

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2582
ANSWERED ON:16.03.2007
UNHEALTHY TAX BREAKS AND FISCAL INCENTIVES
Sarvey Shri Sathyanarayana

Will the Minister of FINANCE be pleased to state:

- (a) Whether some State Governments are indulging in unhealthy practice of providing unsustainable tax breaks and fiscal incentives to industrial projects in their bid for faster growth;
- (b) If so, the details thereof;
- (c) Whether such practices by State Governments are in contrary to the ideals sought to be achieved under the Fiscal Responsibility and Budget Management Act, 2003;
- (d) If so, the details thereof; and
- (e) The reaction of the Union Government thereto?

Answer

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

(a): There is no information regarding some State Governments indulging in unhealthy practice of providing unsustainable tax breaks. In fact, the Standing Committee of State Finance Ministers had decided in its meeting held on 20th December, 1999 that no new sales tax related incentives should be given for any industry after 1st January, 2000 and that the incentives existing at that time could be continued for the period of their eligibility. Further, the Empowered Committee of State Finance Ministers (EC), which has finalised the design of State VAT, also decided that no fresh VAT related industrial incentives should be given and that the earlier incentive schemes may be continued by the States after ensuring that the VAT chain is not affected. These decisions of the Standing Committee/ Empowered Committee are being generally followed by the State Governments and these are duly incorporated in the VAT Laws of the concerned States.

(b) to (e): The question does not arise in view of (a) above.