

## TOBACCO TO BE WITHIN GST AMBIT, ALCOHOL OUTSIDE

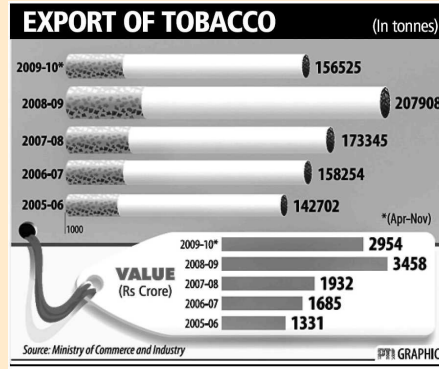
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The Union finance ministry has agreed to states' demand that tobacco be kept within the ambit of Goods and Services Tax (GST) and alcohol outside it. Besides GST, the Centre would levy an excise duty on tobacco. At present, states collect tax on alcohol, while the Centre levies duty on tobacco.

"Tobacco will be under GST but an additional excise duty will be levied. Alcohol, petroleum and electricity will be outside GST," said a finance ministry official on condition of anonymity.

States, on the other hand, have agreed to keep purchase tax under GST, as the finance minister is willing to fully compensate them. Foodgrain-producing states Punjab and Haryana were against subsuming purchase tax in GST because they got substantial revenue from the levy.

The Centre is confident that most states would not make any



losses due to GST and, thus, the compensation amount may not be very high.

The official said compensation would be for the initial three to four years and would be mainly required in case of goods, because most services are below an annual turnover of Rs one crore—the threshold being considered by the government for the compounding scheme in GST.

The empowered group of state finance ministers had proposed that tobacco be subjected to GST, but alcoholic beverages be kept out of it and sales tax or value-added tax should continue to be levied on it.

The government, however, had argued alcohol and tobacco were demerit goods that were considered harmful to

health and, therefore, both should be kept under GST, with states getting the power to levy additional excise on alcohol and the Centre getting the same power for tobacco. Now, it has been agreed that alcohol should be kept outside GST because it is also used in medicines.

Both the goods are good revenue sources for the government. Excise duty collections from tobacco products like cigarettes, bidis, chewing tobacco and gutkha stood at Rs 12,526 crore in 2008-09, compared with Rs 9,591 in 2007-08 and Rs 8,213 in 2006-07.

In the case of petroleum products, states will continue to levy sales tax on petroleum products with prevailing floor rates. Similarly, the Centre will also continue its levies. The Centre had opposed keeping crude petroleum and natural gas outside the ambit of GST, as it would imply that the credit on capital goods and input services were going into exploration, and extraction would not be available, which would have cascading effects.