



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

February 11, 2011

New Delhi



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.

As we are meeting for the first time in the New Year, I take this opportunity to wish all of you a very happy year ahead. I am surprised by the time chosen by the Government of India to present its alternative version of Constitutional amendment as, at this stage, everybody is busy with their State budget. While the contentious issue related to CST compensation is not yet sorted out, Government of India has unilaterally chosen to circulate draft Constitutional amendment.

2. I would reiterate that it would not be useful to dwell further at this stage upon a Constitutional amendment, until all pending issues including issues of autonomy and fiscal flexibility of the State are fully addressed. As you all know, we are passing through high inflation regime for the past one and half year. I have mentioned in earlier meetings that EC should take up matters regarding commissioning a study by an expert group on the impact of GST on prices of primary articles of use. At the same time before taking up



constitutional amendment for discussion, we should first concentrate on issues like: threat to the employment generating units coming into tax net due to reduction in threshold for CGST, identify income from service tax that would accrue to the States, introducing VAT on imports, RNR, suitable IGST model, robust IT infrastructure etc.

3. The new constitutional amendment draft proposed by the GOI is **retrograde in nature and completely against the tenets of fiscal federalism**. As per the proposed Article 279A, the powers to constitute the GST Council has been given to the Parliament. In view of the majority in the Parliament of the ruling party, the dominance of the Central Government would naturally increase manifold. In effect, all the powers of the State Government in fiscal policy will be transferred to the Centre. This is against the federal spirit of the Constitution of India.

Earlier, the specific provisions proposed in the Constitution Amendment Draft, like the composition of the GST council, the process for the selection of the Chairman, quorum, decision making process, etc have been brought under the ambit of the Parliament now. Earlier, the slight flexibility given to the States in times of economic exigencies, disasters and natural calamities has also been taken away by the new draft.

As per the revised draft, the GST Council itself is proposed to be a recommendatory body; there is no need for a Dispute Settlement Authority. Hence Article 279B should be deleted. The provisions of Dispute Settlement Authority and GST Council are inconsistent.

The proposed Article 246A inflicts severe blow on the provision of distribution of legislative powers by introducing a separate category. We feel that the concurrent powers for Centre and State to legislate on goods and services would confuse matters further and nowhere has it been made explicit that whose writ would prevail in case of any conflict. It is necessary to safeguard States' interests as enshrined under the Constitution and protect the interests of consumers, traders and industry. 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.

**Therefore, Gujarat does not support the proposed Constitutional amendment in its present form.** This would de-stabilize balance between source of revenue and duties between Centre and States and would adversely affect the financial health of States and deprive



them of a very important means of governance. We will accept GST only if autonomy available at present to the State and larger interests of the stakeholders are fully protected. I reiterate that the **Constitutional amendment in the present format put forth by the Government of India is not acceptable to Gujarat.**

4. I had explicitly maintained that issues related to CST compensation should be sorted out first before moving on issue of Constitutional amendment. I am anguished to mention that Central Government has not yet even adopted principle to be followed for payment of compensation for the year 2010-11. I would like to reiterate that large amount of CST compensation since 2008-09 are pending and this is causing severe stress on State resources. Therefore, I request Government of India through this august gathering to finalize payment of CST compensation for the year 2010-11 and also clear the pending arrears for 2008-09 onwards.

5. I reiterate our earlier views on IT infrastructure that process should be controlled by State Governments as they are ultimately responsible to the people with respect to issues on this matter.