Role of Finance Commission in Centre and State Financial Relationship –After Goods and Services Tax

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Abstract

At present financial relations between the Centre and the States is not good as it used to be, because the States in India depend on the Centre for financial resource to dispose their responsibility towards the citizen of the country. To have a healthy financial relation between the Centre and the States, Government of India formed finance commission in 1951 under the article 280 of the India constitution. The finance commission plays a very significant role in the wake of implementation of GST, as GST has subsumed many indirect taxes, those taxes which were earlier levied, collected and retained by the State Governments. Goods and service tax is a big revolutionary tax reform in India, entire market is under a single tax system. Earlier the States Governments had the power to impose and collect certain indirect tax from the citizens but now except few state taxes all taxes are subsumed in one tax which is the Goods and service tax. The Centre and the State Governments have their share in the net tax proceeds under Goods and Services Tax.

The finance commission has been maintaining the fiscal federalism in India after the independence as per the ambitions of the Constitution. There exist a revenue imbalance between the Centre and the State Governments. Constitution has made an arrangement to reduce the tax revenue imbalance between the Centre and the State Governments. Centre transfers 42% of tax revenue from divisible pool as per the finance commission recommendations of 15th finance commission. After the implementation of Goods and Service tax, Centre and State financial relationship has become more crucial, as tax revenue is highly skewed towards the Central government. Central Government should not make any delay in devolution of funds and Goods and service tax compensation to the losing States. In this context the role of Finance commissions has been getting its importance in strengthening the financial relation among the Center and the State Governments in India.

1. Introduction:

India has a federal form of government, there is a constitutional demarcation between the Centre and the States with regards to financial powers and responsibilities. Constitution provides a detailed system in relation to the distribution of taxes, the power of borrowing and the provisions for grant in aid between the Centre and the States. This arrangement has been made for proper disposal of financial resource from divisible pool of tax revenue. In the present days the financial relations between the Centre and the States is not as good as it used to be, because the States in India depend on the Centre for financial resource to dispose their responsibility towards the citizen of the country. Whereas the Central Government is not transferring

tax revenue when it is actually needed and there is a delay in the transfer of finance to the States. These issues led to the conflicts between the Centre and the States relations. To have a healthy financial relation between the Centre and the States, Government of India formed Finance Commission in 1951 under the Article 280 of the India Constitution. Finance Commission has to give recommendations to the Central Government and it has to make proper arrangement for devolutions of funds from the Centre to the states. Finance commission is trying to harmonize relationship between the Centre and the States in India.

Finance commission is a constitutionally formed, independent body. It determines the ways and formula for distributing the tax revenue between the Centre and the States and among the States as per the constitutional arrangement and current requirement. Under Article 280 of the Constitution, the President of India is required to constitute a Finance Commission at an interval of every 5 years. Finance Commission is formed to get suggestions about sharing of tax revenue between the Centre and the States. As per the Constitution the Finance Commission must consist of a chairman and four other members who have the expertise in the field. Fifteenth finance commission, it was formed in 2017 and it will perform its duty from 2020 to 2025 under the Chairmanship of N K Singh. Finance Commission plays a very significant role in the wake of implementation of GST, as GST is subsumed many indirect taxes, those taxes earlier levied, collected and retained by the State Governments. Now majority of indirect tax proceeds goes to the Central Government. Which has resulted in comparatively low net tax proceeds to the State Governments. In this situation finance commission recommendation should endeavor to harmonize good financial relations between the Centre and the State governments in India.

Goods and service tax is a big revolutionary tax reform which happened on July 1st 2017 in India. It has unified the entire market under single tax system. Earlier the States had some power to impose and collect certain indirect tax from the citizen but now except few taxes all indirect tax has been subsumed in one tax which is the Goods and service tax. The Centre and the State Governments have their share in the net tax proceeds under Goods and services tax. Majority of the tax proceeds goes to the Centre now, so consolidated fund of the State Governments is less as compared to earlier consolidated fund. Therefore, States are always trying to get funds from the Centre to perform its responsibilities towards the citizens of India. In the present scenario Finance Commission should act as mediator between the Centre and the State governments to have a sound relationship in federal units. Finance commission's recommendations are always on par with the decisions taken by the Goods and service tax council.

2. Review of Literature:

Literatures on public finance, financial relations among Ggovernments and finance commission in India have been reviewed. An attempt has been made to summarise the important studies and works, keeping in mind the relevance of the present paper.

Ghozala (2010) this paper "Fiscal federation in India -An analysis of fiscal transfer to states". Has conducted a study on the relationship between the Centre and the State and elaborated about revenue sharing between the Central and The State Governments. Study is conceptual in nature based on secondary data collected through journal articles, commission reports and official websites of the government department.

Study concluded that the States have faced imbalances in their finances because of the mechanism of revenue sharing and grants in aids are not suitable to all states. Which has led to the present situation of bargaining between the Centre and the States.

Asha Srivastava and Verma (2011) this paper "grant in aid devolution in Indian democratic federation: need of some suggested regulatory reforms**".** They focus on the role of grant in aid devolution from finance commission to the States and to study the rational trend and prospect for balancing through grant in aid mode. Secondary data has been used for the study, collected from reviews from previous study, journals, newspaper, government websites. this paper recommends that the finance commission must increase the share of grant in aids to all the weak States so as to reduce fiscal imbalance, which helps them to improve their social welfare activities and the overall development of economy. Finally, they have concluded that the role of grant in aid transfer needs to go through reforms frequently in order to remove the horizontal and vertical imbalances which exists in Indian federal units.

Jha (2013) This paper "Indirect tax reform and fiscal federalism in India" Studied that how indirect tax reform has an influence on Centre to State government financial relationships. Study is conceptual in nature based on the secondary data collected through journal articles, commission reports and official websites of the government. It is concluded that there is an urgent need to review the totality of transfer from the Central government to the State governments and local bodies, this would include transfers through finance commission, planning commission and centrally sponsored scheme.

Abdul Rashid (2015) This paper "Impact of GST on Centre state relations in India in financial terms "Tried to study the framework of new tax system with regard to the Centre and States transaction and to study the impact of GST on the Centre and States relations. Study is descriptive in nature based on secondary source of data collected through review of previous study, newspaper and journal articles, and government institutes reports. It is concluded that there are many changes which has occurred between the Centre and the State financial relation due to implementation of dual model of GST and suggested that massive training initiative would be required at both Central and State level to familiarize the respective administration with the concept and procedures of the dual GST.

Kanchan (2016) This paper "Central state financial relation in India" explains the Centre and the States financial relationship and their provisions of power as per the constitutional law. Its impact on the sharing of tax revenue between two governments. Finally, it has been concluded that it needs to change the power to levy the tax, criteria for fund transfer from the Centre to the States as per the changes in economic environment.

Shreya sing (2016) This paper "A study on the role of finance commission in India" Has focused on the key points of 14th finance commission and explained about the finance commission. Finance commissions job is to recommend measures and methods on how the revenue needs to be allocated between the Centre and the States. Study descriptive research in nature based on the secondary data collected through various journal articles, finance commission report and government reports. Finally concluded that the

finance commission plays a major role in fiscal transfer and maintaining the harmonized relationship between the Centre and the States.

Ganesh and Gandhi (2016) in their study "Role of finance commission in maintaining the fiscal federalism in India" the authors have given a clear picture about fiscal federalism in India. It has also covered about the finance commission and its functions and highlighted the role of finance commission in tax revenue sharing. Study is conceptual in nature based on secondary data collected through journal articles, commission reports and official websites of the government department. They have concluded that the mechanism of fiscal relationship helped to strengthen the Centre and the States financial relationship which is a critical factor influencing fiscal federalism. Role of finance commission has a greater significance in increasing economic status of the weaker States on par with the richer states.

Varun and Yoshika (2017)" In their paper GST restructuring India financial federalism" focused on how new tax reform like GST is significant for a developing country like India. It examines the benefits available to a Nation as general and SME or startups in particular after implementation of GST. Also, they have given the counterpoints for the implementation of GST system by highlighting the major drawbacks. The study descriptive research in nature based on secondary data collected through articles, finance commission report, government archives. They concluded that GST will pave way for better fiscal federation compare to previously existing tax system by subsuming multiple taxes into a single tax.

Rakesh Chandra (2017) in his paper "GST and cooperative federation through the eye of Indian constitution" Explained how GST is influencing fiscal federalism through the revenue loss issues, administration issues and loosing controlling power over the tax payers in new tax regime. Study is conceptual research in nature based on secondary data collected from review of previous study, articles, journals and commission reports and government archives. The researcher concluded that GST council is good example for mutual cooperation among Centre and states irrespective of the party affiliation and GST roll out could be a template for future of cooperative federation.

Priya et. al (2017) in their study "GST model with reference to central and state relation in financial terms." An attempt has been made to study the GST model with Central State relation in financial terms. Study is conceptual research in nature based on secondary data collected through journal articles, commission reports and official websites of the government departments. Author found that the introduction of GST for restructuring the India indirect taxation system which currently involves a multiplicity of taxes as well as cascading effect. Also mentions about the changes in Centre State fiscal relationship after GST.

Abhilash (2018) in his paper "GST in India: A key tax reform" focuses on the advantages of GST, challenges faced in execution of revenue collection by the tax authorities, by giving an overview of GST concepts. Explain its features along with its time line of implementation in India. Study is explanatory research based on secondary data collected through journal articles, commission reports and official websites of the government departments. He concludes that India needed a tax reform to bring changes in tax structure to reduce the multiple taxes and impose one tax called GST. Which includes avoidance of the cascading

effect and tax evasion. This has led to the promotion of domestic companies while competing with foreign companies. Through Goods and services tax reform, India comes towards meeting the global norms across the world as GST has been implemented in 160 countries.

Kelkar (2019) in his paper "Towards India's new fiscal federation". addressed vertical imbalance, horizontal imbalance and development imbalance. To solve these issues parliament should decide the financial federalism as pre the suggestions of finance commission, NITI Ayoga, GST council. Change the constitutional provisions to improve the goods and services tax system. Study is conceptual research in nature based on secondary data collected through journal articles, commission reports and official websites of the government departments. finally, he concluded that Indian federalism needs to be improved as per the changes in economic environment. But changes in fiscal relation is only possible by revolutionary tax reform and its implementation in better way. Also, suggested that there should be proper Association between NITI ayoga, finance commission, constitutional provisions and GST laws, then only the best fiscal federalism relationship will be existing in the country.

Lekha Chakraborty (2019) in his Paper "India Fiscal federalism at the crossroads some reflection". Study indicates how fiscal federalism is a fundamental necessity in India. The recent trends in in respect of fiscal transfer from Centre to the State Governments is elaborated. Study is descriptive in nature based on secondary data collected through journal articles, commission reports and official websites of the government departments. Study Found that lots of changes are happening to meet the global competition through tax reforms and structural changes in federal system. He Concluded that there is a need to establish a link between GST council and Finance commission. Finance commission in India devices an effective mechanism of transfer, which is predominately based on the current situation of State Governments.

3. Objectives of the Paper:

1) To study the constitutional provisions with regards to financial relationship between the Centre and State Governments.
2) To appraise the role of finance commissions in strengthening financial relationship between the Centre and the State governments.
3) To highlight the recommendations of finance commissions with respect to improving the financial relationship between the Centre and the States.
4) To analyses the problems in financial relationship between the Centre and the States after the implementation of GST.

4. Research methodology: The researcher is constructed the paper on the secondary data. An effort as made review of literature reports, statistical figure, GST books, GST Act and others are collected from the books, journals, research report and other published document by the government of India and websites are also visited to collect the secondary data.

5. A) CONSTITUTIONAL PROVISIONS AND FINANCIAL RELATION:

Seventh schedule of the Indian constitution tells about union list, state list and concurrent list. These lists have been changed, modified and repealed because of 101 constitutional amendment acts passed in

parliament in 2016. Centre government has the power to make any law on the subjects which comes under union list, state government have power to make law with respect to state list subjects, both Centre and State Governments have the power to make laws on the subjects those which come under concurrent list. Central Government has residuary power in all subjects of the concurrent list, but not in case of GST. Before implementation of GST, imposition of tax on manufacture of goods was the right of the Central Government further tax on services, tax on import and export were all belonging to union list. Thus, the State Government did not have any role in the levy and collection of such taxes. Whereas the power to impose tax on sale of goods, tax on luxury goods were the subjects of State list. Therefore, Central Government did not have any role or share in tax imposed by the State Government on intra state transfer of goods. After the implementation of GST almost all the indirect taxes levied by the Central Government and State governments were abolished and replaced by a single tax called GST. Although Basic custom duty is out of the GST purview.

There is an existence of revenue imbalance between Centre and State Governments. Constitution has made an arrangement to reduce the tax revenue imbalance between Centre and State Governments. Therefore, certain taxes which have been given to Centre will be shared between the Centre and the States. To accomplish such kind of responsibility Constitution has set up an expert body which is Finance Commission. Certain Centre net tax proceeds will be shared between the Centre and the State governments. Taxes like Goods and services tax, Income tax, Corporate tax, Custom duty, and Service tax will go to the devisable pool. Once tax proceeds enter into devisable pool, then it has to be shared between the Centre and the State Governments. Out of the devisable pool States get a share to reduce the imbalance between the Centre and the State. Also, used to undertake developmental welfare activities in the States. Finance commission has made recommendation in relation to, revenue sharing between the Centre and the State Governments. From the devisable pool Finance commission recommends how the tax should be shared between the Centre and the State Governments and also between States. This is called as vertical devolution (from Centre to state) and horizontal devolution (between the states) of fund.

Three important constitutional amendments have been passed in relation to the Centre and the States financial relationship they are 80th ,88th, 101th amendments. By making 80th amendment, Corporate tax comes under devisable pool. Once it enters into the devisable pool it should be sharable between the Centre and the State Governments. 88th amendment inserted entries in the 7th schedule of union list to impose tax on service providers. According to the provisions of constitution Central Government is the only authority to impose tax on service providers.

Following articles were inserted by introducing the 101 constitutional amendment acts. By introducing this act many changes took place between the Centre and the State Governments financial relationship. By making these changes the Centre and the States have to cooperate with each other for effective implementation of goods and services tax. Let us discuss articles and entries in the lists of 7thschedule in detail to understand the relationship between the Centre and the State Governments after implementation of Goods and Services tax in India.

Article 246 A: Earlier power to impose tax on service and production was vested with Central Government and sales tax was with the respective State Governments. Whereas in GST era both Central and State Governments have the power to impose tax on service, manufacturing and selling of goods and services in India. So, article 246A changed, repealed, and inserted certain entries in the 7th schedule to comply with the goods and service tax provisions.

As per the article 246 A union and state legislature have the power to make laws with respect to goods and services tax. By using this power only, Centre and state government have passed 3 important Act. They are State Goods and Services tax Act, Centre Goods and Services tax Act, Union Territory Goods and Services tax Act. Integrated Goods and Services tax Act. Each state government have passed the SGST bill which is similar to all state GST law to achieve one nation and one taxation. So, goods and services tax unified the entire market under one system.

In the Article 248: Centre has the power to make laws only on the subjects that come under union list. Goods and Services tax is also a subject of union list. But after 101 constitutional amendment act, article 246A is inserted to share the legislature power to the State also. So, there is a shared sovereignty in relation to Indirect taxes (goods and services tax). Earlier union had the supreme power on major Indirect taxes. But now it is not applicable in the matter of GST after the insertertion of article 246A. This has led to "shared sovereignty" between the Centre and the State Governments of India.

As per the Article 249: Rajya Sabha enjoys special power to make any laws in the States in the interest of the Nation. Rajya Sabha should make special resolution with consent of 2/3 to make any law in States. GST also comes under National interest. But article 250 says that during emergency period (parliament has residuary power) parliament has the power to make laws in relation to GST without making any special resolution.

Article 268A: This article gives definition about imposing tax on services in India. entry 92C of the 7th schedule also tells about Service tax. As per article 268A Centre Government is the only authority to impose tax on service. But after implementation of GST, service tax has merged into GST. In GST regime State Government also impose SGST along with CGST on supply of service, State government has also had the power to impose service tax. Therefore, after implementation of GST, Particular article 268A and entry 92C of the union list is repealed. If it is not repealed then State Government cannot impose any tax on the items of union list. Therefore, article268A and particularly entry 92C of union list has been removed from constitution of India.

Article 269A: Article 269A tells about the IGST, Integrated goods and services tax will be imposed when interstate sales occur in India. Tax will be levied and collected by Central Government and shared between the Centre and the State Governments. Formula for sharing from IGST net tax proceeds will be decided by finance commission and GST council as per GST law.

Article 279A: GST council is a constitutional body set up as per the provisions in the Constitution of India. It takes decision about GST rates, slabs, items to be included or exclude and other related GST laws. Finance minister of the Centre is the chairman of the GST council. Revenue or finance minister of all states are the members of this council. members of the GST council have given voting weightage of 1/3 and 2/3 for both Centre and State Governments members respectively on council decisions. Any decision will be made only with the ¾ majority in the councils. Council has members from both the Centre and the State Governments to makes the federal Governments to cooperate in each decision jointly taken by GST council. This institutional set up is trying to keep up the good relation between the Centre and the State Governments by taking member representing the Centre and the State.

Changes in the 7th schedule of union list relating to GST.

Entry 84: earlier entry 84 dealt with excise duty on goods manufactured in India. Centre government imposes excise duty on all goods except alcohol manufacturing in India. Further the provisions of excise duty on alcohol for medicine preparation was imposed by union government and other alcohol for human consumption was with the State government. Now in GST era Excise duty is subsumed under GST. But five petroleum products (petroleum crude, highspeed diesel, water spirit, and natural gas, aviation turbine fuel) and tobacco are added to the entry 84 to continue to impose excise duty on these goods. Petroleum products will be taxable as it was in the tax system. It implies that petroleum products are kept outside the purview of GST in India.

So, for the petroleum products union excise duty will continue. Government is planning to bring petroleum product and tobacco under GST. It will consume time, because there are issues in subsuming these products into GST. Revenue from petroleum products is the major source of income for both the Centre and the State Governments. It is not merged for the time being. In future days these products also will be under GST purview.

Entry 92: Entry 92 deals with the tax on advisement, there were provisions that Centre government having the power to impose tax on advertisements on newspaper and rest of the advertisements tax left to the State Governments. But now, after implementation of GST this entry is completely removed from the 7th schedule of union list. As tax on advertise is merged into GST.

Entry 92C: Entry92C and articles 268A were dealing with service tax in India. After introduction of GST State Governments also have the power to impose service tax on supply of service. In order to enable the state government to impose tax on service supply entry 92C is repealed from the union list. That particular entry is omitted by inserting article 246A into Constitution. This entry does not exist in the union list.

Changes made in State list of 7th schedule for implementation GST

Entry52: entry tax or octroi charged to goods which enter local palaces of the States. Earlier this was the subject of state list but now this entry tax has been subsumed under GST. So, now union also has the power to impose entry tax on goods entering into local cities. Therefore, it has repealed from the state list.

By doing this tax imposing sovereign will be shared between federal Governments and also cooperation is needed to smoothen the functioning of the Executive body. Therefore, it is required to make changes to keep good relationship between the federal Governments.

Entry54: Entry 54 tells about state sales tax. It has been abolished and merged under GST. In the case of petroleum products state sales tax will continue, petroleum products are outside the scope of Goods and Services Tax.

Entry 55: this entry has been removed from the State list. As tax on advertisements have been subsumed under GST.

Entry 62: entertainment tax and luxury tax are dealt under this entry of state list in the 7th schedule. At present it has been changed. Luxury tax and entertainment tax which are imposed by the State Government has been merged into Goods and services tax. There is a provision on this, if entertainment tax is collected by local government then it would be out of the GST purview. This is allowed only in few states. It is provided with the intention that flexibility should be given to local Government to dispose their responsibility at local government level.

B) FINANCE COMMISSIONS IN INDIA

Finance commission is a Quasi-judicial constitutional body set up under article 280 of the Indian constitution. It was established in the year of 1951 to make proper financial arrangement between the Centre and the State Governments of India. Also, allocation of certain portion of revenue resource between the Centre and the State Government, Finance commission intends to reduce the fiscal imbalance between the Centre and the State Governments (vertical imbalance) and also among states (horizontal imbalance).

Article 280(1) provides for the appointment of a finance commission by the president of India for every five years or earlier, if he considers it to be necessary. The commission consists of chairman and four other members appointed by the President. The parliament determines legally the qualification of the members and their selection procedure. Mr. N K Singh is the chairman of present 15th finance commission period from 2020 to 2025 and other members are Ajay Narayan Jha, Anoop sing, Ashok lahiri, Ramesh Chand, Arvind Mehta.

Article 280(2) provides that parliament is authorized to decide by the law, the requisite qualification for appointment as member for the commission. Article 280(3) provides for the functions of the finance commission, that is to make recommendations to the president with regard to the following matters:

a) Distribute net proceeds of the taxes between the Centre and the State Governments and also among states.
b) The principle that governs the grant in aid of the revenue of the states out of the consolidation funds of India.
c) Any other matter referred to it by the president in the interest of sound finance article 280(4) provides that commission is to have such powers as parliament may by law confer on it.

According to the Finance Commission Act, it has all the power of civil court for summoning the witness, requiring to produce any documents, requires any person to furnish information at any point which the commission regards.as useful or relevant to any matter under its consideration. Finance commission can be characterized as the balance wheel of the Indian federal finance relationship between the Centre and the States. The main key role of finance commission recommendations is to divide net proceeds of devisable taxes between the State and the Central government. and decide the principle for such allocation between two set of Government. They devised a flexible scheme for transfer of central revenue to the States.

Since independence, fourteen finance commissions have completed their regime now it is the regime of the fifteenth Finance Commission under the Chairmanship of Mr N. K. Singh was submitted reports. The report, consist of recommendations for the financial year 2020-21, was announced in Parliament on February 1, 2020. The final report with recommendations for the 2021-26 periods will be submitted by October 30, 2020.

Key recommendations of the first report (2020-21 periods) are as follows:

Devolution of taxes to states: Centre transfer tax revenue to states on finance commission recommendations. 15th finance commission recommend to transfer 41%, Which less than the earlier, 14 finance commission recommendation of 42%. The 1% decrease is provided for the newly formed union territories of Jammu and Kashmir, and Ladakh from the resource of the devisable pool.

Grant in aid: In 2020-21, the following grants will be provided to states: (i) revenue deficit grants, (ii) grants to local bodies, and (iii) disaster management grants. The Commission has also proposed a framework for providing grant on specific sector and consider its performance also. State-specific grants will be provided in the final report.

Revenue deficit grants: In 2020-21, 14 states are forecast that, there will be having revenue deficit of Rs 74,340 after devolution from centre to state. The commission recommended revenue deficit grants for those states.

Special grants: The Commission has recommended special grants of Rs 6,764 crore to Karnataka, Mizoram and Telangana. Because these states share from devisable pool is estimated to decline in 2020-21 as compared to 2019-20. that's why finance commission recommended to give special grants to these states.

Sector-specific grants: In 2020-21, the finance commission provided grants to improve the nutrition, the amount of grant Rs 7. 375crore.The following sectors are provided sector specific grants in the final report of the commission: (a) nutrition, (b) health, (c) pre-primary education, (d) judiciary, (e) rural connectivity, (f) railways, (g) police training, and (h) housing.

Performance-based grants: finance commission issued guidelines for utilise the performance based grants to the following sectors : (a) implementation of agricultural reforms, (b) development of aspirational districts and blocks, (c) power sector reforms, (d) enhancing trade including exports, (e) incentives for education, and (f) promotion of domestic and international tourism. The grant amount will be provided in the final report of the commission.

Grants to local bodies: The finance commission recommended to allocate 4.31% of share from devisable pool to local bodies of states in 2020-21. Thus 90,000crore provide to local bodies of state. Out of these 60,750 crores for rural local bodies and 29,250 crores for urban local bodies. This grant is increased over the previous grants for local body in 2019-20. In 2020-21 3.54% of grant from devisable pool was provided to local bodies. The grant will be share between states based on the population and area in the ratio 90:10. finally grant will be made available to 3 tier of panchayat they are village, block, and district.

Disaster risk management: For the promotion of local-level mitigation activities Commission recommended to setting up National and State Disaster Management Funds (NDMF and SDMF). The finance Commission has recommended to continue the present cost-sharing patterns between the centre and state governments for funding the SDMF (new) and the SDRF (existing). Centre and state government will be sharing the cost in the pattern of (a) 75:25 for common states and (b) 90:10 for Special category states (north eastern and Himalayan states.)

After the implementation of GST, the role of finance commission is significant, as the recommendation of Finance commission can only keep good relationship between the Centre and the Stategovernments and reduce the gap between public expenditure and public revenue of respective state government.

C) FINANCIAL RELATION UNDER GOODS AND SERVICES TAX

After implementation of GST, around 60% of indirect tax revenue goes to the Central Government, rest 40% will be with the State Governments. This was not happening in earlier case. State Governments can collect tax on each transaction and net tax proceeds and keep it with themselves. There was no question of waiting to get funds from the Central Government to dispose their responsibilities. Whereas, now States have to wait to get Goods Services Tax proceeds share from the Central Government, this makes delay in the functioning of State Government. This is the major issues faced by the all federal units of India.

GST is a destination-based tax system. Here any interstate supply happenss between two units in a federal setup. IGST will be imposed on such supply of goods and service. Proceeds from the IGST will be shared between the Central government and the State government in which state customer purchased the goods or service. Earlier central sales tax had been going to the manufacturing state but now it is going to the importing state. This has made huge losses to certain production-oriented states like Karnataka, Haryana Jharkhand. To avoid such losses GST compensation will be given to production-oriented states for initial 5-years of period. This may not be enough for the revenue losing state to cover up the losses incurred by them in destination-based tax system.

Delay in the devolution of GST proceeds led to the hindrance of development activities in the States. This has led to losing of popularity of the present government in the state. State government always fight with Centre to get shared devolution fund from devisable pool on time. The major issue is lack of mechanism. Funds don't flow by default. Centre has the key to transfer funds. Central Ggovernment makes delay in fund transfer. It leads to lot of problems for the States as they can not fulfil their respective duty towards the citizen of the country.

Vertical imbalance is another problem that existed in fiscal federalism since many decades. Tax revenue is highly skewed to the Centre. The process of assigning highly elastic revenue to the centre and inelastic taxes to the state led to high degree of concentration in revenue collection. For example, In India the centre collects around 60% of total revenue whereas state and local bodies collect 40% only. Lack of accountability and implementation of populist policies are the major cause for imbalance in state budgets.

Horizontal imbalance is another issue in fiscal federalism. Federal units are not same in resources endowment, level of development and per capital income. Therefore, horizontal imbalance is a part of India's fiscal federation system. This problem is because of the political problem between the Centre and the State government. The resources transfer has been affected because of planning commission and Finance Commission miserably failing in correcting the horizontal imbalance. As a result, disparities in per-capita income are increasing.

Discretionary grants gave by the centre to the states are influenced by political considerations rather than resource requirement. As a result, states are not able to bridge the gap between their expenditure and revenue in financial aspect effectively. States in India have become more and more dependent on centre for financial help. The matter sometimes becomes worse for states ruled by a particular political party different from the one in the centre.

The mechanism of central resource transfer is not effective to correct the horizontal imbalance among states. The disparity in per-capita income has been on an increase. Finance commission is not following rational criteria to transfer the financial resource to states. This has led to the richer states getting more resource in federation set up. The States have been nursing a feeling that the resource transfers to them have not been matched with their growing responsibilities. In federal set up Centre asks for the proof where the money is spent on the previous year. Due to corruption, the state fails to give proper data. Thus; centre reduces grants for the current year. This led to centre showing stepmotherly attitude towards state governments.

These issues are bringing about a major crack in centre state financial relationship even after goods and service tax being implemented in India.

6. Some of the major findings:

1) After the introduction of Goods and Service tax in India, major tax revenue goes to the Centre. Therefore, State Government depends more on the Centre to get their share from the devisable pool to dispose their responsibility towards citizens.
2) Central Government collects 60% of tax revenue and its public expenditure responsibility is only 40%. State Governments collect 40% of tax revenue and its public expenditure responsibility is 60%. Thus, vertical imbalance exists between the Centre and the State governments even after implementation of Goods and services tax in India.
3) Finance commission recommends on the tax revenue sharing between the Centre and the State Governments. Devolution of fund is not confined to finance commission recommendations. There are other factors also influencing on devolution of fund.

4) Union government delays in sharing the revenue with the States. This creates an obstacle in undertaking developmental and welfare activities by the State Governments. Due to this political party ruling in the State loose their popularity. This leads to the conflict between the Centre and the State Governments in India.
5) Goods and Service tax is a destination-based tax system. Thus, IGST net tax proceeds will be shared between the Central government and the State government where the consumer has purchased goods and services. Therefore, more revenue goes to the importing states rather than the State which is involved in production. Which has led to big revenue loss to the States which produces.
6) The system of central resource transfer is not effective to correct horizontal imbalance among federal units of the country. In equality in per-capita income has been on an increase. The major part of the central transfer of the resources are to the richer tates, as finance commission is not following a rationale criterion in finance resource transfer from Centre to States. This has made the horizontal imbalance to exist among the federal units.
7) The present federal financial system has developed a situation in which the States cannot survive without the assistance of the Centre at anytime. States are always waiting for grants and loans from the Centre to clear their public expenditure responsibility. This has led to state always depending on centre for fund assistance (financial dependency). This is existing because majority of the tax revenue is highly skewed to the Centre and the Centre has less public expenditure responsibility compared to the States. Ffinally States borrow debt from the Centre which leads to a situation of inevitable debt burden on the States.
8) In a federation a strong Centre without strong States is not suitable in multiparty democratic system. A political party ruling in the Central government, and the same political party ruling at the State, influences the States in this democratic setup to bring new changes in the programmes since 1996. This has changed the situation of less autonomy to the States in federal System. At present we need qualitative change in the concept of state autonomy by appropriate amendments to the constitutional provisions.

7. Some of the major suggestions:

1) The number of divisible taxes should be increased to enlarge the resource base of the State Ggovernments from the present taxes, so that there will be increase in the total revenue received by the States from the Centre.
2) The State should be given more autonomy in financial matters. It is high time that the States should be allowed to function on the subjects mentioned in state list of the constitution. Centre should not interfere in the matters of state list. Then only states will get autonomy in financial aspect. That will ensure the co-operative federal form of government by effectively managing the Centre and the States financial relation.
3) Of the total GST collections, a lion's share should go to the States. Reportedly, actual transfers of the Centre's gross tax collections are about 36% (below the 14th Finance Commission's mandate to devolve 42%) since the divisible pool of taxes excludes surcharges and cesses. Centre has failed

in its tax collection but States did not decline in their own tax collection. This could hurt the States finance, as there are concern on delays in centre compensateng to the States as the country is adjusting to the new goods and services tax regime.

4) Finance Commission recommendations must be based on growing demand of the State government. The financial situation and growing responsibility of that particular state should be taken into consideration. Usually State Government and Central Government budget show a deficit by this we can understand that the share that the States gets from the devisable pool is not enough to meet their expenditure. So, there will be always conflict between the Centre and the State Government in the matter of tax revenue sharing. Special funds are required for affected States in India.

5) In India even after the fifteenth Finance Commission the role of finance commission has been marginalized and reduced to the status of filling revenue gaps of states in the few areas only. Finance Commission is a statutory body its scope must be increased to healthy growth and stability of a federation in the changing political environment.

6) The demand and supply gap of the State Ggovernments' financial requirements should be reduced by the Central government on genuine requirement basis by looking at the political parties' agenda.

8. Conclusion:

Since independence, fiscal federalism was not up to the mark with respect to the thoughts of the constitution framers. After the implementation of Goods and Service tax, Centre and State financial relationship is even more crucial, as tax revenue is highly skewed towards Central government. Moreover, Central Government has less public expenditure responsibility towards the citizen of India as compared to the States. So, it is the responsibility of the finance commission to reduce the imbalance between the Centre and the State Governments. It should arrange for a proper and timely system for devolution of funds to the States. Goods and service tax was implemented for the betterment of the country. Goods and service tax has to go through many changes to improve Centre state financial relationships so as to suit to the global environment. Central Government should not make any delay in devolution of funds and Goods and service tax compensation to losing States. As many developmental and welfare activities is based on the share from divisible pool. India adopted Goods and services tax system in July 1st 2017. In order to get feasibility in the new tax system both the Centre and the State Governments have to cooperate with each other in federal form of government. Keeping all these things, the role of Finance commissions' recommendations should be effective to reduce the problems in Goods and service tax with respect to the Centre and the States financial relationship.

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