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తెలంగాణ రాజపత్రము  
THE TELANGANA GAZETTE  
PART IV-A EXTRAORDINARY  
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**TELANGANA BILLS**  
**TELANGANA LEGISLATIVE ASSEMBLY**

The following Bill was introduced in the Telangana Legislative Assembly on 26th December, 2016.

**L. A BILL No. 25 OF 2016.**

**A BILL FURTHER TO AMEND THE TELANGANA  
VALUE ADDED TAX ACT, 2005.**

Be it enacted by the Legislature of the State of Telangana in the Sixty-seventh Year of the Republic of India as follows:-

1. (1) This Act may be called the Telangana Value Added Tax ( Fifth Amendment) Act, 2016.

(2) (i) section 2, shall come into force with immediate effect;

**B.246-1 (H)**

**[1]**

Short title  
and  
commence-  
ment.

(ii) section 3, shall be deemed to have come into force with effect from 27.10.2016.

(iii) (a) sub-sections (1), (2) and (3) of section 4, shall be deemed to have come into force with effect from 27.9.2016; and

(b) sub-section (4) of section 4, shall be deemed to have come into force with effect from 02.12.2016;

Amend-  
ment of  
section 22.  
Act No.5  
of 2005.

2. In the Telangana Value Added Tax Act, 2005 (hereinafter referred to as the principal Act), in section 22,-

(i) after sub-section (3-E), the following sub-section shall be inserted, namely,-

“(3-F) Any person or authority, notified by the Commissioner, shall deduct from out of the amounts payable by him to a dealer in respect of purchase of any goods from such dealer, an amount at the rate specified in such notification. The notified person or authority, deducting such tax at source, shall remit it in the manner as may be prescribed”.

(ii) in sub-section (4), after the expression “or sub-section (3-E)” the expression “or sub-section (3-F)” shall be substituted.

Amend-  
ment of  
Schedule-I.

3. In the principal Act, in Schedule-I, after the entry at serial number 65, the following entry along with Note shall be added, namely,-

“66. Nutritious Foods (Ready to Cook Food Mixes and Ready to eat food) supplied by M/s. Telangana Foods to the Director, Women Development and Child Welfare Department, Government of Telangana through ICDS (Integrated Child Development Services) Projects meant for malnourished Pre-School & School going children, Pregnant Women and Lactating mothers under the

Supplementary Nutrition Programme sponsored by Central and State Governments.

Note: M/s. Telangana Foods is not entitled to claim Input Tax Credit on the relevant inputs.”.

4. In the principal Act, in Schedule VI,

Amend-  
ment of  
Schedule-VI.

(1) In the Table, against Item No. 1-C, the words “Wine and” shall be omitted;

(2) In the Table, after Item No. 1-F, the following Item No. 1-G shall be added, namely,-

*1-G	Wine bottled and / or packed in India as per the provisions of the Telangana Excise Act, 1968.	At the point of first sale in the State.”.	70%
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(3) In the Explanations I and II, for the expression “(1-A to 1-F)”, the expression “(1-A to 1-G)” shall be substituted;

(4) In the Table, for Item Nos. 1-A to 1-C, the following shall be substituted, namely,-

*1-A	Indian Made Foreign Liquor (other than Beer, Wine and Ready to drink varieties) bottled and/or packed in India as per the provisions of Telangana Excise Act, 1968, but excluding Toddy and Arrack.	At the point of first sale in the State.	70%
1-B	Beer bottled and / or packed in India as per the provisions of the Telangana Excise Act, 1968.	At the point of first sale in the State.	70%
1-C	Ready to drink varieties bottled and/or packed in India as per the provisions of the Telangana Excise Act, 1968.	At the point of first sale in the State.”.	70%

**STATEMENT OF OBJECTS AND REASONS**

Various State Government Corporations like M/s. Telangana State Civil Supplies Corporation, M/s. Women Finance Corporations, M/s. A.P. Oil FED, M/s SCCO Ltd, M/s TGENCO, M/s TSRTC, etc., make huge purchases and pay VAT to the suppliers. However, there is every possibility of delay in remittance of VAT by the suppliers in turn to the Government. In some cases the dealers fail to remit VAT and close down their business. In order to prevent leakage of revenue and ensure that VAT on these goods supplied to these corporations are remitted to the Government exchequer promptly, Tax deduction at the source has to be introduced. However, the entire tax amount cannot be deducted at the source as the suppliers may need to claim input on the tax paid on raw materials purchased by them.

Further, there are no wine producing units in the State of Telangana from grapes. Only one unit has come up recently to produce wine with Amla Fruit. This one winery is also exporting its wine to other States due to heavy taxation in the State of Telangana. The State imports total required quantity of wine from other States like Maharashtra & Goa. The Maharashtra State exempted wine from excise duty for a period of 20 years i.e. from 2001 to 2021 for the wine manufactured from grapes produced within the State of Maharashtra and the rate of VAT is only 20%. In the State of Karnataka there is no tax on wine sales but for nominal excise duty and additional excise duty. The State of Andhra Pradesh reduced its duties and taxes in October 2015 i.e. VAT rate from 150% to 100% and also rate of Excise Duty / countervailing Duty. The rate of duty in the State of Telangana at present is Rs. 280/- per case to above Rs. 600/- and VAT rate is @ of 150%. Due to high taxation the retail selling prices of premium wine brands in the State of Telangana are higher when compared to neighbouring States of Andhra Pradesh, Karnataka and Maharashtra.

As a result of this, gap in MRP prices of similar brands of wines in the States of Maharashtra, Andhra Pradesh and Karnataka with reference to MRP prices in Telangana States, is widened leading to inflow of wine from above State unabatedly.

Further the Commissioner of Prohibition & Excise has reported that the Duty & Tax structure was complex in nature with as many as different VAT rates ranging from 130% to 190%, so also there were different Excise duty rates within IMFL leading to cumbersome calculation. There were also anomalies in Revenue realisations in expensive brands. Moreover, the State is realising Revenue on average @ 19% before sales and 65% after sales. The balance 16% in the form of license fees etc. The State of Karnataka realises more than 80% of Government Revenue before sale of IMFL. Therefore, the Commissioner of Prohibition & Excise has recommended the Government restructuring the earlier duty structure with a uniform rate of VAT @ 70% for liquor, beer & wine.

Further, Telangana Foods is an ISO 22000:2005 certified public sector undertaking. Earlier, it is named as Andhra Pradesh Nutrition Council, a Society which was set up in the year 1976 with the assistance of CARE & UNICEF and GOI for producing and supply of Nutritious Foods to the Director, Women Development and Child Welfare for supplying the food to the Malnourished School going, preschool children, pregnant women and Lactating mothers under the supplementary Nutrition Programme, sponsored by the Central and State Governments through Integrated Child Development Services Projects. Telangana Foods is collecting the VAT @ 5% on its food supplies and remitting to the Commercial Tax Department, due to which the Income Tax Department felt that the transaction is coming under commercial activity (i.e., commercial sale), though the transaction doesn't come under sale, and supplying the food products on "Not for Sale" basis. Recently, the Director of Income Tax has cancelled 12 AA registrations of the Telangana Foods as in the audit of accounts it is noticed that the enterprise is paying all

applicable taxes including sales tax, service tax and VAT etc., on the turnover and concluded its nature as a commercial organization.

Therefore, in respect of VAT on the goods supplied to the State Govt. corporations, in order to prevent leakage of revenue it is proposed that 50% of the tax amount may be deducted by various State Government Corporations and 50% paid to their supplying Agencies. This will give flexibility to the suppliers to claim input Tax Credit and also to pay any tax due after finalisation of the final transaction. Hence, there is need to amend the Section 22 of Telangana Value Added Tax Act, 2005.

Further, in respect of Domestic Wine, keeping in view of the high taxation in the State of Telangana and lower taxation in the neighboring states of Andhra Pradesh, Maharashtra and Karnataka it is decided to reduce rate of VAT to 70% on domestic wine and certain amendments made to Schedule-VI of Telangana Value Added Tax Act, 2005.

Further, in respect of liquor, keeping in view of the complex duty and tax structure and different VAT rates leading cumbersome calculation, it is decided to reduce of VAT to 70% on all liquors and certain amendments made to Schedule-VI of Telangana Value Added Tax Act, 2005.

Further, in respect of Telangana Foods to avoid further complication from the Income Tax Department and since it is meant mainly for supplying of food item for the below poverty children, administered by the Director, Women Development and Child Welfare Department, Supplementary Nutrition Programme through Integrated Child Development Services projects, as a welfare programme on "cost to cost" basis, and to benefit for Women, Children, Disabled and Senior Citizens, Government of Telangana, has made necessary amendment to the Schedule-I of Telangana Value Added Tax Act, 2005 for inserting Specific entry for enabling the Telangna Foods for exemption from payment of Value Added Tax

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on the sale of Nutrition Foods to Director, Women Development and Child Welfare Department and they will not be eligible for any input tax credit.

This Bill seeks to give effect to the above decisions.

**K. CHANDRASHEKAR RAO,**  
Chief Minister.

**FINANCIAL MEMORANDUM**

This bill seeks to amend section 22 of Telangana Value Added Tax Act, 2005. On account of this Amendments better compliance levels will be increased in respect of Value Added Tax at Source. The Revenue will be realized by curbing the leakage of Revenue by ensuring that VAT on the goods supplied to Corporations/Public Sector undertakings are remitted properly to the Government Exchequer by simultaneously providing flexibility to the suppliers in claiming Input Tax Credit and also to pay any tax due after finalization of the final transactions.

This bill seeks to amend schedule-VI of Telangana Value Added Tax Act, 2005. On account of high taxation in the State of Telangana when compared to that of neighbouring States Andhra Pradesh, Maharashtra and Karnataka MRP rates of wine brands are very high which is leading to cross movement of wine from neighbouring states and badly effecting the State Revenue on account of effecting negatively in sales in the State. Therefore on account of proposed amendment that is reduction of rate of VAT to 70% this inflow will be curtailed and the sales in the State will increase resulting that the State Revenue will be protected.

Further, in respect of liquor, keeping in view of the complex duty and tax structure and different VAT rates leading cumbersome calculation, it is decided to reduce of VAT to 70% on all liquors and certain amendments made to Schedule-VI of Telangana Value Added Tax Act, 2005. Further to the extent of VAT amount will be compensated by the increase of Excise Duty and may also increase the revenue. In addition to this the increased Duty will also remit to the Government in advance before effecting the sale.

This bill seeks to amend schedule-I of Telangana Value Added Tax Act, 2005. At present Telangana Foods is supplying food to Directorate of Women Development and Child Welfare Department, Government of Telangana for a quantity of 24000 MTs to 30000 MTs



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per annum and the Gross VAT of 5% comes to Rs.6 to 7 Crores per annum. The amendment made that is exemption of VAT on Nutrition Food supplies made by Telangana Foods to Integrated Child Development Services Projects under Government feeding programme, to help the under nutritious children through Integrated Child Development Scheme.

**K. CHANDRASHEKAR RAO,**  
Chief Minister.

**MEMORANDUM UNDER RULE 95 OF THE RULES OF  
PROCEDURE AND CONDUCT OF BUSINESS IN THE  
TELANGANA LEGISLATIVE ASSEMBLY.**

The Telangana Value Added Tax (Fifth Amendment) Bill, 2016, after it is passed by both the Houses of the State Legislature, may be submitted to the Governor for his assent under article 200 of the Constitution of India.

**K. CHANDRASHEKAR RAO,**  
Chief Minister.

**Dr. S. RAJA SADARAM,**  
Secretary to State Legislature.

