

PRESS RELEASE

Text of the D.O. letter dated 14.4.2012 from Selvi J Jayalalithaa, Hon'ble Chief Minister of Tamil Nadu addressed to Dr. Manmohan Singh, Hon'ble Prime Minister of India is reproduced below:-

"I wish to draw your attention to certain outstanding issues regarding compensating States for the loss in revenue on account of reduction of the rate of Central Sales Tax (CST) for 2010-2011 and the subsequent years. The Chairman, Empowered Committee of State Finance Ministers, has already conveyed the objections of the State Governments, including Tamil Nadu. But it is unfortunate that the Government of India is still sticking to its unreasonable stance.

Though the Government of India had agreed to compensate the States for the revenue loss for the year 2010-2011 also, the eligible compensation for 2010-2011 was arbitrarily restricted by deducting the additional revenue realised through the revision of Value Added Tax (VAT) rate from 4% to 5%. I would like to point out that the action of the Government of India in linking CST compensation with the additional revenue on account of VAT rate revision is unilateral, arbitrary and untenable. There is no link between CST rate reduction and VAT rate enhancement. It was never a part of the guidelines for CST compensation.

Secondly, the decision to stop CST compensation from 2011-2012 is equally objectionable. The CST rate was reduced only as a precursor to the introduction of Goods and Service Tax (GST). Since it is the Government of India's responsibility to introduce GST by evolving a consensus and by putting in place appropriate mechanisms, the States cannot be expected to bear the loss on account of its failure to introduce GST. The Government of India has a moral responsibility to compensate the States till GST is introduced. Moreover, States like Tamil Nadu are suffering huge revenue loss on account of the CST rate reduction. In fact, our State could have realised an additional revenue of Rs.2000 crore between 2007-08 and 2010-11, even after taking into account the Government of India's compensation. This tax loss pushed back the revenue base to a lower level and the State continues to suffer incremental revenue loss which is in the range of Rs.1500 crore to Rs.2000 crore per annum in the next three years.

I must also point out that such unilateral and unreasonable actions by the Government of India do not augur well for fostering a spirit of co-operative federalism especially at a time when the Government of India is trying to build a consensus among the States for GST.

Therefore, I request that the following issues need to be sorted out expeditiously through your personal intervention:

- i) Non implementation of GST from 1-4-2010 should not be taken as a ground to stop the CST compensation and the Government of India has to provide compensation till GST is introduced as the revenue loss suffered by the States is substantial and permanent.
- ii) Revision of VAT rate from 4% to 5% should not be linked to the CST compensation for 2010-2011 as it was not part of the original compensation package and the VAT revision had nothing to do with the CST.
- iii) If further delay is expected in implementing GST, then the CST rate must be restored immediately to the original 4%.

I am confident that you will give due consideration to these issues and have them sorted out at the earliest."

Issued by: Director, Information and Public Relations, Chennai – 600009.

Date: 14.4.2012.