

Consolidated Guidelines on CST Compensation

F.No.28/4/2007-ST
Government of India
Ministry of Finance
Department of Revenue

New Delhi, dated the 22nd August, 2008

To
The Secretaries to the Government of all States/ Union Territories,
Finance/ Taxation Departments.

Subject: **Compensation to the States/ UTs for revenue loss on account of phasing out of the Central Sales Tax (CST).**

Sir/ Madam,

I am directed to mention that a consensus has been arrived at between the Central and the State Governments to phase out the CST over a period of 3 years, i.e. by 31.03.2010. As part of this consensus, the rate of CST has been reduced from 4% to 3% w.e.f. 01.04.2007 and from 3% to 2% w.e.f. 01.06.2008. The earlier guidelines for compensation of CST revenue loss on account of reduction of the CST rate from 4% to 3% w.e.f. 01.04.2007 had been issued vide F.No.28/4/2007-ST dated the 10th October, 2007. It has now been decided to issue these Consolidated Guidelines in supersession of the said earlier guidelines providing for compensating the CST revenue loss to the States/ UTs on account of reduction of the CST rate from 4% to 2% so far through the following measures:

- a) Withdrawal of the benefit of concessional CST rate on inter-State sale to Government Departments, against submission of Form-D.
- b) Enabling States to levy VAT on Tobacco @12.5%.
- c) Transfer to the States of revenues of 33 services currently subject to tax and 44 new services (as and when taxed).
- d) Budgetary Support during 2007-08, 2008-09 and 2009-10, in case the measures indicated at (a), (b) and (c) do not fully cover the revenue loss.

2. In order to give effect to the above proposals, the necessary legislative measures have been taken through enactment of the Taxation Laws (Amendment) Act, 2007, which has been brought into force w.e.f. 01.04.2007.

Modalities for calculating Revenue Loss and the Compensation to be paid to the States on account of 'phasing out of the Central Sales Tax (CST)':

3. The detailed modalities for calculating the revenue loss and the compensation to be paid to the States on account of phasing out of the CST shall be as follows:

3.1 Assessment of Revenue Loss due to Phasing out of CST:

The procedure for assessment of revenue loss due to phasing out of CST shall be as follows:

- a) The Actual CST Revenue during the year 2006-07 shall be taken as the basis of calculations for the purpose of assessing the revenue loss. The CST

Revenue during 2006-07 shall be taken on the basis of the A.G. Certified figures provided by the State/ UT. Further, if any State/ UT has followed the practice of allowing adjustment of VAT Input Tax Credit (ITC) or any other credit from the CST Revenue, thereby resulting in under-statement of the CST Revenue, necessary adjustment in the AG certified CST Revenue figures shall be made, in order to arrive at the Total Actual CST Revenue.

- b) The Growth Rate to be adopted for the purpose of projecting the CST Revenue for the year 2007-08, 2008-09 and 2009-10 shall be the Compounded Annual Growth Rate (CAGR) of Total CST Revenue for the period from 2003-04 to 2006-07. The Projected CST Revenue for 2007-08 and subsequent years shall be worked out by applying the CAGR to the Total CST Revenue during the base year, i.e. 2006-07.
- c) The Actual CST Revenue during 2007-08, 2008-09 and 2009-10 shall be taken, initially on the basis of the provisional figures provided by the State/ UT, subject to certification by the AG at a later stage. The certificate for the whole year shall be submitted by the State before the 30 June of the following year. Further, as in case of (a) above, necessary adjustment shall be made in respect of VAT Input Tax Credit or any other credit claimed from the CST liability.
- d) The Actual CST Revenue as computed under (c) above shall be compared with the Projected CST Revenue as computed under (b) above, in order to arrive at the figure of the CST Loss to be compensated during the relevant period.
- e) The CST Loss as reckoned at (d) above will be limited to the "Proportionate Loss" based on the actual collection over the period for which compensation is paid. The Proportionate CST Revenue to be protected over the period will be calculated by extrapolating the Actual CST Revenue collected in that period at the actual reduced tax rate, to a notional amount that would have been collected had the tax rate continued to be 4%. The Proportionate Loss would be the difference between the Proportionate CST Revenue so computed and the Actual CST Revenue for the period under consideration.
- f) The amount due for 2006-07, based on the AG certified figures for the full year, shall be paid after adjustment of the amount already released, if any, for 2006-07.

3.2 Compensation for the CST Revenue Loss:

The package of compensation shall comprise of additional revenue from non-monetary measures and the budgetary support. The package in respect of reduction of CST from 4% to 2% so far shall consist of the following:

- a) **VAT/ Sales Tax on Tobacco:** The States/ UTs shall levy VAT/ Sales Tax on Tobacco @12.5%. The actual revenue collected by each State/ UT from Tobacco shall be taken into account. If any State has not imposed VAT/ Sales Tax on Tobacco, or has fixed a rate lower than 12.5%, it will be taken as a deviation, and the revenue foregone will be assessed on a normative basis.

- b) **Abolition of Form-D:** The special concession to Government Departments for making inter-State purchases at concessional CST rate of 4% against Form-D, shall stand withdrawn and the additional Revenue resulting from such withdrawal shall be taken into account. As agreed, for the year 2007-08, the total revenue gain from this measure shall be taken at Rs.1,500 crores and this total amount shall be apportioned amongst the States in the ratio of their CST Revenue during 2006-07. The amount so worked out for each State/ UT shall be taken as the revenue gain to such State/ UT during 2007-08 from this measure. For the years 2008-09 and 2009-10, the revenue gain shall be worked out by applying the Growth Rate accepted for CST Revenue.
- c) **Transfer of revenues from 33 services** of intra-State nature **currently liable to pay service tax.** The Central Government will continue to levy and collect the taxes, but the revenue will be transferred to the States against cash compensation due.
- d) **In addition, 44 new services of intra-State nature have been identified for levy of service tax.** Centre will endeavour to levy service tax on as many of these services of intra-State nature as possible. If service tax is levied on these services, the Centre will collect the tax but will transfer the revenues from these taxes to the States Governments against cash compensation due.
- e) If the measures referred to above do not fully compensate the States for the losses in 2007-08 and 2008-09, the Central Government will provide budgetary support to make up the difference. The amounts to be given under (c) and (d) above, if any, will also be given through the Central Government budget.
- f) For the period till 31 January of every financial year, the compensation shall be released in the form of grant-in-aid, in the same manner in which the compensation for revenue loss on account of implementation of VAT is being released. The calculations shall be done on cumulative basis for each financial year. For instance, if a claim is filed in October, 2008, covering the period up to September, 2008, the compensation to be released shall be the total amount for which the State is entitled for the period April-September, 2008 minus the amount released earlier, if any. The compensation for February and March every year shall be paid only after the AG certified figures for that year are made available. The amount due based on the AG certified figures for the full year, shall be paid after adjustment of the amount already released, if any, for that year.
- g) In case the total CST compensation entitlement of any State/ UT on the basis AG certified figures falls short/ below the amount of ad hoc CST compensation already released to the State/ UT, the excess payment shall be recovered by direct debit to the account of that State/ UT as per the procedure.
- h) In case any State/ UT had CST rate of 3% or below, in general or on specific commodities, before 01.04.2007, no compensation shall be payable to such State/ UT on account of reduction of CST rate from 4% to 3% w.e.f. 01.04.2007 till 31.05.2008. Similarly, if the CST rate has been reduced below 3% after 01.04.2007 and before 01.06.2008, by any State/ UT in general or on

specific commodities, the compensation shall be restricted to the amount payable with 3% CST rate.

- i) In case any State/ UT had CST rate of 2% or below, in general or on specific commodities, before 01.06.2008, no compensation shall be payable to such State/ UT on account of reduction of CST rate from 3% to 2% w.e.f. 01.06.2008. Similarly, if the CST rate were to be reduced below 2% after 01.06.2008, by any State/ UT in general or on specific commodities, the compensation shall be restricted to the amount payable with 2% CST rate.

4. In order to facilitate the above calculations, the States/ UTs are requested to furnish information in Proforma-I to IV enclosed herewith.

5. The above guidelines/ instructions are for compensation to the States in respect of reduction of CST rate from 4% to 3% made w.e.f. 01.04.2007 and the reduction of CST rate from 3% to 2% made w.e.f. 01.06.2008. In future, when CST is reduced further and new measures for compensation of revenue loss are introduced, the guidelines/ instruction shall be modified suitably, in consultation with the States, to incorporate the new developments.

6. I am further directed to request you to kindly take further necessary action accordingly.

Thanking you,

Yours faithfully,

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(ARVIND KUMAR)
Under Secretary to the Government of India
(State Taxes Section)
Tel: 011-2309 5376

18/11/08 4/5/2008
25/11/08

Copy to:

1. The Accountants General (A&E) of the States/ UTs concerned.
 2. The Director (Accounts)/ Director (SRA), O/o C&AG, New Delhi.
 3. The Member-Secretary, EC of State Finance Ministers, New Delhi.
 4. The Commissioners, VAT/ Sales Tax/ Commercial Tax of all States/ UTs.
 5. DEA: Deputy Secretary (Budget), North Block, New Delhi.
 6. Dy. Director, O/o DGACR, III Floor, AGCR Building, I.T.O., New Delhi.
 7. Chief Controller of Accounts, Min. of Finance, North Block, New Delhi.
 8. US, IFU-III, Department of Revenue.
- etc*

Proforma-I

Computation of Compound Annual Growth Rate (CAGR) of
CST Revenues

Name of the State/ UT:

(Rs. Crores)

Year	CST Revenue				Annual Growth Rate	Compound Annual Growth Rate (CAGR)
	Net CST Revenue (as per AG Certificate)	VAT Input Tax Credit adjusted against CST, if any	Any other adjustment from CST, if any	Total CST Revenue		
1	2	3	4	5=[2+3+4]	5	6
2003-04						
2004-05						
2005-06						
2006-07						

Notes:

1. The AG Certificate should be furnished in support of the Net CST Revenue figures indicated in Column 2. Initially, the AG Certificate may be furnished upto 2005-06. The AG Certificate for 2006-07 may be furnished later, when available.
2. The information furnished by the State Government shall suffice in respect of figures in Column-3 and Column-4, but may be subject to subsequent verification by the AG.

Computation of Projected CST Revenue, Actual CST Revenue and the Loss to be compensated
Proforma-II

Name of the State/ UT :
 Year :

Month	CST Revenue during 2006-07			Projected Total CST Revenue during 2007-08/2008-09/2009-10 (as the case may be)	CST Revenue during 2007-08/2008-09/2009-10 (as the case may be)			Total CST Loss to be compensated	VAT/ Sales Tax on Tobacco	Addl. Revenue from Abolition of Form-D	CST Loss to be compensated from Service Tax/ Budgetary Support
	Net CST Revenue	ITC under VAT adjusted against CST, if any	Total CST Revenue		Net CST Revenue	ITC under VAT adjusted against CST, if any	Total CST Revenue				
1	2	3	4(2+3)	5	6	7	8(5-7)	9(5-8)	10	11	12(9-10-11)
April											
May											
June											
July											
August											
September											
October											
November											
December											
January											
February											
March											
Total											

- Notes:**
- In Column 2 and 6, the State/ UT shall furnish the provisional figures initially, subject to submission of AG certified figures later.
 - In Column 5, the Projected Total CST Revenue is to be calculated by applying the CAGR computed in Proforma-I to the Total CST Revenue in the base year 2006-07 (Column 4).
 - In Column 3, 7 and 10, the figures furnished by the State/ UT as per Departmental records shall suffice, but may be subject to subsequent verification by the AG.

Form III

Information In respect of Commodities/ Entities for which CST rate @ less than 4% is applicable on or before 31.3.2007 onwards

Name of State/ UT:

S.No.	Name of Commodities and/or Entities with applicable CST rate less than 4% up to 31.3.2007	Rate of Tax	Date from which made effective	Collection in year 2006-07	Collection in year 2007-08	Remarks

Notes:
Signature of Finance Secretary/
Commissioner (VAT/Sales Tax/Trade Tax)

1. The above information furnished by the State Government shall suffice, but may be subject to subsequent verification by the AG.
2. The relevant information/ circulars etc. may also be furnished.
3. In case there is no deviation from existing CST rate, the same may also be indicated clearly.

Proforma-IV

Information In respect of Commodities/Entities for which CST rate has been reduced to below 3%, on or after 01.04.2007

Name of State/ UT:-

Sl.No.	Name of Commodities and/or Entities with CST rate less than 3% after 31.03.2007	Rate of Tax	Date from which made effective	Collection in year 2006-07	Collection in year 2007-08	Collection in year 2007-08	Remarks

Signature of Finance Secretary/
Commissioner (VAT/Sales Tax/Trade Tax)

Notes:

1. The above information furnished by the State Government shall suffice, but may be subject to subsequent verification by the AC
2. The relevant information/ circulars etc. may also be furnished.
3. In case there is no deviation from existing CST rate, the same may also be indicated clearly