**Jaitley likely to take Central Sales Tax route to convince states on GST**

The Centre is planning to extend an olive branch to the states to end the stalemate on Goods and Services Tax (GST). Finance Minister Arun Jaitely will separately reach out to Madhya Pradesh and Gujarat to address their concerns on fiscal autonomy and revenue loss.  
  
To win back confidence of the states, the finance ministry might also make provisions in the upcoming Budget for adequately compensating the states for the losses they made due to reduction in Central Sales Tax (CST) — a tax on inter-state movement of goods.  
  
After meeting chief ministers or finance ministers of Madhya Pradesh and Gujarat— the two BJP-ruled states that blocked GST — Jaitley will have a meeting with all state finance ministers sometime mid next month. The Budget wish-list of states might also be discussed in that.  
  
“The government is going to give a major push to GST. We are working out a mechanism (to address the concerns of the states). The finance minister himself might reach out to Gujarat and Madhya Pradesh,” an official, who did not wish to be identified, told Business Standard, after giving a presentation to Jaitely on contentious issues in GST.  
  
The official added the Centre would try to arrive at a revenue neutral rate at which no state loses revenue, and if it does there would be a mechanism to compensate them. It, however, might not agree to the states’ demand to keep petroleum out of GST.  
  
In an interview with Business Standard last month, head of Tax Administrative Reforms Commission Parthasarathi Shome had said, “If you keep petroleum products out, no tax policy designer could call it a GST.” He also argued that the flexibility given to the states in terms of differential rates would cause a high compliance burden on the tax payer.  
  
In meeting with the state finance ministers, Jaitley might take the first step by assuring them of CST compensation in the Budget. Last year, former Finance Minister P Chidambaram had made a provision for CST compensation to the tune of Rs 9,300 crore but only Rs 1,940 crore was finally released. According to Shome, there should be quick cut-off for compensation for CST.  
  
“The need for a consensus among the states still remains and the empowered committee (of state finance ministers) should give the signals for that to happen. In the immediate Budget, the government can introduce a federal GST, combining excise and service tax laws, to begin the integration towards an eventual GST,” said Bipin Sapra, Tax Partner, EY.  
  
Gujarat’s contention is that GST would shift revenues from manufacturing states to consuming states, while Madhya Pradesh has maintained it would take away their fiscal autonomy. Besides, most of the states have opposed subsuming entry tax in GST.  
  
GST will help increase tax base by improving compliance. It will remove cascading of taxes and reduce inflation, contributing to high economic growth.

***Source : The Business Standard***

***Date : 30.05.2014***