

CENTRAL SALES TAX ACT, 1956

1. In the interest of the national economy of India, certain amendments were undertaken in the Constitution by the Constitution (Sixth Amendment) Act, whereby;
 - a. taxes on sales or purchases of goods in the course of inter-State trade or commerce were brought expressly within the purview of the legislative jurisdiction of Parliament;
 - b. restrictions could be imposed on the powers of State legislatures with respect to the levy of taxes on the sale or purchase of goods within the State where the goods are of special importance in inter-State trade or commerce.
2. The amendments at the same time authorized Parliament to formulate principles for determining when a sale or purchase takes place in the course of inter-State trade or commerce or in the course of export or import or outside a State in order that the legislative spheres of Parliament and the State legislatures become clearly demarcated. In the course of goods of special importance in inter-State trade or commerce, a law of Parliament is to lay down the restrictions and conditions subject to which any State law may regulate the tax on sales or purchases of such goods in the State. Accordingly after taking into account the recommendations of the Taxation Enquiry Commission and in consultation with the State Governments, the Central Sales Tax Act, 1956 was enacted which came into force on 05.01.1957. Originally, the rate of CST was 1%, which was increased to 2%, 3% and w.e.f. 1st July, 1975 to 4%. The Act provides for concessional rate of tax against furnishing of Forms as prescribed. Only dealers registered under the Act can furnish these Forms. In the absence of these Forms, the penal rate of Central Sales Tax would be leviable. The Act provides for declaration of certain goods to be of special importance in inter-State trade or commerce and lay down restrictions on the taxation of such items both in inter-State and intra-state trade on such items. The Act is administered by States and entire revenue accruing under this Act is retained by the State in which the sale originates. The Act excludes taxation of imports and exports.
3. Recognizing the incompatibility of Value Added Tax with Central Sales Tax, an amendment to the Central Sales Tax Act to provide for reduction of the rate of Central Sales Tax for inter-State sales between registered dealers from 4% to 3% w.e.f. 1st April, 2007 has been effected vide the Taxation Laws (Amendment) act, 2007. Vide the said amendment, facility of inter-State purchases by Government Departments at concessional CST rate, against Form-D has been withdrawn. Henceforth, the rate of CST on inter-State sale to Government shall be applicable VAT/ State sales tax rate. Central Sales Tax rate has been further reduced from 3% to 2% with effect from 1st June, 2008.