

PRESS RELEASE

Text of the D.O. Letter dated 19.12.2014 addressed by Thiru O. Panneerselvam, Hon'ble Chief Minister of Tamil Nadu to Shri Narendra Modi, Hon'ble Prime Minister of India is reproduced below:

"As you are aware, my Beloved Leader Puratchi Thalaivi Amma has repeatedly highlighted the impact of the proposed Goods and Services Tax (GST) on the fiscal autonomy of States and the huge permanent revenue loss such a taxation system is likely to cause to a manufacturing and net exporting State like Tamil Nadu. Therefore, we have emphasized that before the enactment of the Constitutional Amendment Bill on GST is taken up, the Government of India should strive for a broad consensus on the important issues relating to GST like compensation period and methodology, revenue neutral rates, floor rates with bands, commodities to be excluded from GST, IGST Model and clarity on dual administrative control, so that the genuine apprehensions of the States over loss of fiscal autonomy and permanent revenue loss are allayed.

I understand that the latest draft Constitution (One Hundred and Twenty Second Amendment) Bill, 2014, on GST which has been circulated to the States by the Government of India addresses partially the issue relating to compensation mechanism. However, there are still a number of concerns of the State that need to be addressed. At this juncture, before evolving a consensus on the important issues, attempts are being made to push through the legislation relating to GST much to the chagrin of the States.

The draft Bill proposes that the GST Council will make recommendations on a whole range of issues relating to subsuming of taxes, cesses and surcharges under GST, exemptions for goods and services, model GST laws, etc. For clarity on the implications, it is essential to evolve a consensus amongst the States on the critical issues like revenue neutral rates and bands, threshold, clarity on dual control and compensation formulae under the aegis of the Empowered Committee before legislating on the GST.

We have consistently been opposed to the idea of the GST Council as a constitutional body as it compromises the autonomy of the States including in fiscal matters. In particular, we strongly object to the decision making rule and voting weightage which gives the Government of India an effective veto in Council and further makes no distinction amongst the States in the weightage.

In spite of our repeated objections, Petroleum products such as petrol and diesel, which are currently outside the purview of State VAT in most States, are still proposed to be covered under GST in the draft Bill. However, the date on which such tax shall come into effect has been left to the decision of the GST Council. Considering the short supply chain, collection of tax on Petroleum and Petroleum products at the first and second points of sale is now being done efficiently and without leakage. Bringing these products under the ambit of GST will entail huge revenue loss to the States as Input Tax Credit will have to be provided eventually. This also has environmental implications and compromises on the goal of energy conservation. Hence, I reiterate our earlier request that Petroleum and Petroleum products should be totally kept outside the purview of GST.

Further, the draft Bill also does not include enabling provisions for States to levy higher taxes on Tobacco and Tobacco products, similar to what has been permitted for the Centre. We urge that States should also be permitted to levy higher tax over and above SGST on these products.

The draft Bill provides for the Parliament to enact law to provide for compensation to the States for such period which may extend to 5 years on the recommendation of the GST Council. It is understood that the compensation is proposed to the extent of 100% for the first 3 years, 75% in the 4th year and 50% in the 5th year. This is not acceptable to us. Taking into account the permanent losses that would accrue to the State, we urge that 100% compensation should be provided to the States for the entire period of 5 years. Considering the State's past experience with the Centre's compensation mechanism both for the introduction of VAT and the reduction of Central Sales Tax, it is doubtful whether a fair, hassle-free and workable compensation mechanism can be devised and implemented. Hence, it is imperative that a consensus be arrived at on the methodology and the period relating to compensation. Further, this should be included in the Constitutional Amendment Bill itself.

Manufacturing States like Tamil Nadu stand to lose huge revenue if GST is implemented, as GST will be based on the destination principle. Hence, we had suggested that States may be permitted to retain 4% of CGST part of the IGST on all inter-State sales without crediting any amount to a compensation fund. This has not been agreed to. On the contrary, the draft Bill envisages that the States be permitted to levy additional tax on sale of goods to the extent of 1% in the course of inter-State trade or commerce for a period of 2 years or such other period as the GST Council may recommend. Further, the draft Bill empowers the Government of India to exempt goods from this additional levy of 1%. This is not acceptable to us and I would like to reiterate our earlier suggestion that States should be permitted to retain 4% of CGST part of the IGST on all inter-State sales/transfer of both goods and services.

Finally, I wish to state that the current proposal of the Government of India to introduce a Constitutional Amendment Bill on GST and then to evolve a consensus on various aspects of GST, especially the actual tax rates and tax bands, etc., through the GST Council is not acceptable to us. We would rather suggest that the Government of India should permit the Empowered Committee of State Finance Ministers to try and evolve a broad consensus on the critical issues before the enactment of the Constitutional Amendment Bill on GST is taken up. I strongly urge you against hustling through the Constitutional Amendment Bill hastily as such a move is bound to have serious long term implications for the fiscal autonomy and revenue position of the States. The Government of India must ensure that the States' fears are allayed and a true consensus is achieved before such a far-reaching reform is attempted."

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