



Speech

of

Hon'ble Minister for Commercial Taxes and Registration

Government of Tamil Nadu

Thiru B.V.Ramanaa

Meeting of the

EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS

(FINANCE / TAXATION)

NEW DELHI

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Honourable Chairman of the Empowered Committee and Deputy Chief Minister of Bihar, my fellow Ministers from various States, officers of Government of India (GoI) and various State Governments, at the outset I extend my warm greetings to all of you.

Status of CST Compensation

The contentious issue of release of CST Compensation to the States is yet to be resolved because of the unreasonable stance of the Government of India (GOI) in the matter. Despite repeated requests, an amount of more than Rs.3,800 crore due to the State of Tamil Nadu is kept pending. During 2010-11 alone, an amount of more than Rs.2,000 crore is kept pending on the untenable ground of non-increase in the lower rate of VAT tax from 4% to 5% during that year, which was never a criterion for CST compensation.

In this context we would again like to reiterate that non implementation of GST from 1.4.2010 should not be taken as a ground to stop the CST compensation and the GOI has to provide compensation till GST is introduced as the revenue loss suffered by the States is substantial and permanent. Further, revision of VAT rate from 4% to 5% should not be linked to the CST compensation for 2010-2011 as it was not a part of the original compensation guidelines and the VAT revision had nothing to do with CST.

A Joint Committee consisting of representatives of GOI and the State Governments to make suitable recommendations on the pending CST issues held discussions on 5.6.2012. However, there has been no further response on this issue from the GOI. It

is a matter of great concern that inspite of the earnest efforts on the part of the Hon'ble Chairman, Empowered Committee to find an amicable solution, GOI does not appear to be keen to address the issue of CST compensation.

In this regard, we would once again like to reiterate our earlier suggestion that CST compensation due to the States should be released till date without any further delay and in case GoI is unwilling to compensate the States in future for loss of revenue due to reduction in CST rate, the rate should be restored back to 4%, till GST is rolled out.

Inclusion of Petroleum products and Alcoholic beverages in the ambit of GST

Recent newsreports mention that the States have agreed that petroleum products can be kept within GST as long as they are allowed to levy additional levies to protect revenue and that this shift in stance has been conveyed to the Standing Committee on Finance which is examining the Constitution (One Hundred and Fifteenth Amendment) Bill, 2011.

In this context, we wish to point out that Government of Tamil Nadu is not in favour of bringing petroleum products and alcoholic beverages in the ambit of GST and we have already communicated our strong objections with detailed reasons on this to the Empowered Committee. As in the case of other States, a substantial chunk of the sales tax revenue of the State of Tamil Nadu comes from petroleum products and alcoholic beverages which have been kept out of VAT chain. During 2011-12, Tamil Nadu realized Rs.9384 crore from sale of petrol, diesel, aviation

turbine fuel and kerosene (other than those sold through Public Distribution System) and Rs.7198 crore from alcoholic beverages. This substantial non-VAT revenue is presently being collected without any major leakage due to levy on a limited number of dealers at the first point of sale/first, second and third point of sale as the case may be. The Government of Tamil Nadu, therefore, agrees with the provisions of the Constitution Amendment Bill in keeping out petroleum products and alcoholic beverages from the purview of GST for the following reasons: -

- (i) The main reasoning behind the GST is to prevent cascading of taxes, but in case of petroleum sector and the alcoholic beverages sector the supply chain is very small and even now levy of Non-VAT tax on petrol, aviation gasoline, aviation turbine fuel, high speed diesel oil and light diesel oil is only at the first point of the sale in the State of Tamil Nadu. In case of alcoholic beverages, it is at the point of first sale in the State for Foreign liquors; at the point of first and second sale for alcoholic liquors brought from outside the State; and at the point of first, second (excluding the turnover on which tax has already been levied in the first sale) and third sale for the alcoholic liquors manufactured and sold in the State. Hence, in the present arrangement also there is no/limited cascading of taxes.
- (ii) It has been our experience that tax evasion is more rampant in the goods having short supply chain due to collusion between various players in the chain, for

example, in gold bullion, jewellery, furniture, etc. Though, as on date, the major players in the petroleum sector and alcoholic beverages sector are Public Sector companies, the situation may change in the future. Even in the current situation, players like truckers, taxi operators, etc. can indulge in practices like bill trading.

- (iii) With the current rate of taxation on petroleum products and alcoholic beverages, it is expected that if these are brought under GST, the required State levy component outside GST to ensure revenue neutrality will be very high. Keeping the smaller GST portion in the value chain and keeping the bigger Non-GST portion outside the value chain will complicate the record-keeping without giving any significant relief to the stakeholders.

Hence, our view is that the provisions suggested for Petroleum products and Alcoholic liquors for human consumption in the Constitution (One Hundred and Fifteenth Amendment) Bill, 2011 need not be interfered with.

I thank you all for this opportunity and once again extend my warm greetings to all of you.

Vanakkam.

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Government of Tamil Nadu