
Option 1



- Regular invoice upload/acceptance with counter parties – No cut-offs
- Provisional ITC on basis of self-declaration at invoice level
  - Supplier needs to upload the missed invoice before specified period (1 or 2 months)
  - If supplier defaults, provisional ITC will be reversed – but without interest

CHAIRMAN'S INITIALS

Illustration of Option-1



Return of April

- Everyone uploads B2B sales invoices by 10th May (S1 uploaded 8 invoices and S2 uploaded 4 invoices)
- System drafts return (B2B part) based on B2B sales data on 11th
- Taxpayer B can add missing purchase invoices (2 from S1 and 3 from S2) and files return after adding B2C, exports etc.
- For Return of May, S1 adds 1 out of 2 invoices added by B, on 9th June. B gets credit of this invoice in May return in addition to his ITC of May.
- In June return, S2 adds 2 out of 3 invoices added by B. B gets the ITC for 2 invoices in addition of ITC of June.
- In July return filed in August, liability of 5 invoices added by B in his April return is added to his liability without interest. (He had already got ITC of 3 invoices. Thus actual reversal is of 2 invoices which were not added by the sellers.
- Simple to track, reversal is cleaner.

Illustration of Option-1

Return Filed in May		Return filed in June	Return filed in July	Added invoices reversed in Return filed in August	Total impact
Auto-drafted	Added by B	Added by S1	Added by S2		
8 out of 10	2 out of 10	1		-2	8+ 2+1-2= 9
4 out of 7	3 out of 10		2	-3	4 +3+2-3= 6

Option-1 Details

- Anytime upload of Invoice allowed (those uploaded after 10th go to next month return)
- Offline Tool with facility to enter sale data and ability to download auto-drafted data for comparison with purchase register.
- Offline utility will also upload missing invoices identified by the taxpayer along with other details like B2C sales, exports etc.
- System will then generate return and show liability
- With payment return will be filed
- All missing invoices get added back to liability of taxpayer after correction period gets over.
- No interest on the same.
- Those found gaming the system will be dealt with under law.
- Monthly Return for all. (Same periodicity)

CHAIRMAN'S INITIALS

Option 2 (Simultaneous upload of Sale and Purchase invoices)

- Taxpayers independently upload supply and purchase invoices which is matched by the system
- Different cut-off dates for different size of taxpayers
- Matching is done after last cut-off date (say 20th of next month) strictly based on criteria given in the law (no fuzzy logic matching)
- Mismatch report is shown to taxpayers and they are given time to resolve the mismatches
- Whatever is not reconciled is reversed after the period of reversal is over
- No interest is levied on the reversed amount
- Those found gaming the system (taking ITC which is getting reversed continuously) will be handled separately by tax officers

Option-2 Details

- One Return with sales (outward supply) and purchase (inward supply) annexures
- Anytime upload of Invoice allowed
- Offline Tool with facility to enter sale and purchase data. Based on annexures, Tool will generate Return part which can be filed separately, if required. Once data is fed in the offline tool, the relevant boxes in the return (in the offline tool itself) shall get populated. (There shall be option to feed B2C invoices also so that the tool can summarise B2C supplies also for the return).
- System will do matching on 20th of following month and generate mismatch report based on exact matches and show "Probable Match" for guidance of taxpayers.
- Continuous correction will be allowed and Matching S/W will be run everyday at night.

Option-2 Details

- Matching on GSTIN (seller); GSTN(Buyer), Invoice No; Invoice Date and Tax Amount
- Probable matches will be shown in case one parameter does not match and others match.
- Only one opportunity to file amendment of mismatched invoices. Taxpayer can save it many time after making corrections. Correction opportunity shall be available round the month.
- Interest on corrections (other than invoice number based mismatch) on monthly basis, as under done under Income Tax as keeping track of it at invoice level will be difficult
- Periodicity for filing of the return shall be monthly for all.

CHAIRMAN'S INITIALS

22

Experience from States which have implemented Invoice level data for Return with sale and purchase data

- Gujarat
    - Mismatch is generated on need basis (refund or assessment etc.)
    - Mismatch is not shown to taxpayers
    - Basically eye-ball matching to be done by Tax Officer to derive intelligence out of it.
    - No auto-reversal
- Andhra Pradesh
    - Take data at invoice level but use Counterparty (ledger) level data for mismatches
    - Taxpayer given three months to clear mismatches else claim is rejected.
    - No auto-reversal (Reversal thru notice)

23

Experience from States which have implemented Invoice level data for Return

- Maharashtra
    - Started with Counterparty (ledger) level data
    - Switched over to invoice level matching last year
    - Mismatch is generated and shown to taxpayer [data from both buyer and seller is shown for pair of buyer-seller sorted on date reported
    - No auto-reversal
    - ITC is given in case of invalid return and tax department goes after sellers
- Karnataka
    - Invoice level matching
    - Mismatch is shown to taxpayers and they are given time to resolve it
    - Matching S/W is run on close of return filing (after last date of filing) to generate mismatch which is shown to taxpayers. After that matching S/W is run everyday at night to clear all cases where corrections have been made.
    - Initially Karnataka Govt gave 9 months to taxpayers to make corrections
    - No auto-reversal

Comparison of the System Matching models

24

	Karnataka	Andhra Pradesh	Gujarat	Maharashtra
Filing of Return and Annexures	Delinked	Delinked	Delinked	Linked
Level of Filing	Invoice	Invoice	Invoice	Invoice
Matching Level	Invoice	Counter-party	Counter-party	Invoice
Correction Mechanism	Revised Return	Revised Return	Revised Return	Revised Return
Other Key Concepts	Matched Acceptable Unmatched	Taxpayer has 2 months to clear mismatch	No Mismatch report to taxpayer (Assessment only)	Counter-party data shown sorted on date
Mismatch Level	12% (without Probable Mismatch. With that 40%)	30%	25 to 30% (Ballpark figure)	Around 30%

- In all states, Invoice number mismatch constitutes 90% of mismatches
- 10% is on other factors
- **No auto reversal**

CHAIRMAN'S INITIALS

25

Comparison of Option-1 and 2

Workflow Driven (Option-1)	System Matching (Option-2)
Matching of auto drafted purchase is done by taxpayers with their purchase register	Matching is done by system but mismatched items are reconciled by the taxpayers by matching the data with Purchase register.
Number of returns to be filed: **one** but upload of outward supplies by 10th of next month has to be authenticated.	Number of returns to be filed: **one**
Workflow is involved	No workflow is involved
Auto drafted purchase data is to be compared with purchase register	Taxpayer has to match only data under mismatch category and probable match. However, mismatch on both sale as well as purchase data will be there. With high % of mismatch seen in states, the total volume of data to be reconciled will be same as that under Option-1

26

Comparison of Option-1 and 2

Workflow Driven (Option-1)	System Matching (Option-2)
Eliminates artificial mismatches introduced by system.	**Artificial mismatch is generated.**
Buyer is dependent of the supplier for upload of his purchase data which is sales data of counterparty.	**Buyer is not dependent on supplier to upload, However, he is dependent on supplier for correction.**
Mismatch percentage is estimated to be lower but there is no empirical evidence as such a model does not exist.	**Mismatch after many years in States is at 12% without Probable Match which if added takes the figure to 40%.** **This kind of mismatch will lead to huge workload on tax officers as they will be required to issue notices.** **Mismatch generation will at certain identified dates and can't be on the fly**
Opton-1 which is akin to current GSTR-1/2/3 and hence may be more appealing to large taxpayers having large number of invoices	**Option-2 may be more appealing to small and medium size taxpayers.**

27

Comparison of Option-1 and 2

- **Both options involve matching by taxpayers**. In Option-1 it is pre-filing and in case of Opion-2 it is post filing of Return.
- Optically Option-2 looks better as only one return has to be filed by each taxpayer.
- Data entry load becomes double in case of Option-2 compared to Option-1 (both sale and purchase has to be uploaded and corrections for both has to be done).
- No State has done reversal based on mismatch based on Option-2. There will be tendency to postpone it for longer period and then enforcing reversal will become difficult.
- Option-2 may be more appealing to small and medium size taxpayers. On the other hand Opton-1 may be more appealing to large taxpayers having large number of invoices

CHAIRMAN'S INITIALS

Discussion with Law Committee

- Option-1 was discussed with Law Committee on 4th Jan.
- Their suggestion was to study Option-2, which has been the model adopted by States under VAT. Some felt that under Option-1, current GSTR-2 and 3 were joined together and GSTR-1 was replaced by invoice upload (old wine in new bottle).
- Representatives of 4 States (Karnataka, AP, Maharashtra and Gujarat) were invited for discussion.

Discussion with Officers Committee

- Both Options were presented before the Committee on 11th Jan
- Officers' Committee was inclined towards Option-2

Rollout and Transition Plan

CHAIRMAN'S INITIALS

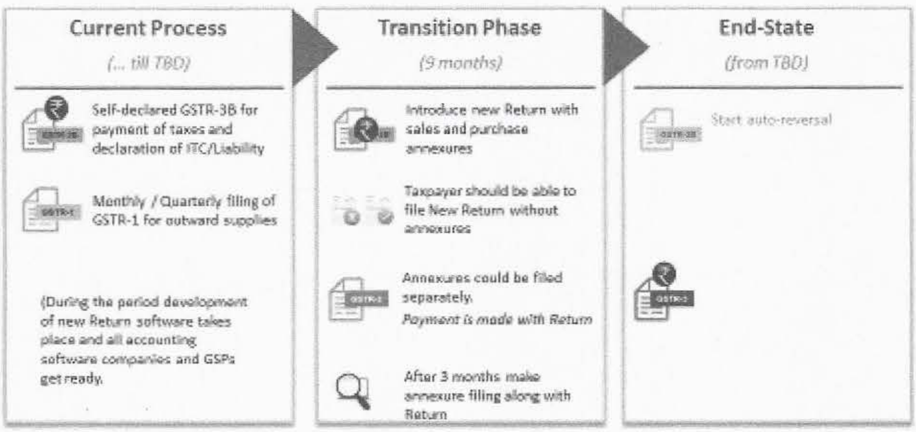
Rollout Recommendations

- Provide sufficient time to GSTN to develop the new Return form, Offline Tool, APIs etc. Provide sufficient time to enable eco-system to develop tools/applications for automated upload of sales and purchase invoices and rectification of mismatched invoices.
- Ensure tax collection is not impacted (reduced or delayed) because of the cut-over.
- Run chosen option without any auto reversal for 8 to 9 months so that trade/industry learn the system specially on how to correct entries to eliminate mismatches to adapt to the new model – understand counter-party behavior & data quality and implement corrective measures as required

Rollout Recommendations

- Tax officers to use data on mismatch for admin purposes in early stages when auto reversal is not there.
- Stabilize the system including enhancements based on user experience/industry feedback
- Invoice level data first. After system stabilizes, line item level data can be thought of.
- TDS/TCS may be postponed for one more year to give time to new system to stabilise.
- First TDS may be implemented and after that system gets stabilized, TCS should be implemented.

Proposed Gradual Transition Plan



CHAIRMAN'S INITIALS

Till new system becomes operational

- Reports on following will be generated to check reporting in GSTR-3B
  - Non-filer report
  - Outward supplies as per invoice upload (like that of GSTR-1 today) Vs GSTR3B outward liability
  - Inward supplies based on outward supplies of Counterparties (like current GSTR-2A) and ITC claimed under GSTR-3B

Channel Strategy

- Continue with the three channel model of Web, API and Offline
- Enhance support for Offline channel
  - All forms / invoice upload functions to be available through Excel based offline tools
  - Eliminate Web-based the Offline Utility. Use excel macros for validations and creation of JSON files for upload into the portal
  - Open Source Offline channel: Publish JSON file formats to enable 3rd parties to develop and distribute own tools
- Redesign Web Channel for ease of use
  - Wizard based interface which shows or hides sections of the forms based on the user profile
  - Continue with channel restrictions on number of invoices (<500). But enable invoice search & edit option of specific invoice irrespective of total number of invoices

CHAIRMAN'S INITIALS

Annexure 8

Compliance Simplification

18-Jan-2018

2

We have come a long way and agreed on number of items

- Need for comprehensive credit validation and Invoice level matching – rather than at counter-party level
- Common filing frequency for all tax payers (monthly)
- Delinking of Credit/Debit Notes with invoices in alignment with the trade practices
- Delayed introduction of TDS and TCS – suspended till stability is reached
- Simplification of Input Service Credit Distribution through credit-transfer instead of a Return

All that is left is to **synthesize the model for Credit Matching** combining best features of all available options.

3

Let us do this by establishing a core Principle...

- Core principle of any indirect taxation model has to be...

Input Tax Credit will be provided only on "matched" invoices

- By "matched" we mean legitimate invoices where the supplier has **admitted tax liability by uploading** the invoice on the portal
- This means either deny or automatically reverse credit on unmatched invoices

CHAIRMAN'S INITIALS

This principle is even more important in GST Regime

- Settlement of Integrated GST in case of inter-state transactions becomes a lot more **complex and harder to audit**
  - Transactions have to be settled and reversed and resettled on a continuous basis – perhaps at an invoice level
- **Benefits** of other related initiatives like **eWayBill will be diluted**. Fraudsters will hide under the cover of mismatch to circumvent provisions of EWB

Failure Criteria : There are some models that are doomed to fail

1. Any solution that **increases the burden on the taxpayer** to correct mismatches is guaranteed to fail
   - There will be severe resistance from the taxpayers to bear the additional burden
2. Any solution that **relies on tax official's intervention** to reduce the mismatch is also doomed to fail
   - Especially in the GST regime where there will division of administrative authority b/w Center & State
   - Introduces subjectivity of assessments & audits and potentially perceived as tools of harassment
3. Any solution that **permits higher levels of mismatch** in the first place will also fail
   - High levels of mismatch means there can be no automatic reversal. Paves way for failure causes 1 & 2 i.e. greater burden of correction and Tax official intervention

Let us examine the past models ...

VAT Model System Matching	GSTR 1→ 2A→ 2 →1A Model
• *Taxpayer independently upload supply and purchase invoices which is matched by the system* • *Taxpayer corrects the mismatches by either correcting the supply statement or purchase statement*	• *Supplier files GSTR-1 which is made available in GSTR-2A.* • *Buyer files GSTR-2 by accepting invoices.* • *Corrections and Additions are made available to supplier in GSTR-1A*

CHAIRMAN'S INITIALS

Comparison of the System Matching models

	Karnataka	Andhra Pradesh	Gujarat	Maharashtra
Filing method	Delinked	Delinked	Delinked	Linked
Level of Filing	Invoice	Invoice	Invoice	Invoice
Matching Level	Invoice	Counter-party	Counter-party	Counter-party
Correction Mechanism	Revised Return	Revised Return	No Correction	Revised Return
Other Key Concepts	Matched Acceptable Unmatched		No Mismatch report to taxpayer (Assessment only)	

- Different states have already tried the System Matching model in their VAT systems
- Mismatch was used to notify the taxpayer and the officials – but not started automatic reversal of input credit
- As a result the mismatch levels have remained in the range of 30-40%

What is the data telling us?

- While not all 30-40% are fraudulent – the high value **provides sufficient cover to fraudsters** to easily slip the fraudulent claims knowing fully well detection is going to be hard. (Needles in a hay-stack)
- System Matching Model has the risk of getting stuck in an unbreakable **degenerative cycle**:
  - The high level of initial mismatch will make automatic reversal of credits an unacceptable option
  - Without the threat of automatic reversal or liability, there is **little or no incentive** for taxpayers to correct the mismatches which will only increase the mismatch

Evidently, the VAT model of System matching without any auto-reversal and reliance on Tax Official intervention has not yet been successful to establish the core principle

Now let us take a look at the GSTR – 1-2A-2-1A model

- The model "attempted" to solve the system matching problems by introducing an acceptance workflow for invoice matching. As a principle – a step in the right direction.
- While GSTR-1 was reasonably successful, GSTR-2A and & 2 did not work as planned
  - While 27 Lakh Taxpayers (58% of eligible) filed GSTR2, majority were NIL return filers
  - From a invoice count perspective only 1.5 crore invoices went through the acceptance cycle as opposed to a 13.16 crore invoices (i.e. only 11%)
- *It has been presumed that comparing Supplier provided invoice with Purchase books was too much a burden. But is it?*

CHAIRMAN'S INITIALS

Comparing Supplier provided Invoice with own purchase books

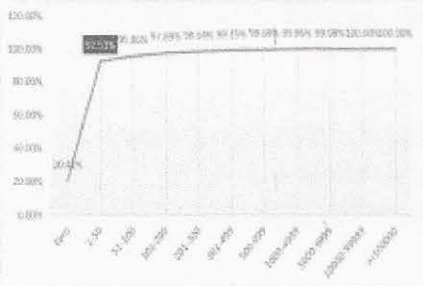
- Let's not forget...

> ***Every business large or small, automated or manual routinely compares Supplier invoice with the purchase books!***

– It is a necessary step **before releasing payment**. No business says – comparing is hard – so let me pay whatever supplier claims!

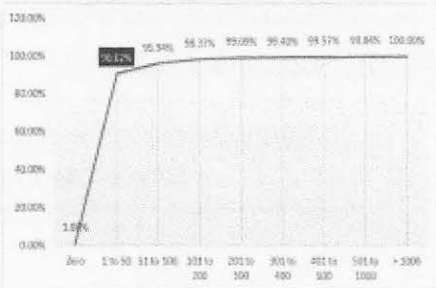
Data from GSTR1/2A shows that 91% of tax payer have fewer than 50 invoices to accept

Sales



- **93%** of the tax payers have less than 50 sales invoices that need to be uploaded

Purchase



- **91%** of the tax payers have less than 50 purchase invoices that need to be accepted

But then why was GSTR2 perceived as a burden?

- Comparing Supplier invoice with Purchase books **<u>all over again for tax credit claim purposes</u>** is a burden
- Comparing Supplier invoice that is **<u>not at the same granularity</u>** as their books is a burden
- Comparing & correcting Supplier invoice **<u>2 months after the transaction</u>** is a burden
- Comparing all Supplier invoices **<u>in a span of 5 days</u>** that too by a professional is a burden

CHAIRMAN'S INITIALS

| 13

In summary, GSTR-2 model was burdensome because...

- By modeling "Invoice Upload" and "Acceptance" as Tax "Returns" (GSTR-1 & GSTR-2), the model created a perception that there are 3 returns per month.
  - People perceived them as a tax function creating a dependence on a tax professional when upload & acceptance is patently a business reporting function
- Structure of forms was also too complex which required a tax professionals help
  - Concepts like Tax on Advance, its utilization to offset liability, separate reporting of different type of invoices made GSTR-1 & 2 look more like a return form than a statement
- Reporting of invoices at rate-level instead of line-item level created more work to the supplier
  - It also made matching and acceptance unacceptably tedious

| 14

What then is a Successful Model

- A successful model is one which achieves the agreed goal without the failure characteristics of increased tax payer burden or intervention of tax official.
- In other words one which...

...aligns with the natural business cycle of verification & payment of supplier invoices

| 15

Highlights of the proposed solution – Invoice Upload

- Suppliers "upload" sales invoices on the GST System which automatically calculates his/her liability. Invoice is also made available to Buyer for acceptance
- Key Contrasts from GSTR-1
  - It is simply an Invoice **"Upload" - not "filing"** of return
  - Invoice format and data granularity to exactly match the actual invoice submitted by supplier for payment viz. **Invoice Item Level** right from day one – not rolled up at tax rate or commodity levels
  - Upload happens on a **continuous basis**. It means the verification and acceptance coincides with the actual business transaction. Invoices uploaded after the 10th is automatically included in next return
  - Market forces will evolve a model where invoice is paid only after upload on GST System

CHAIRMAN'S INITIALS

[redacted]

| 16

Highlights of the proposed solution – Invoice Acceptance

- Buyer "accepts" supplier invoices on the GST System which automatically determines the input tax credit (ITC)
- Key Contrasts from GSTR-2 and pure System Matching Model
  - It is simply an Invoice **"acceptance" - not "filing"** of return. **Acceptance** can happen on **continuous basis** – not waiting for all the GSTR-1 to be filed.
  - In the case of pure System matching model the correction and acceptance will be at least **20-50 days after the transaction**
  - Invoice once accepted is "locked" cannot be modified by the supplier. Brings finality to the transaction
  - System to **provide robust tools** to facilitate smooth acceptance – including offline matching of supplier invoices with purchase books, auto-acceptance capabilities and improved support to GSP/ASPs for tighter integration with accounting packages.

[redacted]

| 17

Highlights of the proposed solution – Handling Missed Invoices

- We propose to eliminate concept of "Provisional Credit" – However Buyers can "notify" supplier through the system to upload any missed invoice – but cannot upload or modify it themselves
- Key Contrasts from GSTR-2
  - Buyer is simply declaring the invoices missed by his/her supplier
  - System will notify the supplier – reminding them to upload the same
  - When supplier uploads such invoice, System will match and remove it from the missed invoice list
  - Missed invoice statistics will be retained and **used to compute performance scores** of the tax payers

[redacted]

| 18

Highlights of the proposed solution – Handling non-Payment

- In the proposed model, there will be no "Mismatch" in the traditional sense – hence no question of reversal. But there is still the possibility of non-payment of taxes by the supplier
- The current law penalizes the buyer by denying or reversing credit – but this is widely perceived as unfair to buyer. We understand courts have also ruled against it
- It is therefore recommended that the new law...
  - Re-Define the criteria of a legitimate invoice as one where Supplier has admitted liability by uploading into the portal
  - Makes provisions to **recover dues from the Supplier** rather than penalizing buyer

CHAIRMAN'S INITIALS

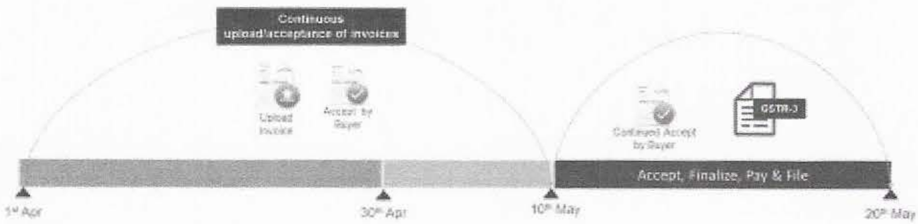
19

Highlights of the proposed solution – Channels of reporting

- GST System will offer multiple channels for upload and acceptance of invoices and filing of returns
  - As seen in the invoice distribution, majority 91% of tax payers have fewer than 50 invoices in a month – that is hardly 2-3 invoices per day. Small taxpayers with no automated accounting systems can view and accept pending invoices **directly on the portal**
  - Small-Medium Taxpayers with some level of automation can use **Excel based offline tool** to download, compare and accept pending invoices
  - Large tax payers with fully automated accounting will do the reconciliation and acceptance directly in their accounting system and upload results directly **through APIs**

20

Proposed Solution



- Continuous invoice upload/acceptance with counter parties – No cut-offs
- Remove concept of provisional ITC
  - No uploading of missed invoice or modify supplier invoice.
  - Consequently, no mismatch or ITC reversals

21

We further propose a Gradual Transition so that it ...

- Eliminate risk of adoption issues impacting tax collection
- Provide sufficient time to stabilize the system including enhancements to improvements to user experience based on industry feedback
- Provide sufficient time to taxpayers to adapt to the new model – understand counter-party behavior & data quality and implement corrective measures as required
- Provide sufficient time to enable eco-system to develop tools/applications for automated upload of sales invoice and reconciliation of purchase invoice

CHAIRMAN'S INITIALS

Gradual Transition to the New Model

Current Process	Transition Phase A	Transition Phase - B	End-State
Self-declared GSTR-3B for payment of taxes and declaration of ITC/Liability	Continue with self-declared GSTR-3B for payment of taxes	Continue with self-declared GSTR-3B for payment of taxes	Discontinue GSTR-3B and shift to GSTR-3
Monthly / Quarterly filing of GSTR-1 for outward supplies	Replace GSTR1 with Invoice upload	Enable invoice acceptance feature which calculates ITC	Continue with invoice upload/acceptance features
		Introduce system generated GSTR-3 as a read-only **declaration.**	Enable filing of system generated GSTR-3 as a Return including payment capabilities
	3B vs. Liability comparison report	3B vs. 3 comparison report (ITC compared will include missed invoices)	

Key Benefits of the proposed model

- **Simplicity:** Dramatically simplifies the process and reduces burden
  - As established earlier, every business routinely compares supplier invoices with their purchase books before release of payment. This model simply integrates with this natural business process
  - Compliance is as simple as "reporting" their business transaction regularly and making payment against a system generated return
  - In contrast, a pure System matching model with 30-40% mismatch actually increases the burden – comparing & correcting **stale transactions** is **lot harder** than doing it as part of business cycle

Key Benefits of the proposed model

- **Incentive Aligned :** Natural alignment of incentives to both supplier and buyer
  - Supplier has to report invoices on-time – otherwise will not get paid or end-up paying interest
  - Buyer has to accept invoices on-time – otherwise will not get his/her input credit

CHAIRMAN'S INITIALS

Key Benefits of the proposed model

- **High Data Quality:** Cleaner data with low level of initial "mismatch"
  - As the model integrates with the natural business process between supplier and buyer, one can expect significant improvement in data quality
  - Experience from VAT shows that majority mismatch is due to difference in Invoice No. and Date. This happens due to dual version of same data flowing from both parties. Having a single version of data will reduce initial mismatch levels to a great extent
  - Since incentives are aligned to business interest, there will be greater focus to upload correct data

In conclusion...

- We must agree on the core principle of...

Input Tax Credit will be provided only on "matched" invoices

- Any model that increases tax payer burden, or relies on tax officer intervention is likely to fail.
- A successful model is one which aligns with the natural business process and not make Tax return preparation a separate function
- The proposed model will result in lower compliance burden to the tax payer, higher revenue collection and reduced administrative burden to the officials

CHAIRMAN'S INITIALS

Annexure 9

Terms of reference of the Committee

- To evolve a definition of handicraft goods based on its way of manufacture and cultural and heritage linkages
- To identify the goods under different HSN Codes which shall be considered as handicrafts
- To identify specific issues of handicraft items and suggest possible solutions.

2

CHAIRMAN'S INITIALS

TOR 1-Definition of handicrafts

- Given the wide diversity of handicraft goods, the definition should be sufficiently elucidative, while avoiding over or under inclusion
- The definitions used by UNESCO and other national as well as international bodies were analyzed
- The committee utilized Observations of Hon'ble Supreme Court on handicraft
- Committee felt that three elements must be included
  - ✓ Predominant use of hands,
  - ✓ sufficient artistic and traditional elements, and
  - ✓ distinct output from machine made goods.

3

TOR 1-Definition of handicrafts

After several iterations, the committee arrived at the following definition:

"Handicrafts are goods predominantly made by hand even though some tools or machinery may also have been used in the process; such goods are graced with visual appeal in the nature of ornamentation or in-lay work or some similar work of a substantial nature; possess distinctive features, which can be aesthetic, artistic, ethnic or culturally attached and are amply different from mechanically produced goods of similar utility"

4

CHAIRMAN'S INITIALS

TOR 2- Identification of HSN for handicrafts

- A definition however carefully drafted, may not be able to precisely denote all handicraft items.
- Therefore, the definition must be qualified by a list of items.
- A starting list was obtained from the Directorate of Handicrafts.
- This list was circulated to States inviting suggestions.
- The list of handicraft was thus prepared of 40 HSN Codes by
  - ✓ Inclusions of suggestions in existing classifications
  - ✓ Addition of specific named handicrafts
- The Committee also felt that differential treatment for handicrafts (rates etc) could be restricted to specified distribution channel.

5

S. No	Heading	Item	Existing Rate
1	3406	Handcrafted candles	12
2	420222/29/3110/90 /420232/39	Handbags including pouches and purses; jewellery box	12/18
3	44140000	Wooden frames for painting, photographs, mirrors etc	18
4	4416, 44219990	Carved wood products, art ware/decorative articles of wood (including inlay work, casks, barrel, vats)	12
5	4420	Statuettes & other ornaments of wood, wood marquetry & inlaid, jewellery box, wood lathe and lacquer work [including lathe and lacquer work, ambadi sisal craft]	12
6	45039090/ 450490	Art ware of cork [including articles of sholapith]	18
7	4601 and 4602	Mats, matting and screens of vegetable material, basketwork, wickerwork and other articles of vegetable materials or other plaiting material, articles of loofah (including of bamboo, rattan, canes and other natural fibres, dry flowers (naturally dried), articles thereof, ringal, raambaan article, shola items, Kouna/chumthang (water reeds) crafts, articles of Water hyacinth, korai mat]	5/12

6

CHAIRMAN'S INITIALS

S. No	Heading	Item	Existing Rate
8	4823	Articles made of paper mache	5
9	5607, 5609	Coir articles	5
10	57	Handmade carpets and other handmade textile floor coverings (including namda/gabba)	12
11	58043000	Handmade lace	12
12	5805	Hand-woven tapestries	12
13	580810	Hand-made braids and ornamental trimming in the piece	12
14	5810	Embroidery in the piece, in strips/in motifs	5
15	6117, 6214	Handmade/hand embroidered shawls	5/12
16	64032040	Kolhapuri chappals and similar footwear [ladhaki shoes]	5/18
17	6404 19 90	Footwear with uppers of jute textile material	5/18
18	6802	Carved stone products (e.g., statues, statuettes, figures of animals, writing sets, ashtray, candle stand)	12
19	68159990	Stone art ware, stone inlay work	18

S. No	Heading	Item	Existing Rate
20	69120010/20, 69120040	Tableware and kitchenware of clay and terracotta, other clay articles	12/0
21	69139000	Statuettes & other ornamental ceramic articles (incl blue potteries)	12
22	70099200	Ornamental framed mirrors	18
23	701810	Bangles, beads and small ware	0/5
24	70189010	Glass statues	18
25	70200090	Glass art ware [incl. pots, jars, votive, cask, cake cover, tulip bottle, vase]	12/18
26	71131110	Silver filigree work	3
27	7117	Handmade imitation jewellery (including natural seeds, beads jewelry, cardamom garland)	3
28	7326 90 99	Art ware of iron	18
29	741999	Art ware of brass, copper/copper alloys, electro plated nickel/silver	18
30	7616 99 90	Aluminium art ware	18
31	8306	Bells, gongs and like, non-electric, of base metal; statuettes, and other ornaments, of base metal; photograph, picture or similar frames, of base metal; mirrors of base metal; (including Bidriware, [illegible]	12

CHAIRMAN'S INITIALS

S. No	Heading	Item	Existing Rate
32	92	Dhol, damau, ransingha, jhanj, taal [handmade musical instruments]	0
33	940150, 940380	Furniture of bamboo, rattan and cane	12
34	940510	Handcrafted lamps (including panchloga lamp)	12/18
35	9503	Dolls or other toys made of wood or metal or textile material [incl wooden toys of sawantwadi, Channapatna toys, Thanjavur doll)	12
36	9601	Worked articles of ivory, bone, tortoise shell, horn, antlers, coral, mother of pearl, seashell other animal carving material	12
37	9602	Worked vegetable or mineral carving, articles thereof, articles of wax, of stearin, of natural gums or natural resins or of modelling pastes etc, (including articles of lac, shellac)	18
38	9701	Hand paintings drawings and pastels (incl Mysore painting, Rajasthan painting, Tanjore painting, Palm leaf painting etc)	12
39	9703	Original sculptures and statuary, in metal, stone or any other material	12
40	Others (Misc)	Gamocha; Pasoli; Ganjifa card, (heading 9504)	

9

Handmade goods- Committee's observation

- Certain handmade goods do not fall in the category of handicrafts
- Most of the items that are suggested for concession by Karnataka attract either Nil or 5% GST rate. Only a few items attract 12 or 18%.
- The Committee not mandated to make any recommendation on rates.
- The list provided by Karnataka is wide. It contains items which are also produced mechanically in large quantity yielding significant revenue
- Any differential rate for such handmade goods without adequate safeguards would be prone to misuse.
- One possible way could be to treat particular handmade products produced and marketed exclusively by specified federations/self-help groups on a different pedestal.

10

CHAIRMAN'S INITIALS

TOR 3- Specific issues of handicrafts sector

- The Committee examined issues being faced by the handicrafts sector.
- Of pertinent note were the issues relating to drawback, rates and market access of handicrafts.
- These issues are being already looked into by other committees, namely.
  - ✓ the rates by the Fitment Committee.
  - ✓ the drawback rates by the Drawback Committee
  - ✓ The export related issues by the Export committee
- Thus, it was felt that not specifically being a part of the handicraft committees mandate, no recommendations would be made on these issue

11

Proposals or consideration of the GST Council

- Approve the definition of 'handicrafts';
- Approve the list of handicrafts (along with HSN) as recommended by the Committee;
- Take a decision as regards the issues identified by the Committee for referring to the respective Committees.

12

CHAIRMAN'S INITIALS