

Demerit Goods: Higher rates likely on pan masala and gutkha to curb tax evasion

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The move is expected to help check massive tax evasion in these sectors. Currently, assorted tobacco items, pan masala and aerated water are among the products that attract the highest GST rate of 28% and also 'compensation cess'.



"I shudder to think the position for Punjab next year with a likely deficit of 60% from assured compensation," Badal wrote as concerns mount on states ahead of end of five year protection to GST revenues in June 2022.

Demerit goods are set to attract even higher rates under the goods and services tax (GST). A group of ministers (GoM), led by Odisha finance minister Niranjan Pujari, will examine the feasibility of levying GST on products such as pan masala and gutkha on the basis of the installed manufacturing capacity, rather than production.

The move is expected to help check massive tax evasion in these sectors. Currently, assorted tobacco items, pan masala and aerated water are among the products that attract the highest GST rate of 28% and also 'compensation cess'. The rate of cess on tobacco products is 4,170 per 1,000 sticks or 290% ad valorem, while that on pan masala is 135% ad valorem.

"(The GoM) to examine the possibility to levy of GST based on the capacity of manufacturing unit and special composition schemes in certain evasion prone sectors like pan masala and gutkha with reference to the current legal provisions," according to an office memorandum issued by the Union finance ministry.

It will also examine any other administrative or systemic mechanism to plug leakages in these sectors.

In the erstwhile excise regime, several such products were taxed based on the maximum machinery capacity installed rather than the actual production and sale.

Among other terms of reference for the GoM, it has also been tasked to examine the impact of levy of GST on reverse charge on mentha oil and to examine if there could be

other class of supplies that could be subjected to reverse charge to augment revenue. The GoM to submit report to the GST Council in six months.

Besides Pujari, other members of the GoM include Delhi deputy chief minister Manish Sisodia, Haryana deputy chief minister Dushyant Chautala, Kerala finance minister KN Balagopal, Madhya Pradesh finance minister Jagdish Devda, Uttar Pradesh finance minister Suresh Kumar Khanna and Uttarakhand finance minister Subodh Uniyal.

Source: <https://www.financialexpress.com/economy/demerit-goods-higher-rates-likely-on-pan-masala-and-gutkha-to-curb-tax-evasion/2259657/>