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Siddharth College of Commerce and Economics,
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A One Day National Conference
on

INTELLECTUAL PROPERTY RIGHTS AND GST



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EXPECTATIONS ON GST COMPENSATION TO THE STATES AND INDIAN FISCAL FEDERALISM

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Abstract

GST regime came into existence on 1/7/2017 by submerging several state & local governments owned taxes by 101st Constitutional Amendment. GST replaced all indirect taxes levied on goods and services by the central and state governments with certain exceptional goods & services still in the hands of state government. Certainly due to the GST regime every state and local self government lost permanently use tax revenues therefore GST compensation to state act look after the revenue loss compensation to the state by creating GST compensation fund by imposing GST compensation cess on certain category of product. Hence in reality still there is a mismatch and gap between the promised to relief for or the revenue loss and the Expectations of the state government from the actual receipt of GST compensation. Therefore it is time to review the GST implementation and expectations of the states under the fiscal federalism as prescribed under the constitution of India to improve the revenue relationship, especially after completion of the transition period i.e. 30/6/2022.

Key Words: GST- Compensation, Cess, Transition Period, Indirect Tax Revenue, Fiscal Federalism.

Introduction

Part VI of the Constitution of India deals with governance of the State governments wherein Article 198, 199 provide legislative power to the State government regarding any taxation. Whereas Part IX deals with governance of the Panchayat local self government wherein Article 243-G, 243-I provides taxation authorisation and assigned the shares from State government to the Panchayat. Whereas Part IX-A deals with governance of the Municipalities local self government wherein Article 243-W, 243 -X provides taxation authorisation and assigned the shares from State government to the Municipalities. The XI schedule of the Constitution of India provide 29 functional areas for the Panchyat administration and XII schedule provide 18 functional areas for the municipal administration.

GST (Goods & Service Tax) is one of the indirect taxes which replace the several taxes earlier exclusively levied by the State government and the Local Self-government like VAT, Entry tax, Octroi, etc. The Maharashtra government in the year 2015-16 out of its total revenue receipt of Rs 1,40,031.12 crore allotted Rs.18,239.92 crore to the Panchayat local self government which share to 13.02% of total budget provision. Whereas allocation for the Municipalities were of Rs 9,187.23 crore which share to 6.56% of the total budget provision.

Upto year 2020 GST implementation completed it certain issues and scope for developing the spirit of the fiscal federalism as enshrined in the constitution of India while achieving the objectives of GST.

Concept compensation in GST is provided to the states for the loss of revenue due to the implementation of GST in which various State governments levied taxes till 30/6/2017. Whereas GST implemented started on 1st July 2017. Five years is the period describe for the compensation as per the GST Council among this period first three years 100% compensation will be provided to the state on this fourth year 75% compensation will be provided and on the fifth year 50% of the compensation will be given to the state government.

Comptroller and Auditor General of India has highlighted certain issues regarding the slow growth rate of indirect taxes, declining in the collection of the revenues by the Central government, short call of the GST compensation cess collection and GST compensation to be paid to the state governments.

Report of The Comptroller and Auditor General of India for the year ended March 2018 made observations about the indirect taxes specifically on the GST. 5.80% slow down in collection of indirect taxes at 2017-18 compared with 2016-17 the growth rate was 21.33% of the indirect taxes collection, it reduced at 15.53% was growth rate in 2017-18. The net collection of indirect taxes in 2016-17 was Rs. 8.47 lacs crore, whereas the central revenue on GST has declined of 10% in 2017-18, in the same year Rs. 6,466 crores was short transfer of GST Compensation Cess into the Public Account.

Literature Review

Studied topic is new and in process of evolution only little literature and study is conducted:

Sacchidananda Mukherjee and Kavita Rao (2019) in their Background Paper prepared for the 15th Finance Commission on "Fiscal Implication of introduction of GST in India" stated the methodology on estimation of GST revenue collection and GST revenue sharing among Central and different state governments. They analyses the published data of GSTN for understanding revenue implications of GST and it also forecast with revenue collection from the Petroleum taxes and thereby understand the fiscal implications of GST on the different states revenue collection and they also forecast the Revenue under Protection and possibility of fulfilling expectations on collection of GST Compensation Cess and distribution of the GST Compensation among different States.

Sacchidananda Mukherjee(2020) produce a working paper on "Possible Impact of Withdrawal of GST Compensation Post GST compensation period on Indian state finances" he has prescribed a possible impact of withdrawal of GST Compensation after completion of Transition Period on 31/06/ 2022, on finances of the state governments he also tried to find out impact on the Fiscal Management and Microeconomic stability on States. He highlighted on an inability of the Central government to provide GST compensation to State governments at 14% of growth rate in an uncertain situation and of less GST collection. He recommended a new model of GST Compensation Cess to overcome the problem of Revenue Protection and to incentive the States to take extra tax collection efforts to reduce pressure on GST Compensation Cess for providing GST Compensation to States.

Sacchidananda Mukherjee(2020) write an article on "Compensation to Cantonment Boards for Revenue Loss on Account of GST" he specify a historical journey of taxation of the local bodies like Cantonment Boards and its power of taxation under the Constitution of India. Post introduction of GST, resulted in a permanent revenue loss and perpetual budgeted stress on the fiscal administration of Local Bodies. After an analyses of the Maharashtra GST (Compensation to the Local Authorities) Act, 2017 he suggested a model for Revenue Compensation to the Local Bodies which has not yet been considered under any of the State Compensation Acts to compensate Local Bodies, even though it is considered in the Central Compensation Act. Therefore he suggested Permanent Compensation to the Local bodies for loss of revenue which has a joint responsibility of the Central and State government or assign new sources of revenue to Local bodies from the State government to reduce its fiscal burden.

Sacchidananda Mukherjee(2019) wrote an article on "Whether States Have Capacity to Sustain Projected Growth in GST Collection During the GST Compensation Period?" he discuss on harmonisation of 'One Nation One Tax One Market' GST regime that introduced in 2017 by curtailing fiscal autonomy of the States with submerged several taxes of State and Local Bodies, many States resisted GST mainly due to permanent loss of revenue. Therefore to develop common consensus on GST regime, Revenue Protection is allowed in the form of GST Compensation for five years to cover the loss of revenue. He further explained how the GST Compensation mechanism will bring stability in States finance. He described that each State government will depend on own

capacity and efforts to increase taxation at 14% growth on the base year revenue in comparing submerged taxes during a GST compensation period.

Lekha Chakraborty (2019) prepared a working paper on "Indian Fiscal Federalism at The Cross-roads: Some reflections" analysed the fundamental institutional changes in Fiscal Federalism by scrapping of Planning Commission, setting NITI Aayog, GST Council and GST regime by way of the Constitutional Amendments. She emphasis debate to link GST Council with Finance Commission and transfer focus from Revenue Sharing to Resource Sharing to equalise services in States and Centre. She find discussion in GST Council mainly on fiscal issues rather political so expects, Terms of Reference of 15th Finance Commission shall be drafted by GST Council or by empower finance ministers of States and shifting of 'Tax Sharing' to 'Grant Equalisation' model and needed a permanent Finance Commission.

Objectives of the Study

The present study is undertaken with the following objectives:

- 1) To study the revenue implications on the Maharashtra state, post-implementation of GST.
- 2) To study the expectations on the GST compensation to State after the transition period.
- 3) To study the impacts of GST regime on revenue relationship of Indian federal structure.

Research Methodology

In the present qualitative study, the secondary sources of information such as minutes of the GST Council, GST published data, Budget analysis papers, GST press release, CAG reports, Research Papers, Economic survey of Maharashtra & Constitution of India are used. Whereas the research tools and techniques like critical evaluation, Contain analysis, rational inductive reasoning methods are used for subjective interpretation and finding conclusion descriptively.

Discussion

With the available data of last three years on GST are adequate to analysed the trends and to understand the direction given to the Indian Federalism and its issues and resolutions. Present study focus exclusively on issues of GST compensation to States and Local Bodies which was considered at the Central level but yet not completely resolves the issues of Local Bodies it should be consider under the concept of "State". The original three tier system of governance as described in the Constitution like, Central, State & Local self governance, in GST regime only two tier system is considered i.e. Central and State/UT, creates fiscal issues.

Analysis

As discussed above, certain issues create in a Fiscal federalism which needs to solve.

Table No- 1: GSTCC Collected, Released and Pending Amount (Rs. Crore):

Period	Collected	Released	Balance / Pending
July- 17 to Mar- 18	62,616	48,178	14,438
Apr- 18 to Mar- 19	97,369	62,243	35,126
Apr- 19 to Dec- 19	55,977	81,042	-12,721

(Ref.: NIPFP, Table No.- 1, Pg.- 4)

Above Table-1 shows first two year was pending GST Compensation but in third year excess amount paid which should be Rs. 25,065 Crore but show only Rs. 12,721, its mean there is discrepancy find of Rs. 12,344 Crore, without any noting or the relevant information.

Table No- 2: Quarterly Shares of Top 5 Major States in Total State GST Collection (%):-

States	July-Sept-17	Oct-Dec-17	Jan-Mar-18	Apr-Jun-18	July-Sept-18	Oct-Nov-18	Average Share %
Maharashtra	19.47	17.66	17.02	16.47	16.30	16.40	16.39
Uttar Pradesh	8.24	8.50	8.76	9.08	8.77	8.87	8.90
Karnataka	8.63	8.12	8.35	8.27	8.26	8.36	8.30
Tamil Nadu	9.47	8.50	7.91	8.11	8.54	7.83	8.16
Gujarat	7.66	7.35	7.57	7.29	7.11	6.94	7.11

(Ref.: NIPFE Table No- 19, Pg. 26)

Above Table-2 highlighted that Maharashtra is still highest in proportion of GST collection over the other states but does it mean that Revenue Sources lost permanently will it compensate only in the form of increasing revenue collection need to be consider differently.

As per the Maharashtra State Budget 2016-17 budgeted estimation of tax revenue was Rs.1,44,222 crore, out of which Sales Tax collection Rs. 81,438 crores having a share 56.5% and Stamp Fees collection Rs. 23,548 crore having a share 16.3%.

Table No- 3: Growth rate of tax revenue receipt of Maharashtra:

Items	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Tax Revenue	1,25,228	1,32,694	1,54,714	1,70,331	2,05,151	2,30,982
Growth Amount	6,588	7,466	22,020	15,617	34,820	25,831
% Growth Rate	5.55	5.96	16.59	10.09	20.44	12.60

(Ref.: Maharashtra Economic Survey – 2018-19, Pg. 96)

Above Table-3 states the total revenue receipts, growth amount and percentage of growth rate gives an idea that in post GST period except 2017-18 other two years had less than 14% growth rate as guaranteed upon the base year 2015-16, this issue must be concern.

Table No- 4: Details of GST Compensation Released to Maharashtra (FY – 2017-18):

State	July & Aug-17	Sept. & Oct-17	Nov. & Dec-17	Jan. & Feb.-18	Mar.-18	April & May-18	Total
Maharashtra	0	834	0	654	1,589	0	3,077
Total GSTC Released	10,805	13,694	3,898	13,085	6,696	3,899	52,077

(Ref.: Press Information Bureau, GOI, Date: 10/08/2018)

Above Table-4 shows that Maharashtra gets only 5.90% of the total distributed GST Compensation inspire of fact (see table-2) that Maharashtra contributed highest on revenue collection which gives thought on need to assign more sources of revenue to Local Bodies, on whose cost and consent GST started, so that LBIs be consider in GST Compensation to State.

Table No-5: Projection of SGST Revenue of Maharashtra as per GSTN Database (Rs. Crore):

State	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Maharashtra	102,039	113,468	126,744	141,826	141,826	177,430

(Ref.: NIPFE Table No- 22, Pg. 28)

Above Table-5 projected on SGST Revenue collections till 2025 but SGST collected in 2018-19 was Rs 2,30,982 (see table-3) crore therefore all projections made underestimated.

Table No- 6: Shortfall to Provide GST Compensation to Maharashtra (GSTN Database) (Rs. Crore):

State	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Maharashtra	NA	-2682	-5667	-9122	-13378	-18742

(Ref.: NIPFE Table No- 27, Pg. 33)

Above Table- 6 estimated shortfall to provide GST Compensation to Maharashtra are continuously increase in spite of the positive projection in the SGST collection, emphasis on Revenue Protection needed in form of GST Compensation as a permanent fiscal arrangement.

Conclusions

After going through all above material, data and information analysis I understand the strong financial position of Maharashtra but we interpreted that still GST Compensation must be made a permanent by GST Council by considering the permanent loss of not only of Revenue amount but lost the Revenue Sources permanently which are affecting on the fiscal relation of the State and Local Bodies more and also it is against the Constitutional mandate of Fiscal Federalism enshrined in the Articles 198, 199, 243-G, 243-I, 243-W and 243 -X and other original parts dealing with Fiscal Federalism must be uphold in the right spirit and text. Therefore I suggest that GST Council must extent the transition period permanently and LBIs must be consider in term 'State' to directly distribute GST Compensation to State/UT & LBI.

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