

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:625
ANSWERED ON:25.11.2005
VAT
Saradgi Shri Iqbal Ahmed

Will the Minister of FINANCE be pleased to state:

- (a) whether he has written to all Chief Ministers exhorting them to refrain from "rate wars" to capture trade volumes;
- (b) if so, the main details of the FM's letter to all Chief Ministers;
- (c) whether the Empowered Committee on VAT has recommended that violation of uniform floor rates should be prevented by strict administrative action; and
- (d) if so, the response of the State Governments to the letter to FM on VAT implementation?

Answer

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

(a) to (d) Under Entry 54 of List II (State List) of the Constitution of India, State Sales Tax (as also State VAT, which has replaced the State Sales Tax systems) is a State subject. An Empowered Committee of State Finance Ministers (EC) has been constituted to deliberate and decide upon all matters concerning Sales Tax and State VAT. The EC had decided Uniform Floor Rates (UFR) of sales tax to be adopted by all the States and has been advising the States to follow the same. In the EC meeting held on 09 July 2005, it was decided that all the States should follow UFR in respect of gold/ bullion by August 01, 2005 and on all other items by Sept. 01, 2005, failing which the matter would be reported to the GOI for appropriate administrative action. Although no formal reference/ request was received from the EC in this regard, the Hon'ble Union Finance Minister wrote a D.O. letter to all the Chief Ministers on 31 Aug. 2005, requesting them to align their tax rates with the UFR decided by the EC. Hon'ble Finance Minister stated that the basic objective of implementing UFR was to prevent rate competition among the States, which was resulting in revenue loss to all the States, without any significant commensurate gain to the national economy. The Chief Ministers of some of the States have already responded to the letter of the Hon'ble Union Finance Minister and their response is very positive.