

Tax Hotline

November 01, 2001

SPECIAL ADDITIONAL TAX LIKELY IN SOME STATES IN INDIA

Following the implementation of the value-added tax (VAT) regime in the country, some states in India are likely to impose a special additional tax (SAT) on select items, which will not be eligible for set-off under the VAT system.

Many states which have high tax rates or have a multiple incidence of taxation will face a loss of revenue if they levy the proposed VAT at 10 per cent uniform floor rate on a majority of commodities. Under the value-added tax regime, in addition to a short list of exempted commodities, a rate as low as 4 per cent has been recommended on certain essential goods, uniform for all states. Most of the other commodities, across all states, are expected to impose a uniform floor rate of 10 per cent.

It was announced by the government officials who were involved in the changeover to the value-added tax regime, that the floor rate of 10 per cent proposed for a majority of commodities, will be adequate only for few states like Delhi, Uttar Pradesh, Himachal Pradesh and other northern states to maintain revenue-neutrality vis-a-vis the present sales tax system. However some other states are likely to take recourse to imposing a special additional tax to shore up the effective tax rate on most commodities at over 10 per cent

Source: *Business Standard* dated November 7, 2001

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