

Speech of Hon'ble Minister for Commercial Taxes and Registration, Government of Tamil Nadu in the meeting of Hon'ble Union Finance Minister with the Hon'ble State Ministers (Finance/Taxation) on 14th February, 2013.

Hon'ble Union Finance Minister, Chairman, Empowered Committee, and Hon'ble Ministers (Finance/Taxation) from various States and Officers of Government of India and State Governments, I extend my warm greetings to all of you.

Today's meeting has been convened to discuss the implementation of GST and CST compensation. At the outset, we would like to point out that instead of prescribing a single date for introduction of GST, it will be advisable to chart out a detailed plan prescribing timelines for various milestones like finalization of provisions of the Constitution Amendment Bill, its approval by the Parliament, necessary approval from the State Legislative Assemblies, rolling out of GSTN, finalization of model GST Act, its adoption by States and Centre, ensuring requisite IT preparedness of States, etc. Needless to say that the States should be taken into confidence on each of these aspects, without which such a major tax reform may not succeed.

We had offered our considered views on the recommendations of the two committees viz., committees on GST Design and CST compensation during the last meeting of the Empowered Committee held in Bhubaneswar, Odisha. Giving due consideration to our views, the Empowered Committee in that meeting has decided to form three separate committees consisting of representatives of the Government of India and the State Governments for detailed study and to suggest ways and means to resolve issues lacking clarity.

We would like to use this opportunity to highlight our concerns on the following aspects relating to features of GST:-

- (i) We are glad that the Committee on GST Design has suggested that States may be allowed to exempt additional items of local importance; and that both the Centre and the States may be allowed to have tax rate within a reasonable band. However, the newly constituted Committee in this regard should work out the details of the tax rates and bands to be adopted.
- (ii) While we are agreeable that there should be a uniform State GST threshold across the States, we are not in agreement with the recommendation of the Committee on GST Design that it would be preferable that taxes of the Centre and States should have a common incidence barring a few identified transactions. Keeping in view the interest of the small traders and small scale industries, issues of cost of compliance to business and cost of collection to government and to avoid

dual control, we propose that higher threshold of Rs.1.50 crore be adopted for Central GST. The newly constituted Committee in this regard should come up with a viable solution to the problem of dual control.

- (iii) We are totally against the enactment of model GST Law by the Parliament as proposed by the Committee on GST Design, as such a move would have an adverse impact on the autonomy of the States. We would rather go by the past experience in implementation of VAT and prefer that a model law should be prepared and such law should be left to be adopted by the States voluntarily.
- (iv) We are concerned that there is still no clarity on issues such as IGST, GST on imports, place of supply rules and Revenue Neutral Rates. However, we welcome the decision of the Empowered Committee to constitute two separate committees to look into the above issues.
- (v) The Committee on GST Design has suggested that a provision be made in the Constitution (115th Amendment) Bill, 2011 to allow the States to join the GST regime at a later date. However, clarity is needed on the issues that may arise out of such partial implementation.
- (vi) Our experience has not been so pleasant when it came to claiming our legitimate compensation due to the State from the Centre, be it VAT compensation or CST compensation. We have been subjected to unilateral changes in the method of calculation and the formulae to be adopted for arriving at the compensation amount. In the case of GST compensation, we would like to be assured of 100% GST compensation to be paid every year for a period of not less than 5 years through an independent mechanism. We would request that States should be eligible for 100% GST compensation even in the case of their joining GST regime at a later date.

We would also like to reiterate the following aspects on the provisions of the Constitution (115th Amendment) Bill, 2011:-

- (i) We welcome the recommendation of the Committee on GST Design to delete the proposed Article 279B which provided for GST Dispute Settlement Authority and its recommendation to increase the quorum required to one half. We are also in agreement with the decision of the Empowered Committee to increase the majority required for decisions to 3/4th from 2/3rd suggested by the Committee on GST Design. However, we do not agree with the proposal of the Committee on GST Design that the Parliament alone should enact a law on the basis of

the recommendation of the GST Council regarding the basic structure of GST and make it applicable for the entire country.

- (ii) We propose that petroleum crude, high speed diesel, petrol, natural gas, aviation turbine fuel and alcoholic liquor for human consumption be kept outside the purview of the GST. However, in case petroleum products are to be brought under GST, we would suggest that provisions have to be made in the Constitution (115th Amendment) Bill, 2011 to enable States to levy tax over and above GST on these products.
- (iii) "Tobacco and tobacco products", being sin goods, should be either kept outside the purview of GST or the States should be given the powers to levy tax over and above the SGST as has been provided to the Centre.
- (iv) Tax on Betting/Gambling should also be kept outside GST because these activities do not comprise any sales/service element.
- (v) Entertainments tax collected for Local Bodies by State Government should also not be subsumed in GST.

We would also like to reiterate the following aspects on the CST compensation: -

- (i) The loss to the states on account of reduction in CST rate is ongoing and reducing the rate of compensation to 75% and 50% for the years 2011-12 and 2012-13 respectively is unacceptable. We wish to reiterate that 100% compensation should be paid for the said years also.
- (ii) As things stand now, it is unlikely that GST will be rolled out soon. Hence, we propose that from the year 2013-14 onwards also either 100% compensation should be sanctioned to the States or the CST rate should be restored to 4%.

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

Vanakkam.

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