

Retain tax exemption of state PSUs, Sushil Modi tells FM

Bihar Deputy Chief Minister Sushil Modi has asked the Centre to remove the clause in the Finance Bill 2013 that seeks to disallow state PSUs from availing income tax exemption on fee and royalty paid by them to state governments.

In a letter to Finance Minister P Chidambaram, Modi, who is also Chairman of Empowered Committee of State Finance Ministers, argued that the provision in the Budget was against the Constitutional scheme of distribution of taxation powers between the Centre and the States.

"The proposed amendment amounts to imposition of tax on state government's income and therefore violates Article 289 of the Constitution of India," he said.

From the national perspective, Modi added, "it does not add to the combined revenues of the central government and state governments taken together. Thus, there is no efficiency angle either".

The Finance Bill 2013 proposed to amend Section 40 of the Income Tax Act with a view to disallowing tax deduction on payments such as privilege fee, licence fee, royalty, charges made by a state PSU to the state government.

The budget proposals, Modi said, have opened another front in the uneasy relationship between the Centre and the states at a time when the Union government needs the consent of the states for implementation of the Goods Service Taxes (GST).

"You are aware that states are already agitated by some of the actions or inactions of the central government on the issue of compensation of introduction of Value Added Tax (VAT). The proposed move will further erode the confidence of the state governments and delays the introduction of GST," he said in his letter.

Earlier, Tamil Nadu Chief Minister J Jayalithaa had expressed her opposition to the amendments to the I-T Act.

Jayalithaa, in a letter to Prime Minister Manmohan Singh, has sought the deletion of the clause and said that states have the powers to levy such fees and royalties under Article 265 of the Constitution.

She added that the provision would boost the income of the Union government to the detriment of the legitimate tax and non-tax revenue of the state governments.

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