# EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS

# Annual Report 2010-2011

**C-405, Delhi Secretariat, I.P. Estate, New Delhi-110002**

# Contents

**Overview**

In India, VAT was introduced at the Central level for a selected number of commodities in terms of MODVAT with effect from March, 1986, and in a step by step manner for all commodities in terms of CENVAT in 2002-03. Introduction of VAT in the States has been a more challenging exercise in a federal country like India, where each State, in terms of Constitutional provisions, is sovereign in levying and collecting State Taxes. The first primary discussion on the State level VAT took place in a meeting of the Chief Ministers convened in 1995 by Dr. Manmohan Singh, the then Hon'ble Union Finance Minister. Thereafter, in a significant meeting of all the Chief Ministers, convened on November 16, 1999 by Shri Yashwant Sinha, the then Hon'ble Union Finance Minister, two important decisions, among others were taken. First, before the introduction of State level VAT, the unhealthy sales tax "rate war" among the States would have to end and sales tax rates need to be harmonised by implementing uniform floor rates of sales tax. Secondly, steps would be taken by the States for the introduction of State level VAT after adequate preparations. For implementing these decisions, a Standing Committee of State Finance Ministers was formed which was later made as an Empowered Committee of the State Finance Ministers in the year 2000. In view of the concerted efforts of the Empowered Committee, it was possible to achieve nearly 98% success in the first objective. After reaching this stage, systematic preparations were initiated for the introduction of State level VAT. As a consequence of all these steps, the States started implementing VAT beginning April, 2005.

2. To remove certain shortcomings in the VAT structure, both at the Central and State level, an announcement was made by the then Hon'ble Union Finance

Minister in the Union Budget to the effect that GST would be introduced from April, 2010, and that the Empowered Committee of State Finance Ministers would work with the Central Government to prepare a Roadmap for the introduction of GST in India. Taking into account the recommendations of the various Committees, experts, discussions with trade and industry and in consultation with the Government of India, the First Discussion Paper on Goods and Service Tax in India was released by the Empowered Committee of State Finance Ministers in the presence of Shri Pranab Mukherjee, Hon'ble Union Finance Minister in November, 2009. As it was necessary that the Constitution of India is suitably amended before the GST could be implemented, the Government of India in consultation with the States has introduced the 115$^{th}$ Amendment Bill, 2011 in the Lok Sabha in March, 2011 to facilitate the introduction of GST.

3. It was felt that Central Sales Tax is a distortion in the implementation of VAT/GST. In pursuance of this, the Government of India, in consultation with the States reduced the Central Sales Tax rate from 4% to 3% from 1$^{st}$ April, 2007 and it was further reduced from 3% to 2% w.e.f. June, 2008. After due consideration, it was decided not to further reduce the rate of Central Sales Tax till GST is introduced.

4. The Empowered Committee alongwith the Government of India has taken various initiatives for implementing the IT infrastructure for VAT/GST. Important projects like Tax Information Exchange System (TINXSYS) and Computerization of Commercial Tax Departments of special category States of Himachal Pradesh and Jammu & Kashmir were taken up. An Empowered Group on IT infrastructure for GST under the Chairmanship of Dr. Nandan Nilekani, Chairman, Unique

Identification Authority of India (UIDAI) was set up by the Government of India in consultation with the Empowered Committee. On its recommendation, the Empowered Committee has agreed for the creation of a Special Purpose Vehicle to be called the Goods and Services Tax Network (GSTN). The key objective of the GSTN would be to provide shared IT infrastructure information and services to the Central Government and the State Governments for implementing GST.

5. The Empowered Committee could achieve all these milestones because of the able advice and constant encouragement given by Shri Pranab Mukherjee, Hon'ble Union Finance Minister & Valuable contribution of the Hon'ble State Finance Ministers, officers of the States; Adviser to the Hon'ble Union Finance Minister, officials of the Union Finance Ministry and the officials of the Empowered Committee. Dr. Asim K. Dasgupta, former Hon'ble Finance Minister, West Bengal was the Chairman of the Empowered Committee from its inception and also during the year 2010-11. The contribution of Dr. Dasgupta as Chairman Empowered Committee in the field of tax reforms has been immense and I take this opportunity to sincerely thank him on my own behalf and on behalf of the Empowered Committee.

**Sushil Kumar Modi**
Chairman,
Empowered Committee of
State Finance Ministers &
Deputy Chief Minister,
Government of Bihar

## Introduction

The Empowered Committee of State Finance Ministers was originally set up on 17th July, 2000 by the Government of India with the Hon'ble State Finance Ministers of West Bengal, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Uttar Pradesh, Gujarat, Delhi and Meghalaya as members with an objective to monitor the implementation of uniform floor rates of sales tax by States and Union Territories, to monitor the phasing out of the sales-tax based incentive schemes, to decide milestones and methods of States to switch over to VAT and to monitor reforms in the Central Sales Tax system existing in the country. Subsequently, Hon'ble State Finance Ministers of Assam, Tamil Nadu, Jammu & Kashmir, Jharkhand and Rajasthan were also notified as the members of the Empowered Committee. On 12th August, 2004 the Government of India decided to reconstitute the Empowered Committee with all the Hon'ble State Finance/Taxation Ministers as its members.

2. Later on, it was decided to register the body as a Society under the Societies Registration Act (XXI of 1860). The registration certificate was issued on August 17, 2004. All the Ministers in charge of Finance/Taxation of all State Governments and Union Territories with legislatures, Additional Secretary (Revenue), Government of India and Member Secretary, Empowered Committee are the members of the Empowered Committee. The Empowered Committee has its office in Delhi Sachivalya, I.P. Estate, New Delhi where Government of NCT of Delhi has kindly provided accommodation and other facilities. The Society has been receiving contributions from the State Governments and Government of India to meet its administrative expenditure and undertake various other activities.

3. The Empowered Committee has been meeting regularly. It is attended by the State Finance Ministers, Finance Secretaries and Commissioners of Commercial Taxes of the State Governments as well as senior officers of the Ministry of Finance, Government of India. During 2010-11, the Empowered Committee met eight times. The Annual General Meeting of the Empowered Committee was held on 6.12.2010.

**Empowered Committee Secretariat**

4. Shri Satish Chandra, IAS (Retd.), former Secretary to the Government of India continued as Member Secretary, Empowered Committee during the year.

5. To strengthen the staff of the Empowered Committee, one senior level officer, Smt. Ujjaini Datta was deputed by the Government of West Bengal from Sales Tax Department to work in the Empowered Committee Secretariat. She has been designated as Officer on Special Duty and is looking after the work related to the implementation of VAT, phasing out of CST, introduction of GST, compilation and analyzing revenue figures and all other technical matters. Shri V.P. Gupta, Senior Administrative Officer, Dr. Pooja Joshi, part- time Finance Officer and Shri Kishori Lal, Principal Private Secretary continued in the same capacity during the year. Shri V.K. Malhotra joined the Empowered Committee as Administrative Officer during the year.

**Value Added Tax at the Central and the State level**

6. Prior to the introduction of VAT in the Centre and in the States, there was a burden of multiple taxation in the pre-existing Central excise duty and the State sales tax systems. Before any commodity was produced, inputs were first taxed, and then after the commodity got produced with input tax load, output was taxed

again. This was causing a burden of multiple taxation (i.e. “tax on tax”) with a cascading effect. Moreover, in the sales tax structure, when there was also a system of multi-point sales taxation at subsequent levels of distributive trade, then along with input tax load, burden of sales tax

paid on purchase at each level was also added, thus aggravating the cascading effect further.

7. When VAT is introduced in place of Central excise duty, a set-off is given, i.e., a deduction is made from the overall tax burden for input tax. In the case of VAT in place of sales tax system, a set-off is given from tax burden not only for input tax paid but also for tax paid on previous purchases. With VAT, the problem of “tax on tax” and related burden of cascading effect is thus removed. Furthermore, since the benefit of set-off can be obtained only if tax is duly paid on inputs (in the case of Central VAT), and on both inputs and on previous purchases (in the case of State VAT), there is a built-in check in the VAT structure on tax compliance in the Centre as well as in the States, with expected results in terms of improvement in transparency and reduction in tax evasion. For these beneficial effects, VAT has now been introduced in more than 150 countries, including several federal countries. In Asia, it has now been introduced in almost all the countries.

8. In India, VAT was introduced at the Central level for a selected number of commodities in terms of MODVAT with effect from March 1, 1986, and in a step-by-step manner for all commodities in terms of CENVAT in 2002-03. Subsequently, after the Constitutional Amendment empowering the Centre to levy tax on services, the service tax was also added to CENVAT in 2004-05. Although

the growth of tax revenue from the Central excise has not always been specially high, the revenue growth of combined CENVAT and service taxes has been significant.

9. Introduction of VAT in the States has been a more challenging exercise in a federal country like India, where each State, in terms of Constitutional provision, is sovereign in levying and collecting State taxes. Before introduction of VAT, in the sales tax regime, apart from the problem of multiple taxation and burden of adverse cascading effect of taxes as already mentioned, there was also no harmony in the rates of sales tax on different commodities among the States. Not only were the rates of sales tax numerous (often more than ten in several States), and different from one another for the same commodity in different States, but there was also an unhealthy competition among the States in terms of sales tax rates – socalled "rate war" – often resulting in, revenue-wise, a counter-productive situation.

10. It is in this background that attempts were made by the States to introduce a harmonious VAT in the States, keeping at the same time in mind the issue of sovereignty of the States regarding the State tax matters. The first preliminary discussion on State-level VAT took place in a meeting of Chief Ministers convened by Dr. Manmohan Singh, the then Union Finance Minister in 1995. In this meeting, the basic issues on VAT were discussed in general terms and this was followed up by periodic interactions of State Finance Ministers. Thereafter, in a significant meeting of all the Chief Ministers, convened on November 16, 1999 by Shri Yashwant Sinha, the then Union Finance Minister, two important decisions, among others, were taken. First, before the introduction of State-level VAT, the unhealthy sales tax "rate war" among the States would have to end, and sales tax rates would need to be harmonised by implementing uniform floor rates of sales

tax for different categories of commodities with effect from January 1, 2000. Secondly, on the basis of achievement of the first objective, steps would be taken by the States for introduction of State-level VAT after adequate preparation. For implementing these decisions, a Standing Committee of State Finance Ministers was formed which was then made an Empowered Committee of State Finance Ministers.

11. Thereafter, the Empowered Committee has met regularly. All the decisions were taken on the basis of consensus. On the strength of these repeated discussions and collective efforts, involving the Ministers and the concerned officials, it was possible within a period of about a year and a half to achieve nearly 98 per cent success in the first objective, namely, harmonisation of sales tax structure through implementation of uniform floor rates of sales tax.

12. After reaching this stage, steps were initiated for systematic preparation for introduction of State-level VAT. In order again to avoid any unhealthy competition among the States which may lead to distortions in manufacturing and trade, attempts have been made from the very beginning to harmonise the VAT design in the States, keeping also in view the distinctive features of each State and the need for federal flexibility. This has been done by the States collectively agreeing, through discussions in the Empowered Committee, to certain common points of convergence regarding VAT, and allowing at the same time certain flexibility to accommodate the local characteristics of the States.

13. Along with these measures, steps were taken for necessary training, computerization and interaction with trade and industry. While these preparatory steps were taken, the Empowered Committee got a significant support from Shri P.

Chidambaram, the then Union Finance Minister, when he responded positively in providing Central financial support to the States in the event of loss of revenue in transitional years of implementation of VAT.

14. As a consequence of all these steps, the States started implementing VAT beginning April 1, 2005. After overcoming the initial difficulties, all the States and Union Territories have now implemented VAT. The Empowered Committee has been monitoring closely the process of implementation of State-level VAT, and deviations from the agreed VAT rates have been contained substantially. Responses of industry and also of trade have been indeed encouraging. The rate of growth of tax revenue has nearly doubled from the average annual rate of growth in the pre-VAT five year period after the introduction of VAT.

**Goods and Service Tax (GST)**

15. Despite this success with VAT, there are still certain shortcomings in the structure of VAT both at the Central and at the State level. The shortcoming in CENVAT of the Government of India lies in non-inclusion of several Central taxes in the overall framework of CENVAT, such as additional customs duty, surcharges, etc., and thus keeping the benefits of comprehensive input tax and service tax set-off out of reach for manufacturers/dealers. Moreover, no step has yet been taken to capture the value-added chain in the distribution trade below the manufacturing level in the existing scheme of CENVAT. The introduction of Goods and Services Tax (GST) at the Central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance.

16. In the existing State-level VAT structure there are also certain shortcomings. There are, for instance, even now, several taxes which are in the nature of indirect tax on goods and services, such as luxury tax, entertainment tax, etc., and yet not subsumed in the VAT. Moreover, in the present State-level VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under State VAT, and contributing to that extent a cascading effect on account of CENVAT element. This CENVAT load needs to be removed. Furthermore, any commodity, in general, is produced on the basis of physical inputs as well as services, and there should be integration of VAT on goods with tax on services at the State level as well, and at the same time there should also be removal of cascading effect of service tax. In the GST, both the cascading effects of CENVAT and service tax are removed with set-off, and a continuous chain of set-off from the original producer's point and service provider's point upto the retailer's level is established which reduces the burden of all cascading effects. This is the essence of GST, and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax. However, for this GST to be introduced at the State-level, it is essential that the States should be given the power of levy of taxation of all services. This power of levy of service taxes has so long been only with the Centre. A Constitutional Amendment will be needed for giving this power also to the States. Moreover, with the introduction of GST, burden of Central Sales Tax (CST) will also be removed. The GST at the State-level is, therefore, justified for (a) additional power of levy of taxation of services for the States, (b) system of comprehensive set-off relief, including set-off for cascading burden of CENVAT and service taxes, (c) subsuming of several taxes in the GST and (d) removal of burden of CST. Because

of the removal of cascading effect, the burden of tax under GST on goods will, in general, fall.

17. The GST at the Central and at the State level will thus give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. With the GST being properly formulated by appropriate calibration of rates and adequate compensation where necessary, there may also be revenue/ resource gain for both the Centre and the States, primarily through widening of tax base and possibility of a significant improvement in tax-compliance. In other words, the GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Governments. The GST may, indeed, lead to the possibility of collectively positive-sum game.

18. Keeping this significance of GST in view, an announcement was made by the then Union Finance Minister in the Union Budget, as mentioned before, to the effect that GST would be introduced from April 1, 2010, and that the Empowered Committee of State Finance Ministers would work with the Central Government to prepare a road map for introduction of the GST. After this announcement, the Empowered Committee, as stated earlier, had set up a Joint Working Group which submitted a report on a model and road map for GST. After accommodating the views of the States appropriately on this report, the views of the Empowered Committee on the model and road map were sent to the Government of India in April, 2008. The comments of the Government of India were received in December, 2008. These comments were duly considered by the Empowered Committee and it was decided that a Committee of Principal Secretaries/Secretaries

(Finance/Taxation) and Commissioners of Trade Taxes should consider the comments received from the Government of India and submit its views and also work out the Central GST and State GST rates. The Committee held detailed deliberations and submitted its recommendations to the Empowered Committee. The Empowered Committee considered these recommendations in its meeting held in January, 2009 and accepted them in principle. The Empowered Committee also decided to constitute a Working Group consisting of Principal Secretaries/Secretaries (Finance/Taxation) and Commissioners of Trade Taxes of all the States/UTs to give their recommendations on (a) the commodities and services that should be kept in the exempted list, (b) the rules and principles of taxing the transactions of services including the transactions in inter-State services, and (c) finalization of the model suggested for inter-state transaction/movement of goods including stock transfers. The senior representatives from the Government of India were also associated.

19. Taking into account the recommendations of the Joint Working Group consisting of Principal Secretaries/ Secretaries(Finance/Taxation) and Commissioner of Trade Taxes of all States/UTs, the views expressed by the Government of India and the States in several meetings of the Empowered Committee held during 2009 and also discussions held with the Hon'ble Union Finance Minister, the First Discussion Paper on Goods and Services Tax in India and Frequently Asked questions and Answers were released by the Empowered Committee of State Finance Ministers in the presence of Shri Pranab Mukherjee, Hon'ble Union Finance Minister on 10th November, 2009, inviting interaction with the representatives of industry, trade, agriculture and common people.

20. It was felt by the Government of India that the Constitution of India has to be suitably amended before dual GST could be implemented. Accordingly, it was decided to form a Joint Working Group under the Chairmanship of Additional Secretary (Revenue), Member Secretary, Empowered Committee (Co-Chairman) and senior officers from the Ministry of Law, Department of Revenue and State Governments. Several meetings of this Group were convened by the Government of India and after taking the views of the States representatives and in consultation with the Department of Law & Justice, Constitutional Amendment Bill for GST was drafted by the Government of India. Subsequently two more draft Constitutional Amendment Bills were received form the Government of India for consideration of the Empowered Committee. The Empowered Committee considered the three drafts of the Constitutional Amendment Bills sent by Government of Indian in its meetings held on 4th August, 2010, 18th August, 2010, 20th September, 2010, 29th October, 2010 and 28th February, 2011. After which the Central Government introduced the 115th Amendment Bill, 2011 in the Lok Sabha to facilitate introduction of GST on 22nd March, 2011.

**Phasing out of Central Sales Tax (CST)**

21. For introduction of VAT/GST, phasing out of CST is necessary as it is a distortion under the VAT regime. The position regarding phasing out of CST was reviewed by the Empowered Committee in its meeting held in July, 2005 and there was a view that CST should not be phased out in an abrupt manner and all its implications should be studied both by the Government of India and the State Governments. In fact, a number of States expressed their apprehension about loss of their revenue on phasing out of CST and were opposed to the same until their revenue could be protected through service tax and compensation on permanent

basis. This matter was subsequently deliberated upon in several meetings of the Empowered Committee. Crucial meetings were also taken by the then Hon'ble Union Finance Minister on several occasions to discuss this issue. During the meetings, the States were of the view that revenue loss on account of phasing out CST should be fully compensated by the Centre through adequate budgetary support. However, the then Hon'ble Union Finance Minister felt that there was need to explore various non-monetary options also for CST compensation and suggested a combination of ways/multi mechanism for generating the revenue which is likely to be lost due to CST phasing out.

22. On 22nd March, 2006 a meeting was taken by the then Hon'ble Union Finance Minister and as per decision taken in this meeting, a Technical Committee of Commissioners of VAT/Sales/Trade Taxes was set up to work out various possible options for compensation of revenue loss on account of phasing out of CST and to suggest modalities for such compensation. Subsequently, several rounds of meetings were held with the then Hon'ble Union Finance Minister and a compensation package was finalized to meet the loss on account of phasing out of CST. It was also decided that the CST should be phased out till 31st March, 2010. An announcement to this effect was made by the then Hon'ble Union Finance Minister in his Budget Speech 2007-08 that "VAT has proved to be an unqualified success. VAT revenues of the implementing States increased by 13.8 per cent in 2005-06 and by 24.3 per cent in the first nine months of 2006-07. The next logical step is to phase out Central Sales Tax (CST). The Central Government has reached an agreement with State Governments to phase out CST. Consequently, the CST rate will be reduced from 4 per cent to 3 per cent with effect from April 1, 2007." Accordingly, as per the consensus arrived between the Centre and the State

Governments, the rate of CST was reduced from 4% to 3% with effect from 1st April, 2007.

23. Further deliberations were done in the Empowered Committee to discuss about reducing the rate of CST from 3% to 2% with effect from 1st April, 2008 and steps required by the Government of India and the States in this regard. An important meeting was also taken by the then Hon’ble Union Finance Minister on 28th January 2008 to deliberate on various monetary and non monetary measures to be adopted by states and centre so that CST can be reduced to 2%. After due discussions and deliberations, a notification reducing the CST rate from 3% to 2% with effect from 1st June, 2008 was issued by the Government of India. Revised guidelines for the CST compensation were also issued on 22nd August, 2008. The issue regarding the further reduction of CST rate from 2% to 1% w.e.f. April, 1, 2009, was considered by Empowered Committee in its meeting held on 21st January, 2009 and after due consideration it was decided to retain the 2% CST rate till GST is introduced.

24. After several meetings with the Hon’ble Union Finance Minister and discussions at various levels, the Government of India agreed to provide full CST compensation to the States for the year 2009-10. A meeting was taken by the Hon’ble Union Finance Minister with the Empowered Committee on 18th August, 2010. He assured the States that CST compensation would also be paid for the year 2010-11.

**<u>Tax Information Exchange System (TINXSYS)</u>**

25. The Empowered Committee, in consultation with the Government of India, had decided to have a technology based computerized system, viz Tax Information

Exchange System (TINXSYS). The key objective of the project was to obtain information related to inter-State trade and prevent fraudulent transactions through spurious statutory forms and thereby tax evasion. With this objective in sight, a project proposal was prepared with an estimated outlay of Rs.32 crores. The 50% of this expenditure was to be borne by the Government of India and the remaining 50% by the States. M/s Ernst & Young Pvt. Ltd. was appointed as the Consultant for the project with effect from 19th October, 2004 and M/s 3i-Inifotech Pvt. Ltd. was engaged as Service Provider with effect from 30th September, 2004.

26. The project commenced on 1st November, 2004 on a Build-Own-Operate-Transfer basis. Till 31st March, 2010, the following facilities were commissioned as part of the project:

(a) TINXSYS Data Centre and Disaster Recovery Site were set up in Thane, Maharashtra and Chennai, Tamil Nadu respectively.

(b) Nationwide Interactive Voice Response facility is accessible through toll-free number.

(c) Dedicated network providing connectivity between Empowered Committee office and Headquarters of Commissioner, Trade Tax Departments of 30 States/Union Territories along with VoIP facility for conferencing has been made available on real time basis.

(d) TINXSYS website with facility for verification of dealer information has been made available.

(e) Dealer data migration has been completed for most of the States.

(f) In most of the States/Union Territories, IT and non-IT equipments have been installed.

(g) The Service Provider has developed B-Spoke Software Application. The portal and application is hosted on the World Wide Web through an authorized domain name, which was provided by the Empowered Committee.

(h) The Service Provider has implemented the one time activity of data conversion.

(i) The Service Provider is providing a centralized dataware housing solution TINXSYS at Data Centre Thane.

(j) As the Tax Information Exchange System carries a sensitive Government data, the Service Provider has developed its application considering various security measures in order to provide adequate security at all levels.

(k) The Service Provider has carried out training to the respective State CTD employees as well as the Empowered Committee staff.

(l) The Service Provider is ensuring uninterrupted support to various types of activities through dedicated call centre.

(m) The service provider has provided interconnectivity between TINXSYS and State VAT system in all the computerised Commercial Tax Departments which would also automate the process of extraction of data from State database to TINXSYS database.

(n) MIS reports have been developed and moved to the internet domain so as to be available to all tax officers.

(o) The ISO 27001 certification of the TINXSYS Data Centre was renewed and extended till 2012.

27. The initial five years contract with the Service Provider and the Consultant of this project expired on 31st October, 2009. The five year contract period of these two agencies was extended by the Empowered Committee till 31st October, 2010, which was further extended by Empowered Committee till 31st October, 2011.

### 1.1.1 Computerization of VAT Departments of Himachal Pradesh and Jammu & Kashmir

28. Computerization of VAT Departments was the preliminary condition for installation of Tax Information Exchange System. Some of the States were already having Computerization in their VAT Departments. Keeping in view the slow progress of computerization, the Government of India was requested to take initiative to help the Special Category States with computerization. The Government of India, Department of Revenue requested the Empowered Committee of State Finance Ministers to take up the VAT Computerization in the States of Himachal Pradesh and Jammu & Kashmir.

29. M/s PricewaterhouseCoopers Pvt. Ltd. were engaged as Consultant for the project of VAT computerization in Jammu & Kashmir and Himachal Pradesh for a total fee of Rs.2.40 crores. M/s Tata Consultancy Services was appointed as Implementing Agency for the VAT computerization of Commercial Tax Departments of Jammu & Kashmir and Himachal Pradesh on payment of total amount of about Rs.38.04 crores.

30. The Government of India also decided to constitute a Project Review and Monitoring Committee consisting of the Member Secretary, Empowered Committee of State Finance Ministers; Director (State Taxes), Department of Revenue, Government of India; Commissioner, Commercial Taxes, Government of Jammu & Kashmir; Excise & Taxation Commissioner, Government of Himachal Pradesh and Senior Administrative Officer, Empowered Committee of State Finance Ministers.

31. During the year, Review and Monitoring Committee has met on 12th November, 2010 in Shimla, 21st January, 2011 in Delhi and 25th March, 2011 in Jammu. In these meetings the Committee reviewed the progress made in the implementation of the Project. The difficulties pointed out by the States and the Implementation Agency were also discussed and were sorted out. Suitable instructions were issued to the Implementation Agency and the Consultant to ensure that the project is completed as per schedule fixed in the Agreement.

**Income & Expenditure**

32. Empowered Committee does not have its own source of income except income from bank interest. The Committee mainly generates its income from the funds provided by the Government of India and the contributions received from the States/Union Territories. During the financial year 2010-2011, the Empowered Committee received annual contribution of Rs. 50 lakhs from the States/Union Territories and Rs.50 lakhs from the Government of India to meet the administrative expenses of the Empowered Committee.

33. For installation of Tax Information Exchange System, a contribution of Rs.1.45 crores was received from various States/Union Territories. A contribution of Rs.1.36 crores was also received from the Government of India for the same purpose during the financial year 2010-2011.

34. During the Financial Year 2010-11, the Empowered Committee of State Finance Ministers received grant-in-aid of Rs.5 crores for the VAT Computerisation project in the States of Himachal Pradesh and Jammu & Kashmir.

35. As per the recommendations of the Thirteenth Finance Commission, the Empowered Committee of State Finance Ministers received a sum of Rs.30 crores

from the Government of India through the Government of Punjab as corpus fund. The interest receipt from this amount can be utilised for meeting the research, capacity building and establishment costs.

36. The Annual Accounts of the Committee for the Financial Year 2010-11 containing Income & Expenditure Account and Balance Sheet are annexed.

**THE EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS: NEW DELHI**

| | | |
|---|---|---|
| STATUS | : | SOCIETY |
| ASSESSMENT YEAR | : | 2011-12 |
| YEAR ENDING | : | 31.03.2011 |

| **STATEMENT OF ASSESSABLE INCOME** | | **AMOUNT (RS.)** |
|---|---|---|
| TOTAL INCOME DURING THE YEAR | 112,224,877.88 | |
| **LESS : -** 15% OF RECEIPT AS PER INCOME & EXPENDITURE A/C | 16,833,731.68 | 95,391,146.20 |
| **LESS :-** ALLOWABLE DEDUCTION U/S 11/1(a) | | |
| (A) AMOUNT OF INCOME UTILIZED FOR ACTIVITIES OF THE SOCIETY | 103,002,666.39 | |
| **LESS :-** DEPRECIATION CLAIMED | 123,180.00 | |
| | 102,879,486.39 | |
| **ADD :-** AMOUNT APPLIED FOR ACQUIRING ASSETS BY WAY OF ADDITIONS DURING THE YEAR | 157,491.00 | 103,036,977.39 |
| | | **(7,645,831.19)** |
| LESS :- BROUGHT FORWARD UNUTILISED ACCUMULETED FUND OF A/Y 2009-10 ADJUSTED AND NOW UTILISED. (AS PER ANNEXURE ATTACHED) | | **7,645,831.19** |
| **TAXABLE INCOME** | | **NIL** |
| **TAX DUE** | | **NIL** |

| Sd/- | Sd/- | Sd/- |
|---|---|---|
| **Member Secretary (EC)** | **Senior Administrative Officer (EC)** | **Finance Officer (EC)** |

**THE EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS: NEW DELHI**

**DETAIL OF UNUTILISED ACCUMULETED FUND**

| S.NO. | ASSESS. YEAR | AMT. B/F FROM EARLIER YEARS | AMT. UTILISED | BALANCE C/D TO NEXT YEAR |
|---|---|---|---|---|
| 1 | 2009-10 | 16,761,824.54 | 7,645,831.19 | 9,115,993.35 |
| 2 | 2010-11 | 39,267,159.71 | - | 39,267,159.71 |
| | | | **TOTAL** | **48,383,153.06** |

| Sd/- | Sd/- | Sd/- |
|---|---|---|
| **Finance Officer** | **Senior Administrative Officer** | **Member Secretary** |

**B. B. CHAUDHRY & CO.**

**CHARTERED ACCOUNTANTS**

**Z-8, HAUZ KHAS, NEW DELHI – 110016. Ph. : 26564461, 41015630, Fax : 26850525**

***Ref. No…………………..*** ***Dated …………….***

**M/S EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS: NEW DELHI**
**NOTES ON ACCOUNTS FOR THE YEAR ENDING 31.03.2011**

## SIGNIFICANT ACCOUNTING POLICIES

1. **SYSTEM OF ACCOUNTING**
   The Society is maintaining its account relating to trade activities on Accrual basis.

2. **FIXED ASSETS & DEPRECIATION**
   The depreciation has been provided on the W.D.V basis at rates applicable to assets as per Income Tax Rules 1962. No Depreciation is charged on the assets disposed off during the year. In case of new acquisition depreciation is charged for the whole year if the assets is put to used for more than 180 days. Otherwise depreciation is provided at 50% of the applicable rates.

3. **INVESTMENTS**
   The Investments are stated at cost.

4. **CONTINGENT LIABILITIES**
   There are no contingent liabilities in this year.

5. **PRIOR PERIOD ITEMS**
   During the year there are no prior period items.

6. **INCOME OR LOSS FROM ORDINARY ACTIVITIES**
   There is an income of Rs.9,222,211.49 from ordinary activities of the trust.

7. **EXTRA ORDINARY ITEMS**
   There is no extra ordinary item during the year.

FOR B.B.CHAUDHRY & COMPANY
CHARTERED ACCOUNTANTS

Sd/-
(B.B.CHAUDHRY)
PROP.

PLACE : New Delhi
DATE : 15/06/2011

(REG NO.001784N) (MEM. NO.14231)

RES.: C-178, SARVODAYA ENCLAVE, NEW DELHI-110 017, PHONE: 26561575

**THE EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS : NEW DELHI**

**BALANCE SHEET AS AT 31.03.2011**

| PREVIOUS YR. | LIABILITIES | | CURRENT YR. | PREVOUS YR. | ASSETS | CURRENT YR. |
|---|---|---|---|---|---|---|
| | **CORPUS FUND** | | | 669,648.00 | **FIXED ASSETS** | |
| 149,727,561.16 | OPENING BALANCE | 149,727,561.16 | | | (AS PER SCHEDULE ATTACHED) | 703,959.00 |
| | ADD : GRANT RECEIVED FROM GOVERNMENT OF INDIA FOR CORPUS FUND | 300,000,000.00 | | | | |
| | ADD : EXCESS OF INCOME OVER EXPENDITURE T/D FROM INCOME & EXP. A/C | 9,222,211.49 | 458,949,772.65 | | **INVESTMENTS** | |
| | | | | 25,000,000.00 | FDR WITH SYNDICATE BANK | 25,000,000.00 |
| | | | | - | FDR WITH SYNDICATE BANK | 300,000,000.00 |
| | **LOANS & ADVANCES** | | | | | |
| 1,000,000.00 | EMD FROM TATA CONSULTANCY SERVICES | | - | | | |
| | | | | | **INVESTMENTS** | |
| | | | | 5,000.00 | CASH IN HAND | 5,000.00 |
| | | | | | BALANCE WITH SYNDICATE | |

| | | | | | |
|---|---|---|---|---|---|
| | **EXPENSES PAYABLE** | | 125,069,458.16 | BANK, NEW DELHI | 133,259,013.65 |
| 16,545.00 | AUDIT FEE PAYABLE | 18,200.00 | | | |
| **150,744,106.16** | **TOTAL (RS.)** | **458,967,972.65** | **150,744,106.16** | **TOTAL (RS.)** | **458,967,972.65** |

**AUDIT REPORT**

FOR THE EMPOWERED COMMITTEE OF
STATE FINANCE MINISTERS

AS PER OUR SEPARATE REPORT OF EVEN DATE ATTACHED
FOR B.B. CHAUDHRY & COMPANY
CHARTERED ACCOUNTANTS

PLACE: NEW DELHI
DATE: 15.06.2011

Sd/-
MEMBER SECRETARY

Sd/-
SR.ADMINISTRATIVE OFFICER/
FINANCE OFFIER

Sd/-
(B.B. CHAUDHRY)
PROP.
MEM NO.14236
REG. NO. 001784N

## THE EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS : NEW DELHI
## INCOME & EXPENDITURE A/C FOR THE YEAR ENDING 31.03.2011

| PREVIOUS YEAR | EXPENDITURE | CURRENT YEAR | PREVIOUS YEAR | INCOME | CURRENT YEAR |
|---|---|---|---|---|---|
| 8,320,076.29 | TO SALARY & ADMINISTRATIVE EXP. | 8,528,449.39 | 10,800,000.00 | BY ANNUAL CONTRIBUTION | 10,000,000.00 |
| 31,400.00 | TO STUDY TOURS EXPENSES | - | 42,915,000.00 | BY TINXSYS RECEIVED | 28,100,000.00 |
| 31,843,045.00 | TO TINXSYS PAID | 52,929,107.00 | 6,222,602.94 | BY BANK INTEREST | 24,122,133.88 |
| 664.00 | TO BANK CHARGES | 771.00 | 863,770.00 | BY MISC. INCOME | 2,744.00 |
| - | TO COMPUTERISATION EXPENSES | | 33,121,000.00 | BY CONTRIBUTION FOR | |
| - | OF H.P., J.& K. STATE | 41,402,959.00 | | VAT COMPUTERISATION | |
| 16,545.00 | TO AUDIT FEE | 18,200.00 | | IN THE STATE OF | |
| 17,200.00 | TO PROFESSIONAL CHARGES PAID | - | | H.P., J & K | 50,000,000.00 |
| 124,383.00 | TO DEPRECIATION | 123,180.00 | | | |
| 53,569,059.65 | TO EXCESS OF INCOME OVER | | | | |
| | EXPENDITURE T/D TO BALANCE SHEET | 9,222,211.49 | | | |
| **93,922,372.94** | **TOTAL (Rs.)** | **112,224,877.88** | **93,922,372.94** | **TOTAL (Rs.)** | **112,224,877.88** |

**AUDIT REPORT**

FOR THE EMPOWERED COMMITTEE OF
STATE FINANCE MINISTERS

AS PER OUR SEPARATE REPORT OF EVEN DATE ATTACHED
FOR B.B. CHAUDHRY & COMPANY
CHARTERED ACCOUNTANTS

PLACE: NEW DELHI
DATE: 15.06.2011

Sd/-
MEMBER SECRETARY

Sd/-
SR.ADMINISTRATIVE
OFFICER/ FINANCE
OFFIER

Sd/-
(B.B. CHAUDHRY)
PROP.
MEM NO.14236
REG. NO. 001784N

**THE EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS : NEW DELHI**
**SCHEDULE OF FIXED ASSETS FOR & DEPRECIATION FOR THE YEAR ENDING 31.03.2011**

| S.NO. | PARTICULAR | RATE OF DEP. | W.D.V. AS ON 31.03.2010 | ADDITION DURING THE YEAR | | TOTAL | DEP. FOR THE YEAR | W.D.V. AS ON 31.03.2011 |
|---|---|---|---|---|---|---|---|---|
| | | | | 01.04.10 TO 30.09.10 | 01.10.10 TO 31.03.11 | | | |
| 1 | FAX MACHINE | 15% | 12,730.00 | - | - | 12,730.00 | 1,910.00 | 10,820.00 |
| 2 | PHOTO COPIER | 15% | 404,482.00 | 35,266.00 | - | 439,748.00 | 65,962.00 | 373,786.00 |
| 3 | TELEPHONE INSTRUMENT | 15% | 10,305.00 | - | 10,237.00 | 20,542.00 | 2,314.00 | 18,228.00 |
| 4 | OFFICE EQUIPMENT | 15% | 18,105.00 | - | - | 18,105.00 | 2,716.00 | 15,389.00 |
| 5 | MOBILE PHONE | 15% | 11,914.00 | 33,988.00 | 22,088.00 | 67,990.00 | 8,542.00 | 59,448.00 |
| 6 | FURNITURE & FIXTURES | 10% | 176,654.00 | - | 55,912.00 | 232,566.00 | 20,461.00 | 212,105.00 |
| 7 | COMPUTER LAPTOP, MOUSE, PENDRIVE, MODEM & DATA CARD | 60% | 35,458.00 | - | - | 35,458.00 | 21,275.00 | 14,183.00 |
| | TOTAL (Rs.) | | 669,648.00 | 69,254.00 | 88,237.00 | 827,139.00 | 123,180.00 | 703,959.00 |

Sd/-
**Finance Officer**

Sd/-
**Senior Administrative Officer**

Sd/-
**Member Secretary**

Sd/-
**Chartered Accountant**

**THE EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS: NEW DELHI**
**BANK RECONCILATION STATEMENT OF SYNDICATE BANK AS ON 31.03.2011**

| | | | |
|---|---|---|---|
| | | | **AMOUNT (Rs.)** |
| **BALANCE AS PER LEDGER** | | | 458,259,013.65 |
| ADD **:-** CHEQUE ISSUED BUT NOT YET PRESENTED FOR PAYMENT. | | | |
| CH. NO | AMT. RS. | | |
| 408952 | 7,350.00 | | |
| 408958 | 738,434.00 | | |
| 408960 | 42,975.00 | **788,759.00** | |
| | | 459,047,772.65 | |
| LESS :- CHEQUE DEPOSITED BUT NOT YET CLEARED | | | |
| CH. NO | AMT. RS. | | |
| 463784 | 200,000.00 | | |
| 89E157804 | 10.00 | | 200,010.00 |
| **BALANCE AS PER BANK STATEMENT** | | | **458,847,762.65** |

Sd/-
**Chartered Accountant**

Sd/-
**Member Secretary**

Sd/-
**Senior Administrative Officer**

Sd/-
**Finance Officer**