

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:927
ANSWERED ON:10.07.2009
LOSSES SUFFERED BY STATES
Bhadana Shri Avtar Singh

Will the Minister of FINANCE be pleased to state:

- (a) whether heavy losses are suffered by State Governments on account of reduction in the rate of Central Sales Tax (CST);
- (b) if so, the details thereof, State-wise, including Haryana;
- (c) whether various States have given suggestions to the Centre to reduce such losses;
- (d) if so, the details thereof; and
- (e) the reaction of the Government thereto?

Answer

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

(a) & (b): As part of ongoing reforms in the indirect tax sector, the rate of Central Sales Tax (CST) has been reduced from 4% to 3% w.e.f. 01.04.2007 and further to 2% w.e.f. 01.06.2008. Under the related compensation scheme mutually agreed between the Empowered Committee of State Finance Ministers and the Central Government, the States furnish information on the resultant CST revenue loss in each financial year since 2007-08. From the information furnished upto 30th June, 2009, 14 States including Haryana have reported CST revenue loss of Rs 10,361.56 crore in aggregate for the financial years 2007-2008 and 2008-09, out of which Haryana has reported revenue loss of Rs. 1,496.72 crore. The State-wise details of CST revenue loss furnished by the 14 States are shown in columns-3, 4 and 5 of the Annexure herewith.

(c) to (e) ; A compensation scheme has been finalized in consultation and mutual agreement with the Empowered Committee of State Finance Ministers. The mechanism for compensation of the consequent CST revenue loss allows additional revenue sources to the States. Accordingly, the Centre has authorized the States to collect Value Added Tax (VAT) on tobacco. Central Government has also abolished 'Form-D' which was hitherto used by Government Departments for availing the benefit of lower rate of CST on inter-State Government purchases.

Further, funds are released to the concerned States by the Department of Revenue from its budget for compensating any residual loss, if reported. The State-wise release of such funds up to 30 June 2009 has been shown in column-6 of the Annexure herewith.