

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:183
ANSWERED ON:04.08.2006
PHASING OUT OF CST
Reddy Shri K. Jayasurya Prakash

Will the Minister of FINANCE be pleased to state:

- (a) whether the Ministry is assessing the demand from various States for a compensation package to enable them to phase out 'Central Sales Tax';
- (b) if so, whether the Government has constituted any committee for this purpose;
- (c) if so, the details thereof; and
- (d) the present position thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI P. CHIDAMBARAM)

(a) to (d): A Statement is laid on the Table of the House.

STATEMENT

IN RESPECT OF LOK SABHA STARRED QUESTION NO. 183 DATED 04.08.2006 TABLED BY SHRI K.J.S.P. REDDY, REGARDING 'PHASING OUT OF CST'

(a) to (d): The Central Sales Tax (CST) is a tax on inter-State sale of goods, levied by the Central Government but collected and appropriated entirely by the originating State, i.e., the State from where the movement of goods commences. CST being an origin-based tax is inconsistent with the concept of VAT which is a destination-based tax. Further, CST is not rebatable against VAT and is, therefore, a tax of cascading nature. In view of these factors, there is a broad consensus that in the context of the ongoing tax reform process at State level, the CST should be phased out.

The Empowered Committee of State Finance Ministers

(EC) has been deliberating on the issue. The EC has been of the view that the States should be compensated for the revenue loss on account of phasing out of CST. The matter also came up for discussion in the meetings with the State Finance Ministers held on 16.12.2005, 17.02.2006 and 22.03.2006. In the meeting held on 22.03.2006, it was agreed that a composite compensation package of non-monetary and monetary measures, for a limited number of years, should be finalized. It was also agreed that the EC shall constitute a technical committee of State Commissioners of Taxes to suggest that the option for such compensation and the modalities for the same. Accordingly the EC constituted a Committee which submitted its Report to the EC and the EC, after due consideration of the Report has now submitted a proposal to the Central Government.

The proposal of the EC has been examined and thereafter, the views and suggestions of the Government on the same have been communicated to the EC for further consideration of the matter. The EC is deliberating on the issue further. The response of the EC is awaited.