Andhra Pradesh bifurcation - a perspective
Various considerations determining resource/revenue flow and development
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Andhra Pradesh has been one of the frontrunners among the progressive states of India. The bifurcation of the state will have significant implications on resource flow to the two new States – Telangana and new Andhra Pradesh – and on their economic development. In the long run, both of the regions are likely to benefit. But, both of them will face considerable uncertainty in the immediate future.

Hyderabad will be the common capital of new Andhra Pradesh and Telangana for an initial period of 10 years, after which it will be the capital of Telangana. The special position of Hyderabad gives rise to considerable complications in working out both revenues and fiscal transfers for both of the new states. Being the center of economic activities and a source of government finance, it will critically define the fiscal prospects of the two states.

Through this report, we have attempted to highlight some key considerations that have a bearing on the resource/revenue flow and economic development of the two new states, after the division of Andhra Pradesh. The report analyzes a wide range of relevant aspects, including the division of assets and liabilities, water resources, land resources, and the division of pensioners and existing government employees and public sector enterprises that will be affected by the bifurcation.

We hope that the information and insight that we bring to you through this report helps you to put in perspective the challenges that the state bifurcation will pose before various stakeholders.
The Andhra Pradesh Reorganisation Bill, 2014 was introduced in Lok Sabha on 18 February 2014 by the Minister for Home Affairs. It provides for the reorganization of the state of Andhra Pradesh. The Bill highlights the creation of a separate state, to be called Telangana, comprising 10 districts of the existing state of Andhra Pradesh, namely, Adilabad, Karimnagar, Medak, Nizamabad, Warangal, Rangareddi, Nalgonda, Mahbubnagar, Khammam and Hyderabad.

The Bill has been approved by the President of India and was published in the official Gazette \(^1\). It would be referred to as The Andhra Pradesh Reorganisation Act, 2014 with effect from 2 June 2014.

The new Andhra Pradesh and Telangana will have a common capital, Hyderabad, for a period of 10 years. After this period, Hyderabad will continue to be the capital of Telangana. The Central Government has constituted an expert committee headed by former Union Urban Development Secretary K Sivaramakrishnan to suggest and study various possible options regarding capital for new state and give their recommendations by 31 August 2014.

With regard to revenue distribution, the resources allocated by the Thirteenth Finance Commission to the existing state of Andhra Pradesh will be apportioned between the two new states on the basis of population ratio and other parameters. The Center may also make grants to the new Andhra Pradesh.

The cash balances and credit balances of the existing state of Andhra Pradesh will be divided between the two new states on the basis of population ratio. This apportionment will be carried out by adjusting the credit balances of the two new states in the books of the Reserve Bank of India.

In February this year, a vote-on-account was presented for the combined Andhra Pradesh. The two new states will have to get through nearly three quarters of the financial year after a formal notification announcing their creation is issued in June 2014. In this light, the immediate task for the new Governments will be to prepare their individual budgets.

The new Andhra Pradesh may get larger per capita transfers via the Planning Commission and central ministries, having been accorded the “special

\(^1\) Gazette of India No 06 - Notification dated 1 March 2014
category” status for a period of five years. Telangana, on the other hand, stands to gain more, as it may get larger per capita transfers from both the Planning Commission and the Finance Commission due to its less developed and low per capita income districts (other than Hyderabad).

The new Governments of both of the states will attempt to expand construction facilities to provide proper connectivity to and from other regions. Also, tax bases will be divided between the two new states, depending on the distribution of economic activities. Enterprises (public/private) operating in the combined state whose headquarters are in Hyderabad may stand at risk of paying a significant share of state taxes in Hyderabad. As a result, the division of such enterprises between the two new states, based on the location of their production facilities, will also divide tax revenues.

Telangana will have to set up a new administration apparatus for administering state taxes. It is quite likely that a number of the existing technical staff that is well trained in the administration of taxes may have to be shifted to new Andhra Pradesh. Telangana will, therefore, have to put the requisite training and skill building facilities in place to ensure that it does not lose out on any of its revenue earning sources.

The division will also give rise to complexities pertaining to the recovery of tax arrears. The right to recover arrears of the tax or duty on property, including arrears of land revenue, will belong to the successor state in which the property is situated. The right to recover arrears of any other tax or duty shall belong to the successor state in whose territories the place of assessment of that tax or duty is included on the bifurcation.

The Polavaram Irrigation Project has been declared as a national project. Hence, the Central Government will execute the project in consultation with the Governments of the two new states in consideration of all of the relevant environmental, forests, and rehabilitation and resettlement norms.
**Introduction**

The Andhra Pradesh Reorganization Act, 2014 (hereinafter referred to as the “Telangana Bill”, which is commonly called the “Telangana Bill”, is an act of the Indian Parliament proclaiming the bifurcation of the Andhra Pradesh state into Telangana and the residuary Andhra Pradesh (collectively referred to as two new States). The two new States will come into existence with effect from 02 June 2014 (Appointed Date).

The Andhra Pradesh Reorganization Bill was passed in the Lok Sabha on 18 February 2014 and in the Rajya Sabha on 20 February 2014. The Bill has been approved by the President of India and was published in the official Gazette. As per the Reorganisation Act, the two new States will comprise territories of the existing districts, as indicated below:

<table>
<thead>
<tr>
<th>Andhra Pradesh (comprising 13 districts):</th>
<th>Telangana (comprising 10 districts):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anantapur;</td>
<td>Adilabad;</td>
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<tr>
<td>Chittoor;</td>
<td>Hyderabad;</td>
</tr>
<tr>
<td>East Godavari;</td>
<td>Karimnagar;</td>
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<td>Guntur;</td>
<td>Khammam;</td>
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<td>Krishna;</td>
<td>Mahbubnagar;</td>
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<td>Kadapa</td>
<td>Medak;</td>
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<td>Karnool;</td>
<td>Nalgonda;</td>
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<td>Nellore;</td>
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<td>Prakasam;</td>
<td>Rangareddi;</td>
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<tr>
<td>Srikakulam;</td>
<td>Warangal;</td>
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<tr>
<td>Vishakhapatnam;</td>
<td></td>
</tr>
<tr>
<td>Vizianagaram;</td>
<td></td>
</tr>
<tr>
<td>West Godavari.</td>
<td></td>
</tr>
</tbody>
</table>

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2 Gazette of India No 560 - Notification dated 4 March 2014
3 Gazette of India No 06 - Notification dated 1 March 2014
4 Section 3 and 4 of the Reorganization Act
Hyderabad’s piquant positioning on resource flows

The bifurcation of Andhra Pradesh into two new States will have significant implications on resource flow, economic development and the levels of publicly provided services for the two new States. Resource allocation, as well as economic activities in the two regions will undergo significant and dynamic changes because of the move.

At the center of this bifurcation is the capital city of Hyderabad, which has been designated as the common capital of the two new States for 10 years. However, its revenues will belong to Telangana. Being the hub of economic activities and the source of government finance, Hyderabad will critically define the fiscal prospects of the two new States. Hyderabad is an information technology/business hub. The city is estimated to have contributed over ₹34,000 crore to the state’s total revenues of ₹70,548 crore during 2012-13. This collectively includes the contribution of citizens and companies of both of the States. Of the 44 state-level public enterprises, the headquarters of 40 are located in Hyderabad. The headquarters of a number of private companies are also located in Hyderabad. Many of them may be paying a significant share of their State taxes in Hyderabad, though their activities may be differentially spread across the two States.

Furthermore, the trade of some goods and services that is presently intra-state within the existing Andhra Pradesh will become cross-state in the new Andhra Pradesh. Telangana will then become subject to the levy of Central Sales Tax.

Non-tax revenues, following mainly the principle of location, will also be differentially affected. The division of mineral resources including coal and oil and gas will affect royalties. Furthermore, offshore resources will go to new Andhra Pradesh, while Telangana will stand to benefit from land-based mineral resources.

The pattern of investment/expenditure will also be quite different for the two new States. Telangana will have to devote more resources to developmental expenditure, including on education and health, to uplift the economic development of districts other than Hyderabad. On the other hand, the focus of new Andhra Pradesh will be on selecting the location of the new capital city, which will require a massive flow of resources to cater to infrastructure and construction-related activities.

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5 Section 5 of the Reorganization Act
7 The Hindu, February 27, 2014 edition

“Erstwhile Andhra Pradesh has grown to become the second largest economy in the country because of abundant entrepreneurial talent, highly competent bureaucracy and the forward-looking political leadership. The pace of development will be further accelerated in both the states as there is no dearth of entrepreneurial talent on either side. We hope that the new leadership teams will focus more on the development, rather than getting bogged down on inter-state disputes which are bound to arise.”

G. Kali Prasad
Partner, EY
Population ratio – a key determinant for the flow of resources

The population ratio is the key determinant in the division of assets and liabilities and the flow of Central transfers. Geographically, Hyderabad has been allocated to Telangana. However, on bifurcation and also for the following 10 years, it will be the common capital where the residents of both new Andhra Pradesh and Telangana will be accommodated.

Population ratio is the key determinant in the division of assets and liabilities and the flow of Central transfers.

Table 1 gives district-wise population and area for the two new States.

<table>
<thead>
<tr>
<th>State</th>
<th>Share in population (2011) (%)</th>
<th>Share in area (%)</th>
<th>Density (persons/km²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Andhra Pradesh</td>
<td>58.3</td>
<td>58.2</td>
<td>308</td>
</tr>
<tr>
<td>Telangana</td>
<td>41.7</td>
<td>41.8</td>
<td>307</td>
</tr>
<tr>
<td>Telangana excluding Hyderabad</td>
<td>36.9</td>
<td>41.7</td>
<td>273</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>4.8%</td>
<td>0.1%</td>
<td>18,480</td>
</tr>
</tbody>
</table>

The assumption that all of Hyderabad’s residents belong to Telangana will lead to results in favor of Telangana. Similarly, excluding Hyderabad’s population altogether in the calculation of the population ratio at the time of bifurcation will lead to results in favor of Andhra Pradesh.

Bifurcation of the state will lead to a dynamic adjustment of people and economic activities. Hence, the distribution of population based on the 2011 census between new Andhra Pradesh and Telangana cannot be viewed as a static profile for determining the population ratio, which is a key determining factor.

Furthermore, both the Finance Commission and the Planning Commission continue to use the 1971 population data for determining Central transfers. Hyderabad has been the recipient of a large population through migration from within the districts of Andhra Pradesh, as well as from other states. This will render the use of 1971 data completely irrational.

Resource transfers from the Centre

The bifurcation of Andhra Pradesh will have significant implications on the transfer of resources from the Centre to the two new state governments. These transfers shall take place under the aegis of three main channels:

- The Finance Commission
- The Planning Commission
- The Central Ministries

A. The Finance Commission

The Fourteenth Finance Commission is presently deliberating on the issue of the sharing of sharable central taxes and the determination of the principles and the flow of grants from the Central Government to the respective state governments. The period of recommendation of the Fourteenth Finance Commission will be from 2015–16 to 2019–20.2

The Finance Commission relies on a number of factors, inter alia, for determining the transfers and flow of grants; some of these are:

- Distance of the per capita Gross State Domestic Product Ratio (GSDP) of a state from a selected benchmark per capita GSDP (which is usually close to the highest per capita GSDP of all the States)
- Area
- Index of fiscal discipline
- Index of tax effort

The overall guiding principle of determining these transfers has been the “equalization” principle, which aims at providing transfers, such that the states that have lower fiscal capacity get higher per capita transfers, provided they do not make less than the average tax effort.

The equalization principle ensures that deficiency in fiscal capacity is made up for, but not that in tax effort. Such a principle will provide relatively more resources to Telangana, since a relatively larger part of the state, excluding Hyderabad, has a lower fiscal capacity. The inclusion of Hyderabad on the Telangana side will, however, make a significant difference. An important consideration in this case would be to divide the tax base of Hyderabad between the new Andhra Pradesh and Telangana to determine the fiscal capacities of the two states for determining Central transfers.

Source: Terms of Reference of the Fourteenth Finance Commission - http://fincomindia.nic.in/
As Hyderabad will be the common capital, services will be provided both to the citizens of New Andhra Pradesh and Telangana. However, responsibility still needs to be fixed as to which state will be responsible for bearing the expenditure incurred for the provision of services to the citizens of the two new States. This is an important determinant of the resource needs of the two new States.

This issue should be considered in conjunction with the collection of state taxes in Hyderabad. If all state taxes collected in Hyderabad, even during the period it continues to serve as the common capital, belong to Telangana, its share in central taxes will have to be adjusted accordingly.

In carrying out this exercise, there will be certain other complications/considerations, as under:

Firstly, the index values of indices relating to factors such as tax effort and fiscal discipline will not be available for the two new states.

Secondly, the special position of Hyderabad will have significant expenditure-side implications. Given that Hyderabad will be the common capital, services will be provided both to the citizens of new Andhra Pradesh and Telangana. However, it is not clear as to which state will be responsible for bearing the expenditure incurred for the provision of services to the citizens of the two new States. This is an important determinant of the resource needs of the two new States.

Thirdly, though the above issues need to be resolved, in the meanwhile, for the financial year 2014–15 i.e., from 2 June 2014 to 31 March 2015, transfers will continue to be based on the recommendations of the Thirteenth Finance Commission.

Transfer of award to the two new States:

The Reorganization Act provides that the Central Government will have the authority to divide the award made by the Thirteenth Finance Commission to the existing State of Andhra Pradesh into the respective shares of the new Andhra Pradesh and Telangana. Such a division will be made on the basis of the share of population and other factors.

A similar approach was adopted by the Central Government in the past. Resource transfers under the aegis of the Finance Commission relates to transfers to the respective local bodies recommended by the Thirteenth Finance Commission. In the case of bifurcation, it is the recommendations of the State Finance Commission of the combined Andhra Pradesh that will apply for part of the period, as mentioned above. However, after the two new States are notified, both of them will have to constitute their own State Finance Commissions. However, the suggestions of neither of the State Finance Commissions will be available to the Fourteenth Finance Commission while it finalizes its recommendations.

B. The Planning Commission

Most districts of Telangana (excluding Hyderabad) have low per capita incomes and fare poorly on various indicators of development. Despite this, new Andhra Pradesh will get the special category status in plan assistance. This move would help compensate for the eventual loss of Hyderabad, as well as facilitate the development of a new capital for new Andhra Pradesh.

New Andhra Pradesh will enjoy the special category status for five years.

The Planning Commission gives states plan assistance under “normal” plan assistance and “special” plan assistance. In case of normal plan assistance, 30% of the budget is earmarked for special category states, and assistance is provided in the form of 90% grants and 10% loans. The special plan assistance includes externally aided projects. The terms and conditions differ as per project for general category states. Assistance is granted on the same terms and conditions as the original terms and conditions. In addition, states have to bear the exchange rate risk. For special category states, it is given as 90% grant and 10% loan, independent of the original terms and conditions. In addition, the Central Government provides the assistance, which may be loan or grant or some combination of the two, based on the original terms and conditions. The Central Government, thus, also bears the exchange rate risk for special category states.

The volume of assistance under special assistance for state plans entirely depends on the Planning Commission.
Special category status to new Andhra Pradesh

New Andhra Pradesh will enjoy the special category status for five years. Furthermore, statements quoted in the media indicate that ₹50,000 crore may be provided from the Centre to new Andhra Pradesh in these 5 years. Recent reports indicate that a special package will be given for the seven districts of new Andhra Pradesh comprising 90% grant and 10% loan, as against 30% grant and 70% loan in the general category. Other incentives for the promotion of new industries and the substantial expansion of existing units may also be granted. These include 100% excise duty exemption for 10 years, 15% investment subsidy for plant and machinery and 100% income tax exemption to all new units for an initial 5 years.

Based on the above, considerable resource flows will, therefore, come to the two new States under these provisions. Furthermore, most of the new infrastructure and construction-related activities will take place in and around the area identified as the capital city of new Andhra Pradesh. Also, property prices, including those of land, are likely to see significant adjustments in this area.

Budget for the individual states

In February this year, a vote-on-account was presented for the combined Andhra Pradesh. As nearly three quarters of the financial year would need to be accounted for after the two new States are formally notified in June 2014, the immediate task for the new governments will be to prepare their individual budgets. Estimates of the vote-on-account would become infructuous.

As per the budget estimates of the combined state for the financial year 2013-14, revenue receipts were estimated at ₹1,27,772 crore. Of this, nearly ₹96,575 crore was tax revenue, consisting of ₹72,444 crore of own-tax revenues, ₹24,131 crore of share in central taxes and central grants of ₹15,803 crore. The relative shares of own tax revenues, share in central taxes and central grants will change dramatically for the two states after the Appointed Date. Furthermore, revenues and expenditures of the two states will add up to more than the corresponding figures of the combined state.

The new Andhra Pradesh may get larger per capita transfers via the Planning Commission and central ministries, having been accorded the special category status for five years.

However, Telangana, with its less developed and low per capita income districts (other than Hyderabad), may get larger per capita transfers from both the Planning Commission and the Finance Commission.

Section 95 of the Reorganization Act

- The Central Government shall take appropriate fiscal measures, including offer of tax incentives, to the successor States, to promote industrialisation and economic growth in both the States.
- The Central Government shall support the programmes for the development of backward areas in the successor States, including expansion of physical and social infrastructure.
- The Central Government shall provide special financial support for the creation of essential facilities in the new capital of the successor State of Andhra Pradesh including the Raj Bhawans, High Court, Government Secretariat, Legislative Assembly, Legislative Council, and such other essential infrastructure.
- The Central Government shall facilitate the creation of a new capital for the successor State of Andhra Pradesh, if considered necessary, by denotifying degraded forest land.
Effect on State taxes

Tax bases will get divided between the two new states, depending on how economic activities are distributed. Enterprises (public/private) operating in the combined state whose headquarters are in Hyderabad may be paying a significant share of state taxes in Hyderabad. The division of such enterprises between the two new states, based on the location of their production facilities, will also divide tax revenues. It will be the same case for electricity duty revenue.

“Any state bifurcation unleashes a series of dynamic adjustments in resource allocation and revenue flows. Adequately exploited, this opportunity can provide a tremendous fillip to the development of both regions and improvement in the socio-economic development. Andhra Pradesh’s bifurcation poses unique challenges and opportunities for both the states to redefine their agenda and put to effective use the additional resources that will be made available to emerge stronger.”

Jayesh Sanghvi
Partner & National Leader, International Tax Services, EY

Fiscal incentives

The Central Government may make appropriate grants, benefits and incentives in the form of special development package to backward areas of new Andhra Pradesh, especially the Rayalaseema and North Coastal regions. It may also take appropriate fiscal measures, including tax incentives, to promote industrialization and economic growth in both of the new States. Industrial Incentives are location specific. Accordingly, if the industrial unit is located in Telangana, the Telangana state will allow such industrial incentive if a final eligibility certificate is issued. If the industry is in new Andhra Pradesh, the Andhra Pradesh state will extend such incentives.

Taxation in Telangana - new challenges

Telangana will have to set up a new administration apparatus for the administration of state taxes. It is quite likely that many of the existing technical staff that is well trained in the administration of taxes have to migrate to new Andhra Pradesh. Telangana will, therefore, have to provide facilities for training and skill building to make up the gap.

The new state would have to focus, among other areas, on the following:

- Setting up of administration and facilitating training programs in the newly developed tax departments
- Sharing of tax-related information and records between the two new States
- Drafting of new Legislations, Acts and Notifications
- Establishing systems for audits, enforcement and check-posts
- Authorization of banks
- Account heads (for tax depositions)
- Refund mechanism
- Assessments (pending cases for periods prior to reorganization)
- Appeals/revisions (pending)
- Appeals/Revisions (arising out of disposal of pending cases)
- Enforcement cases (records transfers)
- Court cases
- Establishment of Tribunal and the creation of necessary infrastructure (Building/furniture/staff/automation)
- Standing counsel for the High Court
- State representative for the Tribunal
- Notifying geographical jurisdictions of different offices
- Transfer of dealers records

Contracts entered into by the existing state of Andhra Pradesh under executive powers shall devolve on the new States, if the purposes of such contracts are exclusive to either new Andhra Pradesh or Telangana on the Appointed Date. Where the rights and liabilities of the contracts accrue in both the new States, they shall be apportioned between the two new States in the population ratio or as may be mutually agreed on.

Every legal proceeding relating exclusively to the territory of Telangana and pending before the Appointed Date before a court/officer shall stand transferred to the corresponding court/officer in Telangana.

There will also be implications for the recovery of tax arrears. The right to recover arrears of the tax or duty on property, including arrears of land revenue, will belong to the successor state in which the property is situated. The right to recover arrears of any other tax or duty shall belong to the successor state in whose territories the place of assessment of that tax or duty is included on the bifurcation11.

11 Section 50 of the Reorganization Act
**Division of assets and liabilities**

The broad principle that will be followed for the division of physical assets of the erstwhile Government of Andhra Pradesh between the two new States will be based on the “location” of the assets. However, in cases where the location principle cannot be applied, the division will be based on the respective share of population.

In this regard, Section 48 of the Reorganization Act provides as follows:

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**Section 48 of the Reorganization Act**

- Subject to the other provisions of this Part, all land and all stores, articles and other goods belonging to the existing State of Andhra Pradesh shall,—
  - If within the transferred territory, pass to the State of Telangana; or
  - In any other case, remains the property of the State of Andhra Pradesh
- Provided that in case of properties situated outside the existing State of Andhra Pradesh, such properties shall be apportioned between the successor States on the basis of population ratio.

Cash and credit balances of Andhra Pradesh

The total of the cash balances in all the treasuries of the existing state of Andhra Pradesh and the credit balances with the Reserve Bank of India, the State Bank of India or any other bank at the time of bifurcation will be divided between new Andhra Pradesh and Telangana on the basis of population ratio.

Recovery of loans within the state

For the recovery of loans, the right of the existing state of Andhra Pradesh to recover any loans or advances made before the day of bifurcation to any local body, society, agriculturist or other person in an area within that state shall belong to the successor state in which that area is included on that day.

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**Recovery of loans from persons/institutions located outside Andhra Pradesh**

For the recovery of loans from any person or institution located outside the existing state of Andhra Pradesh, the right will be with new Andhra Pradesh, but the recovered amount will be allocated between both the new States according to the population ratio. Similarly, the securities held in respect of the investments made from the cash balances investment account or from any fund in the public account of the existing state of Andhra Pradesh will be apportioned on the basis of the population ratio of the new States. But, the securities held in investments made from the calamity relief fund of the existing state of Andhra Pradesh shall be divided in the ratio of the area of the territories occupied by the new States.

**Inter-state body corporate**

If a body corporate constituted under a Central Act, State Act or Provincial Act for the existing state of Andhra Pradesh becomes an inter-state body corporate, the investments in, or loans or advances to, any such body corporate by the existing state of Andhra Pradesh made before the bifurcation will be divided between new Andhra Pradesh and Telangana in the same proportion in which the assets of the body corporate are divided under the provisions of this Part.

**Commercial/Industrial undertakings**

The assets and liabilities relating to any commercial or industrial undertakings of the existing state of Andhra Pradesh, where such undertakings or a part thereof is exclusively located in or its operations are confined to a local area, shall be passed to the state in which that area is included at the time of bifurcation, irrespective of the location of its headquarters.

**Liabilities outstanding on account of public debt and public account**

All liabilities on account of public debt and public account of the existing state of Andhra Pradesh outstanding at the time of bifurcation will be apportioned on the basis of the population ratio of the new States. The individual items of liabilities to be allocated to the new States and the amount of contribution required to be made by one new State to another will be determined by the Central Government on the advice of the Comptroller and Auditor General of India (CAG). Until finalization, the liabilities on account of the public debt and public account of the existing state of Andhra Pradesh will continue to be the liabilities of new Andhra Pradesh and will be serviced by the Government of new Andhra Pradesh.

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12 Section 49 of the Reorganization Act
13 Section 51 of the Reorganization Act
14 Section 52 of the Reorganization Act
15 Section 53 of the Reorganization Act
16 Section 54 of the Reorganization Act
Division of Public Sector Enterprises (PSEs)

The division of the PSEs of the existing state of Andhra Pradesh will be done according to the location of production facilities. With the exception of a few PSEs, the headquarters of most of them are located in Hyderabad. However, it is the location of the production facility that will determine whether an enterprise will be included in new Andhra Pradesh or Telangana. The headquarters may continue to remain in Hyderabad for the period in which it will serve as the common capital. After this, enterprises that are allocated to the new Andhra Pradesh would have to reallocate their headquarters to the new capital city. If these enterprises are contributing significantly to state revenues, new Andhra Pradesh may relocate their headquarters at the earliest to a location within new Andhra Pradesh.

Division of government employees

In relation to the Indian Administrative Services, Indian Police Services and Indian Forest Services, two separate cadres will be created: one for new Andhra Pradesh and the other for Telangana. From the day of bifurcation, the employees of public sector undertakings, corporations and other autonomous bodies will continue to function in such undertaking, corporation or autonomous bodies for one year. During this period, the concerned corporate body will have to determine the modalities for distributing the personnel between the two new States.

The Public Service Commission for the existing state of Andhra Pradesh will also become the Public Service Commission for the new Andhra Pradesh. Furthermore, it will serve as the Public Service Commission for Telangana until the new Public Service Commission is constituted there.

Division of pensioners

The Reorganization Act has made detailed provisions for the division of pension liabilities of the existing state between the two new States. This has been elucidated in the Act. The focus on pension comes from the experience of the division of other states that have indicated unresolved issues pertaining to the division of pension liabilities.

The provision states that the pension liabilities of the existing state will be divided between the two new States in the population ratio. The actual liabilities would differ from this ratio. In such a case, the state that has to pay more than its share in population would be reimbursed by the other one.

Allocation of mineral resources and power

A. Coal

In Singareni Collieries Company Limited (SCCL), the Government of Telangana will command a 51% share, while the remaining will be held by the Government of India. Existing coal linkages of SCCL shall continue without any change. New linkages shall be allotted to the successor states, as per the new coal distribution policy of the Government of India.

B. Oil and gas

The allocation of natural gas will be made as per the policies and guidelines issued by the Government of India. Furthermore, the royalties payable on domestic onshore production of oil and gas shall accrue to the state in which such production takes place.

C. Power

The division of the units of Andhra Pradesh Power Generation Corporation (APGENCO) will be based on the geographical location of power plants. Existing Power Purchase Agreements (PPAs) with respective Distribution Companies (DISCOMS) will stand true for both ongoing projects and those under construction.

The existing Andhra Pradesh Electricity Regulatory Commission (APERC) shall function as a joint regulatory body for a maximum period of six months. Within this period, separate State Electricity Regulatory (SERCs) will be formed in the new States.

The existing State Load Despatch Centre (SLDC) shall function on behalf of both the new States for a maximum period of two years. In this period, separate SLDCs will be set up.

The transmission lines of Transmission Corporation of Andhra Pradesh (APTRANSCO) of 132 KV and higher voltage crossing the new States shall be deemed as Inter-State Transmission System (ISTS) lines. The transmission lines falling within the territory of each new State will be transferred to the respective state transmission utilities. Furthermore, the maintenance of ISTS lines will be carried out by the new States in their respective jurisdictions.

The power generated from central generating stations will be allotted between the two new States based on the actual energy...
consumption in the last five years of the relevant DISCOMS in the respective new State.
Furthermore, for a period of 10 years, the new state that has a deficit of electricity shall have the first right of refusal for the purchase of surplus power from the other state.

**Allocation of water resources**

The Ministry of Water Resources, Government of India, has the responsibility of constituting Krishna River Management Board and Godavari River Management Board within 60 days from the date of formal bifurcation. These boards will function as autonomous bodies under the administrative control of the Central Government. These boards will be responsible for the administration, regulation and maintenance of the head works of the dams, reservoirs or head works of canals, as notified by the Government of India on Krishna and Godavari Rivers. The boards will also be responsible for appraising proposals to construct projects on the Krishna and Godavari rivers and provide technical clearance.

The headquarters of the Godavari River Management Board will be located in Telangana and that of the Krishna River Management Board in new Andhra Pradesh. Furthermore, the term of the Krishna Water Disputes Tribunal will also be extended. It will have the responsibility for making project-wise specific allocation of water.

The Polavaram Irrigation Project has been declared as a national project. The Central Government will execute the project in consultation with the Governments of the two new States in consideration of all environmental, forests, and rehabilitation and resettlement norms.

The Governments of new Andhra Pradesh and Telangana will replace that of the existing state of Andhra Pradesh on the Tungabhadra Board. The Tungabhadra Board shall continue to monitor the release of water to the High Level Canal, Low Level Canal and Rajolibanda Diversion Scheme.

New projects on water resources, based on appropriate dependability criteria, on the Godavari or Krishna rivers can be taken up by Telangana or new Andhra Pradesh only after obtaining sanction from the Apex Council on river water resources. All such proposals will have to be first appraised and technically cleared by the respective board, before sanction by the Apex Council.

The execution of ongoing projects and new ones on the Godavari and Krishna rivers will be the responsibility of the concerned state government of the state where the project is located.

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22 Section 85 of the Reorganization Act
23 Section 90 of the Reorganization Act
24 Section 91 of the Reorganization Act
Appendix

Impact from the perspective of Andhra Pradesh’s VAT, entry tax and central sales tax (including FAQs issued by the AP Commercial Taxes Department)

- The existing provisions of AP VAT Act, 2005 and the AP Entry Tax Act will apply to both of the new States (New Andhra Pradesh and Telangana) until the appropriate Government(s) make modification to the law before the expiration of two years from the Appointed Date.
- Businesses could be affected in the areas of registration, input tax credit, assessment, litigation and investment-based VAT incentives.
- The right to recover arrears of tax/duty shall belong to the successor state where the place of assessment of such tax is included on the Appointed Date.
- The refund of taxes collected in excess by the existing state of Andhra Pradesh on the Appointed Date shall be the liability of the successor state in whose territory the place of assessment of such tax is included.
- All dealers were required to apply for new TINs by 7 May 2014, which will be effective from 2 June 2014 onward, for continuing to operate in the state of their choice. VAT invoices will carry new serial numbers reflecting the new TIN. A registration certificate will be issued by the respective Circle Office from 2 June 2014 onward. Even though Hyderabad is to remain the common capital of the two new States for some period, dealers operating only in Hyderabad were required to opt to continue registration in the state of Telangana only.
- Dealers who have exercised the option for refund or carry forward of input tax credit as on 31 March 2014 will either be allowed a refund or carry forward in the new State.
- Sales and purchase transactions between two dealers located in new Andhra Pradesh and Telangana would be subject to the applicable CST, as against VAT. CST paid will become a cost. However, in cases where an original sale has happened before the Appointed Date between the dealers who will be assessed under the new Andhra Pradesh and Telangana, and the sales return has taken place after the Appointed Date, it will be treated as sales return under VAT laws and will not be considered as a CST transaction.
- Stock transfer affected from one successor state to another will be subject to the reversal of ITC, as prescribed.
- The impending changes in the areas of VAT laws will need to be captured in the billing systems, accounting systems, supply chain systems and IT systems of the affected companies.
- As the Appointed Date is 2 June 2014, the VAT and CST return for the month of May 2014 could cover transactions from 1 May 2014 up to and including 1 June 2014.
- Wherever required, including for sales return post 2 June 2014, revised return can be filed with the old TIN number within 6 months from the end of the tax period.
- For sales covered during the period, one “C” form can be issued and for the period from 2 June to 30 June 2014, another “C” form in the new State can be issued.
- The purchase of goods in composite AP before 2 June 2014 and receipt after 2 June 2014 will not be entitled for Input Tax Credit (ITC). Such a purchase will also have to be accounted as a CST purchase. Post 2 June 2014, no ITC will be allowed based on invoices with the old TIN. The first VAT return in the new States will be with no opening balance of ITC. In the absence of a mechanism to refund, excess ITC as on 1 June 2014 will be carried forward. If a dealer has opted for refund in March 2014 on VAT return or has not filed a return for March 2014, he/she has the option to seek refund of ITC as on 31 March 2014.
- In the case of lease transactions, as the taxability is determined on the basis of the location where the lease agreement is executed, post 2 June 2014, the state where it is taxable between new Andhra Pradesh and Telengana needs to be determined accordingly.
- In the case of work contractors, the option exercised for composition will also be valid in the new state where the business is physically located.
- Entry tax is levied on vehicles if the registration in the state of origin is less than 15 months from the date of such registration under the Motor Vehicles Act, 1988.

25 As per section 100 of the AP Reorganization Act, 2014.
## Glossary

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Particulars</th>
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<tbody>
<tr>
<td>APERC</td>
<td>Andhra Pradesh Electricity Regulatory Commission</td>
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<td>AGENCO</td>
<td>Andhra Pradesh Power Generation Corporation</td>
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<td>APTRANSCO</td>
<td>Transmission Corporation of Andhra Pradesh</td>
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<td>AP VAT</td>
<td>Andhra Pradesh Value Added Tax Act</td>
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<tr>
<td>CAG</td>
<td>Comptroller and Auditor General of India</td>
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<tr>
<td>CST</td>
<td>Central Sales Tax</td>
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<td>DISCOMS</td>
<td>Distribution Companies</td>
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<td>GoI</td>
<td>Government of India</td>
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<td>GSDP</td>
<td>Gross State Domestic Product Ratio</td>
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<tr>
<td>ISTS</td>
<td>Inter-State Transmission System</td>
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<td>IT</td>
<td>Input Tax</td>
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<td>ITC</td>
<td>Input Tax Credit</td>
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<td>Population Ratio</td>
<td>The ratio of people residing in the two new States</td>
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<td>PSE's</td>
<td>Public Sector Enterprises</td>
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<td>PPA's</td>
<td>Power Purchase Agreements</td>
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<tr>
<td>SCCL</td>
<td>Singareni Colleries Company Limited</td>
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<td>SLDC's</td>
<td>State Load Despatch Centers</td>
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<tr>
<td>TIN</td>
<td>Taxpayer Identification Number</td>
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Notes
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EYIN1405-055
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