Syllabus subtopic: Functions and responsibilities of the Union and the States, issues and challenges pertaining to the federal structure, devolution of powers and finances up to local levels and challenges therein.

News: The Centre has written to all States voicing concern that due to the lower Goods and Services Tax (GST) collections, the compensation cess might not be enough to pay for losses arising out of the tax system.

Prelims and Mains focus: About GST, merits and challenges in implementation, Concerns of the states and about the recent shortfall in GST collection and its implications on the centre-state financial relations.

Context: The communication comes at a time when several States, including Rajasthan, Kerala, Delhi, Punjab and West Bengal, have publicly urged the Centre to transfer pending compensation payments as they have not received the dues for several months.

The government of Punjab has even said that it may take the matter to the Supreme Court if the Centre does not release the dues. The issue will be discussed in detail at the next GST Council meeting, scheduled for the second fortnight of December.

Issue:

Lower GST and compensation cess collections have been a major concern in the last few months.

The government had budgeted for ₹6,63,343 crore in GST collections for the current financial year 2019-20, out of which it has collected only about 50% in the first eight months. It had targeted ₹1,09,343 crore of compensation cess collections, of which it has so far collected ₹64,528 crore.

The compensation requirements have increased significantly and are unlikely to be met from the compensation cess being collected.

What is its significance?

This situation assumes significance because it was the promise of compensation to the States for losses arising out of GST implementation that convinced a large number of reluctant States.
to sign on to the new indirect tax regime. The Centre had promised compensation for any shortfall in tax revenue due to GST implementation for a period of five years.

In the letter, the Centre also asked the States to submit their suggestions by December 6 on augmenting GST collections. They were specifically asked to look into ways to review the items currently exempted from GST, review the tax rates and compensation cess rates on various items, and on improving compliance measures. These suggestions will be placed before the Committee of Officers from the States and Centre that has been set up to suggest measures to increase collections.

What is Goods and Services Tax (GST)?

It is a destination based tax on consumption of goods and services. It is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as set off. In a nutshell, only value addition will be taxed and burden of tax is to be borne by the final consumer.

What exactly is the concept of destination based tax on consumption?

The tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

Which of the existing taxes are proposed to be subsumed under GST?

The GST would replace the following taxes:

**Taxes currently levied and collected by the Centre:**

- Central Excise duty
- Duties of Excise (Medicinal and Toilet Preparations)
- Additional Duties of Excise (Goods of Special Importance)
- Additional Duties of Excise (Textiles and Textile Products)
- Additional Duties of Customs (commonly known as CVD)
- Special Additional Duty of Customs (SAD)
- Service Tax
- Central Surcharges and Cesses so far as they relate to supply of goods and services

**State taxes that would be subsumed under the GST are:**

- State VAT
- Central Sales Tax
- Luxury Tax
- Entry Tax (all forms)
Entertainment and Amusement Tax (except when levied by the local bodies)
- Taxes on advertisements
- Purchase Tax
- Taxes on lotteries, betting and gambling
- State Surcharges and Cesses so far as they relate to supply of goods and services

The GST Council shall make recommendations to the Union and States on the taxes, cesses and surcharges levied by the Centre, the States and the local bodies which may be subsumed in the GST.

What principles were adopted for subsuming the above taxes under GST?

The various Central, State and Local levies were examined to identify their possibility of being subsumed under GST. While identifying, the following principles were kept in mind:

- Taxes or levies to be subsumed should be primarily in the nature of indirect taxes, either on the supply of goods or on the supply of services.
- Taxes or levies to be subsumed should be part of the transaction chain which commences with import/ manufacture/ production of goods or provision of services at one end and the consumption of goods and services at the other.
- The subsumption should result in free flow of tax credit in intra and inter-State levels. The taxes, levies and fees that are not specifically related to supply of goods & services should not be subsumed under GST.
- Revenue fairness for both the Union and the States individually would need to be attempted.

Which are the commodities proposed to be kept outside the purview of GST?

**Article 366(12A)** of the Constitution as amended by **101st Constitutional Amendment Act, 2016** defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. So alcohol for human consumption is kept out of GST by way of definition of GST in constitution. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out and GST Council shall decide the date from which they shall be included in GST. Furthermore, electricity has been kept out of GST.

What will be the status in respect of taxation of above commodities after introduction of GST?

The existing taxation system (VAT & Central Excise) will continue in respect of the above commodities.

What will be status of Tobacco and Tobacco products under the GST regime?

Tobacco and tobacco products would be subject to GST. In addition, the Centre would have the power to levy Central Excise duty on these products.
What type of GST is proposed to be implemented?

It would be a dual GST with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States would be called the State GST (SGST). Similarly Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services.

Why is Dual GST required?

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. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism.

Which authority will levy and administer GST?

Centre will levy and administer CGST & IGST while respective states / UTs will levy and administer SGST / UTST.

Why was the Constitution of India amended recently in the context of GST?

Currently, the fiscal powers between the Centre and the States are clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States have the powers to levy tax on the sale of goods. In the case of inter-State sales, the Centre has the power to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the States. As for services, it is the Centre alone that is empowered to levy service tax.

Introduction of the GST required amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The Constitution of India has been amended by the Constitution (one hundred and first amendment) Act, 2016 recently for this purpose. Article 246A of the Constitution empowers the Centre and the States to levy and collect the GST.

What are the benefits which the Country will accrue from GST?

Introduction of GST would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, it would mitigate the ill effects of cascading and pave the way for a common national market. For the consumers, the biggest gain would be in terms of a reduction
in the overall tax burden on goods, which is currently estimated at 25%-30%. Introduction of GST would also make our products competitive in the domestic and international markets. Studies show that this would instantly spur economic growth. There may also be revenue gain for the Centre and the States due to widening of the tax base, increase in trade volumes and improved tax compliance. Last but not the least, this tax, because of its transparent character, would be easier to administer.