

Proposal to limit state tax on cell phones, tablets

Mobile phones and tablets could become cheaper if states accept the telecom department's proposal to define these as goods of special importance, under the Central Sales Tax (CST) Act.

The Empowered Committee (EC) of State Finance Ministers would consider bringing mobile phones and tablets under the declared goods category at its next meeting, in Mussoorie on May 10-11. Industry associations and representatives from the Department of Telecom would make a presentation to the EC on May 11.

If the proposal goes through, states will not be able to tax these electronic items at a rate higher than five per cent. Reduction in the tax rate from 12.5 per cent to five per cent would give a saving of Rs 750 on a mobile phone costing Rs 10,000.

Currently, the tax rate varies from state to state. Maharashtra, West Bengal, Gujarat, Tamil Nadu and Madhya Pradesh levy tax on mobile phones at the highest rate of 12.5 per cent and also impose a surcharge.

The situation is more complex in the case of a tablet, as the classification of the product is not clear. Some states consider it a mobile phone, others classify it as information technology product, a category that is taxed at five per cent. A lower duty on mobile phones is a long standing demand of the industry. Recently, Communications Minister Kapil Sibal wrote to the committee on the proposal.

Industry associations have met EC Chairman and Bihar's Deputy Chief Minister Sushil Modi and said he sounded positive. But some states are still opposed to the proposal. At the Mussoorie meet, the effort will be to convince these states that such goods are important for the country's development - just like goods of special importance such as cereals, cotton, crude oil, sugar, textiles, jute, iron and steel, tobacco products, oil seeds, pulses and liquefied petroleum gas.

Indian Cellular Association President Pankaj Mohindroo said if the proposal goes through, it would help put a check on grey market sales, as many Chinese handsets sold there don't pay value added tax. He said poor states are in favour of a lower tax as it would take mobile telephony to every nook and corner.

The National Policy on Electronics had marked mobile phones and electronic products used for data communication as goods of special importance under the CST Act. CST is a tax on inter-state movement of goods imposed by the Centre but collected by states.

Bringing more goods under the declared category would deprive states of higher revenues. In the last EC meeting, in Bhubaneswar, Modi had asked the Centre to abolish the provision from the law. Mohindroo, however, said the National Policy on Electronics was made after wide consultation and "because of the spirit of federalism, there is no wish to impose anything on the states".

Article 286(3)(a) of the Constitution authorises the Centre to declare some goods as of special importance and impose restrictions on the power of states to levy tax on these.

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