

**GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA**

STARRED QUESTION NO:454

ANSWERED ON:20.12.2002

VALUE ADDED TAX

BASUDEB ACHARIA;KAMBALAPADU E. KRISHNAMURTHY

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

- (a) whether the Union Government have agreed to compensate up to 75 percent of revenue loss due to Value Added Tax (VAT) System;
- (b) if so, whether some State Governments have asked Centre to compensate the total revenue loss;
- (c) if so, the reaction of the Union Government thereto;
- (d) whether the Government have taken any step in regard to shifting of some specified services to the States for taxation purpose;
- (e) if so, the details thereof;
- (f) whether the working group set up for demarcation of services between Centre and States has submitted its report; and
- (g) if so, the details thereof and action taken by the Government thereon?

Answer

THE MINISTER OF FINANCE AND COMPANY AFFAIRS (SHRI JASWANT SINGH):

(a) to (c): Experience demonstrates that with proper implementation, introduction of VAT does not lead to loss of revenue. However, in order to allay apprehensions of the States, regarding a possible loss of revenue in the initial period after introduction of VAT, the Union Government has decided to compensate the States on the basis of a formula which has been discussed in the High Level Committee of Finance Ministers of States. Details will be announced upon finalization.

(d) to (g) The States have taken a unanimous decision to replace their existing sales tax system with a Value Added Tax system from 01 April, 2003. In this context and also to widen their tax base, the States have suggested that they should be enabled to collect and appropriate the proceeds of tax on some services. Appropriate action in this regard too, has been initiated by the Central Government.