***India***

## India Postpones Passage of Goods Tax Over Political Gridlock

*By Siri Bulusu*

The Indian government's planned April 1 implementation of the nation's first-ever goods and services tax is in peril after action on three legislative measures was delayed.

The three bills were postponed at the Dec. 16 conclusion of the winter session of parliament due to unresolved administration issues and economic anxiety over demonetization. The delays make meeting the April deadline difficult, but not impossible.

**Snapshot**

- Administrative control remains contentious issue between federal government, states
- Lack of GST clarity puts pressure on manufacturing and services industries

State finance ministers fear that a drop in gross domestic product, caused by decreased consumption and slow delivery of new currency notes after demonetization, will prevent the federal government from keeping its promise to compensate states for lost revenue caused by the switch to a GST.

The three GST bills awaiting approval by parliament are:

- the Central Goods and Services Tax Bill, 2016, which proposes legislation on taxes levied on goods and services sold within a state;
- the Integrated Goods and Services Tax Bill, 2016, which concerns legislation on taxes levied on goods and services sold across state borders; and
- the Goods and Services Tax (Compensation for Loss of Revenue) Bill, 2016, which sets out legislation on compensation to states for loss of tax revenue for five years following implementation of GST.

Additional disagreement over administrative control of taxes has caused parliament to delay passage of of the three GST bills to the budget session of parliament starting at the end of February.

“There is doubt whether India can absorb two disruptive economic measures,” Mumbai-based chartered accountant Vispi T. Patel told Bloomberg BNA Dec. 19. He questioned how the central government will “be able to hold up its promise” to provide the 500 billion rupees ($7.4 billion) to the states for lost revenue caused by GST if GDP comes down.

Patel said there is a “tug-of-war” between the states and the federal government regarding details of sole administrative control over taxpayers with annual turnover of less than 15 million rupees, with neither party showing signs of relenting.

**Territory War**

“GST has not failed, it's been postponed,” Sachin Menon, head of Indirect Tax for KPMG in Mumbai, told Bloomberg BNA Dec. 19.

“It's more politics than to do with the tax itself. The main issue is the territory war over who will manage the taxpayer base because both sides want the bigger piece of the cake.”

Menon said control over taxpayers with an annual turnover of less than 15 million rupees is a “power game” that can't continue much longer because the current tax laws will expire in September.

The GST Council will meet again Dec. 22 and has yet to finalize the model GST law that will be presented before parliament.

According to Menon, because no dramatic changes are expected between the previously released model GST law drafts and the final version, some multinational corporations have already started to plan their transactions under the new tax regime.

He said the manufacturing and services industries would require more clarity on how to manage warehouses and transactions across many states.

The most recent session of parliament was the least productive in 15 years. Only two bills were passed, including an amendment to the income tax law that allows taxpayers to convert large amounts of undisclosed cash into "white money" that becomes part of the formal economy.

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