



ILE

CONSTITUTIONAL LAW REVIEW

VOLUME 3 AND ISSUE 1 OF 2024

INSTITUTE OF LEGAL EDUCATION



ILE CONSTITUTIONAL REVIEW

[APIS – 3920 – 0006 | ISSN – 2583-7168]

(Free Publication and Open Access Journal)

Journal's Home Page – <https://cr.iledu.in/>

Journal's Editorial Page – <https://cr.iledu.in/editorial-board/>

Volume 3 and Issue 1 (Access Full Issue on – <https://cr.iledu.in/category/volume-3-and-issue-1-of-2024/>)

Publisher

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Chairman of Institute of Legal Education (Established by I.L.E. Educational Trust)

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CREATION OF GST COUNCIL AND ITS IMPACT OF FISCAL AUTONOMY OF THE STATES

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BEST CITATION – PRIYASRI.B & RAJARAJESHVARI R.S, CREATION OF GST COUNCIL AND ITS IMPACT OF FISCAL AUTONOMY OF THE STATES, *ILE CONSTITUTIONAL REVIEW*, 3 (1) of 2024, Pg. 28-42, APIS – 3920 – 0006 | ISSN – 2583-7168.

Abstract

The Goods and Services Tax (GST) is a key fiscal policy tool used by several countries, including India, to streamline the taxation structure. The adoption of GST resulted in a 'one nation, one tax' system by replacing a multi-layered, complex indirect tax structure with a simplified, transparent, technology-driven tax regime. The new indirect tax had a multiplier effect on the economy, with gains going to exporters, small traders and entrepreneurs, farmers and industry, and regular consumers. The creation of GST Council through 101st constitution Amendment in India symbolize a landmark transformation in fiscal federalism of the country. This revolutionary tax reform emphasizes the delicate balance between centralization and decentralization in the government framework, posing both problems and opportunities for the country's cooperative federal system. Further, GST increases transparency and accountability in tax administration, lowering tax evasion and enabling more efficient resource allocation, which benefits all levels of government. This research delves into the creation GST Council and it's impact on fiscal relationship between Center and state by combining multi-layered indirect tax structure into single GST regime. The structure of GST Council which includes both central and state representatives, represents a cooperative approach to federalism, ensuring that states have a strong input in tax choices. Additionally, this study explores the fiscal federalism of states both pre and post GST introduction. Prior to the introduction of GST, State cannot tax services and Centre cannot impose sales tax. The 101st constitutional amendment redefined the autonomy aiming for more balanced and integrated fiscal environment. However, This transformation also poses certain challenges. Almost all State express their concern about potential erosion of fiscal autonomy due to inability to set rates based on their fiscal needs, inability to accommodate diverse fiscal requirements, and concerns about inadequate central compensation. Ultimately, the research aims to provide complete evaluation of role of the GST council in promoting cooperative federalism in India.

Keywords: Goods and services tax, fiscal autonomy, cooperative federalism, transparency, decentralization

Introduction

A federal structure with clear authority and powers is instituted by the Constitution of India at the Centre and the State. Moreover, Granville Austin contends that "Cooperative Federalism" was one of the first principles embraced by Indian constitution as articulated by A.H Birch and others. Adoption of cooperative federalism in India is essential considering its

heterogeneous cultural, political and economic background. Fiscal federalism deals with allocation of government responsibilities and monetary relations among different levels of government within a federal framework. This relationship has been transformed by the implementation of GST since it requires collaboration as well as coordination between both tiers of government. Introduction of GST

would be a crucial milestone in India's indirect tax reforms. On March 29, 2017, it was enacted in Parliament as part of the One Hundred and First Amendment to the Constitution of India implemented by the Indian Government but became effective on July 1, 2017. GST is a tax system whereby both federal and state governments impose and collect taxes under dual levy regime. The Central Government will collect Central GST (CGST) and Integrated GST (IGST) while State GST will be collected down by respective States. This will enhance economic unity, stability and transparency within the nation. It would decrease the adverse effects of cascading and set a course towards a unified national market through the consolidation of numerous Central and State taxes into one tax, with prior stage taxes being allowed to set off against it. An illustration of cooperative federalism can be seen in this establishment of the GST Council which is composed of an equal number of representatives from central and state governments. The council plays a vital role in determining GST rates, policies and allocation of tax revenues so that there may be equity between the center and states. The Goods and Services Tax (GST) in India had a considerable impact on states' fiscal autonomy because it absorbed the greater part of taxation power that was originally vested in them. Before GST, states charged and collected taxes independently such as VAT; however, now these authorities have practically merged with one tax system. Because of this limitation, they could not adjust their own taxes depending on individual conditions hence became more dependent on central government finance. In addition, although states have voting rights concerning tax matters within the GST Council, their autonomy is curtailed since decisions must be made either by consensus or majority approval. This transition has spawned a fair deal of debate over the ideal balance to achieve between the one national market and fiscal independence for states. GST brought centralization of the tax, and with it came the question: what would happen to Indian

federalism—whether the new regime strengthens or erodes the capacity of states to manage their finances and regional imbalances?. While the impact of GST on state revenues, in times of economic downturn or crises, has brought the issue of fiscal autonomy to the very front of policy discussions. This research paper, in the light of all these emerging developments, critically looks at the formation of the GST Council and its implications on the fiscal autonomy of states in India. This study examines the functioning of the Council in tax policy formulation, revenue sharing, and conflict resolution to probe the extent to which cooperative federalism has been upheld or compromised under the GST regime. Further, this will examine the long-term implications of such a shift for financial sovereignty at the state level and their capacity to respond to local economic imperatives. This will, in turn, contribute to the vast discourses on federalism in India, especially with regard to national unity and regional diversity.

Statement of problem

The constitution of the GSTC has shared heated debate on its implications for the fiscal sovereignty of states of the Indian Union. Conventionally, states have enjoyed powers to collect and levy duties on goods and services; these powers enable them to align fiscal policies with peculiar economic needs and objectives. However, in the creation of the GST council, states have arguably ceded part of their fiscal sovereignty to a higher decision-making organ. This paper attempts to assess the extent to which the GST Council has influence over state fiscal autonomy and whether the benefits accruing from a unified tax regime outweigh the possible erosion of states' sovereignty in taxation matters.

Objectives of the study

- To analyze the legislative evolution and historical context of the Goods and Services Tax (GST) in India

- To examine taxes that are covered by GST and their impact on taxation systems.
- To analyze the composition, functions, decision-making processes and voting patterns of the GST Council and how these factors affect federal taxes.
- To determine how fiscal federalism and state autonomy are impacted by creation of GST council
- To evaluate the variations in state revenues before and after introduction of GST, using statistics to compare financial outcomes before and after it was implemented.

Review of literature:

1. Chirag Patel R S in his work titled “Impact Of GST on The Center State Relation in India” explores the impact of GST on center-state relation, the positive as well as the negative sides of GST such as its impact in fiscal autonomy, concentration of power with Centre and constitutional hurdles in the implementation of GST. This study also discusses the constitutional changes relating to Centre state relation with introduction of GST and the concept of GST compensation to states.⁶⁶

2. Bhaba Bhaya Hara Ratha in their work named “Center -State Financial Relations Under The GST Regime: Critical Study” examines the financial dynamics between India’s national and state governments in light of the Goods and Services Tax (GST) implementation. It criticizes the GST’s impact on state fiscal autonomy, revenue-sharing systems, and the effectiveness of compensation arrangements. The report also addresses issues such as compliance, administration, and the delicate balance required to preserve equal financial ties while guaranteeing robust economic growth among states.⁶⁷

3. Varun Kannan et., in their study titled “Analyzing The Working Of The GST Council From The Perspective Of Fiscal Autonomy Of The States” delves into intricate relationship between GST council in India and fiscal autonomy of Indian states. This article aims to examine the working of the GST Council and its consequential impact on the fiscal autonomy of the State Governments. It also discusses the role of GST Council and it’s Voting Pattern Examining Possible Implications on Fiscal Autonomy.⁶⁸

4. K J Joseph et al., in their work titled “India’s GST Paradigm And The Trajectory Of Fiscal Federalism: An Analysis With Special Reference To Kerala” assesses the introduction of Goods and Services Tax (GST) in India with a particular focus on its impact on fiscal federalism in the state of Kerala. The study highlights GST’s foundation on three pillars namely revenue neutrality, tax burden between the Centre and the states, and equalization of GST. However, the study also notes that the GST framework, which aims to promote cooperative federalism, has instead led to coercive federalism due to issues such as failure to maintain revenue neutrality, complexity of tax burden and inadequacy of GST compensation mechanism.⁶⁹

5. Rinki Dahiya et al., in their work titled “Understanding The Changing Notion Of Center-State Financial Relations Under The GST Regime” examines the impact of the GST regime on Centre-State financial relations in India. The authors argue that while GST aimed to unify the economy and boost revenue for financially weaker states, it has also raised concerns about diminishing states’ financial autonomy, thus straining cooperative federalism. It further highlights how the GST has altered Centre-State dynamics and the potential challenges it poses for small businesses and public trust. Additionally, it calls for measures to address the underlying

⁶⁶ Chirag patel RS, Impact of GST on the center state relation in India

⁶⁷ Varun Kannan and et., prasant Shukla, Analysing the Working Of The GST council From The Perspective Of Fiscal Autonomy Of The States

⁶⁸ Bhaba Bhaya Hara Ratha , Center -State Financial Relations Under The GST Regime: Critical Study,3.

⁶⁹ K J joseph and et., Anitha kumari ,India’s GST paradigm And The Trajectory Of Fiscal Federalism : An Analysis with special reference to Kerala

inequalities in financial relations and explores GST’s implications for the future of federalism in India.⁷⁰

6. TM Thomas Isaac in his work titled “GST And Federal India” explores the implementation and evolution of GST in India highlighting its importance in fiscal relation between the states and Center. This study critiques the GST’s performance, stating that it has not met the expectations in terms of revenue generation, ease of business, or economic growth, and highlights the increasing conflict between the center and states.⁷¹

7. Sacchidananda Mukherjee in his study titled “Inter -Government Fiscal Transfers In The Presence Of Revenue Uncertainty: The Case Of GST In India” provides a critical review of the Goods and Services Tax (GST) system, mid-term implementation in India in 2017. The problem of revenue uncertainty with The Goods and Service Tax (GST) implementation and its impact on the fiscal transfer mechanism linking the Union and the State Governments are evaluated. The study also ascertain the potential design, structural compliance and administrative challenges contributing to the revenue shortfall observed since GST’s implementation.⁷²

8. Subhamoy Banik in his study titled “GST In India: Impact And Challenges” examines the introduction of the Goods and Services Tax (GST) in India, assessing its effects and the hurdles encountered during its implementation. The author highlight both the positive outcomes, such as the simplification of the tax structure and increased revenue, and the challenges, including compliance difficulties and sectoral disruptions. The study provides a balanced view, acknowledging GST’s potential

while emphasizing the need for further refinement in its execution and administration.⁷³

Research Gap

The existing review discussed about the immediate problems associated with GST such as compliance and administrative complexities however, there are no extensive studies that consider broader macroeconomic implications including how the shift in fiscal power affected state-level governance, public service provision and regional disparities. Our research aims to explore how GST has impacted the fiscal autonomy of states and the states condition before and after the implementation of GST highlighting its revenue pattern and borrowing pre and post GST .

Research Methodology

The research draws on both primary and secondary sources of data. This entails looking into primary sources such as the Constitution of India, GST laws as well as numerous varied resources such as journals, articles, theses, books, online databases, city papers, magazines, case studies among others in order to generate a detailed study. Moreover, a detailed literature review is done so that an in-depth understanding of the topic can be analyzed. Comparative analysis of state revenues before and after introduction of GST has also been carried out so as to comprehend the financial independence of states better.

Research Analysis

1. Tax structure before GST and its shortcoming

NATURE OF DUTY	SECTOR	TAX RATE
Central Excise duties	Manufacture	12.5%
Service tax	Provision of service	10%

⁷⁰ Rinki Dahiya and et., PriyaDahiya, Understanding The Changing Notion Of Center-State Financial Relations Under The GST Regime,Bihar Journal ,133,2022

⁷¹TM Thomas, GST And Federal India,2024

⁷² Sacchidananda Mukherjee, Inter -Government Fiscal Transfers In The Presence Of Revenue Uncertainty: The Case Of GST In India,Journal Of Development policy and Practice ,5(1), 74-102,2020

⁷³ Subhamoy Banik and et., Arundhuti Das , GST In India: Impact And Challenges ,ISOR Journal Of Business and Management,2018

Customs duty on imports		10%
Central sales tax	Course of Interstate trade or commerce	2% against declaration of registered buyer. Where declaration is not available commodity rate of the state applies
State tax	Commerce	However generally it is : 1% on previous metals 5-6% on merit goods 12.5-14.5% on remaining goods

Table 1 : Tax structure before GST⁷⁴

Shortcomings

- Tax cascading under pre-GST system raised production costs, favored imports, and ignored hidden taxes on inputs
- Multiplicity of taxes created a complex indirect tax structure, leading to trade diversion and rate wars
- Complex tax administration with disputes, slow resolution, compliance gaps, and irrational levies
- States excluded from taxing services, posing challenges in taxation of goods and leasing contracts

2. Road map for GST

While declaring its intention to introduce GST, the central government had indicated that the empowered committee of state finance ministers would work with center to prepare a road map for the introduction of GST.⁷⁵

2003	Vijay Kelkar Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003 suggests a comprehensive Goods and Services Tax (GST) based on VAT principle.
February 28, 2005	Finance Minister Shri P. Chidambaran in his Budget Speech for the year 2005-06 states, as his medium to long-term goal, "...a goods and services tax, encompassing both the Centre and the States".
February 28, 2006	Finance Minister Shri P. Chidambaran proposed a National Level Goods and Services Tax (GST) by April 1, 2010, involving reforms of indirect taxes. The Empowered Committee of State Finance Ministers is responsible for designing and implementing the GST.
May 10, 2007	EC sets up a Joint Working Group consisting of representatives of the EC and the Government of India for an in-depth study of the report prepared by it
November 19, 2007	The Joint Working Group submits its report based on discussions and interactions with stakeholders.
November 28, 2007	EC discusses in detail the report of the Joint Working Group
April 30, 2008	The EC has released a final version of its views on the Model and Road Map for Goods and Services Tax in India, outlining operational

⁷⁴ Institute of chartered accountant of india, India, Background materials on Goods and Services Tax

⁷⁵ M.M.sury, GST and Fiscal Federalism in India, (2018)

	issues, exemptions, and inter-state transaction treatment.
December 12, 2008	EC receives the comments of the Government of India on the above-mentioned document.
December 16, 2008	EC releases the final version of its views in the document titled, Model and Road Map for Goods and Services Tax in India.
January 5-6, 2009	The Committee holds detailed deliberations and submits its recommendations to EC
January 21, 2009	EC considers the recommendations of the Committee and accept them in-principle. It forms a Working Group of concerned officials to submit their recommendations in detail on the structure of GST.
November 10, 2009	Based on the recommendations of the Working Group, EC releases the First Discussion Paper on Goods and Services Tax in India.
March 22, 2011	Constitution (One Hundred and Fifteenth Amendment) Bill, 2011 is introduced in the Parliament. The Bill lapses with the dissolution of the 15 th Lok Sabha
December 19, 2014	Constitution (One Hundred and Twenty-second Amendment) Bill, 2014 is introduced in the Lok Sabha.
May 6, 2015	The above Bill is passed by the Lok Sabha.
May 12, 2015	The Bill is referred to the Select Committee of Rajya

	Sabha.
July 22, 2015	Select Committee of Rajya Sabha submits its Report.
August 3, 2016	The Bill is passed by the Rajya Sabha with 9 amendments.
August 8, 2016	Lok Sabha passes the modified Bill approving all the 9 amendments by the Rajya Sabha.
September 8, 2016	After being approved by half of the States, President gives his assent to the Bill.
September 16, 2016	The Constitution (One Hundred and Twenty-second Amendment) Bill, 2014 is notified as the Constitution (One Hundred and First Amendment) Act, 2016.
March 20, 2017	Union Cabinet approves the 4 GST-related draft laws.
March 27, 2017	The 4 GST-related Bills are introduced in the Lok Sabha.
March 29, 2017	The 4 GST-related Bills are passed by the Lok Sabha.
April 6, 2017	The 4 GST-related Bills are passed by the Rajya Sabha.
July 1, 2017	GST is rolled out.

3. Enactment of 101st constitutional amendment

The Goods and Services Tax Act of 2017 was passed by the Indian Parliament in 2016 and is in effect throughout the country, except for Jammu and Kashmir. The Indian Parliament has enacted four different Acts under the GST Act of 2017, which regulate the application of taxes, the levy of taxes, and the distribution of tax income which are Integrated Goods and Services Tax Act, Central Goods and Services Tax Act, and Goods and Services Tax Acts of each state and The amendment Act included 20 parts and Union Territory Goods and Services Tax Act,

2017. The constitution was amended and its object is to allow Parliament and State legislatures to pass laws levying GST on all transactions involving goods and services.

3.1 Insertion of new articles

- a. Article 246A: Article 246A (1) grants both parliament and state legislature power to create GST laws, while Article 246A (2) grants the central government exclusive power for interstate goods and service taxation.
- b. Article 269A: The article grants Parliament the authority to enact legislation governing inter-state supplies, distribute funds between Centre and State, and empowers the GST Council to develop rules.
- c. Article 279A: The GST Council, was established. It is an apex member which modifies and coordinates legislation related to Goods and Services Tax in India, suggesting tax rates, periods, principles of supply, and state-specific rules.

3.2 Omission of Article 268A: This Article dealing with service tax to be levied by the Central Government was deleted. Services are now taxed under GST

3.3 Amendments of Existing Articles

- a. Article 248: The residuary power of legislation of Parliament under Article 248 is now subject to Article 246A.
- b. Article 249: Article 249 was amended so that if 2/3rd majority resolution is passed by Rajya Sabha, the Parliament will have power to make necessary laws with respect to GST in national interest.
- c. Article 250: Article 250 was amended so that Parliament will have powers to make laws related to GST during emergency period. D. Amendment of Article 268: Article 268 was amended to omit excise duty on medicinal and toilet preparations.
- d. Article 269: Matters relating to sale or purchase of goods which now would be

separately dealt with under Article 269A, were excluded from here.

- e. Article 270: This amendment provides that goods and services tax levied and collected by the Union shall also be distributed between the Union and the States.
- f. Article 271: This amendment puts restrictions on the power of the Parliament to levy surcharge on GST.
- g. Article 286: This was an existing article that prohibited states from enacting laws that permitted them to collect taxes on the sale or purchase of goods outside the state or in the case of import transactions, and it was changed to also prohibit the passage of laws governing services. Furthermore, the term 'supply' replaces 'sale or buy'.
- h. Article 366: The Amendment inserted the new definitions in this Article like state, service, GST.
- i. Article 368: Article 279A (GST Council) also included in the list of Articles where approval of 50 percent of the State Legislatures required to amend the said Article.

3.4 Amendment of Schedules

3.4.1 Sixth schedule

The Sixth Schedule deals to the administration of tribal territories in the states of Assam, Meghalaya, Tripura, and Mizoram and amendment granted power to charge taxes on entertainment and amusements, as well as provisions for District Councils in these areas.⁷⁶

3.4.2 Seventh schedule

A. Union List

1. Entry 84 was amended and after amendment it comprises of duties of exercise on petroleum crude, high-speed diesel, and motor spirit (Petrol), natural gas, aviation turbine fuel, tobacco and tobacco products.

⁷⁶ M.M.sury, GST and Fiscal Federalism in India, (2018)

2. Entry 92 (taxes on the sale or purchase of newspapers and on advertisements published therein) was omitted.
 3. Published therein) was omitted.
 4. Entry 92-C (taxes on services) was omitted.
- B. State List (List II)
1. Entry 52 (taxes on the entry of goods into a local area for consumption, use or sale therein) was omitted.
 2. Entry 54 was replaced by taxes on petroleum crude, high-speed diesel, motor spirit, natural gas, aviation turbine fuel, and alcoholic liquor for human consumption, not including inter-State or international trade.
 3. Entry 55 [taxes on advertisements other than advertisements published in the Newspapers (and advertisements broadcast by radio or television)] was omitted.
 4. Entry 62 replaced luxuries taxes with taxes on entertainment and amusements collected by panchayats, municipalities, regional councils, or district councils.⁷⁷

4. GST Council

4.1 Beginning of GST Council.

As per Article 279A of the Constitution, the President must form the GST Council within 60 days of Article 279A coming into effect. The announcement to implement Article 279A from 12th September, 2016 was released on 10th September, 2016.

4.2 Council members of GST

The GST Council, comprising both the Centre and the States, is composed of the following members:

- (a) Head- Minister of Finance in the Union
- (b) The Minister of State responsible for Revenue/Finance within the Union.
- (c) Each State can nominate a Minister In-charge of finance, taxation, or any other Minister.

4.3 Decision making process

The GST Council operates by reaching a consensus. The main goal of GST Council is to promote consistency in various aspects of GST among the Centre, the States, and between States. Article 279A states that the State must consider the need for a harmonized structure of GST and national market development when performing its functions.

According to Article 279A of the Constitution, the GST Council must make decisions during meetings where a majority of not less than 3/4th of the weighted votes of the Members present and voting, following certain principles.

- The Central Government's vote will count for one-third of all votes cast.
- The combined votes of all State Governments will account for two-thirds of the total votes cast in the meeting.
- Half of the entire GST Council members must be present to form a quorum during meetings.

4.4 Functions of GST Council

Section 12 of 101st constitutional amendment act 2016 deals with insertion of new Article 279A for the Constitution of GST council. The responsibility of providing suggestions to both the Union and the States is given to the GST Council on the following matters:

- i. Taxes, cesses, and surcharges imposed by the Union, States, and local bodies, which could be included in the GST.
- ii. Goods and services that may be included or excluded from GST.
- iii. Services tax Model Goods and Services Tax Laws cover the principles of levy and apportionment of GST on supplies in interstate trade or commerce under Article 269A, as well as the principles governing the place of supply.
- iv. Threshold limit of turnover at which goods and services may qualify for exemption from GST

⁷⁷ 101st constitutional amendment Act, 2016

- v. Rates of Goods and Services Tax (GST), which may include minimum rates with different bands.
- vi. Special pricing or discounts offered for a set duration to generate extra funds in times of a natural calamities or emergency.
- vii. Special considerations for Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand.
- viii. Any other issue related to GST that the Council may choose to address.⁷⁸

5. Dual GST Model and Fiscal federalism

In India, a dual GST system is in place, which implies that both the central and state governments can tax GST. The central government is solely responsible for levying IGST on inter-state supplies of goods and services, while both the central and state governments can levy SGST and CGST on intra-state sales. This dual GST system was implemented in accordance with India's federal structure.

Fiscal federalism deals with financial arrangement and their working among various levels of government typically between State and central government. The introduction of GST with its dual structure of CGST and SGST along with IGST for inter state transaction emphasize this federal relation by sharing revenues creating unified market.⁷⁹

6. Impact of GST Council on fiscal autonomy of states

In India, the establishment of the GST Council was a critical reform intended to streamline the indirect taxation landscape. The Council, which is part of the Goods and Services Tax (GST) implementation, is mandated with fixing rates, exemptions and other overall components of GST. It consists of representatives from both the center and states and provides a framework for collective decision-making to facilitate a

uniform tax regime throughout India. It's impact on fiscal autonomy of states are as follows.

6.1 Loss of revenue to the states

Pre GST : Tax revenue is believed to rely on the tax base. In the period before GST was implemented, the Centre's tax revenue from industrial output (excise duty) was confined to just the manufacturing stage, showing a very limited tax base. However, the states had the right to a broader tax base, allowing them to impose taxes on the entire chain of supply leading up to the point of final consumption. Moreover, although the cascading of taxes is typically seen as harmful to economic efficiency helped states generate additional revenue before the implementation of GST. Therefore, despite being harmful to the economy, cascading has actually benefited the States.

Post GST : GST aims to levy taxes based on value addition in production or distribution segments, eliminating cascading effects. The central government imposes IGST on inter-state supplies, while state governments can levy SGST and CGST on intra-state sales. This centralized decision-making system limits states' autonomy and reduces their ability to customize tax policies. It also relies heavily on the central government during financial instability or revenue loss. This introduction of GST has made the state to lose substantial part of tax revenue. Table 2 shows revenue shortfalls pre and post GST regime.⁸⁰

⁷⁸Dr.Namita Rajput and et.,Dr.Amogh Talan, GST In India(2017)
⁷⁹ M.M.sury,GST and Fiscal Federalism in India,(2018)

⁸⁰ Bhaba Bhaya Hara Ratha , Center -State Financial Relations Under The GST Regime: Critical Study,3.

State	2017-18	2018-19	2019-20	2020-21	202122*	2021-22
Jammu and Kashmir	-2494	-2698	-3485	-4739	-5659	-5043
Himachal Pradesh	-2135	-2541	-2655	-3695	-4314	-4203
Punjab	-6849	-10222	-11744	-16623	-20349	-20195
Uttarakhand	-2667	-3277	-3584	-5308	-5507	-5826
Haryana	-4519	-5998	-6869	-11256	-13361	-11962
Delhi	-4894	-8148	-9155	-17349	-22873	-23940
Rajasthan	-6332	-4869	-7361	-13027	-16475	-13697
Uttar Pradesh	-6925	-8282	-9984	-22994	-29777	-26040
Bihar	-7892	-5458	-6015	-9329	-9925	-6342
Sikkim	-78	4	57	-60	-49	38
Arunachal Pradesh	-13	179	360	347	642	964
Nagaland	-90	48	170	146	312	466
Manipur	-54	124	253	165	293	473
Mizoram	-29	144	205	162	284	502
Tripura	-446	-319	-338	-536	-606	-481
Meghalaya	-479	-241	-191	-454	-503	-360
Assam	-2002	-1440	-1588	-3486	-4058	-2707
West Bengal	-6169	-5671	-7060	-14438	-18704	-16838
Jharkhand	-2638	-2339	-2674	-4959	-5951	-4888
Odisha	-5247	-5782	-5654	-8507	-9918	-9483
Chhattisgarh	-2728	-3877	-4801	-6803	-8256	-7580
Madhya Pradesh	-6792	-5746	-7123	-12214	-14759	-12070
Gujarat	-7022	-10722	-14016	-24897	-32366	-30791
Maharashtra	-9721	-13636	-19224	-45627	-62023	-58358
Karnataka	-13227	-16533	-18871	-31388	-39403	-37760
Goa	-900	-1029	-1291	-2445	-3091	-2899
Kerala	-3789	-6536	-9021	-14719	-19073	-18189
Tamil Nadu	-7746	-7205	-10166	-22319	-30296	-28821

Puducherry	-641	-881	-1108	-1441	-1745	-1700
Telangana	-3168	-2453	-3796	-8716	-11549	-9622
Andhra Pradesh	-3338	-1994	-3651	-8865	-11542	-8854
Total	-121024	137398	170380	315374	-400601	-366206

6.2 Concentration of power with center

Pre GST: The states had greater control over their revenue through taxes like VAT, while the Centre managed taxes like excise duty and service tax. States had greater fiscal autonomy as they controlled significant revenue sources, particularly through VAT, which was a major revenue generator.

Post GST: In Post-GST environment, power shifted towards the Centre, which now plays a central role in collecting and distributing GST revenues. The GST Council was created to balance this power, but the Centre's significant influence in the decision-making and revenue distribution processes has led to a concentration of power at the central level, diminishing the states' financial independence.⁸¹

6.3 Compensation Issue

Pre GST: The states had more power before the implementation of GST. They had the power to levy taxes like VAT, state excise duty and other local taxes like entertainment tax, octroi etc. The central government had the authority to levy taxes like excise, service tax, center sales tax on the manufacturing and services.

Post GST : As the implementation of GST eliminated the cascading effect of taxes, the states loses its substantial part of revenue and to address this issue, the central government agreed to compensate the states for any shortfalls in their GST revenue compared to the projected 14% annual growth from the base year of 2015-2016. This compensation was provided for five years that ended in June 2022. GST compensation fund was created and

funded by a cess on luxury and sin goods like tobacco and automobiles, coal. The revenue collected from this cess was exclusively used to compensate states. However the cess was not adequate to cover the compensation requirement. For example in 2019-2020, the total compensation requirement was 1.65 lakh crore, while the cess collected was only 95,444 crores leading to serious shortfall. States have also complained about the delay in receiving the compensation payment from central government and this delay forced the states to cut back on their expenditure borrow more or defer important projects. They also claimed that the central collected funds that are transferred to the states are inadequate. The states also demanded for the extension of compensation period but the center is not willing to commit an extension which leads to tension between center and states.

⁸¹Model GST law (2nd edition), Asia Law House, Hyderabad

S. No	Name of State/UT	GST compensation released for FY 2017-18	GST compensation released for FY 2018-19	GST compensation released for FY 2019-20	GST compensation released for FY 2020-21	GST compensation released for FY 2021-22	GST compensation released for FY 2022-23	Total
1	Andhra Pradesh	619	0	3028	5220	2536	663	12067
2	Arunachal Pradesh	15	0	0	6	0	0	21
3	Assam	980	454	1306	1875	40	192	4847
4	Bihar	3140	2798	5464	4039	0	0	15441
5	Chhattisgarh	1262	2608	4538	2846	657	777	12688
6	Delhi	326	5185	8424	9808	7230	782	31755
7	Goa	281	502	1093	1395	1085	206	4562
8	Gujarat	4882	8788	15558	13719	2181	1183	46311
9	Haryana	1461	3916	6617	5453	949	376	18772
10	Himachal Pradesh	1059	2084	2619	1623	452	386	8223
11	J & K	1160	1667	3281	1834	0	0	7942
12	Jharkhand	1368	1098	2219	2625	933	452	8695
13	Karnataka	7670	12465	18628	15500	5707	2926	62896
14	Kerala	2102	3532	8111	7063	4121	1572	26501
15	Madhya Pradesh	2668	3302	6538	5788	1946	1174	21416
16	Maharashtra	3077	9363	19233	28421	13626	519	74239
17	Manipur	24	0	0	22	0	0	46
18	Meghalaya	140	66	157	270	0	0	633
19	Mizoram	0	0	0	11	0	0	11
20	Nagaland	0	0	0	14	0	0	14
21	Odisha	2348	4241	5332	4243	0	0	16165

22	Puducherry	387	693	1057	586	348	228	3299
2 3	Punjab	5109	8985	12187	7826	3481	2409	39997
2 4	Rajasthan	2899	2280	6710	6704	741	222	19556
2 5	Sikkim	6	0	0	36	0	0	42
2 6	Tamil Nadu	1018	5363	11423	12739	8169	1433	40146
27	Telangana	0	0	3054	4487.4473	296	0	7837
2 8	Tripura	149	172	293	219	0	0	833
2 9	Uttar Pradesh	2432	0	9123	13680	8028	846	34109
3 0	Uttarakhand	1432	2442	3375	2519	1030	419	11217
31	West Bengal	1608	2615	6200	7828	5383	1208	24842
	Total	49622	84619.40	165568	168399.73	68939	17973	555121

Table 3: Details of GST Compensation released to States/ UTs for the year⁸²

6.4 Shift in tax base between the manufacturing and consumer states

The introduction of GST took away the fiscal autonomy of states and their independent ability to fix the tax rate within their boundaries and the states which have robust manufacturing base saw a shift in the tax base from origin to destination under GST. This led to decrease in their tax collections. For example states like Gujarat which have strong manufacturing base collected around 40,000 crores from VAT and CST before the implementation of GST. Post GST despite the compensation, there was an estimated shortfall of around 5,000- 7,000 crores annually. States which are more consumers oriented gets benefitted with introduction of GST as tax is collected at consumption point. This leads to conflicts between states. The

delay in payment of compensation from center, issues related with extension of compensation period have increased conflicts and stress between center and state. This type of tax shift between the manufacturing and consuming states creates conflicts and stress among states.⁸³

Findings

- The Creation of GST council impacted the fiscal autonomy of states in such a way that it reduced the revenue of the states, increases the dependence on states for compensation and concentration of power with Centre.
- As implementation of GST eliminated the cascading effect on tax, State revenue have dropped. From Table 2 it can be inferred that states revenue after the implementation of GST has

⁸² <https://www.gst.gov.in/>

⁸³ Sacchidananda Mukherjee, Inter -Government Fiscal Transfers In The Presence Of Revenue Uncertainty: The Case Of GST In India, Journal Of Development policy and Practice ,5(1), 74-102,2020

fallen down to a great extent. There is a noticeable regional disparity, with northern and central states generally having higher revenue shortfalls compared to some northeastern and smaller states, highlighting the uneven impact of GST implementation across India.

- The year 2020-21, which coincides with the COVID-19 pandemic, shows a significant increase in revenue shortfall for most states, suggesting that the pandemic severely impacted GST collections.
- From Table 2 it can also be inferred that the introduction of GST has impacted the industrial and manufacturing based states in particular.
- The creation of GST also affected the autonomy as the voting and decision making process was designed in such a way that the Centre have weightage of one third of votes and all other states have two third weightage and For any decision to be passed, a three-fourths (75%) majority is required. This gives the Centre a veto-like power because even if all states agree on a particular decision, it cannot pass without the Centre's support.
- To compensate the losses faced by the State, Centre agreed to compensate them by levying cess on luxury and sin goods but the cess collected was not adequate to compensate the revenue shortfalls of states which lead to conflicts and stress between Centre and state.
- It is found from Table 3 that the Center have compensated total amount of Rs. 5,55,121crores to the states from the financial year 2017-2023.

Suggestions

Here are some suggestions which can be done in order to improve state fiscal autonomy and at the same time maintaining overall uniformity in GST structure.

- Granting states to change GST rates for some goods and services allows for flexibility within a range. This will help states cope with their own individual economic conditions and revenue requirements while still maintaining an overall uniformity regarding the GST structure.
- To enhance the representation of states on GST Council's decision making possibly by giving more weight to their votes on certain matters that have direct implications on their fiscal health.
- Introducing an independent dispute resolution mechanism under GST regime in order to resolve conflicts arising among central government and various other states about GST policies plus revenue sharing issues.
- Besides conducting periodic reviews involving all state governments in order to ensure that what taxes they impose remain in step with what is happening in different economies as well as satisfying unique needs required by these federating units.
- Furthermore, publishing regular comprehensive reports concerning allocation and usage of funds by both central as well as state administrations would improve openness in terms of revenue sharing when it comes to GST.

Conclusions

In India, the advent of GST had a considerable influence on the financial association between the states and the center. The implementation of GST through amendments in the Constitution and several taxes aims to foster cooperation and promote federalism. Nevertheless, conflict may arise between the states and the center due to inconsistencies in jurisdiction or power

distribution. Therefore, it is necessary for the center to be more considerate of states' grievances, offer larger financial autonomy as well as introduce regular compensation mechanisms for ensuring long-term success of GST.

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