

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3503
ANSWERED ON:07.09.2007
COMPENSATION FOR PHASING OUT OF CST.
Ahir Shri Hansraj Gangaram

Will the Minister of FINANCE be pleased to state:

- (a) whether matter regarding compensation to the States for phasing out Central Sales Tax has been finalised;
- (b) if so, the details thereof; and
- (c) if not, the reasons therefor?

Answer

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

(a) A consensus had been arrived at between the Centre and the States that the CST should be phased out in 4 steps, i.e. reducing the CST rate from 4% to 3% w.e.f. 01.04.2007, from 3% to 2% w.e.f. 01.04.2008, from 2% to 1% w.e.f. 01.04.2009 and eventually abolishing the tax on 31.03.2010. A package of compensation to the States for revenue loss on account of phasing out of the CST has also been agreed upon between the States and the Central Government.

(b) As per the agreed package, the States shall be compensated through a combination of non-monetary and monetary measures. During 2007-08, such measures to be taken to compensate the States for CST reduction from 4% to 3% include abolition of Form-D, levy of VAT on Tobacco @ 12.5% by States and transfer of total proceeds of tax on identified services to the States. In case these measures prove inadequate to fully cover the loss, budgetary support shall be given. In order to give effect to the above decisions the Taxation Laws (Amendment) Act, 2007 has been enacted, whereby the CST Act, 1956 and the Additional Duties of Excise (Goods of Special Importance) Act, 1957 have been amended, inter alia, resulting in the reduction of rate of CST on inter-State sale to registered dealers (against Form-C) from 4% to 3% w.e.f. 01.04.2007, the withdrawal of the facility of inter-State purchases by Government Departments at concessional CST rate against Form-D and enabling the States to levy VAT on Tobacco. Further, a provision of Rs. 2,500 crores has been made in the Department of Revenue Budget for 2007-08 for releasing CST Compensation to the States.

(c) In view of what is stated in (a) and (b) above, this question does not arise.