

STATEMENT OF OBJECTS AND REASONS

At present, the item relating to "taxes on services" is not specifically mentioned in any entry either in the Union List or in the State List of the Seventh Schedule of the Constitution. Parliament has the exclusive power to make laws with respect to entry 97 of the Union List for any other matters not enumerated in List II or List III including any tax not mentioned in either of those Lists. In exercise of this power, the Central Government has periodically taxed certain services at the rate of five per cent. *ad valorem*.

2. The States have taken a unanimous decision to replace their existing sales tax system with the system of Value Added Tax (VAT) from the 1st April, 2003. In this context, with a view to widening their tax base, the States have suggested that they should be enabled to collect and appropriate tax on services.

3. The "service" sector accounted for 48.5% of the country's Gross Domestic Product (GDP) in the financial year 2000-2001. The role of this sector in the economy is quite significant. Expert Committees set up by the Central Government have repeatedly recommended taxation of services. On the basis of the deliberations between the State Governments and the Central Government and in view of the recommendations of various Expert Committees, it is proposed to suitably amend the Constitution to provide, (i) tax on services as a specific entry in the Union List, (ii) insertion of a new article, namely, article 268A and (iii) consequential amendment to article 270, to enable Parliament to formulate by law principles for determining the modalities of levying the said tax by the Central Government and collection of the proceeds thereof by the Central Government and the States.

4. The proposed amendment would help in significant augmentation of revenues of the States in accordance with the proposed law, and pave the way for eventual inclusion of services within the purview of State level VAT.

5. The Bill seeks to achieve the above objects.

JASWANT SINGH.

PRESIDENT'S RECOMMENDATION UNDER ARTICLE 117 AND 274 OF THE
CONSTITUTION OF INDIA

[Copy of letter No. 34/42/2001-ST dated the 19th February, 2003 from Shri Jaswant Singh, Minister of Finance and Company Affairs to the Secretary-General, Lok Sabha]

The President, having been informed of the subject matter of the proposed Bill, the constitution (Ninety-fifth Amendment) Bill, 2003 (a Bill to further amend the Constitution of India) recommends under clause (1) of the article 117 and article 274 of the Constitution, the introduction of the above Bill in Lok Sabha.