



Minutes of the 29th GST Council Meeting held on 04th August, 2018

The twenty-ninth Meeting of the GST Council (hereinafter referred to as 'the Council') was held on 4th August 2018 at Vigyan Bhawan, New Delhi under the Chairpersonship of the Hon'ble Union Finance Minister, Shri Piyush Goyal (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 and the Goods and Services Tax Network (GSTN) who attended the meeting is at **Annexure 2**.

2. The following agenda items were listed for discussion in the 29th Meeting of the Council:

1. Confirmation of the Minutes of 28th GST Council Meeting held on 21st July, 2018.
2. Discussion to address issues and concerns of Micro, Small & Medium Enterprises (MSME) in GST regime.
3. Incentivising Digital Payments in GST Regime.
4. Any other agenda item with the permission of the Chairperson.
5. Date of the next meeting of the GST Council.

Preliminary discussion

3. The Hon'ble Chairperson extended a warm welcome to all the Hon'ble Members of the Council and the officers. He noted with delight that this Meeting had a better presence of the Hon'ble Members as compared to the last meeting and stated that he looked forward to the valuable contribution of all the Hon'ble Members during the meeting. He observed that earlier the only forum in which issues relating to Micro, Small and Medium Enterprises (MSME) could be discussed was Niti Aayog, and its earlier avatar, the Planning Commission and this was the first time, a focussed meeting was being organised on an extremely important subject of MSME.

3.1. The Hon'ble Chairperson recalled that during informal discussion with the Hon'ble Council Members last time, many of them, like those from Bihar, Punjab, Delhi, Haryana and Puducherry had suggested to have one meeting of the Council for a focussed discussion on many concerns of the MSME Sector. Subsequently the Council decided to convene a special meeting within two weeks for the MSME sector. He observed that the MSME sector with very small investments made very significant contribution and provided livelihood to millions of people across the country. He noted that it was heartening to see that the Council was collectively discussing the issues and concerns faced by the MSME sector as raised by almost all the Hon'ble Members. He further stated that the meeting provided an opportunity to consider how to draw a roadmap of going forward; to make this as an instrument to further the cause of promoting the MSME sector; to ensure orderly growth of MSME sector; and how to help the MSME sector in creation of more jobs. He observed that if there was a need, the Council could also look at other aspects like bank finance and any other measure, which can


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promote the growth of the MSME sector. He observed that if India had to become a manufacturing hub, while the big industries had a particular role to play, they also needed a support ecosystem that the MSME sector gives. He observed that 30 to 40 years back, India followed an industrial policy of setting up industries in backward areas by way of licensing but in today's liberalised atmosphere, it may not be possible for the Government to direct somebody to set up industries in a particular area. He further observed that the efforts made in the last 30-40 years for promoting industries in remote areas had helped in creating an ecosystem around those industries where millions of people worked indirectly and created small scale and ancillary industries etc. However, in last few years, in a liberalised atmosphere, the government had let industries choose suitable location for their establishment and in this process, some parts of the country had remained alienated from the development process and they had not been able to see that kind of economic growth in the MSME sector. The Hon'ble Chairperson further stated that some figures indicated that there are approximately 5 crore MSME units in the country in which approximately 12 crore people work. Therefore, the multiplier effect of the MSME is hugely important for the national economy and needs to be recognised.

3.2. The Hon'ble Chairperson observed that largely there was a good acceptance by the public of the decisions taken during the last Meeting of the Council. Feedback from the media and small industries was very positive. He informed that before this Meeting of the Council, on 2nd August 2018, he, along with his team of Central Government officers, had interacted on video conference from 12 locations with stakeholders representing Composition business, small traders, manufacturers and job workers. Generally, they all unanimously welcomed GST and wanted to be part of the new indirect taxation system.

3.3. The Hon'ble Chairperson thanked all the States for sending the representations of the industries from their States which were tabulated and circulated before the Council meeting. He observed that it was a very good collaborative effort of the States by which initially 146 suggestions were received and then some more were received later. With these words, he once again welcomed the Hon'ble Members of the Council and then requested Dr. Hasmukh Adhia, Union Finance Secretary and Secretary to the Council (hereinafter referred to as the Secretary) to take up discussion on the Agenda items.

3.4. The Secretary invited Shri Shashank Priya, Joint Secretary, GST Council to brief the Council regarding various volumes of the Agenda notes circulated for the Meeting to facilitate the ensuing discussion. The Joint Secretary, GST Council informed that altogether four volumes of Agenda notes had been circulated. Volume-1 of the Agenda note contained Agenda Item 1 viz. Confirmation of the Minutes of the 28th GST Council meeting; Volume-2 contained compilation of issues and concerns of MSME received from the Tax administrations of the States and the Central Government as well as other stakeholders; Volume-3 was an Addendum to Volume-2 which contained suggestions received from a few States viz. Delhi, Gujarat, some CBIC Zones and suggestions from Federation of Indian Micro, Small and Medium Enterprises (FISME) received after circulation of Volume-2; Volume-4 contained the Agenda note on Agenda Item 3 viz. Incentivising Digital Payments in GST Regime and Agenda 4 was an additional Agenda placed with the permission of the Hon'ble Chairperson notifying due dates for GSTR-1, GSTR-2, GSTR-3 and GSTR-3B. He further informed that as was discussed during the last Council Meeting, the report of the Law Review Committee (LRC) as well as an analysis of the proposals contained in the report of

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the LRC was circulated to the States and copies of these two documents were also placed today before the Hon'ble Members. After this preliminary introduction, the Secretary commenced discussion on the Agenda items.

Discussion on Agenda items

Agenda Item 1: Confirmation of the Minutes of 28th GST Council Meeting held on 28 July, 2018

4. The Secretary stated that written comments had been received from the States of Gujarat and Rajasthan for amendments in the draft Minutes of the last Council meeting (hereinafter referred to as the Minutes). He requested Shri S. Ramesh, Chairman, CBIC to brief the Council regarding the suggested changes.

4.1. The Chairman, CBIC informed that the Commissioner of Commercial Tax (CCT), Gujarat had sent a written request to make five changes to the Minutes. The first proposed change was in paragraph 18.15 of the Minutes where CCT, Gujarat had requested to replace the presently recorded version ("Dr. P. D. Vaghela, CCT, Gujarat stated that this option was also examined by the Law Committee earlier and that this could possibly be implemented by allowing credit to the purchaser.") with the following version: 'Dr. P. D. Vaghela, CCT, Gujarat stated that this option was also examined by the Law Committee earlier but was found not feasible as the seller would be required to claim refund. However, this could again be examined by the Law Committee.' The Council agreed to record the proposed revised version in the Minutes.

4.2. The second suggested change was in paragraph 20 (xiv) of the Minutes where CCT, Gujarat had requested to replace the presently recorded version ("**Nicotine Gum:** The Hon'ble Deputy Chief Minister of Gujarat stated that to quit smoking habit, Nicotine Polacrilex Gum is used and the present rate of tax on this item was 18% which should be reduced. The Hon'ble Chairperson stated that this may be examined by the Fitment Committee. The Council agreed to this suggestion.") with the following version: - '**Nicotine Gum:** The Hon'ble Deputy Chief Minister of Gujarat stated that to quit smoking habit, Nicotine Polacrilex Gum is used and the present rate of tax on this item was 18% which should be reduced. He added that these products are like medicines and its rate should be reduced to 12%. The Secretary suggested that it may be referred to the Fitment Committee for further discussion. The CCT, Gujarat stated that the Fitment Committee had discussed this proposal and rejected it. The Joint Secretary, TRU-II stated that this product could not be differentiated from regular chewing gum. The Secretary stated that technical specification could be given for this product based on percentage of nicotine content and then rate reduction could be considered. He suggested that the Fitment Committee could consider this issue afresh on this basis. The Council agreed to this suggestion.' The Council agreed to record the proposed revised version in the Minutes.

4.3. The third proposed change was in paragraph 22 (iii) under Annexure III at page 36 of the Minutes where the presently recorded version of the CCT, Gujarat ("CCT, Gujarat stated that this issue could also be addressed by putting renting services by Panchayats and Municipalities under reverse charge. However, if a Municipality rented a property to a non-registered person, no tax would be payable in this situation.") was proposed to be replaced with the following: 'CCT, Gujarat stated that as far as renting of property was concerned, it was already under reverse charge mechanism in case of supply of services to the registered person.'

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In case such turnover of renting of property including any other commercial activities not covered by Article 243W of the Constitution is more than Rs. 20 Lakh, the Municipality will be required to take registration. At present, even if such income is less than Rs. 20 lakh and as activities undertaken as part of Article 243W of the Constitution is not declared as 'no supply', turnover of such activities is included in the total turnover and Municipalities are required to take registration even when their revenue from renting of property and other commercial activities are less than Rs. 20 lakh. If this proposal is accepted, Municipalities are put at par with Panchayats.' The Council agreed to record the proposed revised version in the Minutes.

4.4. The fourth proposed change was at Sl. No. 101 at page no. 37 of the Minutes where CCT, Gujarat had requested to replace the presently recorded version ("The CCT, Gujarat requested that this issue should be considered sympathetically in the interest of export. The Secretary stated that giving a retrospective amendment would be difficult.") with the following: 'The CCT, Gujarat requested that this issue should be considered sympathetically in the interest of export. The Secretary stated that there were a lot of such interim issues for retrospective amendment which would need to be examined. The CCT, Gujarat suggested that this issue could also be addressed through the Removal of Difficulties Provision under the GST Law. The Secretary observed that it would need to be examined further. The Council agreed to this suggestion.' The Council agreed to record the proposed revised version in the Minutes.

4.5. The fifth change proposed was in paragraph 35.4 of the Minutes where CCT, Gujarat had requested to replace the presently recorded version ("CCT, Gujarat stated that it was a good proposal to do away with permit system.") with the following: 'The CCT, Gujarat stated that state road permit and national permit system should be done away with and loss in revenue due to abolition of permit system could be taken care of by appropriately raising registration charges, etc.' The Council agreed to record the proposed revised version in the Minutes.

4.6. The Chairman, CBIC informed that CCT, Rajasthan had sent a written communication stating that after the version of the Hon'ble Minister from Goa recorded in paragraph 22(ii) of the Minutes, ("The Hon'ble Minister from Goa stated that at least the cap of room rent of Rs.7500 and above per night for applying 28% tax rate should be increased to Rs.10,000 per night.") the following should be added: 'The Hon'ble Minister from Rajasthan stated that they supported the stand of the Hon'ble Minister from Goa of applying 28% tax rate on room rent above Rs.10,000 only.' The Council agreed to add this version of the Hon'ble Minister from Rajasthan in paragraph 22(ii) of the Minutes.

4.7. Dr. T. V. Somanathan, CCT, Tamil Nadu suggested a correction in the 3rd sentence of paragraph 33.12 of the Minutes. He stated that it appeared from the Minutes that the suggestion for formation of a Committee of officers came from CCT, Tamil Nadu, whereas it had in fact come from the Hon'ble Chairperson. He, therefore, suggested to replace the words "He further stated..." in the 3rd sentence of paragraph 33.12 of the Minutes with the following: "The Hon'ble Chairperson stated..." The Council agreed to make change in the 3rd sentence of paragraph 33.12. of the Minutes as suggested by the CCT, Tamil Nadu.

4.8. The Secretary informed that Dr. A.B. Pandey, Chairman, GSTN wanted to raise a point regarding the proposed date for implementation of the new return format from 1st January 2019 and invited the Chairman, GSTN to make his comments. The Chairman, GSTN pointed out that in Paragraph 19 (vii) of the Minutes, it was recorded that the new return format would be implemented from 1st January 2019 on best effort basis. In this regard, he pointed out that in

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paragraph 18.10. of the Minutes, it was recorded that on an enquiry by the Hon'ble Chairperson regarding time taken for development of software, CEO, GSTN had informed that they would need about six-month time to develop the software after specifications were frozen. He stated that the return formats were presently in public domain from 1st August 2018 and one-month time period was given for comments and feedback. If the return format was finalized by around 15th September 2018, GSTN would need at least six months, i.e. till mid-February 2019, to prepare the software. He stated that as this would be middle of the quarter, his proposal was to implement the new return format from 1st April 2019. He informed that he had consulted Shri Nandan Nilekani, non-executive Chairman, Infosys who had also suggested to implement the new return format from 1st April 2019. He noted that in the Minutes, it was recorded that implementation date of 1st January 2019 was on best effort basis. He stated that one should also be prepared to do some trial run for filing of return in the new format, as also suggested by the Hon'ble Deputy Chief Minister of Bihar. He further stated that such trial could commence by mid-February 2019 but the new return should be finally implemented from 1st April 2019 so that one did not run into some difficulties like last year.

4.9. The Secretary stated that the new return was very crucial for revenue mobilisation. Presently, due to gaps in return data, computer analytics was incomplete and this gap needed to be bridged at the earliest. In this view, the new return format needed to be implemented as fast as possible. He stated that the return could be attempted to be implemented on best effort basis from 1st January 2019 and if at that time, deadline appeared to be difficult to achieve, the due date could be postponed to 1st April 2019. He stated that he had also discussed this issue with Shri Nandan Nilekani who had informed that work for 30% of the new return format could be started right away for which mandate could be given immediately as these were non-changeable. As regards the remaining 70% work, the new return design would need to be frozen by 1st week of September 2018 and five-month time would be needed from 1st week of September 2018 to complete the software development. He stated that the time frame could be worked out with GSTN separately. He also stated that one or two months' time could be given to the trade to try out the new return format and then to finally implement it. He stated that the time line of 1st January 2019 was indicated to expedite the development of software for the new return. The Council took note of this discussion.

4.10. The second issue raised by the Chairman, GSTN was in respect of paragraph 18.7 of the Minutes. He pointed out that it was recorded that one exit option would be given to a taxpayer to switch over from filing monthly return to quarterly return and *vice versa* at the beginning of any quarter. He stated that this would lead to complications in the software and suggested that the switch over from monthly return to quarterly return and *vice versa* should be allowed only once, at the beginning of the financial year. The Council agreed to this suggestion.

4.11. Shri Mauvin Godinho, Hon'ble Minister from Goa suggested that while recording the version of a Minister in the Minutes, his/her name should also be mentioned as sometimes stakeholders needed to see and confirm that their concerns had been raised by their Minister in the Council. Shri Manpreet Singh Badal, the Hon'ble Finance Minister from Punjab also supported this suggestion. The Council took note of the suggestion.

4.12. Shri V. Narayanasamy, Hon'ble Chief Minister of Puducherry stated that during the last Meeting of the Council, there was a discussion to increase the annual turnover threshold for filing quarterly return from Rs.1.5 crore to Rs.5 crore. He stated that he had objected to that

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proposal and subsequently he had gone out of the meeting for some time to meet the Hon'ble Union Home Minister. He recalled that the proposal to allow quarterly filing of return to taxpayers having annual turnover up to Rs.5 crore was objected to by other States namely Odisha and Kerala also. He stated that in paragraph 18.14 of the Minutes, it was also recorded that the issue was referred to the Law Committee to examine how to ensure that taxpayers did not pay less amount in the first two instalments of the quarter. In view of the above, he requested the Hon'ble Chairperson to accept this proposal as final, only when all States agreed to it. He added that practical difficulties of small States should be taken into account while arriving at such a decision.

4.13. The Hon'ble Chairperson stated that during the last Council Meeting, Hon'ble Minister from Kerala had initially objected to this proposal but eventually, he had agreed to it when it was pointed out that there were only 26,000 taxpayers in his State with annual turnover between Rs. 1.5 crore and Rs.5 crore. He added that Puducherry would have about 1,000 taxpayers with annual turnover between Rs.1.5 crore and Rs.5 crore. Odisha also agreed when the final decision was taken as this was an investor friendly measure. He added that there would be no revenue loss by reducing the frequency of return for such taxpayers to quarterly basis. He stated that the Law Committee had been mandated to examine whether monthly payment of tax should be one-third of the amount for the quarter, or what could be the formulation to ensure that there is no revenue loss and whether interest could be charged for not paying at least one-third amount in each of the first two months of the said quarter. He stated that the number of taxpayers with annual turnover between Rs.1.5 crore and Rs.5 crore was very small nationally. He observed that it was a measure of trade facilitation and would encourage people to show their actual turnover. He further stated that this would increase overall compliance and would go down very well in Puducherry too as a trade friendly measure.

4.14. Dr. Amit Mitra, Hon'ble Finance Minister from West Bengal stated that he could not attend the last meeting of the Council but he had expressed support for reduction in rates of tax on goods attracting tax at the rate of 28%. He recalled that he had written a letter dated 30th October 2017 in which he had suggested that except for sin and luxury goods, tax on other goods presently charged at 28%, should be reduced to 18%. He stated that rate of tax on several components of building materials like paint, varnish, putty, glazier, etc. was reduced from 28% to 18% but rate of tax on cement had not been lowered. He stated that cement had a very big use in low cost housing and rate reduction would help this sector. He added that reduction of tax rate on cement would also have a significant Keynesian multiplier impact in the range of approximately 3 to 4 times because cement went into every aspect of the building construction. He stated that since cement is neither a luxury nor a sin good, the rate of tax on cement should be reduced even if this had revenue implications, as there was revenue implication in regard to reduction in rates of tax on other goods as well. The Hon'ble Chairperson stated that the Council could deliberate on this issue.

4.15. The Hon'ble Chairperson made an observation on a macro issue of capturing full value for tax which he said could be raised simultaneously and then cement could be looked at in that context. He stated that the goods coming out of the factory were being charged to tax at the requisite rate and in the instant case (cement) at the rate of 28%, on the value at which they came out of the factory. He observed that it may be possible to capture the additional value addition and associated cost at one more level, say the wholesale level, as it was still organised to some extent. However, after it got to retail level, particularly to retailers enjoying Rs. 20 lakh

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threshold exemption, or some exemption scheme etc. and also to possibly non-compliant dealers, the last part of the value chain was lost which, in the Central Excise regime, was captured indirectly through the Maximum Retail Price (MRP) based tax i.e. it used to have MRP, abatement and then tax on it. Now, it was not clear whether by reducing the tax rates, the benefit of tax reduction was being passed on to the ultimate consumer. He stated that it was for the Council to decide as to what could be done collectively to capture the value at all levels and particularly for the goods that were prone to be moved out of the formal value chain into the unorganised sector and this needed to be looked at the conceptual level. He stated that another example of this type of goods was *pan masala gutka* where value chain may not be captured at the retailer level.

4.16. Shri Sushil Kumar Modi, the Hon'ble Deputy Chief Minister of Bihar stated that the proposal to reduce tax rate on cement could be agreed to and this could be taken up as an Agenda item in the next meeting of the Council. The Secretary stated that on a rough estimate, loss of revenue in a year on account of reduction in rate of tax on cement from 28% to 18% would be around Rs.14,000 crore. On the issue of affordable housing, the Secretary clarified that presently the entire value chain was being taxed but the GST rate had been reduced to effective rate of 8% for affordable housing projects and Credit Linked Subsidy Scheme instead of 12% levied on normal housing projects. Hence, the burden was not falling on affordable housing sector. Further, the rate reduction on cement would lead to a big revenue sacrifice of Rs.14,000 crore and it was likely that its benefit might end up in the pocket of the producers rather than the consumers. He further stated that the annual revenue target in GST was about Rs.12 lakh crore out of which Centre and States each was expected to collect about Rs.50,000 crore every month. He pointed out that during the first quarter of this financial year, there was a revenue shortfall of Rs.43,000 crore of all amount collected, including Cess. He stated that in July 2018, there was a shortfall of Rs.13,000 crore including the amount collected under CGST, SGST, IGST and Compensation Cess. He added that it was important to also worry about the revenue of the Central and the State Governments.

4.17. The Hon'ble Chairperson stated that the issue of reduction in rate of tax on cement could be flagged and not closed at this stage and also to study the setoff that the affordable housing got. He added that one also needed to consider how to capture tax for the entire value chain and whether this could be achieved by introducing a scheme of taxation on the basis of MRP. He stated that as a principle, one should look at keeping benign rates of tax for better compliance.

4.18. The Hon'ble Minister from West Bengal stated that during the VAT regime, they struggled for revenue in the first two years but thereafter the revenue picked up very well. He stated that since the use of cement was across the sector and very widespread in the society, the elasticity of reduction of tax was more than one, which meant that if one reduced rate of tax by 1%, the demand would increase by more than 1%. He stated that if the annual revenue impact of reduction of rate on cement was Rs.14,000 crore, the annual revenue impact of last meeting's rate reduction to the tune of Rs. 6000 crore was not small either. He, therefore, reiterated that rate of tax on cement should be reduced from 28% to 18%.

4.19. Shri Yanamala Ramakrishnudu, Hon'ble Minister from Andhra Pradesh supported the proposal of the Hon'ble Minister from West Bengal. He stated that not only a lot of weaker section housing was under construction but there were several other types of housing projects in several States, other than those stated a while ago, which required cement to be procured at a

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reasonable rate. He stated that in his State, there were about 19 lakh houses under construction which also included affordable housing. In addition to construction of houses for weaker sections, construction of housing was underway in villages as well as for urban poor. Cement was a primary raw material for construction of all such houses. He suggested to hold a separate discussion on the topic of reduction of rate of tax on cement as early as possible.

4.20. Shri Manish Sisodia, Hon'ble Deputy Chief Minister of Delhi stated that there were always two perspectives to a proposal for reduction in tax rate; one was loss of revenue and second was improved compliance. He stated that since data was now available, a comparative study could be done by GSTN or any research team and shared with the Council regarding collection figures in terms of quantum of tax payment and number of tax payers when the rate of tax on a good was 28% *vis-a-vis* change in compliance levels and collection figures when the rate was reduced to 18%. The Hon'ble Chairperson stated that it was a good idea to conduct a study through empirical data and the principle of elasticity of demand as raised by the Hon'ble Ministers from West Bengal, Delhi and Andhra Pradesh. He reiterated that the value chain was getting lost somewhere in between the manufacturing and the last retail point and that MRP based taxation could help to capture the entire value addition chain. He observed that this might go against the idea of GST but it should be examined by a Committee of officers. The Hon'ble Chairperson enquired as to who would carry out this study. Shri Upender Gupta, Commissioner (GST Policy Wing), CBIC, suggested that the Law Committee could conduct the study relating to MRP based levy and capacity-based assessment whereas the Fitment Committee could study the impact of rate reduction on those products where tax rate had earlier been reduced from 28% to 18%. The Council agreed to this suggestion.

4.21. Shri Nitinbhai Patel, Hon'ble Deputy Chief Minister of Gujarat stated that the issue of Anti-profiteering was discussed during the earlier meetings of the Council in the context of reduction in rate of tax under GST *vis-a-vis* the combined rate of VAT and Central Excise during the pre-GST era and whether or not customer was getting the benefit of such rate reduction. He recalled that in the earlier meetings, the Hon'ble Deputy Chief Minister of Bihar had suggested to carry out widespread advertisements on this aspect but not enough publicity had been done. He also stated that it needed to be verified whether consumers were getting benefitted in real sense or whether revenue was being given up without actually benefiting the consumers. He added that rate reduction had no meaning if the consumers did not get the benefit. He stated that in this regard, the Council should know about the action taken by the National Anti-profiteering Authority. The Hon'ble Deputy Chief Minister of Bihar suggested that the Anti-profiteering Authority should give a report regarding its work during the next meeting of the Council such as investigations done, number of notices issued, recoveries made thereunder etc.

4.22. The Hon'ble Deputy Chief Minister of Gujarat stated that earlier it was decided that all big manufacturers should advertise about cost reduction of their products whose prices got reduced because of GST implementation but to his knowledge, none of the company/manufacture was doing this on large scale, and as a result, consumer was not able to see the benefit of rate reduction under GST. The Hon'ble Chairperson observed that it was a good suggestion that the consumer should come to know regarding the reduction in tax rate. He suggested that a small percentage, say 0.1 % or 0.2% of GST collections should be spent on GST education for consumers. The Secretary informed that the National Anti-Profiteering Authority had already collected about Rs.150 crore and a portion of it could be used for this

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purpose. The Hon'ble Chairperson stated that this amount should be used for advertisements for GST education of consumers.

4.23. Shri Tuhin Kanta Pandey, Additional Chief Secretary (ACS), Odisha, stated that as a matter of fact several advertisements had been released for publicizing the rate reduction on various items. He further stated that the Department of Revenue of the Government of India had carried out advertisements even in local newspapers highlighting as to which goods were exempted from tax and which were taxed at lower rate. He recalled that several manufacturers had also given front page advertisements highlighting price reduction of their goods due to reduction in GST rates.

4.24. The Hon'ble Minister from West Bengal stated that tax rate of 18% on outdoor catering and 5% on restaurants was leading to a lot of cash dealing in the outdoor catering services. He suggested that the rate of tax on outdoor catering services should also be reduced to 5%. The Hon'ble Minister from Goa and the Hon'ble Deputy Chief Minister of Bihar supported the idea of revisiting the rate of tax on outdoor catering services. The Hon'ble Chairperson stated that the Fitment Committee could look into this.

4.25. The Hon'ble Minister from West Bengal stated that the rate of tax on cinema should be made uniform at 18% as the present rate of 28% and 18% based on the price of tickets was irksome. Shri Shashi Bhusan Behera, Hon'ble Minister from Odisha supported this proposal. He stated that this rate reduction would also help in promotion of culture. The Hon'ble Chairperson stated that two issues needed to be considered with respect to rate of tax on cinema. First, whether the rate of 28% should apply for value of ticket costing Rs.100 or more and second, whether there should be some provision to promote regional cinema. He also observed that rate of tax of 28% on cinema appeared high as it was not a luxury. The Hon'ble Minister from West Bengal reiterated that varying rates of tax on cinema with price stratifications complicated the tax structure and suggested to have one rate on cinema. The Hon'ble Deputy Chief Minister of Delhi stated that many cinema halls sold tickets for Rs.500 and Rs.1,000 and there were different rates for tickets in different States. He stated that previously States exempted tax on some movies based on the theme that it covered or if it was an educational movie. He suggested to take a decision on this line as this would help promote regional and theme-based cinemas in public interest without hampering the interest of commercial cinema. He stated that if a blanket rate reduction was done, it would not help the cause of regional cinema. The Hon'ble Minister from Andhra Pradesh stated that cinema was a common man's entertainment and the present rates of 28% and 18% were very high and they deserved to be reduced. The Hon'ble Chairperson stated that this issue needed to be examined with respect to revenue data and suggested that the Fitment Committee could examine it. The Council agreed to this suggestion.

4.26 The Hon'ble Chief Minister of Puducherry stated that during the last meeting of the Council held on 21st July, 2018, it was decided under Agenda Item 8(ii) to set up a Committee under the chairmanship of the Chairman, CBIC, and consisting of Finance Secretaries of Delhi, Puducherry, Tamil Nadu and one each from the States of North East and West to address concerns regarding treatment of the IGST amount *vis-à-vis* the Consolidated Fund of India. He stated that there were long arguments during the last Council meeting on the subject and wondered what the Committee would decide when both Delhi and Puducherry were Members of the GST Council / Committee. The Secretary stated that the idea behind constituting the

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Committee was to analyse the issue of perceived injustice meted out to the two Union Territories and the issue regarding Rs.1.5 lakh crore of IGST revenue lying in balance. The Hon'ble Deputy Chief Minister of Delhi stated that either the present system be followed to divide 50% of the accumulated balance or to decide that Puducherry and Delhi have no role in the distribution of IGST and that the devolution formula of Central taxes would apply to IGST. The Hon'ble Chief Minister of Puducherry forcefully stated that the recommendations of the Finance Commission could not be applied to apportionment of IGST.

4.27. The Secretary stated that the Finance Commission principle could not be applied to IGST. Instead, it was decided during the last Council Meeting that one would try not to build the IGST balance beyond Rs.1.6 lakh crore (which was the balance last year as well) and for IGST accumulation beyond this amount accruing this year, provisional settlement would be made to the States, including Delhi and Puducherry, every 2 months. He added that as regards the accumulated amount of Rs.1.6 lakh crore, it was a liability against the balance lying in the input tax credit ledger of the taxpayers. The Hon'ble Deputy Chief Minister of Delhi stated that the States also had the input tax credit liability. The Secretary stated that there was a balance of Rs.70,000 crore in SGST ledger as well. The Hon'ble Deputy Chief Minister of Delhi stated that IGST was being collected both as Central and State tax. The Secretary stated that one institution would have to hold IGST money and this responsibility had been entrusted to the Central Government. It was not possible to keep this money outside the Consolidated Fund of India.

4.28. The Hon'ble Deputy Chief Minister of Delhi stated that settlement of IGST would be done towards CGST and SGST, and therefore, no other formula could be applied to IGST amount. The Secretary stated that in such a case, the only solution would be to move to original CGST and SGST model with money directly going to the States as SGST and to the Centre as CGST. He reiterated that no settlement could be done for IGST ledger balance that normally would lie in the input tax credit ledger of the taxpayers. The Hon'ble Deputy Chief Minister of Delhi stated that it would need to be distributed to the States and the Union Territories should also be made part of this distribution. The Secretary stated that the IGST devolution was a Constitutional issue. The Hon'ble Deputy Chief Minister of Delhi enquired as to under what law it was decided to devolve IGST money. The Hon'ble Chief Minister of Puducherry stated that after September, 2018, the remaining amount should be given to the States. The Secretary stated that if data was available, then distribution shall be done. The Hon'ble Deputy Chief Minister of Delhi stated that application of the 42% formula was wrong. The Secretary stated that if one went by the argument of the Hon'ble Deputy Chief Minister of Delhi to take money out of the Consolidated Fund of India and keep it in the Public Account, then no State would get devolution of this amount. The Hon'ble Chairperson stated that the Committee constituted on this issue could discuss the matter further. The Hon'ble Chief Minister of Puducherry reiterated that the Finance Commission formula could not be applied to IGST. Dr. T. M. Thomas Isaac, Hon'ble Minister from Kerala, stated that regarding the issue whether Union Territories should get a share of IGST when devolution was made, the relevant rules could be tweaked if it was considered advisable. Dr. Himanta Biswa Sarma, Hon'ble Minister from Assam, observed that the Government of India gave salary to the Police force in the two Union Territories but not to the States. The Hon'ble Chairperson stated that the issue would need to be studied with an open mind.

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5. For Agenda item 1, the Council decided to adopt the Minutes of the 28th Meeting of the Council with the following changes:

5.1. To replace the version of CCT, Gujarat recorded in paragraph 18.15 of the Minutes with the following: 'Dr. P. D. Vaghela, CCT, Gujarat stated that this option was also examined by the Law Committee earlier but was found not feasible as the seller would be required to claim refund. However, this could again be examined by the Law Committee;'

5.2. To replace the version recorded in paragraph 20 (xiv) of the Minutes with the following: '**Nicotine Gum:** The Hon'ble Deputy Chief Minister of Gujarat stated that to quit smoking habit, Nicotine Polacrilex Gum is used and the present rate of tax on this item was 18% which should be reduced. He added that these products are like medicines and its rate should be reduced to 12%. The Secretary suggested that it may be referred to the Fitment Committee for further discussion. The CCT, Gujarat stated that the Fitment Committee had discussed this proposal and rejected it. The Joint Secretary, TRU-II stated that this product could not be differentiated from regular chewing gum. The Secretary stated that technical specification could be given for this product based on percentage of nicotine content and then rate reduction could be considered. He suggested that the Fitment Committee could consider this issue afresh on this basis. The Council agreed to this suggestion;'

5.3. To replace the version of CCT, Gujarat recorded in paragraph 22 (iii) under heading Annexure III of the Minutes with the following: 'CCT, Gujarat stated that as far as renting of property was concerned, it was already under reverse charge mechanism in case of supply of services to the registered person. In case such turnover of renting of property including any other commercial activities not covered by Article 243W of the Constitution is more than Rs. 20 lakh, the Municipality will be required to take registration. At present, even if such income is less than Rs.20 lakh and as activities undertaken as part of Article 243W of the Constitution are not declared as 'no supply', turnover of such activities is included in the total turnover and Municipalities are required to take registration even when their revenue from renting of property and other commercial activities is less than Rs.20 lakh. If this proposal is accepted, Municipalities are put at par with Panchayats;'

5.4. To replace the version recorded in paragraph 26 (ii) of the Minutes with the following: 'The CCT, Gujarat requested that this issue should be considered sympathetically in the interest of export. The Secretary stated that there were a lot of such interim issues for retrospective amendment which would need to be examined. The CCT, Gujarat suggested that this issue could also be addressed through the Removal of Difficulties Provision under the GST Law. The Secretary observed that it would need to be examined further. The Council agreed to this suggestion;'

5.5. To replace the version of CCT, Gujarat recorded in paragraph 35.4 of the Minutes with the following: 'The CCT, Gujarat stated that state road permit and national permit system should be done away with and loss in revenue due to abolition of permit system could be taken care of by appropriately raising registration charges, etc.;'

5.6. To add the following version of the Hon'ble Minister from Rajasthan after the version of the Hon'ble Minister from Goa recorded in paragraph 22(ii) of the Minutes: 'The Hon'ble Minister from Rajasthan stated that they supported the stand of the Hon'ble Minister from Goa of applying 28% tax rate on room rent above Rs.10,000 only;'

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5.7. In the 3rd sentence of paragraph 33.12 of the Minutes, to replace the words "He further stated..." with the words "The Hon'ble Chairperson stated..."

5.8. In addition to the above, during discussion on Agenda Item 1, the Council also approved the following: -

- i. In the new return System, the change over from monthly return to quarterly return or *vice versa* shall be allowed only once, at the beginning of the financial year;
- ii. The Fitment Committee to study the impact of rate reduction on those products where tax had earlier been reduced from 28% to 18% in terms of its impact on growth in the number of taxpayers and the quantum of tax payment;
- iii. The Law Committee to examine the feasibility of introducing MRP-based and capacity-based tax assessment under GST;
- iv. The National Anti-profiteering Authority to give a report regarding the action taken under the National Anti-profiteering Law in the next meeting of the Council;
- v. The Fitment Committee to examine the feasibility of reduction in rate of tax on outdoor catering and cinema.

Agenda Item 2: Discussion to address issues and concerns of Micro, Small & Medium Enterprises (MSME) in GST regime

6. Introducing this Agenda item, the Hon'ble Chairperson sought the views of the Hon'ble Members as to how to structure the discussion. The Hon'ble Deputy Chief Minister of Bihar suggested to take up the issue State wise as per the compilation in Volume-2 of the Agenda notes. The Hon'ble Minister from West Bengal stated that the items listed in Volume-2 and Volume-3 contained both small and big issues and in his opinion, States should be allowed to take up bigger issues which could be listed and discussed subsequently. The Hon'ble Minister from Punjab thanked the Hon'ble Chairperson for focusing attention on such an extremely important sector. He suggested that instead of discussing the nitty-gritty of the Agenda, each State could be given five minutes to highlight the most important issues of concern for it and then these could be discussed one by one. The Chairperson agreed to this suggestion and invited the Hon'ble Members one by one to highlight the important issues of concern to them.

6.1. Starting the discussion, the Hon'ble Deputy Chief Minister of Delhi stated that the MSME sector was one of the most important sectors for generating employment in the country. He added that contribution of the MSME sector to the overall GDP, employment and exports of the country was very significant and the core issue of concern for MSME was that the Council should consider formulating a scheme for the MSME with annual turnover up to Rs.5 crore under which a certain proportion of tax paid by the registered dealer in the MSME sector could be reimbursed to him both by the Union Government and the State Government. He observed that in the erstwhile Central Excise regime, manufacturers with annual turnover upto Rs.1.5 crore were exempted from registration. The MSME were facing stiff competition from the bigger manufacturers and foreign players in the same product line as the benefit of tax exemption was not available to them under GST regime. He added that the proposed scheme, while benefitting the MSME sector, would not create any distortion in the GST regime and will go a long way in enhancing the competitiveness of the MSME sector as well as promoting employment generation in the country.

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6.2. The Hon'ble Chief Minister of Puducherry stated that the small-scale sector accounted for 25% of exports and it was a major labour-intensive industry. After implementation of GST, this sector was facing problems in filing returns which hopefully would be resolved with the new return design. He stated that most of the industries in the smaller States got their raw materials from outside which was used in manufacturing of finished goods. After manufacturing, most of the finished goods again went outside the State as market within the State was very limited. This was adversely affecting their revenue position. He also highlighted some rate related issues of concern to the MSME sector. He stated that tractor was taxed at the rate of 12% but its spare parts, which were mostly manufactured by small and medium units, were taxed at the rate of 18%. He stated that small scale sector was the backbone of industrial development in India and small industries were suffering as they had to pass the burden of this high tax to the consumers. As a result, they were becoming unviable and closing down their business. He further stated that plastic was taxed at the rate of 18% but recycled plastic should be taxed at a lower rate as it was an eco-friendly product.

6.3. The Hon'ble Chief Minister of Puducherry also stated that during the pre-GST period, Exim scrips were allowed for payment of tax for domestically procured goods meant for use in export products, but the same was not allowed in the GST regime which led to blockage of working capital. He, therefore, suggested that the Exim scrips should be permitted for discharging the tax liability of IGST, CGST and SGST for goods procured even domestically. He further stated that the tax rate of 18% on automobile servicing garages was very high. He observed that it was a labour-intensive industry and a high tax rate was affecting this industry and suggested to reduce tax on the same. He further stated that tax rate of 18% on job work was too high and it was a serious issue which was creating difficulty for people because contractors were not willing to take up contracts even from the Government to do job work. He observed that these were labour intensive areas and suggested that a small group of Ministers should be constituted to address the issues raised by the Hon'ble Ministers of the States so that the small and medium industries were able to survive.

6.4. Shri Jayant Malaiya, Hon'ble Minister from Madhya Pradesh, stated that the Laghu Udyog Bharti in his State had represented that tax rate of 18% on *dona patta* made from waste papers was too high. He stated that MSME manufacturing *dona patta* from waste papers employed thousands of people and the investment in setting up the plant and machinery for such manufacturing units was very low. To enable them to survive and compete, the rate of tax on these products, manufactured by MSME, should be 5%. He stated that at the present rate of 18% tax on this product, people were not even paying any tax. The Hon'ble Chairperson observed that it was a recurring theme that lowering the tax rate would improve compliance. He added that a similar problem was highlighted by the Hon'ble Chief Minister (CM) of Madhya Pradesh for *bidi* and the Hon'ble CM had suggested to reduce the rate of tax on *bidi* from 28% to 18%. The Hon'ble Minister from Madhya Pradesh supported the suggestion of the Hon'ble CM of Madhya Pradesh and stated that the rate of tax on *bidi* should be reduced to at least 18%, if not 12%, as these are labour intensive industries.

6.5. Shri Conrad K. Sangma, Hon'ble Chief Minister of Meghalaya, stated that they did not receive many grievances, except one. The State was having a lot of small contractors and small Government suppliers. He stated that Section 22(1) of the SGST Act, 2017 provided for registration of suppliers for goods or services or both if the annual turnover exceeded Rs.10 lakh which had been decided to be raised to Rs 20 lakh during the last Council meeting.

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However, from October 2018, small contractors and government suppliers with annual turnover below this threshold may also be required to take registration for tax deduction at source (TDS) under Section 51 of the SGST Act, 2017, if the value of their contract was Rs. 2.5 lakh or more. He stated that this would compel all suppliers of goods or services to obtain GST registration even if the annual turnover of the supplier did not exceed the threshold limit. He further stated that this would make the life of small suppliers very difficult and also reflected badly on State's compliance levels. He suggested that even for TDS, there should be a higher threshold or there could be a mechanism developed by the GSTN whereby only when the supplier crossed the threshold turnover, it should be required to register for TDS.

6.6. Shri Sambhaji Patil Nilangekar, Hon'ble Minister from Maharashtra, stated that about 30 issues had been raised by various MSME related organisations of Maharashtra. A good message had been sent by organising a special meeting of the Council on MSME issues. He further stated that most of the issues were technical and legal in nature and could be looked into by the Law Committee, the Fitment Committee and the GSTN.

6.7. The Hon'ble Deputy Chief Minister of Bihar stated that one important suggestion received was regarding tax audit by Chartered Accountants (CAs) for GST and income tax. He suggested that there should be only one tax audit by CA for income tax and GST, and it could be certified in two different forms, one for GST and the other for Income Tax. The Hon'ble Chairperson stated that this was a good suggestion and, in that process, the revenue figures from GST and Income Tax would also get aligned. The Hon'ble Minister from West Bengal stated that his State had also implemented a procedure similar to the one suggested by the Hon'ble Deputy Chief Minister of Bihar. The Hon'ble Deputy Chief Minister of Delhi supported the proposal made by the Hon'ble Deputy Chief Minister of Bihar. The Hon'ble Deputy Chief Minister of Bihar further suggested that for legacy issues of VAT, a one-time settlement scheme should be introduced so that the officers could thereafter concentrate on compliance under GST. He also supported the proposal of reimbursement scheme put forth by the Hon'ble Deputy Chief Minister of Delhi by refunding a part of the tax collected from the taxpayers in the MSME sector. He stated that under Central Excise, tax was exempt for units having an annual turnover below Rs.1.5 crore, and therefore, a 25% or 50% refund of CGST amount could be considered. The Hon'ble Chairperson observed that the MSME sector had asked for refund of the total amount of tax and the entire burden should not be put on CGST.

6.8. The Hon'ble Deputy Chief Minister of Bihar further stated that there should be a system by which GSTN should send regular SMS alerts before the due date of return filing to the taxpayers. He also suggested that the taxpayers should have the option to make payment of tax through all banks instead of the presently notified 14 banks. He stated that the law permitted payments through debit card and credit card but it was not yet operational under GST and it should be made operational at the earliest. He also suggested that the JSON file exceeding 5 MB should be allowed to be uploaded on the GST portal. He further suggested that mismatch of invoices should be available in the dealer's login whereas presently they were directly getting notices regarding the mismatches. He suggested that a Standard Operating Procedure (SOP) should be drawn up for action in case of mismatch. He further stated that the FORM ITC-04 should not be mandatory and it should be deliberated to make it optional. He also stated that there should be different invoice format and invoice requirement for B2B and B2C supplies. He also suggested that job workers in the textile sector should be

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exempted from the requirement of e-Way bill. He suggested that circulars should be issued in respect of job works, valuation, immovable property, sale of assets, cashbacks from banks and deemed export to reduce confusion among the taxpayers.

6.9. The Hon'ble Deputy Chief Minister of Bihar further suggested that there should be a provision to fill up Part B of e-Way bill in case of self-movement of goods by bus or train. He also suggested that NIC should issue FAQs in this regard. He observed that in textile business, it was a practice by the traders to leave the material transported from other States in the godown of their transporters for three to four months and to take it from them as per the requirement. However, the present system of e-Way bill considered such deposits in the warehouse of transporter as goods in transit till it reached the premises of the trader. He stated that this was a specific problem of Bihar and the rule should be modified appropriately. He further stated that there should be a facility to download FORM GSTR-2A in the desired sequence. He also suggested to launch a special refund fortnight for the MSME sector as earlier done for exporters. He also suggested that there should be only one refund authority for both CGST and SGST and for this, the State authority could be declared as DDO (Drawing and Disbursing Officer) under the Central rule and *vice versa*. He also stated that there were complaints of demand of 10% commission for granting refund to exporters as it was a manual system of refund. He emphasized that this should be checked.

6.10. The Hon'ble Minister from Kerala stated that he shared the concerns of the other Hon'ble Members for MSME sector. He observed that earlier they enjoyed a number of privileges not only in taxes levied but also rebate in sale, purchase preferences, interest subvention, etc. apart from significant planned fund allotted to MSME sector. He observed that all these incentives had been whittled down and now the load for helping MSME sector was only on the taxation policy. He warned that this had a danger to adversely impact the revenue. He further stated that under GST, the prime principle was revenue neutral rate. However, no time was given to evaluate whether revenues were stabilizing around the revenue neutral rates. He stated that the revenue collection was not growing as expected, and implications of the rate reduction on revenue was not known and it was not clear how it would affect the ability and capacity of the Governments to support the MSME sector. It needed to be evaluated carefully whether the Council could support the MSME sector by foregoing revenue. He observed that the prime objective of the Council was to mobilise revenue but it appeared that this was nobody's concern. He observed that revenue shortfall was too high and it could adversely affect the capacity to keep the fiscal deficit within the range as per the FRBM (Fiscal Responsibility and Budget Management) Act and also to meet the commitments of the States to incur expenditure in the social sector. He emphasized that the Council must look at the revenue implication of the tax rate changes and wait for some time for revenue position to stabilize before undertaking any further reduction in tax rates. He added that reduction in tax rate should not be based on mere demands made in the Council.

6.11. The Hon'ble Minister from Kerala further observed that raising the annual threshold for Composition dealers was not enough. The more dynamic dealers under the MSME sector would like to be part of the value added chain and would register under GST. He observed that since manufacturers with an annual turnover up to Rs.1.5 crore were exempt under Central Excise, one could discuss a scheme for refund under CGST. However, one also needed to look at policy changes in other sectors which may not be within the mandate of the Council, such as those of the Reserve Bank of India, IT and electronics sector. It was

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important to examine what policy changes they could undertake to help the MSME sector. He observed that presently, compensation to States was assured at an annual growth rate of 14% but after four years, the provision of compensation would lapse. He added that in India, tax to GDP ratio was only 18% whereas in developed countries, it was around 25-30% and even higher. He wondered how social sector development could take place without improvement in tax to GDP ratio. He observed that during the period of VAT, he had the autonomy to craft the State's tax structure in accordance with the needs of the developmental programmes of the State, but now he was stuck with poor revenue collection. He further stated that the Council should be cautious regarding giving up revenue because the implication of what was already done was not yet known.

6.12. The Hon'ble Minister from West Bengal stated that during the VAT regime, manufacturers having an annual turnover up to Rs.1.5 crore paid VAT but did not pay Central Excise duty and now all taxpayers with an annual turnover between Rs.20 lakh and Rs.1.5 crore had to pay both CGST and SGST. He stated that keeping in view the issues raised by the Hon'ble Deputy Chief Ministers of Delhi and Bihar and the concerns expressed by the Hon'ble Minister from Kerala, a new norm should be that CGST would not be paid by manufacturers with an annual turnover up to Rs.1.5 crore. He stated that the Central Government could pay it as reimbursement so that amendment in law was not required and the ITC chain remained intact. He further stated that unbranded food grains like *atta*, *daal* and rice were exempt from GST but packaged foods were liable to tax at the rate of 5%. He stated that owners of brand names were foregoing their enforceable rights in their brand names and they competed with small and medium unbranded sellers on an uneven scale. He suggested that food grains, whether branded or unbranded, should be exempted from GST. He stated that the rate structure on food grains had been experimented for one year and now it was time to rationalize it. He further suggested that his State had removed intra-State e-Way bill for job work, which primarily benefited the textile sector but it was also benefitting 20%-30% non-textile job work intensive industries. The Hon'ble Minister from West Bengal further stated that they had increased the value threshold for non-job work consignments requiring e-Way bill from Rs.50,000 to Rs.1.00 lakh. He suggested that intra-State e-Way bill for job work should be removed altogether. He also supported the suggestion of the Hon'ble Deputy Chief Minister of Bihar on FORM ITC-04. He suggested to either remove it altogether or to have an SOP on this subject which should apply across all the States. He further stated that online utilities were not available for Composition taxpayers and they had to go through an offline process, which was causing rent seeking behaviour and delays. He stated that online facility for Composition taxpayers should be introduced at the earliest. He stated that primarily, the Council's principle should be to move towards simplification as that would improve revenue buoyancy. He added that he had highlighted the complications mentioned by the stakeholders and one needed to look objectively as to how to further simplify GST.

6.13. The Hon'ble Deputy Chief Minister of Gujarat stated that it was a good step to call a special meeting of the Council for MSME sector. However, the Council had earlier too tried to help MSME, which gave the maximum employment and all the Hon'ble Ministers were desirous of helping the MSME sector. He stated that in his State, there were 4.14 lakh micro industries, 75,300 small industries and 3,000 medium industries and these employed about 26-28 lakh workers. He observed that all the cities of Gujarat had MSME. He stated that they had received proposals from MSME which went beyond GST. The stakeholders of MSME had highlighted that there should be a provision to get more loan from banks and the

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Government of India should evolve a scheme for the same so that they could compete with the big industry. He stated that since the MSME were also competing with big manufacturers, they needed help just like cottage industries to market their products. He further stated that special exhibitions should be organised where these small units could sell and market their products. He suggested to constitute a task force or a Group of Ministers to formulate a detailed plan to help small scale industry. He observed that almost all States supported small industries in some or the other way. The State of Gujarat was helping the MSME sector through a budgetary support of approximately Rs. 2000 crore. He further stated that in addition to budgetary support provided by States, the MSME sector should also be helped financially through reimbursement scheme under CGST.

6.14. Shri Krishna Byre Gowda, Hon'ble Minister from Karnataka, stated that he supported the concerns of MSME. He endorsed the view of the Hon'ble Chairperson about the employment situation and employment potential of the MSME and stated that to increase the share of manufacturing in GDP, growth of MSME was very important. He stated that the Council must also acknowledge that several decisions were taken during the last 7 to 8 months primarily in response to the concerns of the MSME sector, like increase in Composition threshold limit, return simplification and process re-engineering. He stated that it would be desirable to document the decisions taken by the Council so far and already implemented which were benefitting the MSME sector without undermining the remaining concerns faced by this sector. He stated that it should be acknowledged that the Council had been responsive and taking decisions to address the concerns of the MSME sector. The Hon'ble Chairperson stated that this was a very important point and the Council acknowledged that during last 13 months, it collectively and continuously addressed and responded to the concerns of MSME from time to time and in this meeting again, it was focussing on the concerns of MSME.

6.15. The Hon'ble Minister from Karnataka further stated that many issues were also being addressed currently, as for example once the new return format was implemented, a large number of concerns of MSME would be addressed. He also noted that efforts were underway to speed up refunds. He stated that if all the work that was presently in the pipeline was rolled out in 4 to 5 months, it would take care of the difficulties being faced by the MSME to a great extent. He observed that the Agenda on MSME covered a broad segment of compartmental issues viz. law amendment, policy, administrative, procedural, including Information Technology and tax rates. He observed that some of the issues raised were outside the ambit of GST. He stated that the concerns raised covered different segments of which some were being addressed by the Fitment Committee and the Law Committee and probably some of the issues fell within the domain of Industries department and the MSME department. He observed that the VAT legacy issue was completely a State issue. He further observed that there were multitude of issues and one needed to respond to them accordingly. He also echoed the concerns raised by the Secretary and the Hon'ble Minister from Kerala about revenue under GST. He stated that pre-GST, Karnataka's revenue was growing at the rate of 16% to 18% year on year whereas it was now consistently facing deficit of about 28% to 30%. He observed that GST was implemented on the premise of revenue buoyancy, as experienced during VAT. However, after one year of GST implementation, there was a consistent revenue deficit of about 30%. He observed that State revenues were protected only for four years but States had built up commitments for public welfare which would have to be met even after four years and, therefore, he was very much concerned about revenue. He stated that even if there was a 25% growth in revenue, month on month, in the next four years, his State would

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still fall short of its protected revenue. Therefore, while addressing concerns of all sectors, Council should be mindful of revenue consideration as well.

6.16. The Hon'ble Minister from Karnataka also observed that simplicity should not be mixed up with concession. He observed that concessions were not the only way to address the problems of the MSME sector. He supported the suggestion of the Hon'ble Minister from West Bengal that if a concession had to be given to MSME on tax, then it should be from CGST and through a refund route. He also endorsed the view of the Hon'ble Chief Minister of Puducherry to refer the issues raised by the States to respective Committees or to constitute an overarching Committee having oversight of the Fitment Committee, the Law Committee and the IT Committee. This Committee could also invite officers from other Ministries and Council could take a decision based on the recommendations of the Committee. He stated that at this stage, he would limit his observations to these broader points, and, if need be, at a later stage, he would take up discussion item-wise. The Hon'ble Chairperson stated that he was open to the idea to have the issues considered either by the respective Committees or by an overarching Committee or by GoM which could also invite officers from the other relevant departments like banking, etc to present their views on any particular issue.

6.17. Shri Prakash Pant, Hon'ble Minister from Uttarakhand stated that pre-GST, MSME also enjoyed area-based exemption. He stated that when the State was formed, there were approximately 1,100 MSME but now there were approximately 56,000 MSME units due to the benefit of area-based exemption it enjoyed. He observed that previously, on the advice of the Council, a budgetary support was provided by the Central Government to the tune of 58% reimbursement of the tax paid and the total claim was around Rs.837 crore. However, the units had got refund of only about Rs.314 crore till now, and there was still a big gap which needed to be addressed. He stated that previously benefit under the area-based exemption scheme was extended to MSME set up and which started production by the cut-off date of 31st March 2010. Subsequently, by a circular in 2010, the Central Government continued to extend the benefit of area-based exemption scheme under Central Excise even if such companies switched over from partnership firm to a registered company. However, a major issue arising in the GST regime was that firms were not getting refund in the form of reimbursement from Department of Industrial Policy & Promotion (DIPP) once they made this switchover. He emphasised that MSME units should continue to get the benefits under the area-based exemption scheme even after such switchover. He further stated that small scale industries with annual turnover up to Rs.1.5 crore should either be reimbursed or exempted from CGST. He added that provision of reverse charge mechanism was a problem for MSME. He also suggested that Goods Transport Agency (GTA) and other legal services should be taxed on forward charge basis as tax on reverse charge basis on these two services was causing a burden on MSME. He stated that bread should be kept under the exempted list for the purpose of reverse charge mechanism of GTA under Section 9(3) of the CGST Act and SGST Act as its shelf-life was very less.

6.18. The Hon'ble Minister from Uttarakhand further suggested that ice-cream manufacturers should be extended the benefit of Composition scheme. He also suggested that branded and unbranded *namkeen* should be differentiated. While branded *namkeen* could continue to be taxed at the rate of 12%, unbranded *namkeen* should be taxed at the rate of 5%. He suggested that the Fitment Committee should examine this issue. He stated that another major problem faced by MSME was that only 14 banks were authorised for payment of GST

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and suggested that all banks registered under RBI should be included in this list so that no bank enjoyed any monopoly. He also suggested that the job workers should be exempted from the requirement of filing ITC-04 and they should also be exempted from filing e-Way bill, both for inter-State as well as intra-State movement of goods. He further stated that due to difficulties in the return filing procedure, some of the MSME could not file return for the last 7 to 8 months and now they faced a late fee liability of more than Rs.1 lakh. He suggested that there should be one-time waiver of late fee and penalty. He supported the suggestion of the Hon'ble Deputy Chief Minister of Bihar for a common audit by chartered accountant under the Income Tax and GST. He also observed that there were 56,000 MSME in his State which were finding it difficult to file return as now there was no system of manual return filing. He stated that currently there was only one GST *Seva Kendra* and if a system of offline manual filing of return could not be thought of, then more such GST *Seva Kendras* should be opened at Divisional level of tax departments to assist MSME to file returns on-line for a small fee.

6.19. Shri C.P. Singh, Hon'ble Minister from Jharkhand stated that one important issue was regarding leasing of land to MSME. If development charge for land was paid by them at one go, it would not be charged to GST but if development charge was paid in 10 instalments, then it was charged to GST. He suggested that tax on development charges when paid in instalments should be exempted. Secondly, he supported the suggestion of the Hon'ble Deputy Chief Minister of Bihar regarding SMS alert messages to taxpayers for payment of tax dues and return filing dates. Thirdly, he suggested that there should be a provision of one-time revision of returns. The fourth point raised by him was that in different offices of GST, different terminology was being used. In some offices, it was shown as "*Maal Aur Seva Kar Karyalaya*" and in some other offices, it was shown as "*Vastu Aur Sewa Kar Karyalaya*". He suggested that the name should be uniform. The Hon'ble Chairperson stated that for goods, the Hindi word "*Maal*" should be used for all offices. The Council agreed to this suggestion and decided that the correct Hindi translation for the words "Goods and Services Tax" was "*Maal Aur Sewa Kar*" and this should be used uniformly, wherever required.

6.20. Shri Mauvin Godinho, Hon'ble Minister from Goa complimented the Hon'ble Chairperson for convening this special meeting for MSME. He stated that the message had gone that the Council was concerned about MSME. He stated that during the first three months after implementation of GST, he often faced abuses from the public but now there was a positive response to GST. He complimented the Members of the Council for bringing about this change in attitude of the public towards GST. He also observed that the tax rate reductions carried out during the last Council Meeting to help the middle class had gone down very well and observed that middle class were the opinion framers. He stated that the suggestions received for MSME were of mixed nature wherein some related to administrative or clarificatory matters but more than anything else, people were again looking at rate reduction on various items. He cautioned that revenue was also a very important issue and unless there was an overall buoyancy in tax revenue, no further cut in tax rate should be considered. He supported the proposal of appointing GoM which could listen to the associations of MSME and identify problems at the ground level. He suggested that the GoM could take about two months' time to formulate its recommendations by when one could also analyse revenue buoyancy and areas of revenue leakages. He also supported the proposal to exempt MSME from filing ITC-04. He also stated that public sector banks were not issuing GST invoices for GST charged on services supplied to MSME, as a result of which, MSME

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were unable to avail input tax credit. He appreciated the suggestion of the Hon'ble Deputy Chief Minister of Bihar to integrate CA's verification for income-tax filing and GST filing and stated that this would not only help in buoyancy of taxes but would also help to plug revenue leakages.

6.21. The Hon'ble Minister from Goa also suggested to exempt branded food grains from GST. He further suggested to exempt e-Way bill for intra-State movement of goods for job work. He also supported the proposal to tax re-cycled plastic or any product which are environment friendly at a lower rate. He informed that in Goa, re-cycled plastic was being used for various applications including for making roads. He observed that tax had been reduced on *Namkeen*, Pasta, Noodles, Chocolates, Spaghetti and Macaroni from 18% to 12% but the breakfast cereals were left out. These were made not only by multinational companies but also by smaller industries and 80% to 90% of raw materials for such cereals was food-grains contributed by the agricultural sector and produced by local farmers. He observed that reducing tax on breakfast cereals would be a course correction and it would also help bolster Make in India campaign. He stated that after one year of experience of GST and after the last meeting of the Council, the message had gone that Council cared for every segment of society. He observed that air-conditioners and televisions were no longer items of luxury and they could also be seen in the hutments and had become necessities. He again appreciated the reduction in tax rate carried out during the last meeting of the Council but suggested that no tax cuts should be approved during this meeting. The Hon'ble Chairperson appreciated the points made by the Hon'ble Minister from Goa and observed that, borrowing a terminology from the monetary policy of the Reserve Bank of India, the sum and substance of the suggestion made by the Hon'ble Minister from Goa was to call for a pause on rate correction.

6.22. Shri D. Jayakumar, Hon'ble Minister from Tamil Nadu thanked the Hon'ble Chairperson for organising a meeting devoted to the MSME sector. He informed that he had convened a stakeholders' meeting of various MSME organisations on 26th July 2018 to understand their difficulties under the GST regime. Based on this feedback, they had compiled and furnished a list of issues concerning the MSME to the Council Secretariat. He stated that the predominant request of MSME related to tax on job work services. Prior to GST, they were out of the ambit of VAT but now under GST, they were reportedly facing blockage of working capital due to levy of GST at the rate of 18% on job work. He stated that reduction of rate of taxes on job work uniformly to 5% would considerably mitigate the burden on job workers without affecting the revenue adversely since it was an intermediate stage activity. He further stated that this was a problem particularly in the engineering sector where, small manufacturers had to pay tax upfront while making supplies to big companies whereas they typically received payment after three months. He pointed out that earlier, the Council had taken cognizance of the difficulties faced by the textile sector and had reduced the rate of tax on job work in textile sector to 5%.

6.23. The Hon'ble Minister from Tamil Nadu further stated that his State was a major hub for auto industries and the auto ancillaries in his State were mainly supplying to Original Equipment Manufacturers (OEM). Earlier, they were mostly out of the purview of Central Excise. However, in GST, they had to pay tax in the highest slab of 28% which was causing huge blockage of working capital. He observed that auto components being intermediate goods, need not be taxed at the rate of 28% and tax rate could be reduced to 18%. He further stated that the replacement market for auto parts was intrinsically linked to the services sector.

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In case of bundled supplies of car parts along with car servicing, as service was the predominant supply, the rate of tax for such supplies would be 18% and in this view too, reducing the rate of tax on auto components to 18% would not impinge on revenue collection. He, therefore, urged that rate of tax on automobile components should be reduced to 18% as was done for white goods during the last Meeting of the Council.

6.24. The Hon'ble Minister from Tamil Nadu further stated that for return filing, it was presently agreed that taxpayers with annual turnover up to Rs.5 crore shall file quarterly return but make monthly payment of tax. He stated that the MSME sector had requested for quarterly payment of tax as, in normal practice, payments were received from buyers after a period of three months. He observed that it may not be possible to accede to this request at this juncture and as an alternative, the rate of interest for late payment of tax up to a quarter for this category of taxpayers could be reduced to 12%. Further there should be no penalty where delay in payment of tax / filing of return was for less than three months. He further observed that the present system of return filing did not facilitate self-filing by the taxpayer and he had to depend on consultants / accountants. This was possibly one reason for lesser returns being filed. He requested that GSTN should come up with a very simple and user-friendly design of return which could facilitate self-filing as was the case with income-tax return. He observed that cost incurred for such design would be worth spending.

6.25. Another issue raised by the Hon'ble Minister from Tamil Nadu related to delay in getting refund on exports by MSME. He stated that as major chunk of exporters was from this sector, GSTN should, on a priority basis, put in place a mechanism for hassle free refund without intervention of tax authorities. He also stated that in order to avoid delay in sanction of GST refund by dual authorities, the Council should explore the possibility of empowering the proper officer, to whom the taxpayer is allotted, to sanction refund under all the three Acts and at the end of the month, the amount of refund may be reconciled and net balance may be apportioned to the States and the Centre. He observed that timely refund to the MSME sector would remove blockage of working capital. He further observed that the Council had taken several ameliorative measures to overcome IT glitches under GST. However, the MSME sector had raised various IT related issues that needed to be sorted out on a priority basis by the GSTN. He informed that these issues were highlighted in the list of issues forwarded to the Council Secretariat.

6.26. The Hon'ble Minister from Tamil Nadu further stated that he had been repeatedly speaking for reduction in rate of tax on goods and services mostly pertaining to the MSME sector. Therefore, all the outstanding requests made by Tami Nadu should be considered favourably by the Council on urgent basis. He particularly requested to reduce the rate of tax on safety matches (other than hand-made safety matches) from 18% to 12%; and on wet grinder from 12% to 5% on par with similar product i.e. *Atta Chakki*. He recalled that during its last Meeting, the Council had reduced tax on high revenue yielding white goods and therefore rate reduction for goods manufactured by the MSME sector should also be favourably considered to infuse confidence among the stakeholders.

6.27. The Hon'ble Minister from Tamil Nadu further stated that most of the taxpayers belonging to the MSME sector were below the threshold limit of registration. As such, at the time of marketing their products, they faced constraints from big manufacturers and retailers who, for availing the input tax credit, insisted that such small suppliers should get themselves

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registered. He stated that this put MSME sector at a disadvantageous position as registering under the Act entailed discharging tax liability without receipt of payments leading to blockage of working capital. He requested the Council to reduce the rate of tax on 72 goods and 10 services requested by his State in order to encourage MSME sector which provided avenues for self-employment and livelihood to crores of people. He stated that there would be huge benefits by such reduction which would more than offset the anticipated loss of revenue to the exchequer. The Hon'ble Minister from Tamil Nadu also circulated a written speech covering the above aspects.

6.28. Capt. Abhimanyu, Hon'ble Minister from Haryana, complimented the Council for organising a meeting with focus on MSME sector which would positively impact revenue buoyancy and ultimately benefit the Indian economy. He stated that he would not repeat the issues already raised but would only highlight some of the important ones. He stated that MSME sector was a technical subject and the Government of India had a separate Ministry of Micro Small & Medium Enterprises. He stated that a new legislation was under preparation in which SMEs would be defined not only on the criteria based on investment in plant and machinery but also on the criteria of annual turnover, which could be up to Rs. 250 crore. Hence, there was a need to go deeper into the subject and an Inter-Ministerial Coordination Group was needed to discuss the whole gamut of issues concerning MSME. This issue could not be addressed only by way of changes in tax structure which had a limited impact.

6.29. He further stated that the factors that would help ease of doing business for MSME needed to be looked into. He suggested that the rate related issues should be referred to the Fitment Committee and the Council could decide on the procedural issues. He cited the example of different e-Way bill procedures in different States for intra-State movement of goods. He observed that this was not a good situation and suggested to review this issue and formulate a national policy for intra-State e-Way bill at least for the MSME sector. He further stated that goods and services predominantly supplied by MSME should be identified and then it could be discussed how to help them through a lower tax slab and wider relief for job work. He stated that in his State, job workers for auto parts, LED lights, utensils and tractor parts needed relief of lower tax rate of 5% as already provided to newspapers, textile yarn, diamonds and certain other things. He suggested that a similar research was required to be done State-wise. He suggested that the Council should remain focussed on the revenue neutral rate. A neat, distortion free GST could resolve many issues of MSME.

6.30. Shri Manpreet Singh Badal, Hon'ble Minister from Punjab, congratulated the Hon'ble Chairperson for calling a Council meeting with MSME focus. He observed that this dynamism was needed for GST to become a tool for economic growth, revenue buoyancy, equity and justice. He stated that the famous economist Prof. Jagdish Bhagwati had once said that India should follow Ludhiana model of growth where there was a factory in every household. This model helped to create employment, goods at economical rates and also distribution of income and wealth in an equitable and socially just fashion. However, the fulcrum had now moved on to the bigger industry and the present trend was either to become a big unit or to become a job worker or become subservient to the bigger industries. He stated that as per the statistics of 2017-18 pertaining to collective profit before tax of companies which are quoted on the Bombay Stock Exchange, the growth of industry in large sector was 10%, in medium, it was minus 30% and in small sector it was minus 300%. This indicated that GST had helped the larger industries which operated on pan India scale by saving on

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cascading of tax and logistics and they were displacing the smaller industries. He stated that if this was the reality, then one needed to think of some structural reforms for MSME. He observed that as per the statistics of Economic Survey, MSME constituted 90% of the taxpayer base and contributed only 15% of the tax revenue. A large percentage of this tax revenue contribution was from B2B supplies, which were wash transactions, and therefore their total contribution to tax collection was meagre. He informed that he had a meeting with the industry representatives and the following suggestions emerged: -

- (i) Completely exempt certain sectors which did not make any net contribution to the exchequer but were merely a part of the tax chain like job workers and intermediaries where tax could be collected either at the first stage or the last stage. This could benefit 30 to 40 lakh taxpayers. This scheme could be made voluntary like the Composition scheme;
- (ii) At least e-Way bill for job workers in textile and cycle parts sectors may be removed;
- (iii) There should be a uniformity in the provisions of intra-State e-Way bill, say exemption from requirement of e-Way bill for value up to Rs. one lakh.

6.31. The Hon'ble Minister from Punjab further stated that it was desirable to review the reasons and factors disabling the MSME sector. For example, the large-scale units had captive power plants on which they could take input tax credit on all inputs but MSME drawing power from power suppliers could not take input tax credit on power. He suggested to give some weighted deductions in tax credits to MSME. He further stated that as the Indian economy moved from commodities to services and the distinction between goods and services was narrowing down, there should also be a Composition scheme for persons engaged primarily in services supply except for Restaurants, albeit with a lower annual threshold limit, say Rs. 50 lakh for services with a flexibility that they could also supply goods upto a value of Rs. 5 lakh. He stated that a flat lower tax rate of say 5% would help in getting many more people under the tax net and would ensure that those suppliers of services who charged tax at the rate of 18% would have to necessarily declare turnover of over Rs.50 lakh. He also suggested to reduce the rate of interest by 3% for delayed compliance by SMEs with annual turnover up to Rs.1.5 crore. He also suggested to do away with audit for MSME up to a particular threshold. He also supported the proposal of the Hon'ble Deputy Chief Minister of Bihar to have a common audit by chartered accountant under income tax and GST. He further supported the proposal of the Hon'ble Deputy Chief Minister of Bihar that there should be a one-time settlement or 'Samadhan' Scheme to quickly get over the VAT legacy issues. The Hon'ble Minister from Kerala stated that Punjab had a right to bring its own settlement scheme without referring it to the Council. The Secretary stated that the issue needed a consensus decision of the Council as it would mean lesser revenue from the VAT and the State would be required to be compensated more by the Centre. The CCT, Tamil Nadu stated that one-time settlement scheme for legacy issues of VAT would bring more revenue to the exchequer. The Hon'ble Chairperson stated that it would be useful to have a uniform view for one-time settlement for legacy issues under VAT as this was likely to cause loss of revenue.

6.32. The Hon'ble Minister from Punjab further suggested to reduce the rate of tax on metal scrap from 18% to 5% as it was an important raw material for steel rolling mills. He also suggested not to have reverse charge mechanism for steel rolling mills. He stated that to address many of the problems of MSME, changes in CGST/SGST Law would be required. He pointed out that in the compilation of MSME issues circulated by the Council's

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Secretariat, at about 50 places, it was mentioned that change in Law was required and this was the root of the problem which needed to be addressed. He suggested that more consultation should be held with stakeholders before making changes in the CGST/SGST Law.

6.33. The Hon'ble Minister from Assam stated that MSME generated the largest employment and it was important to give them relief. The Council could go an extra mile for the same. He informed that the suggestions he received from the stakeholders were very generic and not State specific. He supported the proposal of reimbursement of GST to a certain extent to the units in the MSME sector. He informed that in his State, they were reimbursing SGST component to their small-scale industry and even to medium and large-scale industries because of their area specific industrial policy. He added that reimbursement of CGST and SGST could be considered up to a certain limit by the Council and that this single step would help the MSME sector to a large extent. He supported the suggestion of the Hon'ble Deputy Chief Ministers of Delhi and Bihar in this regard. He added that it could be debated whether the limit for such reimbursement should be units with annual turnover up to Rs. 1.5 crore or Rs.5 crore. He stated that the proposed reduction in rate of tax on cement from 28% to 18% would have an annual revenue implication of Rs.14,000 crore. He expressed that the cement industry would mostly reduce price for some time and then increase the same. He wondered whether instead of giving this Rs.14,000 crore relief to the cement industry, this kind of benefit could be given to units in the MSME sector. He supported the view of the Hon'ble Ministers from Kerala and Goa that the rate of tax had been reduced on many items and, at this stage, tax rate on the other items need not be reduced. He suggested to have an Inter-Ministerial Group within the Council to take a holistic view after taking feedback from the Ministry of MSME on the issues and to recommend tax reduction only on such goods which would help in generating or sustaining employment. He observed that reduction in tax rate on cement and television of varied sizes may not be needed at this time.

6.34. The Hon'ble Minister from Assam further stated that a discussion in GoM on MSME would have a positive impact for this sector and some of the suggestions not having impact on revenue could be implemented early by the GoM during the intervening period of two to three months. He recalled that in the first 2 to 3 Meetings of the Council, the division of administrative authority over taxpayers was debated passionately but now taxpayers with annual turnover up to Rs.1.5 crore were allowed to avail the benefit of Composition scheme which indicated that those debates had become irrelevant over a period of time. He also supported the suggestion of the Hon'ble Minister from Karnataka to showcase the decisions taken by the Council during the last one year to help the MSME sector and that there should be a consistent publicity drive on this issue even in the regional languages. He stated that big ticket reforms like increasing the annual turnover threshold for Composition, one-year extension for reverse charge mechanism, etc. should be publicised repeatedly in the national as well as the regional press. He also requested the Hon'ble Chairperson that the revenue implication of the proposal of reimbursement of CGST and SGST to MSME should be got examined. He stated that this needed to be counter-balanced with demands for reduction in the rate of tax and then if found feasible, one could come out with a reimbursement policy for the MSME sector in the next Council meeting or so.

6.35. The Hon'ble Minister from Odisha stated that MSME contributed significantly to employment and revenue. He added that his State did not have much of manufacturing sector. He observed that many decisions had been taken earlier too for the benefit of MSME and this

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meeting would further help the MSME sector. He stated that he had discussed the issues with the stakeholders and many points were already highlighted by the Hon'ble Ministers. He observed that the Hon'ble Ministers from West Bengal and Karnataka had raised important issues on MSME. He stated that MSME required procedural simplification rather than reduction in tax rate and revenue issues. As regards revenue issues, he suggested that they should be taken up carefully. He observed that cement, while used for common man housing, was also used by big builders for making bridges, railway constructions, etc. He stated that rate reduction on cement would not be equitably shared between common man and the big builders and would hamper revenue generation. He suggested that return filing and tax payment should be made quarterly for taxpayers up to an annual turnover of Rs.5 crore to reduce compliance burden, accommodate late release of payments by recipients and prevent blockage of capital. He suggested that the audit requirement under Section 35(5) of the GST Act in case of MSME with annual turnover up to Rs.5 crore should be dispensed with for the first year of GST implementation i.e. 2017-18 as there was a lot of confusion regarding GST and also there was lack of clarity due to frequent changes in the law, rates and procedure. He further stated that supplier of goods should be made legally responsible for generation of e-Way bill i.e. both for part 'A' and part 'B' of the e-Way bill as big suppliers were passing on the responsibility of generation of e-Way bill to small purchasers. He also suggested that there should be a facility by GSTN to capture Udyog Aadhaar Memorandum (UAM) and Industrial Entrepreneur Memorandum (IEM) numbers in the GST registration to facilitate identification of MSME.

6.36. Shri Jarkar Gamlin, Hon'ble Minister from Arunachal Pradesh supported the proposal of the Hon'ble Minister from Meghalaya regarding increasing the threshold for registration for Tax Deduction at Source. He observed that local businessmen were not in a position to carry out TDS compliances and proposed that those businesses should be exempted from registration under TDS. He stated that to save time, he would not repeat several other issues already spoken of by the other Hon'ble Members.

6.37. The Hon'ble Minister from Andhra Pradesh stated that they had submitted a list of about 29 items for reduction in the rate of tax which required the attention of the Council. He stated that his State was agreeable in principle to extend any concession to MSME but any concession or exemption given by the Council would end up in revenue loss to the States and this also needed to be looked into. He stated that several issues raised by MSME related to legal, administrative and financial issues and these could not be settled immediately. He suggested that a GoM within the Council should be formed on MSME and the Fitment Committee and the Law Committee should study the issues raised and report to the GoM. The Council could then take a decision. He stated that decisions could have multiple complications and, therefore, in-depth study of the proposals was needed. He supported the proposal for reduction in rate of tax for tractors/spare parts for tractors. He observed that tractors were used in farming activities and a high tax rate on it would burden the farmers. Hence, tax on tractors/ tractor spares and trailers should be reduced from 12% to 5%. He also supported the proposal for reduction in rate of tax for movie tickets. He stated that movies were the most popular form of entertainment in Southern States and the movie industry also provided employment to a large number of people. He, therefore, suggested that rate of tax on movie tickets costing more than Rs.100 should be reduced from 28% to 18% and those costing less than Rs.100 should be reduced from 18% to 12%.

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6.38. The Hon'ble Minister from Andhra Pradesh further stated that in the VAT regime, aquafeed, poultry feed, cattle feed and feed supplements were exempted from tax. But under GST, as per Notification No.2/2017-Central Tax (Rate), Entry 10 (Exempted List), the item described as aquafeed and supplements was causing confusion due to improper description. He suggested that the entry should be re-drafted and a specific clarification should be issued to grant exemption on feed supplements irrespective of the source of such supplements whether from the residues of food industries or from other sources.

6.39. He also requested to grant exemption from registration under Section 23(2) of the CGST Act and SGST Act for Tirumala Tirupati Devasthanams (TTD) as it was a religious trust and not engaged in business activities and providing services to the devotees was its main objective. Levying tax on the amounts it received in providing services or sale of goods was not justified. He also mentioned that TTD utilised the surplus amount for charitable purposes. He also suggested that fish-nets, fish-net fabrics and fisherman boats currently taxed at the rate of 12% should be exempted as these goods were used by poor fishermen and they were exempted from tax under VAT. Likewise, they had also requested for exemption from registration for Girijan Cooperative Corporation Ltd. because most of the forest products came from tribal and forested areas and these should not be taxed. He further stated that States were facing fiscal deficit and, therefore, tax benefits should be given only after making a detailed study of the revenue implications.

6.40. The Hon'ble Chairperson invited officers of the States, whose Ministers had not come, to highlight any points which were not covered by the issues raised by the Hon'ble Members of the Council. Shri Alok Sinha, Additional Chief Secretary (ACS), Commercial Tax, Uttar Pradesh, highlighted the problem regarding lack of on-line refund system and requested that the same should be expedited. He stated that Composition taxpayers and MSME Industries were in large number in their State and they had launched a new scheme namely "*Vanijya Kar Vibhag Aapke Dwaar*" to address their concerns. He added that they had sent certain proposals in writing for tax benefit for sectors like sports goods industries, and brass-wares in Moradabad etc. He requested that the Fitment Committee should reconsider these recommendations. He also pointed out that the position of revenue collection in Uttar Pradesh was much better and they had registered 50% growth in tax collection in the last four months as compared to the corresponding four months of the last year.

6.41. Shri Anil Kumar, CCT, Telangana, suggested that the threshold limit for availing the benefit of Composition scheme should be increased to annual turnover up to Rs.3 crore. He further suggested that Composition taxpayers should also be allowed to make inter-State supply. Shri P. K. Bhatt, Additional Commissioner, Commercial Taxes, Jammu & Kashmir stated that they had received 12 representations from MSME sector, out of which they had recommended 4 to 5 points. He requested to exempt GST on almonds, walnuts and handicraft goods specific to their State. He also suggested to reduce the rate of tax on roasted groundnut from 12% to 5%. He added that cricket bat industry enjoyed CST exemption and under GST, the rate of tax should be reduced.

6.42. Shri Amitabh Jain, Principal Secretary (Finance & Commercial Tax), Chhattisgarh suggested that GST on milling charges of paddy to rice should be exempted from tax. He stated that there was no Service Tax earlier but 5% GST was levied currently which ultimately came as a burden on the Public Distribution System subsidy. Shri Rajeev Sharma, CCT,

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Himachal Pradesh stated that pharmaceutical sector suffered due to inverted duty structure on inputs and final products and this should be rectified. Shri Praveen Gupta, Secretary, Finance (Revenue), Rajasthan raised the issue of inverted duty structure. He stated that in certain cases, the output GST rate for the MSME units was 5% whereas input GST rate was 18%. He stated that railways also suffered from inverted duty structure and huge amount of input tax credit and working capital was blocked. He suggested that this issue should be addressed. He also stated that the notification issued on 26th July 2018 in respect of textiles did not give clarity on accumulated input tax credit lying unutilised in the balance and what would happen to inward supplies received upto 31st July 2017 and whether it would lapse. He further stated that a distinction should be drawn between input tax credit availed and input tax credit utilised and the provision of interest should be applied only when input tax credit had been utilised. He further suggested to apply a uniform rate of 5% on all job work services.

6.43. Shri Wochamo Oduyo, Additional Commissioner, State Tax, Nagaland supported the proposal to exempt taxpayers with annual turnover up to Rs.1.5 crore from payment of CGST. He suggested that this would also incentivise SGST compliance. Shri Manoj Rai, Additional Commissioner, Commercial Taxes, Sikkim stated that internet connectivity was a major problem in his State and two meetings had already been held in this regard – one in Guwahati on 11th April 2016 and the second in Delhi on 18th October 2016. During these meetings, BSNL was requested to provide block level internet connectivity. He observed that as population was very thin in these blocks, the private sector companies were not willing to set up infrastructure to improve internet connectivity and BSNL should improve infrastructure for better internet connectivity. Shri Ashin Barman, Superintendent, State Tax, Tripura stated that all refund should be granted within 30 days of making the application. He also suggested that stock transfer between principal and agent should be exempted from tax.

6.44. The Hon'ble Minister from Karnataka stated that he had to leave the meeting early but before that he wished to highlight some specific issues for the consideration of the Council. He stated that fishmeal was made out of waste fish and went into feed of poultry and it was currently taxed at the rate of 5%. He stated that a clarification should be given regarding the applicability of tax on this product by the Fitment Committee. He further stated that rate of tax on pickle should be brought down to 5%. This proposal was supported by the Hon'ble Minister from Tamil Nadu. The Hon'ble Minister from Karnataka further stated that he had been raising the issue of tax on hybrid cars again and again. He suggested that only the rate of cess on such cars should be lowered. He emphasised that this would not lead to any revenue loss as hardly 100 cars were being sold. He observed that the target to move to electrical vehicles by 2030 was a difficult one, and as an intermediate strategy, it was important to popularise hybrid cars in the next 4 to 5 years. This would help control pollution and save energy.

6.45. The Hon'ble Minister from Karnataka stated that another very important issue related to one segment of Knowledge export in the Biotech sector. He explained that biotech research units in Bengaluru, Hyderabad, Chennai, etc. imported certain items for research and development and then exported the outcome of the research. In such cases, as an item had been imported but was not exported, the other connected outcome like a research report was not treated as export. He stated that this was severely affecting export competitiveness and many MSME were also working in this sector. He gave an example of import of tablets of crocin for doing research to improve its efficacy and the results of the research were exported

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but not the crocin tablet itself, which was used up during the study. Under the current provisions of the IGST Act, this was treated as domestic consumption and the output supply was taxed in India. He stated that a provision to treat such activities as export was there in the original draft of Law Amendment but it was removed subsequently due to fear of misuse. He stated that this provision should be introduced in the GST Law with safeguards, as needed, to prevent misuse and the Law Committee should further examine it.

6.46. The Hon'ble Chairperson stated that a number of issues had been flagged by the Hon'ble Members during the lunch break. He had discussed regarding the way forward with the Hon'ble Members and the general consensus was that MSME issues relevant to the Law Committee, the Fitment Committee and the IT Committee would be referred to them. New suggestions and representations received subsequent to the Council meeting, including for procedural changes, would also be considered. Issues pending with the Law Committee, as earlier highlighted by the Hon'ble Minister from Punjab, would also be considered by the Law Committee. All these three Committees shall present their respective reports to a Group of Ministers (GoM) on MSME headed by Shri S.P. Shukla, Hon'ble Union Minister of State (Finance) and consisting of the Hon'ble Deputy Chief Ministers of Bihar and Delhi and the Hon'ble Ministers from Kerala, Punjab and Assam. He stated that the GoM on MSME would consider all the recommendations of the three Committees and then bring a full report to the Council, within 2 months. Since it might take time to complete the full report, the GoM on MSME could also bring before the Council interim report from time to time for taking decision. He added that the GoM on MSME could take decision on minor issues, specifically related to MSME, brought before it by the three Committees and inform the Council. He added that for all the meetings of the GoM on MSME, all the Members of the Council would get intimations so that all those who desired could participate in the Meetings. He further stated that the Convenor of the GoM on MSME may also invite representatives from other Ministries/Departments of the Government of India like Financial Services, MSME and CBDT. The Council agreed to the suggestions of the Hon'ble Chairperson.

6.47. Concluding the discussion on this Agenda item, the Hon'ble Chairperson observed that issues flagged for MSME today were truly outstanding and the States had worked hard to find out the problems of MSME at the ground level. He stated that this would send a good message to MSME. The Hon'ble Minister from West Bengal stated that one issue discussed during the lunch break by the Hon'ble Ministers was regarding giving land on lease hold basis to schools, colleges, and even for commercial activities for 30 or 99 years and charging salami on it. This was considered as sale of interest in an immovable property and it resulted in Government paying huge amount of GST. On the other hand, land given on freehold basis or to the private sector was not being charged to GST. He stated that the Fitment Committee should examine this issue. He also voiced his support to the suggestion of the Hon'ble Minister from Karnataka on the issue of difficulty being faced in Knowledge exports i.e. research. He stated that the products which were imported for research were broken down during the research and could not be re-exported. He recalled that when this issue was discussed earlier, the Secretary had raised concerns of its misuse in some other areas. However, the present law was hurting knowledge outsourcing and he strongly supported the suggestion of the Hon'ble Minister from Karnataka to address this issue.

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7. **For Agenda Item 2, the Council: -**

- (i) took note of the suggestions received from the States and the field formations of Central Tax Administrations on MSME related problems as also those which were raised in the Council;
- (ii) approved the formation of a GoM on MSME under the convenorship of the Hon'ble Union Minister of State (Finance) Shri S.P. Shukla with Hon'ble Deputy Chief Ministers of Bihar, Delhi and the Hon'ble Ministers from Kerala, Punjab and Assam as its Members;
- (iii) approved that the Fitment Committee, the Law Committee and the IT Committee shall examine the MSME related issues relevant for them raised by the States and the Central Tax Administrations prior to the Meeting of the Council or as deliberated during the Council meeting as well as new suggestions and representations received subsequent to the Council Meeting, including for procedural changes;
- (iv) approved that the three Committees shall submit their recommendations to the GoM on MSME which will examine it further and then present the full report for the consideration of the Council in two-months and also submit interim reports during the interregnum;
- (v) approved that the GoM on MSME could take decision on minor issues and inform the Council about the same;
- (vi) approved that the decisions taken by the Council in previous meetings and implemented so far with respect to addressing the concerns of MSME sector shall be documented and publicised;
- (vii) approved that the correct Hindi translation for the words "Goods and Services Tax" was "*Maal Aur Sewa Kar*" and this should be used uniformly, wherever required.

Agenda Item 3: Incentivising Digital Payments in GST Regime

8. The Hon'ble Chairperson invited the Hon'ble Deputy Chief Minister of Bihar, Convenor of the GoM on Digital Payments, to introduce the agenda. The Hon'ble Deputy Chief Minister of Bihar stated that during the last Meeting of the Council, a revised proposal on incentivising digital payments was presented and it was decided to refer it back to the GoM on Digital Payments for further consideration. He informed that the GoM had approved the revised proposal as per which the incentive for digital payment would be limited only to B2C transactions made through RuPay (Debit card) and UPI (Unified Payment Interface), BHIM (Bharat Interface for Money) and USSD (Unstructured Supplementary Service Data). He further stated that mostly these RuPay cards (Debit cards) were being issued to *Jan Dhan* account holders and *Kisan Credit Card* (KCC) holders. He informed that about 28 crore RuPay cards had been issued by various banks. He recalled that the earlier proposal was to provide for a reduction in the rate of tax but now it was proposed to refund 20% of total GST paid through cashback with a cap of Rs.100 per transaction. For this cashback scheme, the NPCI (National Payments Corporation of India) would need funds and it was proposed that this could be pooled by the Centre and the respective State. He stated that it was estimated that average value per transaction would be around Rs.1, 103 and if 20% of the transactions got the benefit, then the financial implication for a year would be approximately Rs.991 crore. He stated that very few transactions were expected to take place in the first year.

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8.1. The Hon'ble Deputy Chief Minister of Bihar added that some Hon'ble Members had raised concern regarding urban and rural divide and suggested to limit this benefit only to rural areas. To address this concern, the revised proposal limited this benefit only to RuPay (Debit) cards which was mostly used in rural areas. Another concern raised was regarding lack of digital infrastructure in rural areas like POS (Point of Sale) machines. He stated that to address this concern, it was recommended that the Government of India should supply large number of POS machines in rural areas at concessional price. He stated that the earlier proposal was to extend this scheme for transactions done through all cards which appeared to give more benefit to credit cards used by urban and elite customers, but the revised proposal would ensure that the scheme benefited mainly the rural population at the start. He further stated that incentivising digital payments by way of instant cashback of GST shall lead to the following gains:

- i) Increased formalisation – reduced GST evasion;
- ii) Increased transparency in business;
- iii) Incentive to use the digitisation will reduce rural – urban divide;
- iv) Improved compliance and reduction in cash transaction vis-à-vis GDP;
- v) No discrimination with rural and poor population;
- vi) Increased consumer participation because of incentive;
- vii) Revenue implication of the policy should not be seen as a cost but as an investment to formalise the economy in long term.

8.2. The Hon'ble Deputy Chief Minister of Delhi raised a question as to how the transactions would be taken on record and how the refund would be paid i.e. whether payment would be made upon making the claim or whether it would be paid automatically. The Hon'ble Chairperson stated that NPCI shall automatically refund the amount for any payment made through server of NPCI. The Hon'ble Deputy Chief Minister of Bihar added that money would be transferred automatically to the purchaser's account by NPCI in 24 hours.

8.3. The Hon'ble Minister from Haryana stated that during the last meeting of the GoM held on 3rd August, 2018, representatives of MeitY (Ministry of Electronics and Information Technology) and NPCI were also present and they informed that they would work out the arrangement regarding cashback by which when RuPay (Debit card) was used or payment was made through BHIM application, money would immediately go into the account of the purchaser by cashback. The time taken would be one or maximum two days after the date of the transaction, as was the present practice with Petro cards. So, the money would be transferred to the account of the purchaser within 36-40 hours. He stated that the GoM also proposed that when RuPay (Debit card) or BHIM app was used, there should be a facility by which the purchaser would receive an SMS about completion of the transaction and also of getting a specified amount of refund shortly so that there was immediate recognition of the benefit. This would incentivise digital transactions.

8.4. The Hon'ble Minister from West Bengal expressed his regret at not being able to attend the last meeting of the GoM on Digital Payments because of his other preoccupations. He recalled that during the first meeting of the GoM which he had attended, there were

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significant differences amongst the Members but now the proposal had been modified. He informed that he had sent a letter as a member of the GoM to the Convenor of the GoM raising some concerns on the revised proposal. He observed that if one started a policy of giving incentive through GST, today it was for using digital platform but there could be 25 other issues which could be deserving of incentive. He stated that once the principle of giving incentive from GST revenue was accepted, it could potentially open floodgates. He suggested that as the amount involved was small, instead of creating problem with the GST revenue system, it could be done through the budget of the Central Government.

8.5. The Hon'ble Minister from West Bengal further stated that post-demonetisation, the actual situation in villages was not so good. He added that people in villages did not have Wi-Fi and adequate POS machines. So, rural and urban divide was inherent even in the revised proposal. He stated that the revised proposal would benefit the present users of BHIM and would not necessarily serve the poor population. He further raised a concern as to why this incentive should be given from the GST revenue. He stated that earlier he had also expressed concern on proposal with regard to levying cess on sugar and expressed caution regarding starting incentives from GST revenue. Instead, the Centre and the States could do it through their own budget. He further added that there were reports of huge failure of some of these RuPay cards relative to the expectations. He expressed that as a member of the GoM, he disagreed with the proposal and he had sent this in writing to the Convenor of the GoM in appropriate manner but had not sent it to the Council.

8.6. The Hon'ble Chairperson observed that the concerns of the Hon'ble Minister from West Bengal had been reflected in the Agenda notes. He added that the Council should keenly try to improve GST compliance. If the incentive scheme helped in encouraging traders to issue bills, it would lead to substantial gains in revenue. He stated that it was desirable to undertake policy initiatives that encouraged traders to make it a habit to issue bills. He stated that the Central Government could lend support to augment infrastructure by providing POS machines etc. which would in turn support digital transactions in rural areas. He stated that ultimately the States would also be benefitted because of more and more formalisation of the economy. He further added that 3.6 lakh *Panchayats* had now got digital connectivity and 6,000 railway stations would have Wi-Fi in next six months. He stated that making digital connection available to the poor would help to connect them to the world.

8.7. The Chairman, GSTN, stated that about 30 crore RuPay (Debit cards) had been issued. He added that, today, any mobile device could be used as a payment device by using BHIM UPI for making payment. He further stated that BHIM-Aadhaar could be used for making payment even through thumb print. He stated that all this would help in encouraging people to switch to digital payment particularly in small towns and rural areas. He informed that in the last Budget, it was announced that 20 lakh POS machines would be spread across the country in addition to other efforts like BHIM-Aadhaar etc. He added that even the Fair Price Shops (FPS) under the Public Distribution System were being enabled to get payment through BHIM-Aadhaar.

8.8. The Hon'ble Deputy Chief Minister of Bihar pointed out that in 2017-18, the value of transactions through UPI, BHIM and USSD was Rs.1,09,832 crore in approximately about 92 crore transactions; through RuPay POS was Rs.48,886 crore in approximately 46 crore transactions and through RuPay (eComm) was Rs.16,635 crore in approximately 21 crore


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transactions. He observed that the internet penetration had gone deep into the villages and rural population therein would be able to use RuPay. He further observed that the State of West Bengal had, in fact, received a national prize for popularizing digital use.

8.9. The Hon'ble Minister from Kerala supported the concerns raised by the Hon'ble Minister from West Bengal. He stated that he had sent a long note to the Council on this issue. He had met trade organisations, who had also opposed this proposal. The traders felt that such a scheme would help large malls and would threaten their existence. He further stated that the choice of using physical currency or digital mode of payment was culturally determined and it might not lead to expected benefits. He observed that there was no dramatic increase in digital transactions post-demonetisation. He observed that incentivising those who had already adopted digital system of payment was not a good idea, and therefore, he opposed this proposal. He suggested that if such an incentive was to be given, it should come from the Union Government's budget or from CGST but SGST should not be used for incentivising digital payment. The Hon'ble Deputy Chief Minister of Delhi stated that two issues needed to be considered – first whether Council should adopt the principle of incentivisation and second whether there was adequate technology to support the proposed scheme. He stated that he did not agree with the idea of giving incentives through GST revenue collection and no such precedent should be created. He observed that the Centre and the States had pooled their sovereignty and views of both should be respected. This scheme of incentivisation might be a small thing today but might become a precedent later.

8.10. The Hon'ble Minister from Punjab stated that he was part of the GoM on Digital Payments and expressed his regret for not attending the last meeting of the GoM. He stated that during the earlier meeting, GoM had recommended to hold this proposal in abeyance. He further stated that the proposal to allow one particular card for availing incentive in preference to the other cards could make this scheme fall foul of Article 14 of the Constitution, which enshrined equality before law. He stated that the impact of such a scheme on other credit cards could be adverse. He observed that the scheme should be constitutionally proper. He also raised an issue as to how the credit card company would know what slab, out of the four tax slabs, to apply for incentive payment. The Hon'ble Deputy Chief Minister of Bihar stated that RuPay (Debit card) was being used in a large number of rural areas by *Jan Dhan* account holders and *Kisan* Credit Card holders. He stated that in the urban areas, the nationalized banks were generally giving credit cards of other agencies like Master and Visa and not RuPay (Debit cards). He added that NPCI could handle the technology issues as they were already monitoring RuPay card transactions and it would also be possible to know technologically as to what tax was paid by the purchaser.

8.11. Responding to the concern raised by the Hon'ble Minister from Kerala, the Secretary stated that traders were possibly not agreeable to incentivising digital payment as they would have a vested interest in encouraging transactions in cash. He pointed out that the average annual turnover of Composition taxpayers was only Rs.17 lakh and even then, they had got registered on the GST portal. He added that approximately 75% of the Composition taxpayers had turnover of less than Rs.20 lakh. He stated that this was done possibly to encourage cash transaction and to evade GST and income tax. He stated that incentivising digital payment would encourage payments through RuPay, BHIM etc. As for the concern raised by the Hon'ble Minister from Punjab regarding identifying the tax component in the bill amount debited in NPCI, he stated that the NPCI was trying to come out with a solution for this issue

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and making an application for it in which there would not be much botheration for the trader. He suggested that the Council could give in principle approval to this proposal subject to solutions found out by NPCI.

8.12. The CCT, Tamil Nadu supported the proposal of the Secretary. He stated that this issue did not relate to giving concession. Presently, the traders were telling their buyers that price would be lower if no bill was issued. This scheme would break the nexus between the trader and the consumer where both were benefited if the tax was evaded. Now, there would be benefit for the buyers if bills were raised. Shri Tuhin Kanta Pandey, ACS, Odisha, stated that the scheme to incentivize digital payment was not applicable to Composition taxpayers whereas most rural people went to Composition taxpayers for their purchases. So in the example given by the Secretary regarding concealment of actual turnover by the Composition taxpayers, purchasers from Composition taxpayers or the unregistered taxpayers (taxpayers with annual turnover below Rs 20 lakh) would still not be encouraged to take bills. The CCT, Tamil Nadu, stated that this benefit should also be extended to urban areas where it would generate more revenue as non-billing was one of the significant problems at the last stage of the value chain.

8.13. The Hon'ble Minister from Haryana stated that the mandate to the GoM on Digital Payments was to incentivize digital transactions by way of some cashback in GST and everyone agreed that increased digital transactions would help in better revenue collection. He stated that at this stage, the GoM had suggested only to take a baby step and to incentivise transactions through Government of India owned cards i.e. RuPay (Debit card) and the BHIM application. He stated that his State was supporting approximately 22 lakh social security beneficiaries where Rs.1800 was deposited in their account every month through digital mode. He added that if such 22 lakh beneficiaries got such benefit through RuPay card and NPCI got it activated, then it would also create huge potential. He stated that the shops under PDS were also connected to POS. He pointed out that the GoM did not propose to extend the tax benefit to other cards as they had some in-built costs and conditions which was not the case in BHIM app as well as the RuPay card. He observed that almost Rs.3.60 lakh crore was being transferred directly into the bank account of the roughly 20 crore Government of India beneficiaries. He added that incentivising digital transactions through RuPay cards would increase revenue collection and formalisation of economy. He further added that there was a potential to improve digital payment by encouraging traders to have more POS machines. He emphasized that this was only a baby step and the Council should approve it to experiment with the same.

8.14. The Hon'ble Chairperson observed that Republic of Korea incentivized payment through credit cards in a very big way and that had helped to formalize its economy. The Hon'ble Minister from Kerala stated that this scheme could be tried in one or two States as B2C transactions did not affect other States at all and then it could be evaluated. The Hon'ble Minister from Assam stated that this agenda item had been discussed during the last two meetings of the Council and was referred to the GoM which had now come up with a good idea of encouraging digital payment through RuPay card and BHIM interface i.e. Government of India owned card and application. He stated that his State had floated some reward scheme and cash prize was also paid to encourage issuing of cash memos. If such a small step could formalize the economy, it would be a very progressive step and would also improve revenue collection. He stated that people would also welcome such a scheme and appealed to the

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Council to approve the proposal in principle and its benefits could be evaluated subsequently. The Hon'ble Minister from Andhra Pradesh stated that since there was a division of opinion in the GoM itself, this proposal should be revisited. He stated that though, in principle, he supported the proposal, in the present form, it looked impractical and refund would be a problem. The Hon'ble Minister from Odisha stated that it was a welcome proposal but opening the door for incentivising through GST would set a wrong precedent. He stated that the Central Government should implement this scheme through its own budget.

8.15. The Hon'ble Deputy Chief Minister of Delhi stated that earlier they had a scheme "Bill Banao Inaam Pao" under which the bills could be uploaded on an app and through a draw of lots, reward upto Rs.50, 000 was given. He stated that this had a positive impact and customers were taking bills even for purchase of a bottle of water or a packet of chips. However, in principle, he did not support giving incentive through GST revenue. Instead, the Centre and a particular State could get together to bring out an incentive scheme for that State. The Hon'ble Chairperson stated that essentially he supported the proposal made by the Hon'ble Minister from Kerala and suggested that NPCI could prepare a software and the States could volunteer to introduce this scheme on a pilot basis to test it out. The Council could take a final decision after analysing the results of the pilot scheme.

8.16. The Hon'ble Minister from West Bengal stated that for pilot project of this incentive scheme, the Central Government should pay from its own budget. The Hon'ble Chairperson stated that paying from the budget of the Union Government would also set a wrong precedent. The Hon'ble Minister from West Bengal stated that he did not, in principle, support bringing incentives on the basis of outgo of GST revenue. The Hon'ble Chairperson observed that even reducing the rate of tax was a kind of incentive. The Hon'ble Minister from Assam stated that continuation of the Composition scheme was a kind of incentive relating to GST. The Chairman, GSTN, stated that BHIM-Aadhaar could also be added to the modes of transactions under this pilot incentive scheme. The Council agreed to this suggestion.

8.17. The Hon'ble Ministers from Assam and Tamil Nadu volunteered to introduce this scheme on a pilot basis. The Hon'ble Chairperson stated that the other States could also volunteer. The Council approved that the proposed scheme to incentivise digital payment could be introduced in the States that agreed to implement it on pilot basis and the Council could take a decision for its all India application after studying the impact of the pilot scheme in the volunteering States.

9. **For Agenda item 3**, the Council approved the proposal to introduce the following scheme for incentivising digital payment under GST regime:

- i) The GST concessions on digital payments be given on the B2C transactions made through RuPay (Debit Card) and UPI-Unified Payment Interface, BHIM, USSD and BHIM-Aadhaar;
- ii) The GST concession shall be given by way of refund to the consumer in his account through an automated route;
- iii) The concession shall be 20% of total GST paid subject to the total ceiling of Rs.100 (Rs.50 CGST and Rs. 50 SGST) per transaction;

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- iv) The CGST amount given as cashback shall be pooled in by the Centre and SGST amount shall be pooled in by the respective State;
- v) Upon approval of the proposal, the exact modalities for providing the concession to be put in place in consultation with the nodal Ministry (Ministry of Electronics & Information Technology);
- vi) There shall be an SMS facility to inform the purchaser regarding the digital transaction made through RuPay (Debit card) and BHIM UPI and to inform the amount that would be credited to the purchaser's account as cashback;
- vii) This scheme shall be run on a pilot basis in the States of Assam, Tamil Nadu and in any other State that may volunteer for the same.

Agenda Item 4: Any other agenda item with the permission of the Chairperson

Agenda Item 4(i): Notifying the due dates for furnishing the details in FORM GSTR-1, FORM GSTR-2 and filling the return in FORM GSTR-3 and FORM GSTR-3B

10. Introducing this Agenda item, the Secretary stated that until the time a new filing system was approved and implemented, it was proposed to continue with the present system of filling the details of outward supplies in FORM GSTR-1 and summary return in FORM GSTR-3B till March, 2019 along with postponing furnishing of details of inward supplies in FORM GSTR-2 and filing the return in FORM GSTR-3 till March, 2019. He requested Shri Upender Gupta, Commissioner (GST Policy Wing), CBIC to explain the proposal. Commissioner (GST Policy Wing), CBIC stated that this proposal emanated from rule 61(5) of the CGST Rules, 2017 and the proposal placed before the Council was to notify the due dates for filing the said returns as follows:

- (i) the due date for furnishing the details in FORM GSTR-1 for the months of July, 2018 to March, 2019 to be the 11th of the corresponding next month for the registered persons having aggregate turnover of more than Rs.1.5 crore in the preceding financial year or the current financial year;
- (ii) the due date for furnishing the details in FORM GSTR-1 for the quarters July 2018-September 2018, October 2018-December 2018, January 2019-March 19 to be the last day of the month (30th /31st) following the end of the corresponding quarter for the registered persons having aggregate turnover of up to Rs.1.5 crore in the preceding financial year or the current financial year;
- (iii) the due date for filing the return in FORM GSTR-3B for the months of July, 2018 to March, 2019 to be the 20th of the corresponding next month;
- (iv) the due date for furnishing the details in FORM GSTR-2 and filing the return in FORM GSTR-3 for the months of July, 2018 to March, 2019 shall be notified subsequently.

The Council approved the above proposal.

11. For Agenda item 4(i), the Council approved the proposals contained in paragraph 10(i) to 10(iv) above.

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Agenda item 4(ii): Proposal to withdraw amendment to Section 16(2) of the CGST Act, 2017

12. The Hon'ble Chairperson stated that during the 28th Meeting of the Council held on 21st July, 2018, certain proposals for amendment to the GST law were approved. However, he proposed to withdraw the proposed amendment to second proviso under Section 16(2) of the CGST Act, 2017. He stated that the original formulation of the second proviso under Section 16(2) of the CGST Act, 2017 was more beneficial to MSME and deletion of the phrase "along with interest thereon" would reduce the incentive for timely payment to supplier, especially to MSME. He, therefore, requested the Council to agree not to amend the second proviso under Section 16(2) of the CGST Act, 2017, which was earlier approved by the Council in its 28th Meeting held on 21st July, 2018. The Council agreed to this proposal.

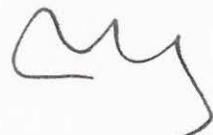
13. For Agenda item 4(ii), the Council approved to withdraw its approval for amendment to second proviso under sub-section (2) of Section 16 of the CGST Act, 2017, given during the 28th Meeting of the Council held on 21st July, 2018 and approved to retain this provision in its original form.

Agenda Item 5: Date of next meeting of the GST Council

14. The Hon'ble Chairperson informed that the next meeting of the Council shall be held in Goa on 28th -29th September, 2018.

15. In conclusion, the Hon'ble Chairperson observed that a number of very important issues had been flagged during this Meeting and thanked all the participants for their presentations and constructive discussion.

16. The Meeting ended with a vote of thanks to the Chair.


(Arun Jaitley)
Chairperson, GST Council


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Annexure 1

List of Ministers who attended the 29th GST Council Meeting on 4 August 2018

| Sl No | State/Centre | Name of Hon'ble Minister | Charge |
|-------|-------------------|--------------------------------|---|
| 1 | Govt of India | Shri Piyush Goyal | Union Finance Minister |
| 2 | Govt of India | Shri S. P. Shukla | Minister of State (Finance) |
| 3 | Andhra Pradesh | Shri Yanamala Ramakrishnudu | Minister of Finance, Planning, CT and Legislative Affairs |
| 4 | Arunachal Pradesh | Shri Jarkar Gamlin | Minister for Taxation and Excise |
| 5 | Assam | Dr. Himanta Biswa Sarma | Finance Minister |
| 6 | Bihar | Shri Sushil Kumar Modi | Deputy Chief Minister |
| 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 | Excise & Taxation Minister |
| 11 | Jharkhand | Shri C. P. Singh | Minister - Department of Urban Development, Housing and Transport |
| 12 | Karnataka | Shri Krishna Byre Gowda | Minister of Rural Development, Law & Parliamentary affairs |
| 13 | Kerala | Dr. T. M. Thomas Issaac | Finance Minister |
| 14 | Madhya Pradesh | Shri Jayant Malaiya | Minister of Finance & CT |
| 15 | Maharashtra | Shri Sambhaji Patil Nilangekar | Minister of Labour, Skill Development & entrepreneurship |
| 16 | Meghalaya | Shri Conrad K. Sangma | Chief Minister |
| 17 | Odisha | Shri Shashi Bhusan Behera | Finance Minister |
| 18 | Puducherry | Shri V. Narayanasamy | Chief Minister |
| 19 | Punjab | Shri Manpreet Singh Badal | Finance Minister |
| 20 | Tamil Nadu | Shri D. Jayakumar | Minister for Fisheries and Personnel & Administrative Reforms |
| 21 | Uttarakhand | Shri Prakash Pant | Finance Minister |
| 22 | West Bengal | Dr. Amit Mitra | Finance Minister |



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Annexure 2

| List of Officers who attended the 29th GST Council Meeting on 04 August 2018 | | | |
|--|----------------|----------------------------|-----------------------------------|
| Sl No | State/Centre | Name of the Officer | Charge |
| 1 | Govt. of India | Dr. Hasmukh Adhia | Finance Secretary |
| 2 | Govt. of India | Shri S. Ramesh | Chairman, CBIC |
| 3 | Govt. of India | Shri Mahender Singh | Member (GST), CBIC |
| 4 | Govt. of India | Dr. John Joseph | Member (Budget), CBIC |
| 5 | Govt. of India | Dr. A B Pandey | Chairman, GSTN |
| 6 | Govt. of India | Shri G. C. Murmu | Special Secretary, DoR |
| 7 | Govt. of India | Shri P.K. Mohanty | Advisor (GST), CBIC |
| 8 | Govt. of India | Shri P.K. Jain | Pr. DG, DG-Audit, CBIC |
| 9 | Govt. of India | Shri Sandeep M. Bhatnagar | DG, DG Anti-Profitteering, CBIC |
| 10 | Govt. of India | Shri G.D. Lohani | Joint Secretary, TRU I, DoR |
| 11 | Govt. of India | Shri Manish Kumar Sinha | Joint Secretary, TRU II, DoR |
| 12 | Govt. of India | Shri Ritvik Pandey | Joint Secretary, DoR |
| 13 | Govt. of India | Shri Upender Gupta | Commissioner (GST), CBIC |
| 14 | Govt. of India | Shri Yogendra Garg | ADG, GST, CBIC |
| 15 | Govt. of India | Shri S.K. Rehman | ADG, GST, CBIC |
| 16 | Govt. of India | Shri D.S. Malik | DG (M&C) |
| 17 | Govt. of India | Shri Reyaz Ahmad | Director, TRU I |
| 18 | Govt. of India | Shri Parmod Kumar | OSD, TRU-II, DoR |
| 19 | Govt. of India | Shri Gaurav Singh | Deputy Secretary, TRU-I, DoR |
| 20 | Govt. of India | Shri Pramod Kumar | Deputy Secretary, TRU-II, DoR |
| 21 | Govt. of India | Shri N Gandhi Kumar | Deputy Secretary, DoR |
| 22 | Govt. of India | Shri Ravneet Singh Khurana | Joint Comm., GST Policy Wing |
| 23 | Govt. of India | Ms Himani Bhayana | Joint Comm., GST Policy Wing |
| 24 | Govt. of India | Shri Bhagwati Charan | Dy. Comm, TPRU |
| 25 | Govt. of India | Shri Rahil Gupta | Technical Officer, TRU-I, DoR |
| 26 | Govt. of India | Shri Ajay Kumar | Technical Officer, TRU-I, DoR |
| 27 | Govt. of India | Shri Nikhil Goyal | Technical Officer, TRU-I, DoR |
| 28 | Govt. of India | Shri Modassar Safi | Technical Officer, TRU-I, DoR |
| 29 | Govt. of India | Shri Sushanta Mishra | Technical Officer, TRU-II, DoR |
| 30 | Govt. of India | Shri Harish Y. N | Technical Officer, TRU-II, DoR |
| 31 | Govt. of India | Ms Gayatri PG | Dy. Comm., GST Policy Wing |
| 32 | Govt. of India | Shri Vikash Kumar | Dy. Comm., GST Policy Wing |
| 33 | Govt. of India | Shri Satvik Dev | Asst. Comm., GST Policy Wing |
| 34 | Govt. of India | Shri Asim Anand | Asst. Comm., GST Policy Wing |
| 35 | Govt. of India | Shri Paras Sankhla | OSD to Union Minister |
| 36 | Govt. of India | Shri Anuj Gupta | OSD to Union Finance Minister |
| 37 | Govt. of India | Shri Ravi Singh | Addl PS to Union Finance Minister |
| 38 | Govt. of India | Shri Nikhil Varma | OSD to MoS (Finance) |

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| 39 | Govt. of India | Shri Debashis Chakraborty | OSD to Finance Secretary |
| 40 | Govt. of India | Shri Anurag Sehgal | OSD to Chairman, CBIC |
| 41 | Govt. of India | Shri Nagendra Goel | Advisor, CBIC |
| 42 | GST Council | Shri Shashank Priya | Joint Secretary |
| 43 | GST Council | Shri Dheeraj Rastogi | Joint Secretary |
| 44 | GST Council | Shri Rajesh Kumar Agarwal | Addl. Commissioner |
| 45 | GST Council | Shri G.S. Sinha | Joint Commissioner |
| 46 | GST Council | Shri Jagmohan | Joint Commissioner |
| 47 | GST Council | Shri Rakesh Agarwal | Dy. Commissioner |
| 48 | GST Council | Shri Rahul Raja | Under Secretary |
| 49 | GST Council | Shri Debashish Dutta | Under Secretary |
| 50 | GST Council | Shri Umed Singh Rawat | Superintendent |
| 51 | GST Council | Shri Mukesh Gaur | Superintendent |
| 52 | GST Council | Shri Rajeev Mirchia | Superintendent |
| 53 | GST Council | Shri Sandeep Bhutani | Superintendent |
| 54 | GST Council | Shri Vipul Sharma | Superintendent |
| 55 | GST Council | Shri Sarib Sahran | Superintendent |
| 56 | GST Council | Shri Amit Soni | Superintendent |
| 57 | GST Council | Shri Anis Alam | Superintendent |
| 58 | GST Council | Shri Dipendra Kumar Singh | Superintendent |
| 59 | GST Council | Shri Sunil Kumar | Superintendent |
| 60 | GST Council | Ms Sangeeta Dalal | Inspector |
| 61 | GSTN | Shri Prakash Kumar | CEO |
| 62 | GSTN | Ms. Kajal Singh | EVP (Services) |
| 63 | GSTN | Shri Vashistha Chaudhary | SVP (Services) |
| 64 | GSTN | Shri Jagmal Singh | VP (Services) |
| 65 | GSTN | Shri Sarthak Saxena | OSD to CEO |
| 66 | Govt. of India | Shri Kishori Lal | Commissioner, Chandigarh Zone, CBIC |
| 67 | Govt of India | Shri Yogesh Kumar Agrawal | Commissioner, Meerut Zone, CBIC |
| 68 | Govt of India | Shri Neerav Kumar Mallick | Commissioner, Bhopal Zone, CBIC |
| 69 | Govt. of India | Shri Pramod Kumar | Commissioner, Delhi Zone, CBIC |
| 70 | Govt of India, | Shri Lalit Prasad | Commissioner, Ahmedabad Zone, CBIC |
| 71 | Govt of India | Shri Shri Narayana Swamy | Commissioner, Bengaluru Zone, CBIC |
| 72 | Govt. of India | Shri R.C. Sankhla | Commissioner, Lucknow Zone, CBIC |
| 73 | Govt. of India | Shri D P Naidu | Commissioner, Hyderabad Zone, CBIC |
| 74 | Govt. of India | Shri S. Kannan | Commissioner, Chennai Zone, CBIC |

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| 75 | Govt. of India | Shri Vijay Mohan Jain | Commissioner, Rohtak Zone, CBIC |
| 76 | Govt. of India | Shri C.K. Jain | Commissioner, Jaipur Zone, CBIC |
| 77 | Govt. of India | Shri Milind Gawai | Commissioner, Pune Zone, CBIC |
| 78 | Govt. of India | Shri B. Hareram | Pr. Commissioner, Vishakhapatnam Zone, CBIC |
| 79 | Govt. of India | Shri Sanjay Mahendru | Commissioner, Mumbai Zone, CBIC |
| 80 | Govt. of India | Shri Nitin Anand | Commissioner, Ranchi Zone, CBIC |
| 81 | Andhra Pradesh | Dr D. Sambasiva Rao | Special Chief Secretary, Revenue |
| 82 | Andhra Pradesh | Shri J. V. M. Sarma | Joint Commissioner, CT |
| 83 | Arunachal Pradesh | Shri Anirudh S. Singh | Commissioner (Tax & Excise) |
| 84 | Assam | Shri Anurag Goel | Commissioner, CT |
| 85 | Bihar | Ms Sujata Chaturvedi | Principal Secretary, Finance and CTD |
| 86 | Bihar | Dr. Pratima | Commissioner cum Secretary, CTD |
| 87 | Bihar | Shri Arun Kumar Mishra | Additional Secretary, CTD |
| 88 | Bihar | Shri Ajitabh Mishra | Dy. Commissioner, CTD |
| 89 | Chandigarh | Shri Jitendra Yadav | E & T Commissioner |
| 90 | Chandigarh | Shri Sanjeev Madaan | ETO |
| 91 | Chhattisgarh | Shri Amitabh Jain | Principal Secretary finance & CT |
| 92 | Chhattisgarh | Smt Sangeetha P | Commissioner, CT |
| 93 | Daman & Diu | Shri Suresh L Kamble | Asst. Commissioner, UT GST |
| 94 | Delhi | Ms. Renu Sharma | Pr. Secretary, Finance |
| 95 | Delhi | Shri H. Rajesh Prasad | Commissioner, State Tax |
| 96 | Delhi | Shri Anand Kumar Tiwari | Addl. Commissioner, GST |
| 97 | Goa | Shri Ashok Rane | Addl. Commissioner, CTD |
| 98 | Gujarat | Dr. P.D. Vaghela | Commissioner of State Tax |
| 99 | Gujarat | Shri. Sanjeev Kumar | Secretary (Economic Affairs) Finance Department |
| 100 | Haryana | Shri Sanjeev Kaushal | Addl Chief Secretary, E & T Dept |
| 101 | Haryana | Ms. Ashima Brar | E&T Commissioner |
| 102 | Himachal Pradesh | Shri Rajeev Sharma | Commissioner of State Tax and Excise |
| 103 | Himachal Pradesh | Shri Sanjay Bhardwaj | Addl Comm., State Tax & Excise |
| 104 | Himachal Pradesh | Shri Rakesh Sharma | Joint Comm., State Tax & Excise |
| 105 | Jammu & Kashmir | Shri Navin K. Choudhary | Pr. Secretary, Finance Dept. |
| 106 | Jammu & Kashmir | Shri M Raju | Commissioner, CT |

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| 107 | Jammu & Kashmir | Shri P. K. Bhatt | Addl Comm., CT Tax Planning |
| 108 | Jharkhand | Shri Rahul Sharma | CCT |
| 109 | Jharkhand | Shri Ajay Kumar Sinha | Addl. Commissioner of State Taxes |
| 110 | Jharkhand | Shri Brajesh Kumar | State Tax officer |
| 111 | Karnataka | Shri Srikar M.S. | Commissioner, CT |
| 112 | Kerala | Dr. Rajan Khobragade | Pr. Secretary & Commissioner, State GST Dept. |
| 113 | Madhya Pradesh | Shri Pawan Kumar Sharma | Commissioner, CT |
| 114 | Madhya Pradesh | Shri Sudip Gupta | Jt. Commissioner, CT |
| 115 | Madhya Pradesh | Shri Manoj Kumar Choube | Dy. Comm, CT |
| 116 | Maharashtra | Shri Rajiv Jalota | Commissioner, State Tax |
| 117 | Maharashtra | Shri Dhananjay Akhade | Jt. Commissioner, State Tax |
| 118 | Meghalaya | Shri L. Khongsit | Jt. Commissioner, State Tax |
| 119 | Mizoram | Shri L. H. Rosanga | Commissioner, State Tax |
| 120 | Mizoram | Shri R Zosiamliana | Jt. Commissioner, State Tax |
| 121 | Nagaland | Shri Wochamo Oduyo | Addl. Commr, State Tax |
| 122 | Odisha | Shri Tuhin Kanta Pandey | ACS, Finance |
| 123 | Odisha | Shri Saswat Mishra | Commissioner, CT |
| 124 | Odisha | Shri Sahadev Sahoo | Addl. Commissioner, CT |
| 125 | Puducherry | Shri G. Srinivas | Commissioner (ST) |
| 126 | Punjab | Shri M. P Singh | Addl. Chief Secretary-cum-Financial Commissioner (Taxation) |
| 127 | Punjab | Shri V. K. Garg | Advisor (Financial Resources) to CM |
| 128 | Punjab | Shri Vivek Pratap Singh | Excise & Taxation Commissioner |
| 129 | Punjab | Shri Pawan Garg | Dy. Excise & Taxation Commissioner |
| 130 | Rajasthan | Shri Praveen Gupta | Secretary Finance (Revenue) |
| 131 | Rajasthan | Shri Alok Gupta | Commissioner, State Tax |
| 132 | Rajasthan | Ms. Meenal Bhosle | OSD, Finance |
| 133 | Rajasthan | Shri Ketan Sharma | Addl. Commissioner, GST, State Tax Dept |
| 134 | Sikkim | Shri Manoj Rai | Addl. Commissioner, CT |
| 135 | Tamil Nadu | Dr. T.V. Somanathan | ACS/CCT |
| 136 | Tamil Nadu | Shri Ka. Balachandran | Prl Secretary, CT & Registration |
| 137 | Tamil Nadu | Shri C. Palani | Jt. Commissioner (Taxation) |
| 138 | Telangana | Shri Anil Kumar | Commissioner of State Tax |
| 139 | Telangana | Shri Laxminarayan Jannu | Addl. Commissioner, State Tax |
| 140 | Tripura | Shri Ashin Barman | Superintendent of State Tax |
| 141 | Uttar Pradesh | Shri Alok Sinha | ACS, CT |
| 142 | Uttar Pradesh | Shri Vivek Kumar | Addl. Commissioner, CT |
| 143 | Uttar Pradesh | Shri C. P. Mishra | Joint Secretary, CT |

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| 144 | Uttar Pradesh | Shri D. K. Sachan | Joint Commissioner, CT |
| 145 | Uttarakhand | Ms. Sowjanya | Commissioner, State Tax |
| 146 | Uttarakhand | Shri Piyush Kumar | Addl. Commissioner State Tax |
| 147 | Uttarakhand | Shri Rakesh Verma | Jt Comm., State Tax |
| 148 | West Bengal | Shri H. K. Dwivedi | ACS, Finance |
| 149 | West Bengal | Ms. Smaraki Mahapatra | Commissioner, CT |
| 150 | West Bengal | Shri Khalid A. Anwar | Senior Joint Commissioner, CT |

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