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Title: Introduction of the Constitution (One Hundred and Twenty-Second) Amendment Bill, 2014.

THE MINISTER OF FINANCE, MINISTER OF CORPORATE AFFAIRS AND MINISTER OF INFORMATION AND BROADCASTING (SHRI ARUN JAITLEY):
Madam, I beg to move:

"That the Bill further to amend the Constitution of India be taken into consideration."

Madam, this Bill has been introduced in December, 2014. ...(*Interruptions*)

SHRI MALLIKARJUN KHARGE (GULBARGA): Madam Speaker, we do not agree. ...(*Interruptions*) We are walking out in protest.

13.14 hrs

At this stage, Shri Mallikarjun Kharge and some other

hon. Members left the House.

*...(*Interruptions*)*

PROF. SAUGATA ROY (DUM DUM): Madam, we are also walking out. ...(*Interruptions*)

13.14 ½ hrs

At this stage, Prof. Saugata Roy and some other

hon. Members left the House.

*...(*Interruptions*)*

SHRI ARUN JAITLEY: Madam, though this Bill has been styled as the Constitution (One Hundred and Twenty-Second Amendment) Bill, in fact this Bill is the 100th Amendment to India's Constitution. In the matter of revenue and taxation, probably this is the most important Amendment that has ever been taken up in the Constitution itself. Our current structure of indirect taxation empowers both the Central and the State Governments to levy different kinds of taxes. These taxes by the Central Government may be in the form of Excise Duties; they may be in the form of Service Tax, taxes by the State Government or VAT plus other multiplicity of taxes by the State Government. The object of this Constitution Amendment is to bring about a certain amount of convergence between these taxes so that the taxation mechanism becomes extremely simple. But before I explain that, I would just point out a marginal point which was raised by Mr. Mahtab with regard to the Standing Committee that the IGST was not a part of the 2011 Bill. If Mr. Mahtab checks up – he is very industrious; I am sure he will check up – the IGST was a part of the 2011 Bill. On Page 68 of the Standing Committee Recommendation, the IGST has been specifically discussed, as such.

Madam, as far as the advantages of the GST structure is concerned, the difficulty being faced by the present set up is that there is no uniformity of tax rates and structures across the States. Therefore, different taxation in different States prevents a seamless transfer of goods and services as far as the country is concerned. The second problem which has been noted with regard to the present structure is that if different levies of taxation are made, we have the concept of tax being levied on tax itself. Therefore, if you have Excise Duty in the first instance being levied by the Central Government, and subsequently a VAT, those quantum of fresh taxes which are levied are also levied on the tax input which has already gone into as a result of which both goods and services can become costlier.

Now the advantages that the GST Constitution Amendment will bring about will be that it will simplify harmonise the indirect tax regime as far as the whole country is concerned. It is expected to reduce the cost of production and inflation in the economy thereby making Indian trade and industry more competitive, domestically as well as internationally. It is also expected that the introduction of GST will foster a common or a seamless Indian market and contribute significantly to the growth of the economy. GST will broaden the tax base and result in a better tax compliance due to a robust IT infrastructure. Due to this seamless transfer of input credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of the GST that it would incentivise tax compliance. Therefore, evasion itself would become difficult.

I mentioned, Madam, during the earlier part of the discussion today that it has a chequered history. In 2003, Kelkar Committee was appointed when the NDA's first Government led by Mr. Vajpayee was in power. Thereafter the proposal to introduce a national level Goods and Services Tax was first mooted by the Finance Minister Mr. Chidambaram in his Budget Speech of 2006-07. Since it involved reforms, not only in the indirect taxes of the Central Government but also in indirect taxes of the State Government, it was necessary that the entire design structure for this taxation be prepared. It is because, by virtue of this Constitution Amendment, ultimately the taxation design structure of the States will also change. Therefore an Empowered Committee of State Finance Ministers was appointed. This Empowered Committee, along with the Parliamentary consensus, both have worked in tandem since then as Mr. Mahtab has very rightly pointed out in the morning today. Based on these inputs and various other Working Groups which were appointed, the Constitution Amendment was framed and in March, 2011 the then Finance Minister, hon. Shri Pranab Mukherjee introduced the Constitution Amendment in Parliament. This Constitution Amendment went to the Standing Committee and the Standing Committee almost for more than two years, for two-and-a-half years, deliberated on it. In August, 2013, the Standing Committee gave its detailed Recommendation as far as the GST structure was concerned. Based on this structure, we went back, re-altered the Bill. This re-alteration took place when UPA-II was in power. So, this went back to the Empowered Committee of the State Finance Ministers. The Empowered Committee of the State Finance Ministers had two doubts in mind. The first doubt was that there are some States which are the manufacturing States.

GST is the destination tax. The goods may be produced in one State, sold in another State or traded in another State and the tax advantage of that

will go to the consuming State itself. Therefore, all the consuming States felt that they would be the beneficiaries in the first instance but the manufacturing States had some doubts that they could lose out. Therefore, when Mr. Hooda, in the morning mentioned, that Gujarat had some reservations, he was absolutely right. Gujarat had some reservations because Gujarat, Tamil Nadu and Maharashtra are the manufacturing States.

DR. M. THAMBIDURAI (KARUR): That is why we are opposing the GST Bill. Other hon. Members are also referring this issue. So, it is better to refer it to the Standing Committee. That is why I stand here. You are also raising this issue now. There are differences of opinion. Even some States are having objection on that. Therefore, I am insisting on referring it to the Standing Committee.

SHRI ARUN JAITLEY: Let me explain this. When the manufacturing States had reservations so, the consensus had to be arrived at. The Empowered Committee of the State Finance Ministers again met. They not only met but they had to go back to their States. Every State – I say this without fear of contradiction – has given its concurrence to those proposals. The change that was made was that, can we for a period of two years on IGST, have an additional levy of one per cent? This was suggested by Gujarat and Maharashtra because these were the manufacturing States and therefore, this was the via media which every other State accepted. After every State accepted this, the only other question was that what will happen if any State stands to lose revenue. This would not happen because this was the fear of the unknown when the VAT came into existence. Therefore, there was some delay in the implementation of VAT. When VAT was implemented, every State's revenue subsequently has gone up. Nobody has to lose. So, the Central Government then took upon itself that for the first five years, we will try in a particular tapering manner underwrite the loss which may be caused to the States. The underwriting procedure is that for the first three years, 100 per cent of the loss, if any State suffers, will be compensated by us. In the fourth year, 75 per cent loss will be compensated by us. In the fifth year, 50 per cent loss will be compensated by us. This became the point of consensus between all States. Therefore, based on this, the general consensus which emerged between the Standing Committee recommendations and the empowered committee of the State Chief Ministers was that as far as Central Taxes are concerned, the Central Taxes in terms of Excise Duty, Additional Excise Duty, Service Tax, Additional Customs Duty, etc., will all be subsumed. Now, Service Tax is entirely payable to the Centre. As of today, the States do not get it. In this changed design, the States will also be entitled to be a part of this Service Tax. Therefore, this will necessarily push up the revenue. The anticipation is that besides Service Tax, besides easier compliance, besides the ease of doing business in India, expansion of the volumes and the trade itself will grow and, therefore, the taxation of the States will not be lost in any manner.

DR. M. THAMBIDURAI: Already Tamil Nadu had written a letter to you. We are losing Rs. 10,000 crore per year because of this GST introduction. You have said that the States of Maharashtra, Gujarat and Tamil Nadu are objecting to it. It is because we are losing Rs. 10,000 crore per year. How are you going to compensate that? That is what we want to know.

SHRI ARUN JAITLEY: That is exactly what I have explained. The structure is benefiting every State including Tamil Nadu. I have explained it to the leaders of your party also. In the first instance, better compliance takes care of it. In the second instance, there are important centres. The Tamil Nadu is also giving a lot of Service Tax. The Tamil Nadu Government today does not get any benefit out of that Service Tax. Benefit of the Service Tax after GST will also be available to Tamil Nadu. So, that is an additional benefit that you will get. If still after that there is any dip in revenue during the transient stage of any State, for the first five years, we have undertaken as the Central Government to write it off. That is a part of the Constitution Amendment itself. That is how these concerns of the States were taken into consideration.

DR. M. THAMBIDURAI: What will happen after five years?

SHRI ARUN JAITLEY: Let me assure you. You asked about 'after five years.' This was the sole question raised when VAT came into existence – what if the States were to lose revenue? For a single year, not a single State lost revenue. Every State's revenue increased. Therefore, please do not have this fear that any State is going to lose revenue. After all, every State including the Finance Minister of your State – he was present even the day before yesterday when he came and attended the Empowered Committee Meeting – was represented. He had also made a presentation there. Therefore, as far as the State Taxes are concerned, they will also be subsumed.

Now, in the structure of the GST, we will follow the following procedures. There will be the Central GST; there will be the State GST; there will be the inter-State GST, that is, IGST – Integrated GST, as we call it. Now, after this, what are the rates at which there would be revenue? The experts will decide a revenue-neutral rate. But eventually, the rates will be decided by the GST Council. Who will be the GST Council? This is the Cooperative Federalism in action.

SHRI BHARTRUHARI MAHTAB (CUTTACK): But the Union has the veto.

SHRI ARUN JAITLEY: You have a greater veto. Do you realize that you have a greater veto?

About the GST Council Structure, the Standing Committee has approved it; the Empowered Committee of the Finance Ministers has approved it. So, it is not my structure. The structure is that two-third of the voting right belongs to the States and one-third of the voting right belongs to the Centre. Therefore, as far the Central and State Taxes are concerned, it is this Council which will decide it where the States have a two-third majority. So, this Federalism leans in favour of the States. Every decision is to be taken by a 75 per cent majority. Therefore, the inbuilt consensus is that in terms of Cooperative Federalism, the Centre and the States will then have to work together. That is how India is run. Federalism does not mean trampling the rights of the States. Federalism does not mean India that is a Union of State, the union ceases to exist. So, it does not mean that the Union does not have a say in the taxation structure.

SHRI BHARTRUHARI MAHTAB: Whenever the Union Government wants to have a say will have its way.

SHRI ARUN JAITLEY: No.

SHRI BHARTRUHARI MAHTAB: Despite all States coming together, they cannot withstand the Union Government's position.

SHRI ARUN JAITLEY: Let me answer this. If some of the States come together – let us forget all – they can prevent the Union from taking a decision. Do you accept that as a formula? Because States have two-third majority and therefore, if even half of them come together, they have a

veto. About this inbuilt Council, this is not my wisdom, this is not the wisdom of the present Government, this is also the wisdom of the UPA Government, this is the wisdom of all the 27 Finance Ministers taken together. This is the wisdom also of the Standing Committee with their unanimous recommendations that the structure must be such that two-third of the power belongs to the States, one-third of the power belongs to the Centre, and you need a three-fourth majority to approve a decision. That is the decision-making process. That is how they integrated the whole system of the Cooperative Federalism in this taxation structure.

DR. M. THAMBIDURAI: Sir, about the Cooperative Federalism, even the hon. Prime Minister said it. In the Budget Speech also I told that we are losing Rs. 6,000 crore per annum

SHRI ARUN JAITLEY: You are not losing a rupee.

DR. M. THAMBIDURAI :We are also losing Rs. 10,000 crore per year due to GST. So, Tamil Nadu is going to lose nearly Rs. 16,000 crore because of the GST and the Cooperative Federalism. That is how we are suffering.

SHRI ARUN JAITLEY: Sir, may I explain to you as to why you do not lose money? In the course of my reply to the Budget Speech, I said that not a single State has come up and said that it is willing to go back to the 13th Finance Commission. The error in your calculation is because of the following reasons. The UPA, unfortunately they have walked out and they are not here, had a very interesting method of budgetary presentation. The Budget Estimates were very high. The Revised Estimates were very low. So, what you were spending and actually giving was much lower than what had been proposed in the Budget. When you calculate the amount, the Budget Estimates were nominal and the Revised Estimates were real. So, compare it with the real money you got in the 14th Finance Commission. Every State including Tamil Nadu is going to get much higher. If you are going to compare it with the Budget Estimates of UPA or the 13th Finance Commission, then it was a notional amount. It was never acted upon and the amounts were never paid. Then, that fictional amount may be higher. But the actual amount you got under 13th Finance Commission is much lesser than what every State will get under the 14th Finance Commission. I say that without fear of contradiction. This applies to every State.

Therefore, Madam, GST is going to lead to a win-win situation as far as the Centre and the States is concerned. It is going to up India's GDP, it is going to up India's revenues and therefore, I commend the GST Constitution Amendment to the hon. House for its approval.

DR. M. THAMBIDURAI : Hon. Minister, many hon. Members have expressed their views. This has to be referred to the Standing Committee. Once again we are all requesting let this Bill be referred to the Standing Committee.

SHRI ARUN JAITLEY: It has gone for two and a half years to the Standing Committee.

13.32 hrs

DEMANDS FOR GRANTS (GENERAL), 2015-2016

Ministry of Human Resource Development