Leaving States High and Dry

This fundamental alteration of India’s federal structure required a constitutional amendment. To get the states to agree to the new GST regime, they were allocated two-thirds of the votes in the GST Council while the Centre held the rest. This ensured that the Centre and states both needed to work together for the GST regime to function. So far, decisions of the GST Council have always been unanimous, indicating the central role of trust in its functioning.

The other key commitment was that states would be compensated for revenue losses that were expected after GST’s implementation. The Goods and Services Tax (Compensation to States) Act, 2017, mandated compensation to states for five years. The Centre was to pay states for any shortfall, assuming an annual revenue growth rate of 14%. These funds were to be collected by levying a cess on certain demerit goods.

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This is in efficient as the Centre is in a better position to borrow from the market at lower rates than states. Further, additional levies at the state level pose a serious risk to the very concept of a uniform national tax regime under GST.

The Centre is uniquely positioned to raise resources in comparison to states. It must also address the growing demand to extend the GST compensation period to 10 years, given the reality has turned out. Additionally, it is time the Centre ushers in a voluntary cessation of cesses, which are non-shareable with states. The track record so far of the present government toward states demonstrates a betrayal of trust so crucial not just for India’s federal policy but also for its economic recovery.

Rajeev Gowda & Akash Satyavalli

Covid-19 is about to claim another victim — the trust that has been crucial to the establishment and effective functioning of the goods and services tax (GST) regime. The GST was not designed to pay the compensation shortfall, and that states should borrow from the market against future compensation receipts.

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