EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS

Annual Report
2014-2015

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, however, been a more challenging exercise in a federal country like India. In view of the concerted efforts of the Empowered Committee and the Government of India, the States started implementing VAT beginning April, 2005 and after overcoming the initial difficulties, all the States and the Union Territories are now implementing VAT. Despite the success of VAT, there are still certain shortcomings in the structure of VAT, both at the Central and at the State level. Keeping this in view, an announcement was made by the then Hon'ble Union Finance Minister in the Union Budget 2007-08 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 roadmap for introduction of GST in India. Taking into account the recommendations of the various committees, experts, discussions with the trade and industry and in consultation with the Government of India, the "First Discussion Paper on Goods and Service Tax in India" was released in the month of November, 2009 by the Empowered Committee of State Finance Ministers.

2. The Constitution provides for delineation of power to tax between the Centre and the States. While the Centre is empowered to tax services and goods upto the production stage, the States have the power to tax sale of goods. Hence, the States do not have the powers to levy a tax on supply of services while the Centre does not have power to levy tax on the sale of goods. Therefore, it is essential to have Constitutional amendments for empowering the Centre to levy tax on sale of goods

and the States for levy of tax on services. Keeping this in mind, the Government of India, in consultation with the States, introduced the Constitution (One Hundred and Fifteenth Amendment) Bill, 2011 in the Lok Sabha in March, 2011 to facilitate the introduction of GST. Taking into account the recommendations of the Parliamentary Standing Committee on Finance and further consultation with the States, the Government of India introduced the Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014 in the Lok Sabha on 19th December, 2014 which was passed by the Lok Sabha on 6th May, 2015. The Bill is, presently, under consideration of the Rajya Sabha.

3. To reap the full benefits of the Goods and Services Tax, it is essential that a well-designed and well-functioning IT system is available. With this objective and to facilitate the establishment of the IT infrastructure for rolling out the proposed Goods and Services Tax across the country, a "Not for Profit", under Section 25, non-Government company, namely, Goods and Services Tax Network (GSTN) with strategic control to be with the Government to run a common portal providing core services (registration, returns and payments) has been established. The Empowered Committee along with the Government of India has also taken up various initiatives for implementing the IT infrastructure for VAT like Tax Information Exchange System (TINXSYS) and Computerization of Commercial Tax Departments of the Special Category States of Himachal Pradesh and Jammu & Kashmir.

4. To conclude, I may mention that the Centre and the States have been taking various tax reform decisions in consultation with each other through the mechanism of the Empowered Committee of State Finance Ministers. This has been appreciated by one and all. The introduction of VAT, phasing out of CST and

various preparations for the introduction of GST have been collective efforts on part of the Centre and the States. I am sure that this spirit of co-operative federalism will go a long way in helping the introduction of Goods and Services Tax in India, which will be a further significant breakthrough towards a comprehensive indirect tax reform in the country. I also take this opportunity to thank my predecessors, Dr. Asim K. Dasgupta, former Finance Minister, West Bengal, Shri Sushil Kumar Modi, former Deputy Chief Minister and Finance Minister, Bihar and Shri A.R. Rather, former Finance and Ladakh Affairs Minister, Jammu & Kashmir for their immense contribution in the field of tax reform. The Empowered Committee will always be guided by them. I am also extremely thankful to Shri Arun Jaitley, Hon'ble Union Finance Minister for his able advice and constant encouragement.

K.M. Mani
Chairman,
Empowered Committee of
State Finance Ministers &
Finance, Law & Housing Minister,
Government of Kerala

Introduction

The Empowered Committee of State Finance Ministers was originally set up on 17^{th} 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 the States and Union Territories, to monitor the phasing out of the sales-tax based incentive schemes, to decide milestones and methods of the 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. 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 Empowered Committee 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 2014-15 the Empowered Committee met five times. The Annual General Meeting of the Empowered Committee was held on 11th November, 2014.

4. Shri A.R. Rather, former Hon'ble Finance and Ladakh Affairs Minister, Jammu & Kashmir demitted office of the Chairman, Empowered Committee with effect from 9th January, 2015. To elect a new Chairman of the Empowered Committee, a meeting of the Governing Body under the Chairmanship of Hon'ble Union Finance Ministers was convened on 20th March, 2015. Shri K.M. Mani, Hon'ble Finance, Law and Housing Minister, Kerala was elected as the new Chairman, Empowered Committee of State Finance Ministers. He took charge as Chairman, Empowered Committee of State Finance Ministers with effect from 25th March, 2015.

Empowered Committee Secretariat

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

6. Shri Bashir Ahmed, IAS (Retd.) joined as Adviser to Empowered Committee with effect from 24th December, 2014. Smt. Ujjaini Datta, Officer on Special Duty (upto 6th February, 2015), Shri V.P. Gupta, Senior Administrative Officer, Shri V.K. Malhotra, Administrative Officer and Dr. Pooja Joshi, part- time Finance Officer continued in the same capacity during the year.

The Empowered Committee Website

7. An independent website for the Empowered Committee was launched in April 2012, which was developed by the National Informatics Centre (NIC). The Uniform Resource Locator (URL) of the Website is www.empcom.gov.in. It is bilingual and has the profile of the members of the Empowered Committee, Annual Reports of the various years, White Paper on VAT, First Discussion Paper on GST and latest news items published in the Newspapers regarding the subjects dealt by the Empowered Committee. The Website also provides related links for various Central Ministries, the State Commercial Tax Departments, the Finance Departments of States, Central Government organizations and National Institute of Public Finance & Policy (NIPFP).

Value Added Tax at the Central and the State level

8. Prior to the introduction of VAT, 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.

9. 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.

10. 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. 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.

11. 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 – so called "rate war" – often resulting in, revenue-wise, a counter-productive situation.

12. 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 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 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 harmonized 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.

13. 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, harmonization of sales tax structure through implementation of uniform floor rates of sales tax.

14. 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 harmonize 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.

15. 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 the then Hon’ble 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.

16. 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 the Union Territories are now implementing VAT. The Empowered Committee has been monitoring closely the process of implementation of State-level VAT. Deviations from the agreed VAT rates have been contained substantially. Responses of the industry and also of the trade have been indeed encouraging.

Goods and Service Tax (GST)

17. 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.

18. 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 are 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 GST to be introduced at the State-level, it is essential that the States should be given the power of levy of tax on services. This power of levy of service taxes has so far 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.

19. The GST at the Central and at the State level will thus give more relief to the 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.

20. 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 the introduction of 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.

21. 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 then 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 the then Hon'ble Union Finance Minister on 10th November, 2009, inviting interaction with the representatives of industry, trade, agriculture and common people.

22. 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 India 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. The Government of India introduced Constitution (One Hundred Fifteenth Amendment) Bill, 2011 in Lok Sabha on 22nd March, 2011 to facilitate the introduction of GST. The draft was sent to the Parliamentary Standing Committee on Finance. After detailed deliberations, the Parliamentary Standing Committee on Finance submitted its Report in August, 2013. A revised draft of the Constitutional Amendment Bill for the GST was received from the Government of India on 18th September, 2013 for the comments of the Empowered Committee. It was decided by the Empowered Committee to constitute a Committee of the Principal Secretaries/Secretaries and Commissioners of Commercial Tax to give recommendations on the revised Constitution (One Hundred Fifteenth Amendment) Bill, 2013, sent by the Government of India. The Committee submitted its report on 14th October, 2013. The recommendations of the Committee and the revised draft sent by the Government of India were considered by the Empowered Committee in its meeting held on 18th and 19th November, 2013 in Shillong and a final view was taken. The recommendations of the Empowered Committee were considered by the Government of India and a re-revised draft Constitutional Amendment Bill was sent to the Empowered Committee on 18th March, 2014 for consideration.

23. Meanwhile, the Additional Secretary (Revenue) communicated to the Empowered Committee a further revised draft of the Constitutional Amendment Bill for GST. This draft was considered by the Empowered Committee in its meeting held on 3rd July, 2014. There was a broad consensus on the various issues/concerns regarding the latest Constitutional Amendment Bill for GST. It was, therefore, decide that the Chairman, Empowered Committee and other Hon'ble Finance Ministers should take up these issues/concerns with the Hon'ble

Union Finance Minister. On 3rd July, 2014, the views of the Empowered Committee were conveyed to the Hon'ble Union Finance Minister.

24. A further revised draft of the Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014 for GST was received from the Government of India on 4th December, 2014. The draft was considered by the Empowered Committee in its meeting held on 11th December, 2014. As the revised Bill did not meet all the recommendations of the Committee, it was decided to take up these issues/concerns again with the Hon'ble Union Finance Minister. Accordingly, these concerns were discussed with the Hon'ble Union Finance Minister on 11th December, 2014. To find a solution, a series of meetings were taken by the Hon'ble Union Finance Minister with the then Chairman, Empowered Committee and a few State Finance Minsiters on 11th, 15th and 16th December, 2014. After which, the Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014 was finalized by the Government of India and introduced in the Parliament on 19th December, 2014.

25. Meanwhile during 2014-15 various preparations pertaining to Model GST Law, Business Processes for GST, GST Design, etc. were undertaken.

Phasing out of Central Sales Tax (CST)

26. For the introduction of VAT/GST, phasing out of CST is necessary as it is a distortion under the VAT/GST 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.

27. 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 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.

28. 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.

<u>Goods and Services Tax Network (GSTN)</u>

29. To reap the full benefits of the Goods and Services Tax, it is essential that a well designed and well functioning IT system is available to both the Centre and the States. With this objective and to facilitate the establishment of the IT infrastructure for rolling out the proposed Goods and Services Tax across the country, an Empowered Group on IT Infrastructure on Goods and Services Tax was constituted by the Government of India on 26th July, 2010. The Group prepared an IT strategy for Goods and Services Tax which was submitted to the Empowered Committee of State Finance Ministers for its approval. This strategy was considered by the Empowered Committee in its meeting held on 20th September,

2010. The Empowered Committee endorsed the IT strategy document for Goods and Services Tax prepared by the Empowered Group on IT Infrastructure and also agreed for the engagement of NSDL with all the States for Goods and Services Tax implementation specifically to study the issues related to incorporation of State systems with the common portal and to study the requirements of States. After which several meetings were held by the Empowered Group on IT Infrastructure on Goods and Services Tax. In the meeting held on 12th May, 2011, the Group has suggested setting up of a "Not for Profit" Section 25 non-Government Company with strategic control to remain with the Government to run a common portal providing three core services, namely, registration, returns and payments. The recommendation of the Group about setting up of such a company was approved by the Empowered Committee and also the Government of India.

30. A Company, namely Goods and Services Tax Network (GSTN), was accordingly incorporated on 28th March, 2013. The Company is having shareholding of 51% of the private entities, 24.5% of the Government of India and 24.5% of all the States and Empowered Committee. The Chairman, Chief Executive Officer and the Directors from the Government of India, State Governments, Empowered Committee and the private entities have already been appointed. An Advisory Committee has also been constituted to advice the Goods and Service Tax Network (GSTN) Board on strategic matters, on the matters pertaining to levels of service delivery to be provided and matters relating to procedures and processes involving stakeholders. All the Commissioners of the Commercial Tax of the States and Union Territories have been nominated by designation to represent each State and UT on the Advisory Committee.

Tax Information Exchange System (TINXSYS)

31. 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. The project commenced on 1st November, 2004 on a Build-Own-Operate-Transfer basis.

32. During its meeting held on 10th March, 2014, the Empowered Committee decided that the management of TINXSYS Project should be handed over to Goods and Services Tax Network (GSTN) from 16th June, 2014 till 31st March, 2015. After which the management including the ownership of the Project should be transferred to the Goods and Services Tax Network (GSTN). Accordingly, from 16th June, 2014, the management of the TINXSYS was transferred to the Goods and Services Tax Network. The ownership of the Project was to be transferred to GSTN with effect from 1st April, 2015.

Computerization of VAT Departments of Himachal Pradesh and Jammu & Kashmir

33. Computerization of VAT Departments was the preliminary condition for installation of Tax Information Exchange System. 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.

34. 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.

35. 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; Deputy Secretary (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.

36. During the year, Review and Monitoring Committee met in July, 2014. In this meeting 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 sorted out. Suitable instructions were issued to the Implementing Agency and the Consultant to ensure that the project is completed as per schedule fixed in the Agreement.

Income & Expenditure

37. 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 2014-2015, the Empowered Committee received annual contribution of Rs. 6 lakhs from the States/Union Territories.

38. For the project of Tax Information Exchange System (TINXSYS), a contribution of Rs.3,79,41,200/- was received from various States/Union Territories. The Government of India has stopped making contribution for TINXSYS project after 31-3-2013.

39. During the Financial Year 2014-15, the Empowered Committee of State Finance Ministers received grant-in-aid of Rs.6.34 crores from Government of India for the VAT Computerization project in the States of Himachal Pradesh and Jammu & Kashmir

40. As per the recommendations of the Thirteenth Finance Commission, the Empowered Committee of State Finance Ministers received a sum of Rs.30 crores in the year 2010-11 from the Government of India through the Government of Punjab as corpus fund. The interest receipt from this amount can be utilized for meeting the research, capacity building and establishment costs.

41. The Annual Accounts of the Committee for the Financial Year 2014-15 containing Income & Expenditure Account and Balance Sheet are annexed.

THE EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS: NEW DELHI

STATUS	:	SOCIETY
ASSESSMENT YEAR	:	2015-16
YEAR ENDING	:	31.03.2015

STATEMENT OF ASSESSABLE INCOME — AMOUNT (RS.)

TOTAL INCOME DURING THE YEAR	145,141,803.14	
LESS : - 15% OF RECEIPT AS PER INCOME & EXPENDITURE A/C	21,771,270.47	123,370,532.67
LESS :- ALLOWABLE DEDUCTION U/S 11/1(a)		
(A) AMOUNT OF INCOME UTILIZED FOR ACTIVITIES OF THE SOCIETY	151,473,184.00	
LESS :- DEPRECIATION CLAIMED	203,862.00	
	151,269,322.00	
ADD :- AMOUNT APPLIED FOR ACQUIRING ASSETS BY WAY OF ADDITIONS DURING THE YEAR	713,124.00	151,982,446,00
LESS :- EXCESS SPENT		(28,611,913.33)
TAXABLE INCOME		**NIL**
TAX DUE		**NIL**

SURPLUS UNUSED FUNDS BROUGHT FORWARD FROM A/Y 2010-11	39,267,159.71
LESS: EXCESS SPENT FOR A/Y 2015-16	28,611,913.33
	10,655,246.38
TAX DUE ON ABOVE	3,021,571.00
ADD: 10% SURCHARGE	302,158.00
	3,323,729.00
	99,712.00
	3,423,441.00

ADD: INTEREST		
U/S 234B	171,170.00	
U/S 234C	172,879.00	344,049.00
DEPOSITED U/S 140A		3,767,490.00

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

DETAIL OF UNUTILISED ACCUMULETED FUND

S.NO.	ASSESS. YEAR	AMT. B/F FROM EARLIER YEARS	AMT. UTILISED/ TAX PAID	BALANCE C/D TO NEXT YEAR
1	2010-11	39,267,159.71	39,267,159.71	-
2	2012-13	15,896,921.06	-	15,896,921.06
3	2013-14	7,825,207.33	-	7,825,207.33
4	2014-15	38,886,644.52	-	38,886,644.52
			TOTAL	62,608,772.91

Sd/-
Finance Officer

Sd/-
Senior Administrative Officer

Sd/-
Member Secretary

B. B. CHAUDHRY & CO.

CHARTERED ACCOUNTANTS

Z-8, HAUZ KHAS, NEW DELHI – 110016. Ph. : 26564451, 41015630, 26850525 Fax : 42657720

Ref. No…………………. ***Dated …………….***

M/S EMPOWERED COMMITTEE OF STATE FINANCE MINISTERS: NEW DELHI
NOTES ON ACCOUNTS FOR THE YEAR ENDING 31.03.2015
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 use 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 are expenses over income of Rs.63,31,380.86 from the ordinary activities of the society.

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

FOR B.B.CHAUDHRY & COMPANY
CHARTERED ACCOUNTANTS

Sd/-

PLACE : New Delhi (B.B.CHAUDHRY)
DATE : PROP.

(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 31.03.2015

PREVIOUS YR.	LIABILITIES		CURRENT YR.	PREVOUS YR.	ASSETS	CURRENT YR.
	CORPUS FUND				**FIXED ASSETS**	
593,499,191.91	OPENING BALANCE	593,499,191.91		726,541.00	(AS PER SCHEDULE ATTACHED)	1,235,803.00
	LESS : EXCESS OF INCOME OVER EXPENDITURE T/D FROM INCOME & EXP. A/C	6,331,380.86				
		587,167,811.05			**INVESTMENTS**	
	LESS : INCOME TAX PAID	2,940,160.00	584,227,651.05	387,500,000.00	FDR WITH SYNDICATE BANK	450,000,000.00
-	**CURRENT LIABILITIES**			800,000.00	EQUITY SHARES WITH GOODS & SERVICES TAX NETWORK	800,000.00
	GST NETWORK		790,000.00			
					INVESTMENTS	
				5,000.00	CASH IN HAND	5,000.00
	EXPENSES PAYABLE			204,492,369.91	BALANCE WITH SYNDICATE BANK, NEW DELHI	
24,719.00	AUDIT FEE PAYABLE		27,588.00			133,004,436.05
593,523,910.91	**TOTAL (RS.)**		**585,045,239.05**	**593,523,910.91**	**TOTAL (RS.)**	**585,045,239.05**

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: 28/7/2014

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 31.03.2015

PREVIOUS YEAR	EXPENDITURE	CURRENT YEAR	PREVIOUS YEAR	INCOME	CURRENT YEAR
15,386,035.00	TO SALARY & ADMINISTRATIVE EXP.	15,919,366.00	600,000.00	BY ANNUAL CONTRIBUTION	600,000.00
2,363,284.28	TO STUDY TOURS EXPENSES	-	52,900,000.00	BY TINXSYS RECEIVED	37,941,200.00
67,126,580.00	TO TINXSYS PAID	53,398,979.00	56,781,477.39	BY BANK INTEREST	43,188,414.14
1,261.20	TO BANK CHARGES	114.00	7,844.96	BY MISC. INCOME	12,189.00
20,782,463.00	TO COMPUTERISATION EXPENSES OF H.P., J.& K. STATE	81,899,679.00	60,000,000.00	BY CONTRIBUTION FOR VAT COMPUTERISATION IN THE STATE OF H.P., J & K	63,400,000.00
24,719.00	TO AUDIT FEE	27,588.00			
48,315.00	TO PROFESSIONAL CHARGES PAID	23,596.00			
157,505.00	TO DEPRECIATION	203,862.00			
64,399,159.87	TO EXCESS OF INCOME OVER EXPENDITURE T/F TO BALANCE SHEET	-	-	BY EXCESS OF EXPENDITURE OVER INCOME T/F TO BALANCE SHEET	6,331,380.86
170,289,322.35	**TOTAL (Rs.)**	**151,473,184.00**	**170,289,322.35**	**TOTAL (Rs.)**	**151,473,184.00**

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: 28/7/2014

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 31.03.2015

S.NO.	PARTICULAR	RATE OF DEP.	W.D.V. AS ON 31.03.2014	ADDITION DURING THE YEAR		TOTAL	DEP. FOR THE YEAR	W.D.V. AS ON 31.03.2015
				01.04.14 TO 30.09.14	01.10.14 TO 31.03.15			
1	FAX MACHINE	15%	22,763.00	-	-	22,763.00	3,414.00	19,349.00
2	PHOTO COPIER	15%	264,069.00	-	296,431.00	560,500.00	61,843.00	498,657.00
3	TELEPHONE INSTRUMENT/MOBILE	15%	73,909.00	48,200.00	26,000.00	148,109.00	20,266.00	127,843.00
4	OFFICE EQUIPMENT	15%	9,451.00	-	-	9,451.00	1,418.00	8,033.00
5	LED	15%	106,282.00	-	-	106,282.00	15,942.00	90,340.00
6	FURNITURE & FIXTURES	10%	154,624.00	198,294.00	-	352,918.00	35,292.00	317,626.00
7	COMPUTER LAPTOP, MOUSE, PENDRIVE, MODEM & DATA CARD	60%	38,207.00	-	89,499.00	127,706.00	49,774.00	77,932.00
8	PRINTERS	15%	57,236.00	43,000.00	11,700.00	111,936.00	15,913.00	96,023.00
	TOTAL (Rs.)		**726,541.00**	**289,494.00**	**423,630.00**	**1,439,665.00**	**203,862.00**	**1,235,803.00**

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 31.03.2015

				AMOUNT (Rs.)
BALANCE AS PER LEDGER				133,004,436.05
ADD **:-** CHEQUE ISSUED BUT NOT YET PRESENTED FOR PAYMENT.				
DATE	CH. NO	ISSUED TO		
25/03/2015	599953	LE MERIDAN BANGALORE		363,761.00
				133,368,197.05
LESS :- DD DEPOSITED BUT NOT CLEARED				
DATE				
05/06/2015			10.00	
28/06/2015			50.00	60.00
				133,368,137.05
LESS: - WRONGLY DEBITED TWICE BY THE BANK				9,963.00
BALANCE AS PER BANK STATEMENT				**133,358,174.05**

Sd/-
Chartered Accountant

Sd/-
Member Secretary

Sd/-
Senior Administrative Officer

Sd/-
Finance Officer