INDIAN STATES AFTER IMPLEMENTATION OF GST: A STUDY ON REVENUE LOSS OF STATES

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ABSTRACT

Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation.The GST implementation in India is DUAL in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST) but the base of tax levy would be identical. The paper explains the procedure of GST registration, mechanism of tax collection, impact of GST on revenue of states an compensation paid to states for revenue.

KEYWORDS:Integrated, Central, State, GST, Mechanism, Dual Tax, Compensation

1.INTRODUCTION

To improve the Indian Taxation system ,White Paper with basic design for VAT released on January 17, 2005 was introduced both at centre and state level by the Finance Minister P.Chidambaram. It was implemented as an Indirect Tax in the Indian taxation system replacing central excise duty at the national level and the sales tax system at the state level. Thus, it improved the indirect taxation system of the country.

Nearly a decade later, Goods and Service tax bill officially known as the constitution (one hundred and twenty second amendment) bill, 2014 proposes a national value added tax to be implemented in India from June 2016. The bill was passed by LokSabha on August 2016. The bill, after ratification by the States, received assent from President Pranab Mukherjee on 8th September 2016. The GST implementation in India is DUAL in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST) but the base of tax levy would be identical. Initially the idea was that there would be a national level Goods and Services tax. But as the release of first discussion by the empowered committee of the state Finance Ministers on 10.11.2009, it has decided that there would be a “Dual GST” in the country. Centre and state both governments are entitled to charge taxes on the goods and services. Almost 150 countries have introduced GST in some form.

Direct taxes, such as income tax, corporate tax etc will not be affected by GST. It will make Indian's tax structure, elaborate and create a similar market across states. GST will replace different Indirect Tax levies i.e. Sales Tax, Service Tax, VAT, Excise Duty, Custom Duty, Special Additional Duty, Securities Transaction Tax, Stamp Duty, Entertainment Tax, Local Body Taxes, Property Tax, Entry Tax, Tax and Duties on electricity, Tax on Goods and Passengers and compliance cost will fall which will lead in getting life simpler.

According to experts GST is regarded to increase economic growth by between 0.9% and 1.7%. Exports are expected to increase economic growth by between 3.2% and 6.3%, were as imports will likely raise 2.4% – 4.7%. GST is a Value Added Tax (VAT) to be implemented in India, from April 01; 2017. Government has promised that GST will reduce the compliance burdens at present.

Table 1. Taxes to be subsumed in GST: State and Centre Taxes

STATE TAXES	CENTRAL TAXES
luxury tax	excise duty
entertainment tax levied by states	additional excise duty
VAT	excise duty under Medical & toilet preparation act
tax on lottery, betting and gambling	service tax
entry tax other than local bodies	additional custom duty
	Surcharge
	CENVAT

Source: Empowered committee of state finance ministers government of India

2.OBJECTIVES

Themain objectives of the present study are

- To study the tax collection mechanism under GST regime.
- To study the procedure of registration for GST
- To discuss the revenue of states post GST
- To study the compensation for revenue loss to states due to GST

3.RESEARCH METHODOLOGY

In order to achieve stipulated objectives of the study the secondary data has been collected from various government publications, books, journals, magazines, newspapers and websites. It is conceptual in nature and is highly supported by facts and the numerical data. The pictorial representation of facts is done accordingly for lucid understanding of the mechanism and its effect.

3.1 MECHANISM: MODELS OF GST

MODEL 1: Intra State Trade

It is assumed that goods are moving from KANPUR to LUCKNOW in same state. Here, CGST and SGST will be levied. The sale price increases and so does the tax liability. In case of resale, the credit of input CGST and input SGST is claimed as shown, and the remaining taxes go to the respective governments.

KANPUR To LUCKNOW	**LUCKNOW To ALLAHABAD**
SALE PRICE = 1000	SALE PRICE = 2000
SGST@8%=80	SGST@8% = 160- Input SGST=80
CGST@8%=80	CGST@8% = 160- Input CGST=80

As the input tax credit comes from the same government to whom output tax goes, therefore there is no question of credit transfer within two governments.

MODEL 2: Sale in one state, resale in another state

In this case, goods are moving from KANPUR to LUCKNOW of same state. Since it is a sale within a state, CGST and SGST will be levied so the collection goes to the Central Government and the State Government both. Later the goods are resold to other state. Therefore, IGST will be levied which goes to the centralgovernment.

Kanpur To Lucknow (Same State)	**Kanpur To Delhi (Another State)**
SALE PRICE = 1000	SALE PRICE = 2000
SGST@8%=80	IGST@16% = 320- SGST&CGST=160
CGST@8%=80	

SGST here is claimed as credit against IGST but amount will never go to central government, hence the exporting state transfers credit of Rs.80 to the central government.

MODEL 3: Sale outside the state, resale in that state

In this case, goods are moving from Delhi to Lucknow. Since it is an interstate sale, IGST will be levied. The collection goes to the Central Government. Later the goods are resold from Lucknow to Kanpur (within the state). Therefore, CGST and SGST will be levied. So against CGST and SGST, 50% of the IGST Rs. 80 is taken as a credit. As this amounts to a loss to the state government, the Central Government compensates the state government by transferring the credit to the state government.

Delhi to Lucknow	**Lucknow to Kanpur (within the state)**
SALE PRICE = 1000	SALE PRICE = 2000
IGST@16%=160	SGST@8% =160 – IGST(80)=80

CGST@8% =160 - IGST(80)=80

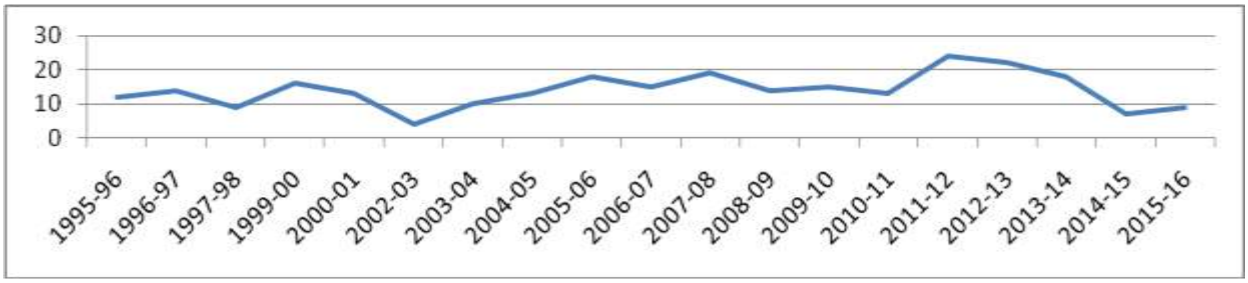
IGST here is claimed as credit against SGST but such amount will never go to state government, hence the central government transfers credit of Rs.80 to importing state.

3.2 PRE GST REGIME

VAT impacting growth rate

Under the VAT system, each person in the value chain gets input credit on the tax paid by the previous persons. This acts as an incentive to ensure that the previous person has paid tax. After VAT was introduced for sales tax , states saw an increase in the tax growth rate. While excise, service tax and sales tax allow for tax credits within their silos, GST integrates these and enables tax credit across these taxes.

Fig 1:Annual Growth Rate from 1995-2016



Average annual growth (1995-96)- 12%

Average annual growth (2015-16)- 15%

Tax revenue subsumed into GST

GST subsumes various taxes levied by states, including sales tax, entertainment tax and entry tax, except the revenue from excise on alcohol and sale of alcohol and petroleum products. Tax revenue to be subsumed (plus revenue on sale of alcohol) was 46% of states' own tax revenue in 2015-16. Excluding sales tax on alcohol, which will continue to be taxed separately by states, revenue subsumed would be lower than 46% of own tax revenue.

Fig 2.Tax revenue subsumed (plus alcohol VAT)/own tax

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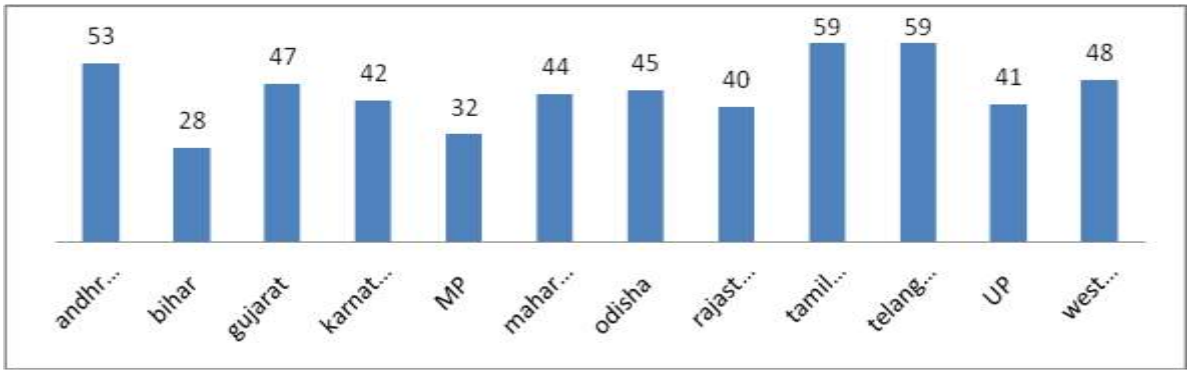


Source: http://www.gstindia.com

3.3 REVENUE OF STATES AFTER GST IMPLEMENTATION

Contradicting the notion of ONE NATION, ONE TAX India is not a single national tax but a set of 38 taxes — 29 states taxes (SGSTs), seven Union territories taxes, one central GST (CGST) and the integrated GST (IGST) on interstate supplies — all harmonized to look like a single tax. Now the state governments fear loss of revenue and expects compensation from the centre. It is felt that manufacturing states (Tamil Nadu, Gujarat etc.) loses and consuming states will gain due to this change. States with high and strong manufacturing base will be the biggest contenders for compensation. Tamil Nadugovernment might lose Rs 3,500 Crores annually due to abolition of CST. Maharashtra government is set to lose Rs 14,000 Crores that it collects as Octroi so both expects compensation.

(a) HARYANA: GST IMPACTING MANUFACTURING STATES

Haryana is hub for automobile industry (cycles, cars, bikes and tractors) with bigwigslike Maruti, Suzuki, Escorts and Hero has a number of telecom (Alcatel, Bharti) and white goods manufacturers (Whirlpool, Sony etc.) as well as leather, fans, machinery businesses Textiles (blankets), carpets and even heavy industries (IOC, NTPC, and National Fertilizers etc.) are also not uncommon.

Impact of GST:

The manufacturing states have been getting significant revenue from industries established in the state but supplying to rest of India by way of CST revenue which ranges from 5-8% of total tax revenue .From intrastate sales the state gets VAT revenue. CST (Central Sales Tax) though levied by centre, is collected and utilized by states from where the supply originates.

Table 2.State Total Commercial Tax Revenue

	Total Commercial Tax Revenue(in crores)	CST Revenue(in crores)	CST%
Karnataka(2013-14)	36773	1897	5.1
Tamil Nadu(2014-15	72326	3500	4.8
Maharashtra(2014-15)	75783	5650	7.45
Gujarat (2011-12)	33156	3949	11.9
Haryana(2014-15)	19930	1415	7.1

Source: Empowered committee of state finance ministers government of India

GST being a destination based consumption tax the interstate transactions (IGST) revenue from will accrue to the consuming state. Thus, the manufacturing states will be at a loss. Although GST has proposed a 1% non-creditable tax over and above IGST for a limited period on all interstate transactions which will in turn be reversed to the producing state . However under GST, the rate of SGST in IGST will likely be at 8-9% (assuming IGST at 16-18%) thus compensating for any revenue loss and With centrecompensating states for 5 years for revenue loss under GST, states problem is well addressed. Due to huge manufacturing base, imports into Haryana will alsobe significant. Haryana being one of the major agricultural producers, earnsover Rs 1,000 Crore from purchase tax which will get subsumed under GST,meaning half of this (500 Crore) has to be shared with centre.

Positives:

· 50% share in Excise and Service Tax Revenue

· VAT on petroleum products continues to be under state

· Revenue from state excise (on alcohol / opium / hemp) and Revenue from Stamps and registration would continue to be under state control

· Electricity will continue to be taxed by state

· IGST on imports (as a SGST component) will accrue to Haryana state

Negatives:

· 50% of VAT revenue will have to be shared with centre

· 50% of revenue from purchase tax will have to be shared with centre

· IGST (SGST component) revenue will go to consuming state

(b)KARNATAKA

Post GST Implementation: States' Revenue Deficit is Rs. 36,000 Crore

In the first four months post Goods and Services Tax (GST) implementation, there has been a shortfall of Rs. 36,000 crore in projected revenues West Bengal .While the projected collection at 14 per cent growth was Rs.1,72,000 crore, the actual figure realised had been Rs. 1,36,000 crore, resulting in a deficit of Rs.36,000 crore till November.

3.4 COMPENSATION TO STATES FOR REVENUE LOSS POST GST

The Select Committee of the RajyaSabha submitted report to the House, recommended a liberal compensation package for possible revenue losses to the states for five years In the Bill, the Centre has proposed 100 per cent compensation for first three years, 75 per cent and 50 per cent for the next two years. Central Government has agreed in GST Constitutional amendment Bill that 100% of the revenue loss would be provided by Central Government for a period of 5 years.

As per Section 7 of the Goods and Services Tax (Compensation to States) Act, 2017, states and Union territories with legislatures have to be compensated for revenue losses arising out of implementation of GST during the five-year transition period beginning from the date on which the SGST Act of the concerned state has come into force.

- The government has releasedRs 8,698 crore to all states and Union territories with legislatures, barring Rajasthan and Arunachal Pradesh, as compensation for revenue losses incurred during July-August post Goods and Services Tax (GST).Though the compensation was just 58 per cent of the total amount of Rs 15,060 crore raised from cess during the first two months of the GST, it is expected to rise going ahead.
- Last month, all states were asked to furnish data on taxes collected in the month of July and August 2017 from taxes subsumed under GST.
- The government had raised Rs 7,216 crore and Rs 7,844 crore as compensation cess during July and August, respectively. The compensation cess is levied on sin and luxury goods over and above the highest tax rate of 28 per cent under GST.

The GST (Compensation to the States for Loss of Revenue) Act has projected the revenue growth for states during the five-year transition period to be 14 per cent and the financial year of 2015-16 has been fixed as the base year for calculation of compensation amount, with the base year tax revenue including states' tax revenues from state VAT, Central sales tax, entry tax, octroi, local body tax, taxes on luxuries, taxes on advertisements.

Any revenue among these taxes related to

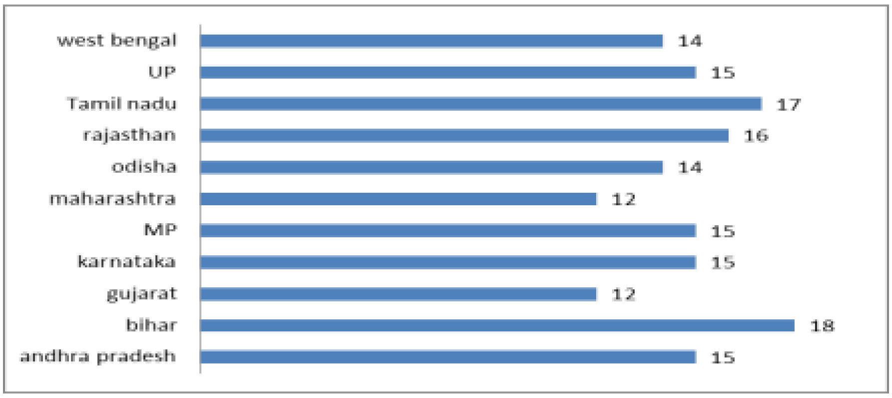
a) supply of alcohol for human consumption

b)entertainment tax levied by the states but collected by local bodies and

c)petroleum products not part of GST will be excluded from the base year revenue.

In case, any excess amount has been released as compensation to a state in any financial year during the transition period, as per the audited figures of revenue collected, the excess amount so released shall be adjusted against the compensation amount payable to such state in the subsequent financial year.

Fig 3: Tax Revenue Growth Rate (Five Years Average) where guaranteed compensation is 14%



3.5 EXCEPTIONS TO COMPENSATION RELEASED

For Rajasthan, the base year revenue for the year 2015-16 was Rs 17,159 crore, which when calculated for a month after projecting an increase of 14 per cent per annum as per the Compensation Act comes out to be Rs 1,858 crore, Rajasthan reported a revenue collection figure for July sharply lower than Rs 1,858 crore.

Also, compensation to Arunachal Pradesh was not released as the state did not report revenue collected in the month of August,2017.

4.CONCLUDING REMARKS

The GST system is meant to simplify the tax structure in the nation but it might take time to properly implement it. Various challenges might come into its way but it will definitely play dynamic role in growth of nation. Few limitations of this are:-

- **Eroding states freedom on decision of tax and tax rate**

The task of designing GST is assigned to the GST Council, a collective forum of state and central government. Any change to tax rates will have to be within a narrow band prescribed by the GST Council. Any changes to the tax rate will need to be agreed to with three-fourth majority at the GST Council. While states together have weightage of two-third in any decision and Centre will retain the balance one-third. This effectively means that states together will not be able to act on their own or take any decision, consent of the Centre will be necessary.

According to the Constitution, the States have complete autonomy over levy of sales taxes, which accounted for nearly 80 per cent of revenue of states. But with the GST, limited autonomy would be gone.

- **Federal autonomy of states at risk**

According to the Constitution (122 amendment) Bill, 2014 —The Centre will administer the central GST and the States, the SGST. However the monitoring of compliance will be done independently at the two levels. It will mark some curtailment of state's freedom. All goods and services will be divided into certain categories. The rates will be fixed by category, and a state cannot shift a commodity from a lower to a higher rate, or put it in the exempt category.

- **Uncertain tax incentives offered by State government**

The amount of incentives are based on the amount of indirect taxes paid to the State Government, but how these incentives would get impacted under the GST scenario is a question to worry.Some tax benefits generally granted by states are subsidies based on the quantum of taxes paid (i.e. VAT and CST) by companies to the State Government on their manufacturing activities and that too, over a specified time period. Incentives are subject to a maximum ceiling limit based on total capital investments made by these companies.

- **Power to be shifted**

In GST it is proposed to delete entry 92C ("tax on services") from List I so that the states as well as the centre can tax services which was earlier the right of centre only. Also, both centre and states are to be explicitly empowered to levy goods and services tax, which is defined as a tax on the supply of goods or services or both. Thus the Constitutionwill support levy of tax on services as well as goods by the states as well as the centre.

- **States to retain power to levy tax on certain goods**

States have insistently demanded certain goods to be kept outside the ambit of Goods and services tax. Taxes on alcohol make up major chunks of state revenues — for instance, in Kerala it contributes 22 percent of revenue, while in Tamil Nadu it yields about Rs.21, 000 Crores per year. Transport fuels like petrol and diesel are taxed at 20 per cent, while states earn 35 percent of their sales tax revenues from them. Initially, most of the states were not in favour of keeping many commodities under GST. The main reason was that states enjoy autonomy in collecting state taxes and they were afraid of losing their rights. State governments wanted the Alcohol and Fuel to be kept out of GST system as these two commodities are the biggest contributor to their revenues. State government's 50% revenues come from petroleum products alone.

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