

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:3371

ANSWERED ON:12.05.2006

CST AND VAT

Kharventhan Shri Salarapatty Kuppusamy;Moorthy Shri A.K.

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Union Government has decided to dispense with Central Sales Tax (CST);
- (b) if so, the details of action taken by the Union Government thereon; and
- (c) if not, the reasons therefor?

**Answer**

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

(a) to (c): It is generally agreed that CST, being an origin-based non-rebatable tax, is inconsistent with the concept of VAT, which is a destination-based tax. It has already been agreed, in principle, to phase out CST. However, a critical issue which needs to be resolved before the process of phasing out of CST can begin is that of working out a package for compensating the States for revenue losses on account of such phasing out. During 2004-05, the total revenue collection of States from CST was around Rs.15,100 crores. If CST is phased out, this revenue will be permanently lost by the States and hence, they are insisting on a mechanism to compensate them on permanent basis for such revenue loss.

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.