

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3372
ANSWERED ON:12.05.2006
SHIFTING OF SERVICE TAXES TO THE STATES
Rao Shri Sambasiva Rayapati

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government proposes to allow States to retain service tax;
- (b) if so, the details thereof;
- (c) whether this is part of a larger plan to phase out Central Sales Tax (CST); and
- (d) if so, complete details about other options for compensating States for revenue loss being mooted by the Central Government?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) to (c): The issue of 'Giving the States the right to collect Service Tax on selected services of intra-State nature' is being discussed with the States in the context of working out a composite package for compensating the States for the revenue loss which will arise as a result of the proposed phasing out of the Central Sales Tax (CST). The issue has been discussed in various meetings of the Empowered Committee of State Finance Ministers (EC) as also in the meetings of the State Finance Ministers with the Union Finance Minister held on 16.12.2005, 17.02.2006 and 22.03.2006. In the meeting held on 22.03.2006, a decision was taken to constitute a Technical Committee of State Commissioners of Taxes to work out various possible options for compensation of revenue loss on account of phasing out of CST and to suggest the modalities for such compensation. The Technical Committee has accordingly been constituted and the same is presently deliberating upon the issue.

(d): Other possible options for compensating the States for revenue loss on account of phasing out of CST, being presently deliberated upon, are transfer of powers to States to levy VAT/ Sales Tax on AED items, VAT on imports, VAT rates revision, reducing the list of declared goods and Budgetary support.