



GOVERNMENT OF GUJARAT

Speech of
Shri Saurabh Patel
Hon'ble Minister of State for Finance

during the meeting of

Empowered Committee of
State Finance Ministers

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Panjim, Goa



Hon'ble Chairman of the Empowered Committee, my colleague Finance Ministers from different States and officials from the Government of India, the State Governments and the Empowered Committee.

While Gujarat welcomes every positive move for progressive indirect tax reforms, it is necessary to safeguard States' interests as enshrined under the Constitution and to protect the federal nature of Indian polity. In other words, we will accept GST only if autonomy available at present to the State and larger interests of the stakeholders are fully protected. I would strongly urge that the constitutional amendment should be taken up only after aspects like finalisation of GST structure and its suitable model, threshold under CGST, exemptions, goods of local importance, RNR, likely impact of proposed GST on essential commodities and robust IT platform are discussed and resolved. In light of the above, **I reiterate that the constitutional amendment in the present format put forth by the Government of India is not acceptable to Gujarat.**

2. Protecting the Autonomy of the States : I would reiterate that the fiscal autonomy and flexibility made available to the States by the founding fathers of the Constitution is the cornerstone of the federal polity of the country. By introducing amendment in the form of proposed new Article 246A, the Centre is entering into the domain of tax on sale of goods, which so far has been an exclusive area of the State Governments. In turn, it is proposed to share revenue from the services, which is a small part of the overall revenue of the Central Government. The implications of Article 246 A are not clear, but certainly it severely limits powers of the States with very little gain in return. **So, Gujarat is opposed to the insertion of article 246A as conceived now.** I sincerely urge my colleagues in the Empowered Committee to discuss at length implications of this specific amendment on the autonomy of the States **and also seek views of the Central Government as to what could be done in the cases where conflict takes place between a legislation made by the State and that of the Centre.**

3. Alternative model : At present the States bear the primary load of development expenditure as per the constitutional division of duties between the Centre & the States. Therefore, there is a need for fiscal autonomy

of the State to meet constitutional obligations. Fiscal autonomy constitutes the power to levy Additional tax/cess/surcharge, reduction/disallowance of ITC, exempting goods from payment of tax including goods of local importance protection of projected revenues of State Governments. The present method of compensation needs to be changed and to be replaced by simple rule based system, if GST is to be introduced.

➤ **Salient features of alternative model**

The alternative model proposed is fully consistent with the essence of GST model with features like: simple tax structure, uniform tax rate across the country, lower collection and compliance cost, wider base and better compliance, greater revenue collection, complete input tax credit, single national market, no cascading effect, rise in GDP and increased revenue collection due to better compliance, etc. Besides, it ensures maintenance of balance of fiscal relations between the Centre & the States and ensures upfront compensation to the States in case of revenue loss. Along with the above features the alternative model has inbuilt characteristics to retain the flexibility available to the States, *viz*, collect CST at 2%, levy additional tax/cess/surcharge, levy purchase tax on all items, powers to disallow or reduce ITC, etc.

➤ Mechanism of upfront compensation

In this model, the States collect and retain SGST, CGST and IGST. Subsequently CGST is to be transferred to the Centre. RNR is to be finalized jointly by the Centre and the States in the EC. Under this model, the principle of protection of revenue of the States, in the base year and subsequent projection as per CAGR, would be followed. As there would be **uniform GST** rate for the country, some States would lose and some would gain. In case, any State's revenue collection through SGST does not equal projected revenue, then the balance would be met from the CGST collected by the State. This would be by **means of upfront Compensation**. In case the total tax revenue in a State exceeds projected revenue, then there would be no upfront compensation.

➤ Advantages of the New Scheme

The model is likely to benefit all the stakeholders. The dealers will not be required to deal with two separate authorities as the tax administration of the States will handle the entire collection of GST.

The main advantages for Centre are, Centre can concentrate on direct taxes & other indirect taxes outside

the GST net and it will be relieved of the burden of compensation disbursement. Thousands of trained manpower of Excise and Service Tax Departments would be available for redeployment elsewhere in the GOI.

The model is advantageous to the States as fiscal autonomy of the State is protected and existing revenues are also not affected. Further, flexibility is retained and revenue loss is borne by the party which goes for any deviation. This allows the State to look into the issues and grievances of the dealers, who are local to the State.

Thus, it will lead to a win-win situation. Consumers, traders/dealers, State Government and Central Government all stand to gain. The GOI and EC may therefore consider finalizing the revenue sharing as per this model. The Central Government may be requested to draft the Constitutional amendment to give effect to this model.

4. CST Compensation : You would recall that the EC has unanimously recommended continuing the extant formula of August 22, 2008 for CST compensation for 2010-11. It was also unanimously agreed to request Government of India to settle the outstanding claims arising out of double deduction from CST revenues due to the abolition of

D-Form. I am extremely anguished to learn that the issue is yet to be resolved. I therefore, request you to resolve in the EC meeting to recommend Government of India to take a quick decision on compensation formula for 2010-11 and also settle all pending D-Form claims at the earliest. Till the finalisation of formula of CST compensation for the year 2010-11, ad-hoc compensation should be released based on the existing CST compensation guidelines of 22.08.2008.

5. IT preparedness : The IT platform needs support of legal framework and processes. So, some of the processes of proposed GST may be introduced under VAT and CST itself. One such aspect is collection of transaction details along with returns so that cross check of ITC becomes easy. Further, it is critical to develop the **database of individual States and also ensure systems in one State can interact seamlessly with systems of other State. For this, optimum use of TINXSYS and State level mission model projects should be made.** Each of the States should have system to cross verify other States' query and develop response system for its resolution. For this, a detailed study should be undertaken regarding migration of existing dealer data, server capacity of the proposed architecture, bandwidth and storage requirements,

concurrent users, number of transactions to be matched for IGST, etc. Therefore, emphasis should be on upgrading database of individual States and working out a system of cross-verification of transaction rather than trying to bring a uniform system across the States.

I further say that a detailed **study about the IT preparedness in all the States needs to be carried out first in order to find out** the present status of all the States as regards IT preparedness. It is required to work out the **minimum IT requirement, set up the benchmarks and identify the gaps with respect to the present status in all the States.** It will be disastrous to introduce GST without optimum level of IT preparedness in all the States. Details of the study of the present status of the IT infrastructure in various States may be put in the public domain.

6. Conclusion : I would reiterate that it would not be useful to dwell at this stage upon a Constitutional amendment, until issues of autonomy and fiscal flexibility of the State are fully addressed. Also there has to be a time frame for development of IT capacities of each States so that legacy system itself becomes efficient and powerful. There is a need of picking up a model, which serves the purpose of

both State and Centre in the best possible fashion. Only after the GST model has been finalized that we would be able to build processes and necessary Constitutional amendment, if required, around it. As I have mentioned earlier, EC should take up matters regarding impact of GST on prices of primary articles of use, issue of second discussion paper, carry out an assessment of likely income from service tax so that we can have a good statistical model that could form basis for future GST framework. I would request this august house to favourably respond to the alternative framework put forward by Gujarat.

I extend very best wishes to all of you for a Very Happy Deepawali.
