

Press Release No. 194

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PRESS RELEASE

Text of the D.O. letter dated 19.3.2013 addressed by **Selvi J Jayalithaa**, Hon'ble Chief Minister of Tamil Nadu to **Dr. Manmohan Singh**, Hon'ble Prime Minister of India is reproduced below:

"I am dismayed to find that the Finance Bill 2013, introduced in the Lok Sabha along with the Union Budget for 2013-14, contains an extremely retrograde, anti-federal provision in Clause 7 of the Bill. This clause seeks to amend section 40 of the Income Tax Act and make any levy by a State Government by way of privilege fee, license fee, royalty etc., on State Public Sector Undertakings not deductible for the purpose of computation of income. States have the powers to levy such fees, royalties etc. under Article 265 of the Constitution read with the relevant entries in List 2 of the Seventh Schedule. All such levies are legitimate statutory levies and as such were deductible from the income of the State Public Sector Undertakings under Section 37 of the Income Tax Act.

Clause 7 of the Finance Bill 2013, now seeks to make such statutory levies non-deductible from the income of State Public Sector Undertakings and thereby intends to boost the income of the Central Government at the cost of legitimate tax and non-tax revenue of the State Governments. This amounts to an indirect taxation of the income of State Governments and hence is violative of the spirit of Article 289 of the Constitution which exempts the property and income of a State from Union taxation. This provision is also discriminatory because this only subjects State PSUs to such non-deduction of State Government levies but not Central Public Sector Undertakings. Further, the clause as presently worded also gives very wide discretion to Income Tax Authorities to determine which levies will not be permitted for deduction and these powers can be exercised in an arbitrary manner which will lead to needless litigation.

I am disappointed to note that the Ministry of Finance, instead of focusing on curbing tax evasion by a large number of private persons and increasing the tax base by such means, is attempting to act against the Constitutional scheme of distribution of taxation powers between the Centre and the States and to distort the federal polity of the country. The legitimate expenditure on statutory levies of State Public Sector Undertakings which declare their incomes openly and are subject to audit by the Comptroller and Auditor General of India and whose annual reports are subject to scrutiny by State Legislatures is sought to be disallowed. Clearly this provision is ill-conceived and misguided and has no place in a federal polity like ours.

I would, therefore, earnestly urge you to kindly ensure that an official amendment is moved to delete Clause 7 of the Finance Bill 2013 before the Finance Bill is enacted into Law in Parliament.

May I request an early response in this regard?"

Issued by: Director, Information-Public Relations, Chennai.9
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