

GST levy based on capacity on pan masala, gutkha unlikely



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A PLAN TO levy goods and services tax (GST) on pan masala and gutkha on the basis of installed manufacturing capacity may be dropped due to the difficulties in administering the input tax credit (ITC) mechanism, sources told *FE*.

In May 2021, the GST Council had set up a group of ministers (GoM), led by Odisha finance minister Niranjan Pujari, to examine the feasibility of levying GST on products such as pan masala and gutkha, on the basis of the installed capacity, rather than actual production. This was in view of large-scale tax evasion detected by under-reporting of output by the units.

The GoM is yet to submit to its report to the council.

Currently, assorted tobacco items and pan masala attract the highest GST rate of 28% and also the 'compensation cess'.

The rate of cess on tobacco products is 290%, while that on pan masala is 135%.

In the old excise regime, several such products were taxed based on the maximum machinery capacity installed, rather than the actual production and sales. After GST was rolled out in 2017, some states demanded reverting to capacity-based taxation for the tax-evasion-prone sector.

Under the excise regime, there were also plenty of problems as the tax officers had to survey regularly how many machines were being used, and there would often be disputes with the industry players on the number of machines being used at a point in time.

"Eventually, we found that manufacturers were increasing speed of machines because of technology. Every year we had to catch up to that," an official said. While bigger players gained in the process, smaller players got out of business as they could not invest in new technology and machines.

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