

Declared goods under CST Act

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With an intention to ensure that lower rate of taxes are maintained on few specified goods which are of essential use of people, few goods have been considered to be of special importance under CST Act. Article 286(3)(a) of Constitution of India authorises Parliament to declare some goods as of 'special importance' and to impose restrictions and conditions in regard to power of States in regard to levy, rates and other incidence of tax on such goods.

What are declared goods?

Section 2(c) of CST Act defines 'Declared Goods' as those declared under Section 14 of CST Act as 'goods of special importance in Inter State Trade or commerce. Section 14 of CST Act gives a list of such goods and section 15 specifies restrictions on power of States to tax such goods. Few of the important goods covered in Section 14 are as follows:

- Cereals i.e. paddy, rice, wheat, bajra, jowar, barley etc.
- Coal and coke in all forms *excluding* charcoal
- Cotton in un-manufactured form but not cotton waste
- Cotton fabrics, cotton yarn
- Crude oil
- Iron and Steel i.e. pig iron, sponge iron, iron scrap, steel ingots, billets, steel bars, steel structurals, sheets, plates, discs, rings, tool steel, tubes, tin plates, steel wheels, wire rods; defectives of above etc.
- Man-made fabrics - fabrics of man-made filament yarn i.e. artificial textile materials, polyester filament yarn, staple fibres, polyester staple fibre, tyre cord fabric, impregnated textile fabrics etc.
- Aviation Turbine Fuel sold to a turbo-prop aircraft

Restriction on tax rate on declared goods

As per Section 15 of CST Act, tax on declared goods within a State cannot exceed 5%. This rate was 4% till financial year ending 2011-12. Therefore, any state in India cannot levy tax exceeding 5% on declared goods. As per provision in section 15(1) upto 11-5-2002, tax on declared goods could have

been imposed only at one stage. However, this restriction was removed from 11th May 2002 to facilitate smooth implementation of VAT principles.

Reimbursement of local tax if declared goods sold Inter-State

If any declared goods, on which Intra-State sales tax (i.e. State sales tax) paid are sold in Inter-State sale, then the tax levied on sale within the State should be reimbursed to the person making such Inter-State sale [section 15(b)]. However, it is important to note that under the VAT regime, the dealer would avail the VAT input setoff of tax paid on intra-state sales and use it for payment of VAT or CST as the case maybe.

Declared goods and works contract

One can observe that declared goods like iron and steel are used in all construction contracts which cannot be taxed beyond 5%. However when these goods are required to retain their character of declared goods to be taxed at 5%. If these goods are converted into some other goods like windows, doors and then used, the same loses the character of declared goods. Then the goods would be taxed at regular rate which is presently 14.5% in the state of Karnataka.

Conclusion: The dealers should be very careful in determining the tax rates to be charged in case of such declared goods. Presently, there are lot of confusion in taxation of the declared goods especially in case of construction contracts as many types of declared goods like iron, steel are transferred.