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GST : A Game Changer for States

Abstract

The Goods and Services Tax has been a major indirect tax structure reform since 1947. It seeks to stream line the taxation system so that there is a single tax paid for supply of goods and services. The bill has replaced nearly 15 states and federal taxes which is inline with the government focus on cooperative federalism and a mission for unity of Indian economy.

As GST is a destination –based tax, there were apprehensions amongst states, particularly manufacturing states, that implementation of GST may result a loss of revenue for them. Particular states such as Maharashtra, Tamil Nadu protested the GST due to the future loss of revenue to that states. Therefore, the constitution (one hundred and first Amendment) Act, 2016 provides compensation to the states for the loss of revenue arising on account of implementation of the Goods and Service Tax for a period of First 5 years.

For better result of GST government have to set agenda for coming 3 to 5 years. More Attention should be given in the direction of ascertaining the revenue of central and state government. There should no more fluctuations in the revenue of both governments. In state compensation mechanism 14% incremental growth rate of revenue is assured so states are in comfortable zone but Central government will have to worry about its revenue from GST.

All excluded item from GST should be included into GST one by one in the following 3 to 5 years. These items are five petroleum products, electricity, real estate and alcohol. Out of five petroleum products, two items natural gas and aviation turbine fuel can be easily included in GST.

At present only the states have power to levy taxes on electricity duty and drinkable alcohol. A policy should be adopted for inclusion of these two items into the GST net by imposing only state GST on them. Inclusions of these items will not only help in removing input tax credit blockages but also it will be more efficient for industry and more affordable for consumers. If petrol, diesel and drinkable alcohol are included in GST, the rate at which these items are sold to consumers will be common across states.

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Introduction

As GST is a destination –based tax, there were apprehensions amongst states, particularly manufacturing states, that implementation of GST may result a loss of revenue for them. Particular states such as Maharashtra, Tamil Nadu protested the GST due to the future loss of revenue to that states. Therefore, the constitution (one hundred and first Amendment) Act, 2016 provides compensation to the states for the loss of revenue arising on account of implementation of the Goods and Service Tax for a period of First 5 years. Thus Goods and Service Tax (Compensation to states) Act 2017 has been enforced on the recommendations of GST Council. As per the Compensation Act 2017 Revenue of the Financial Year 2015-16 has been fixed as the revenue if base year and further a nominal annual growth @ 14 percent have been fixed for the loss of revenue. If there is loss of revenue to the states, the act provides for levying cess which will be used for the compensation to the states. Cess will be applicable on luxury items and goods.

The Goods and Services Tax (Compensation to States) Act, 2017

This act was published in the gazette of India on 12th April, 2017. Now this act has come into force. As per section 18 of The Constitution (101st Amendment) Act 2016, " Parliament shall by law, on the recommendation of the Goods and Services Tax Council provide compensation to the states for loss of revenue arising on account of implementation of goods and service tax for a period of 5 years". Some characteristics of this act have been mentioned below-

1. This act is applicable from 12th April, 2017 in whole of India.
2. There are 14 sections and one schedule in this act. 20 Terms have been defined in this act.
3. Special provisions have been made to compensate the states who are suffering due to loss of revenue for the first five years from the date of applicability of GST Act.
4. A nominal annual growth rate of 14% has been fixed for the loss of revenue and financial year 2015-16 has been fixed as a base year for the computation of revenue of a state.
5. This compensation will be given only for those states who have adopted the GST Act.
6. Tax imposed by local authorities will not be included in this computation.
7. Cess will be applicable for first 5 years for loss of revenue.
8. Input Tax Credit (ITC) benefit will be available on cess.

Objective of the study

GST is implemented in vast country like India after taking 31 states on board. In all the states indirect taxes (rate such as VAT rate) were differ. Due to disparity of indirect tax rate, some states were gaining, while some another state were loosing in revenue. So for removing disparity GST with the concept of one nation one tax and one market is implemented. State compensation mechanism formula is implemented for losing states. So it is necessary to study the comparison of state compensation between the different states as a game changer

Process of States Compensation

Process of States Compensation Mechanism can be divided in two parts-

1. Computation of Compensation of Revenue
2. Method of Payment

Computation of Compensation of Revenue

It will be quite easy to calculate the compensation of revenue by the following steps –

(a) Compute the revenue of that state from the taxes which were abolished due to implementation of GST for the financial year 2015-16 (Base year). This revenue will be verified by CAG of India. Formula for Total Revenue of base year 2015-16 may be-

Total Revenue on base year 2015-16 = Revenue from the taxes abolished due to GST + Amount of taxes imposed by state and local authorities + Net Refund

(b) Since next five years will be compensating years, amount of compensation will be calculated @14% per annum, following formula can be used-

Estimated Revenue = Revenue of 2015-16 $(1+\text{Annual Growth Rate}/100)^n$

Where n= Number of Years

Annual Growth Rate = 14% per annum fixed by the compensation act 2017.

(c) Amount of compensation for particular year = Estimated Revenue Computed in (b) as above- Revenue collected from GST

Method of Payment

For the payment of amount of compensation following steps can be followed-

(a) Amount of compensation will be paid at the end of every two months in each year.
(b) Firstly, provisional compensation will be paid at the end of every two months in a whole financial year. Actual amount will be computed after the audit of CAG at the end of particular year.
(c) If amount paid for the compensation in the whole financial year is less or more than the amount actually receivable as compensation, balance amount will be adjusted in the following financial year.
(d) If net collected amount from GST is more than the estimated revenue in any following financial year and excess compensation is paid by central government to particular state government then excess payment will be refunded by particular state government to central government.

Analysis of GST compensation paid to states

As per Section 7 (c) of Compensation Act 2017, the total compensation payable in any financial year shall be the difference between the projected revenue for any financial year and the actual revenue collected by a state. On this basis, the revenue loss due to implementation of GST to the states for the month of July, 2017 to March, 2018 and April to May, 2018 has been estimated to be Rs. 48178 crore and Rs. 3899 crore respectively. Total amount Rs. 41,147 is released as GST compensation to the states by central government in the financial year 2017-18. As per an official, GST compensation paid to states by the central government has declined to over Rs. 11900 crore during August-September 2018 while bi-monthly GST compensation paid during the June-July 2018 was Rs. 14390 crore nearly four-fold jumps from Rs. 3,899 crore paid in April and May 2018.

The government collected a record Rs. 15107 crore to states GST from Integrated GST(IGST) as regular settlement. Further, Rs 15,000 crore has been settled with the states from IGST available with the centre on provisional basis at the end of October 2018. Total revenue earned by the state government after regular and provisional settlement was Rs. 52,934 crore in October 2018.

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Statement showing GST Compensation released to States/UT for FY 2017-18

S.N.	Name of the State/UT	GST compensation released for July and August 2017	GST compensation released for September and Oct 2017	GST compensation released for Nov and Dec 2017	GST compensation released for Jan and Feb 2018	GST compensation released for March 2018	Total (Rs. In crore)
1	Andhra Pradesh	116	266	0	0	0	382
2	Arunachal Pradesh	15	0	0	0	0	15
3	Assam	338	331	15	202	94	980
4	Bihar	692	1054	373	922	99	3140
5	Chhattisgarh	253	562	219	449	106	1589
6	Delhi	115	42	0	0	169	326
7	Goa	68	35	99	50	29	281
8	Gujarat	1402	880	252	1153	590	4277
9	Haryana	476	325	0	398	262	1465
10	Himachal Pradesh	0	0	539	336	184	1059
11	J&K	367	314	127	329	23	1160
12	Jharkhand	313	489	94	369	103	1368
13	Karnataka	1189	2082	859	2116	1289	7535
14	Kerala	810	395	0	567	330	2102
15	Madhya Pradesh	433	908	0	1170	157	2668
16	Maharashtra	0	834	0	654	1589	3077
17	Manipur	24	0	0	0	0	24
18	Meghalaya	52	38	20	14	16	140
19	Mizoram	0	0	0	0	0	0
20	Nagaland	0	0	0	0	0	0
21	Odisha	333	687	306	693	245	2264
22	Puducherry	44	122	58	109	52	385
23	Punjab	1138	960	740	1199	581	4618
24	Rajasthan	1205	706	0	687	301	2899
25	Sikkim	0	0	0	6	0	6
26	Tamil Nadu	530	102	0	0	0	632
27	Telangana	7	162	0	0	0	169
28	Tripura	31	43	14	41	20	149
29	Uttar Pradesh	190	1330	0	604	308	2432
30	Uttarakhand	223	460	183	417	149	1432
31	West Bengal	441	567	0	600	0	1608
	TOTAL	10805	13694	3898	13085	6696	48178

Statement showing GST Compensation released to States/UT for FY 2018-19

S.N.	Name of the State/UT	GST compensation released for April and May 2018 (Rs. In crore)
1	Andhra Pradesh	0
2	Arunachal Pradesh	0
3	Assam	0
4	Bihar	325
5	Chhattisgarh	257
6	Delhi	0
7	Goa	28
8	Gujarat	174
9	Haryana	0
10	Himachal Pradesh	225
11	J&K	147
12	Jharkhand	76
13	Karnataka	792
14	Kerala	67
15	Madhya Pradesh	130

16	Maharashtra	0
17	Manipur	0
18	Meghalaya	0
19	Mizoram	0
20	Nagaland	0
21	Odisha	282
22	Puducherry	79
23	Punjab	944
24	Rajasthan	106
25	Sikkim	0
26	Tamil Nadu	0
27	Telangana	0
28	Tripura	2
29	Uttar Pradesh	0
30	Uttarakhand	265
31	West Bengal	0
	TOTAL	3899

Here we can study that ten states have faced maximum revenue shortfall during April- August 2018-

Serial No.	Name of the State/UT	Shortfall in revenue due to GST
1	Puducherry	42 %
2	Punjab	36 %
3	Himachal Pradesh	36 %
4	Uttarakhand	35 %
5	Jammu and Kashmir	28 %
6	Chhattisgarh	26 %
7	Goa	25 %
8	Odisha	24 %
9	Karnataka	20 %
10	Bihar	20 %

The states faced an average 16 per cent shortfall in GST collection in the first year of Implementation (July 2017 – March 2018) , which has come down to 13 percent during April- August 2018.

In April –August 2018only six states- Mizoram, Arunachal Pradesh, Manipur, Nagaland, Sikkim and Andhra Pradesh were in revenue surplus.

Conclusion

For better result of GST government have to set agenda for coming 3 to 5 years. More Attention should be given in the direction of ascertaining the revenue of central and state government. There should no more fluctuations in the revenue of both governments. In state compensation mechanism 14% incremental growth rate of revenue is assured so states are in comfortable zone but Central government will have to worry about its revenue from GST.

All excluded item from GST should be included into GST one by one in the following 3 to 5 years. These items are five petroleum products, electricity, real estate and alcohol. Out of five petroleum products, two items natural gas and aviation turbine fuel can be easily included in GST.

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