

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:189
ANSWERED ON:04.08.2006
VAT RATES
Lagadapati Shri Rajagopal

Will the Minister of FINANCE be pleased to state:

- (a) whether some variations in rates of Value Added Tax (VAT) between State-to-State still exist due to some of the decisions taken by the Empowered Committee (EC);
- (b) if so, the details of decisions due to which there is a variation in VAT rates in some of the States;
- (c) whether some States have deviated from the EC approved rate structure;
- (d) if so, the details of the States which have deviated from this; and
- (e) the action, the Ministry is taking or proposed to take to persuade the States to follow the EC approved VAT structure?

Answer

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

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

STATEMENT

IN RESPECT OF LOK SABHA STARRED QUESTION NO. 189 DATED 04.08.2006 TABLED BY SHRI L. RAJAGOPAL, REGARDING "VAT RATES"

(a) & (b) : The State VAT, being a tax on sale or purchase of goods within a State, is a State subject by virtue to Entry 54 of State List of the Constitution of India. An Empowered Committee of State Finance Ministers (EC) has been constituted to deliberate upon and decide all matters concerning State VAT. The EC has decided the design of VAT

(including the structure of tax rates) to be adopted by the States. However, some variations exist in tax rates from State to State due to some of the EC decisions. For instance,

(i) The EC has permitted each State to exempt 10 items out of the list of about 50 items of 'goods' of local importance' finalized by the EC. The remaining items are to be taxed at 4%.

(ii) The EC has permitted each State to notify its own list of industrial inputs (depending on the nature of usage of the item in the State concerned) which are subjected to the lower rate of 4% (as against general rate of 12.5%).

(iii) The States have the discretion to tax the items in exempt category at the rate of 4%, and the items in 4% category at the rate of 12.5%, if they so decide.

(c) & (d): From the information made available by the EC and the States, it is seen that over and above the instances cited above, some States have made further deviations from the EC approved rates in respect of some items of goods. These States/ UTs include Assam, Bihar, Chhattisgarh, Chandigarh, Delhi, Goa, Haryana, Himachal Pradesh, Kerala, Karnataka, Maharashtra, Meghalaya and Orissa, with Kerala having introduced a new upper rate of 20% on selected products recently, reflecting the particular compulsions prevailing in individual States. The EC has the task of closely monitoring the position in its meetings, in order to ensure that all the States/ UTs adopt the uniform tax structure finalized by the EC.

(e): I have met the EC on several occasions and, more frequently, its Chairman. My Adviser, as a permanent invitee to the EC, participates in EC meetings. Other senior officers of my Ministry also attend EC meetings. However, since State VAT is a State subject, it is for the States to take necessary steps to follow the uniform tax structure collectively finalized by them.
