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AN OVERVIEW OF CENTRE STATE FINANCIAL RELATION CONSEQUENT UPON IMPLEMENTATION OF GST

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Abstract

India is a huge country characterized by geographical, regional, linguistic & cultural diversities. So it cannot be administered from a single point. It needs a system which maintains equilibrium between regional identity and aspiration vis. a vis. the unity and integrity of the nation. So framers of the Indian constitution had the same opinion & with their visionary thinking they decided India to be union of states. It refers to a political system where the centre and state share the government power within their respective areas distributed explicitly by the supreme authority of the constitution, It is a pragmatic system aimed at maintaining a compromise between states which wish to come together under the authority of union and at the same time retain their autonomy. To operationalise this system in a smooth way, constitution of India has divided the legislative, administrative & financial powers between the centre and states. It has made elaborate provision relating to distribution of taxes as well as non tax revenue and made provision for power of borrowing and grant in aid by the union to the states. Article 268 to 293 deals with the provisions of financial relations between centre and states. upon implementation of GST with effect from 01 Jul 2017 the whole system of financial relation undergone a change. The distribution of financial powers is made in a way that in operation supremacy of centre is ensured. During financial emergency under article 360, the federal arrangement can be suspended and squeezed into a unitary system. Prima facie it seems a well framed system but in operation a lot f issues arise from time to time which shores the relation between centre and states. This research paper highlights the key aspects of financial relations in India.

Keywords

Diversity, Equilibrium, visionary. Operationalise, implementation.

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Introduction:

Constitution of India explicitly divides legislative, administrative & financial powers between centre and states. But over centralization of resources at the disposal of has led to central predominance in decision making in the administration of the country. Implementation of GST has complicated the things further. Therefore among several other federal problems, the problem of financial relationship is perhaps the more complex. Before the implementation of GST, the states were having the flexibility to change their rate of tax as per their requirement but after implementation of GST which has subsumed many taxes within it ambit, the states have ceded this flexibility and the authority is exercised by parliament on the recommendations GST council. Though the new regime has provided for revenue loss of states by the centre up to five years of implementation of GST But after 30 June 2022,the cessation of this provision have a crippling effect over state finances if GST council do not further extend this period.

The distribution of financial powers prior to implementation of GST are mentioned below:-

1. Taxes Exclusively Assigned to the Union:

(a) Customs and export duties
(b) Income tax
(c) Income from railways and postal departments.
(d) Excise duty on tobacco, Jute cotton.
(e) Estate duty and succession duty in respect of property other than agricultural land.
(f) Corporation tax
(g) Taxes on Capital values of both individual and companies assets.

2. Taxes Exclusively Assigned to the States:

(a) Succession and estate duty in respect of agricultural land.
(b) Taxes on Vehicles used on roads, animals, boats.
(c) Income from land revenue and Stamp duty except on documents included in the Union List.
(d) Taxes on consumption or sale of electricity.
(e) Taxes on goods and passengers carried by road or inland water.
(f) Toll tax.
(g) Taxes on lands and buildings. Taxes on Professions and traders.
(h) Duties on alcoholic liquors for human consumption. Taxes on opium and narcotic drugs.
(i) Taxes on entry of goods into local areas.
(j) Entertainment and amusement tax
(k) Taxes on gambling

3. Taxes Leviable by the Union but to be Collected and Appropriated by the States:

(a) Taxes on luxuries and betting's.
(b) Taxes on bill of landing, letters of credit.
(c) Stamp duties on bills of exchange, cheques and promissory notes.
(d) Excise duty on medicinal toilet preparations.

4. Taxes Levied and Collected by the Union but Assigned to the States:

(a) Duty in respect of succession to property other than agricultural land.
(b) Taxes on railway freights and fares.
(c) Taxes on transactions in stock exchanges.
(d) Terminal taxes on goods and passengers carried by railway, sea or air.
(e) Taxes on sale and purchase of news papers and on advertisements published there in.

Grand-in-Aid to the States:

According to the Constitution (Article 275), states are to receive grant-in-aid from the Centre out of Central revenue. It is to be given with the approval of the parliament to a deserving state out of Consolidated Fund of India. The amount in each case is to be decided by the Parliament.

The Central Government also gives grants both capital and recurring to the states for implementation of certain schemes like uplift of scheduled castes and scheduled tribes. Special Grant-in-aid is also given by the Central Government to the state governments of Assam, Bihar, Orissa and West Bengal out of Consolidated Fund of India. The amount to be paid in each case is to be decided by the President of India.

Power of Borrowing by the States:

Article 293(4) of the Constitution enables the Centre to impose conditions on State borrowing when it is granting consent for the same under Article 293(3). This applies in cases where States are indebted to the Centre.

- Article 293 covers borrowing by State Governments. Under clauses (3) and (4) of Article 293, State Governments need to obtain the consent of the Centre for raising fresh loans in case they are indebted to the latter, and such consent may be granted, subject to certain conditions..
- Article 293(1) provides that State legislatures have the power to limit, by law, the State's executive powers of borrowing and giving guarantees.

Finance Commission:

The finance commission is constituted by the President under article 280 of the constitution, mainly to give recommendation on distribution of tax revenue between the union and states and among the states themselves. Two distinctive features of the commission's work involve redressing the vertical imbalances between the taxation powers and expenditure responsibilities of the centre and states respectively and equalization of all public services aross the states.

It is the duty of the commission to make recommendations to the president as to-

i) the distribution between the union and the states of the net proceeds of taxes which are to be, or may be, divided between them and allocation between the states of the respective share of such proceeds:

ii) the principles which should govern the grants-in-aid of the revenues of states out of CFI:

iii) the measures needed to augment the consolidated fund of a state to supplement the resources in the municipalities in the state on the basis of the recommendations made by the finance commission of the state; any other matter referred to the commission by the president in the interest of sound finances.

Financial Emergency:

Article 360 empowers the president to proclaim a financial emergency if he is satisfied that a situation has arisen due to which the financial stability or credit of India or any part of its territory is threatened. Therefore during the financial emergency the federal structure is suspended and whole structure of government is operationalized as a unitary system.

Implementation of GST and Formation of GST Council:

GST was implemented in India by 101St constitutional amendment act & came into force wef 01 Jul 2017. GST subsumed many union and state taxes & is an efficient system of taxation of goods and services. The launch of GST was expected to usher in among other things better tax compliance leading to increased tax efficiency. As per Article 279A (1) of the amended Constitution, the GST Council has to be constituted by the President within 60 days of the commencement of Article 279A. The notification for bringing into force Article 279A with effect from 12th September, 2016 was issued on 10th September, 2016. As per Article 279A of the amended Constitution, the GST Council which will be a joint forum of the Centre and the States, shall consist of the following members: -

- Union Finance Minister - Chairperson
- b) The Union Minister of State, in-charge of Revenue of finance - Member

- c) The Minister In-charge of finance or taxation or any other Minister nominated by each State Government - Members

As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, model GST Laws, principles that govern Place of Supply, threshold limits, GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.

Tension Areas in Practice before Implementation of GST:-

Many state governments have complained that central assistance and GST share is not released in time. First the release depends upon audited accounts and the state govt has to depend upon central govt for compilation and audit of their accounts. Second the central assistance of centrally sponsored schemes is always communicated late and due to this schemes are not implemented or if implemented with state funds the claim of such amount always delayed and states have to curtail their own programs. Thirdly centrally sponsored schemes impose conditions and state governments are put to hardship to fulfill these conditions. Finally even assistance accounted for natural calamities takes lot of time for releasing the money due to procedural requirements.

The states have pleaded for enlargement of the enlargement of states taxation powers. They feel that their resources are inelastic and tax base also narrow. Therefore they demand more resources for their development. The broad issue are: enlargement of states own resources, pattern of devolution, states indebtedness, market borrowing and share of capital resources.

Tension Areas after Implementation of GST:-

Many taxation powers of states have been lost due to implementation of GST. To overcome this problem, compensation was guaranteed by the centre for a period of 5 years to be calculated on the base revenue of 2015-16 assuring thereon a 14% growth.
Now the same is also objected by the centre on the following grounds:-

The states are not attained the growth of 14% per annum in the taxes which are not covered under GST and the clamoring for continuation of GSt beyond assurance is unjustified. The study made by Manish Gupta and Indira Rajaraman (is the 14% revenue guarantee justified) shows that only 5 states are growing above 14% and other state growth ranges between 7.59 to 7.6.

Effect of GST over State Finances:-

RBIs annual report on state finances based on budget of 2019-20 states that own revenue of states consisting of taxes on income and expenditure, taxes on property and capital transactions, taxes on commodities* services constituted 44.7% of total revenue. Non tax revenue of interest receipts, dividends, profits and services constituted 7.8%. The remaining 47.5% revenue came from central transfers, devolution and grant in aid. A greater share of state revenue about 50 % and union revenue about 47% is subsumed under GST. The

weightage average of GST has come down to 14.4% at the time of inception to 11.6% in just two years that led to lesser buoyancy, lesser revenue and greater stress on centre to compensate. Even the cess collected for the purpose Is not sufficient. RBI report also shows that state wise tax revenue (dte from 2005-05 to 2019-20) except 8 states have increased during this period. The states are not actually losing tax, it is because it is calculated on 14% assumed growth on 2015-16 revenue. And hence all the states was benificiaries of compensation cess. But to blame this loss on GST regime per se would be incorrect.

Based on above report Centre may cease the compensation regime after 30 Jun 2022 and the state has to supplement this gap from its own resources which are currently under financial stress.

Suggestions for Addressing the Issues:

- Central government to allocate more revenues to the states and also allow states to collect more revenue
- As the resource base of the States is limited, it would be difficult for them to absorb any revenue loss in the wake of covid-19. Hence Centre should compensate the States suffering revenue loss, if any, after the cessation of assurance period of GST(30 Jun 22)
- Polluting inputs and outputs may be subjected to a special non-rebatable levy by both the Centre and the States. In addition petroleum products alcoholic beverages and tobacco products may also be subjected to a non-rebatable levy.
- States should also maintain their losses as envisages in FRBM act. They should explore to broaden their revenue base.
- Terms of reference for distribution of shareable revenue between centre and states should be discussed with states.
- Centre should remit the shareable dues and GST dues in time to ensure proper planning and implementation of its scheme.
- In respect of Central shemes, states should be given free hand in the implementation of the schemes as per their administrative convenience.
- The grievances of states ruled by the opposition party at centre should be constructively solved to uphold the faith people in the federal structure.

Conclusion:

India is a union of states and for harmonious functioning of this system, the tendency towards centralization should be countered with conscious and purposeful effort. There is considerable truth n the saying that undue centralization lead to blood pressure at the centre and anemia at the periphery. The inevitable result is morbidity & inefficiency. Indeed centralization does not solve but aggravates the problems of the people. So states should be entrusted with more taxing powers resulting in better resources at the disposal of them thereby achieving efficiency in the administration of the country especially in administration of taxes.

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