

States talk 2013 date for GST rollout as centre agrees to review CST payments

Offering a fig leaf to the agitating states, the Centre has offered to review the compensation formula for the central sales tax, brightening prospects for the key indirect tax reform--goods and service tax.

"We discussed the entire GST in detail, including the CST compensation....Union finance minister is very positive and said the chapter of compensation is not closed," Sushil Modi, Bihar deputy chief minister and chairman of the empowered group of state finance ministers told reporters after his meeting with FM Pranab Mukherjee.

A committee of senior officials from the central government and states will now thrash out the issue of compensation, Modi said.

Tuesday's meeting was considered crucial as the vexatious issue of CST compensation had led to a high-pitched war of words between the Centre and the states. Chief ministers of states, including West Bengal and Tamil Nadu, had shot off letters to the Centre saying its decision to discontinue the compensation was unilateral and arbitrary. Modi himself had written to Mukherjee after finance secretary RS Gujral communication that the Centre would not provide any further compensation.

The Centre and state governments had agreed in 2006 to cut CST by 1% every year from April 1, 2007 and eliminate it by April 1, 2010 to coincide with launch of GST. But, the delay in implementation of GST, due to lack of unanimity over its structure, and the global financial crisis led to a pause in the phase-out plan.

The agreed compensation formula included allowing states to tax some services, removal of additional excise duty on tobacco products and textiles, value-added tax on imports, budgetary support and increase in floor rate of value added tax.

A large number of these elements such as removal of additional excise duty from tobacco, budgetary support and transfer of revenues from 33 services to states were implemented. But, the Centre did not bring the agreed new services under tax net or impose VAT on imports. On the other hand, only a few states raised the floor rate of VAT from 4%.

State governments are miffed with provision of mere 300 crore as compensation towards CST reduction in the budget 2012-13 as against their overall demand of over 19,000 crore. The Centre has said it could not go on compensating states for CST reduction if they kept delaying finalisation of the structure of GST.

Modi said the constitution amendment bill for GST was with the standing committee and the new tax could kick in from April 1, 2013.

(Economic Times)