



IMPACT OF GOODS AND SERVICES TAX (GST) ON INDIAN FEDERALISM

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ABSTRACT

The introduction of the Goods and Services Tax (GST) in India has a profound impact on the federal system of governance of the country. The GST has significantly altered the financial relationship between the central government and the states, leading to a more cooperative and collaborative framework. This paper aims to explore the impact of GST on Indian federalism, examining its implications for the distribution of financial resources, revenue autonomy, and the balance of power between the states and the centre. The paper argues that while the GST has increased the centralization of taxation powers, it has also provided a mechanism for ensuring greater transparency, accountability, and efficiency in the collection and distribution of tax revenues.

The Goods and Services Tax (GST) in India has been introduced in 2017 marked a significant milestone in the country's economic and political history. The GST replaced a complex and fragmented system of indirect taxation that was characterized by a multitude of taxes, rates, and exemptions. The GST sought to streamline the taxation system by introducing a single tax rate for goods and services and a unified tax administration. However, the GST has also had far-reaching implications for India's federal system of governance.

This paper aims to examine the impact of GST on Indian federalism, analysing its implications for the distribution of financial resources, revenue autonomy, and the balance of power between the centre and the states. The paper argues that while the GST has increased the centralization of taxation powers, it has also provided a mechanism for ensuring greater transparency, accountability, and efficiency in the collection and distribution of tax revenues. The paper concludes by highlighting the need for continued dialogue and cooperation between the centre and the states to ensure that the benefits of the GST are shared equitably and that the federal structure of the Indian polity is strengthened.

Keywords: GST, federalism, tax, responsibility.

LITERATURE REVIEW:

1. **Jha, R., & Sarangi, S. (2017). *The Goods and Services Tax (GST) in India: A History and Analysis*. In *Reforming Fiscal Federalism and Local Governance in India* (pp. 121-144). Springer, Singapore:** This chapter provides a comprehensive analysis of the history and implementation of GST in India. It examines the impact of GST on the federal structure of India, focusing on the role of the GST Council in determining tax rates and revenue sharing between the central and state governments.
2. **Debroy, B., & Bhandari, L. (2017). *Impact of Goods and Services Tax (GST) on Indian Economy*. *Journal of Social and Economic Development*, 19(2), 197-209:** This article examines the economic impact of GST on India, including its effect on federalism. The authors argue that GST has reduced the fiscal autonomy of the state governments, as they no longer have the power to set their own tax rates. However, they also note that GST has led to greater tax harmonization and reduced tax evasion, which could benefit all levels of government in the long run.
3. **Ganguli, B. (2018). *GST and Indian Federalism: A Review of Issues and Challenges*. In *The Political Economy of Contemporary India* (pp. 97-113). Palgrave Macmillan, Cham:** This chapter provides a critical review of the impact of GST on Indian federalism. The author argues that GST has led to a concentration of power in the GST Council, which could undermine the principle of fiscal federalism. However, the author also notes that GST has the potential to reduce inter-state trade barriers and promote economic integration across India.
4. **Dhawan, R., & Mukherjee, I. (2019). *Indian Goods and Services Tax (GST): a critical review*. *Asia-Pacific Journal of Management Research and Innovation*, 15(1-2), 3138:** This article provides a critical review of the implementation of GST in India, including its impact on federalism. The authors argue that GST has shifted the balance of power towards the central government, reducing the fiscal autonomy of the state governments. However, they also note that GST has simplified the tax system and reduced the compliance burden for businesses, which could promote economic growth.
5. **Prasad, A. (2018). *Goods and Services Tax (GST) and Indian Federalism*. In *Federalism in Asia* (pp. 39-50). Springer, Singapore:** This chapter examines the impact

of GST on Indian federalism from a comparative perspective, analyzing the experiences of other federal countries such as Australia and Canada. The author argues that the success of GST in India will depend on the ability of the GST Council to balance the interests of the central and state governments and promote cooperative federalism.

1. INTRODUCTION

An indirect tax levied on the supply of goods and services in India is known as Goods and Services tax (GST). Indian federalism is a unique system where the powers and responsibilities are divided between the Central and the State governments. The Indian constitution provides for a dual system of governance, where both the Union and State governments have their respective powers and responsibilities. This division of powers is crucial for maintaining the unity and diversity of India. The Council plays a vital role in deciding the tax rates and other policy matters related to GST.

The introduction of GST has led to changes in the division of powers between the Union and State governments. GST has empowered the Union government to levy taxes on goods and services, which were previously under the jurisdiction of the States. However, the States have been given a voice in the GST Council, which has ensured their participation in the decision-making process.

2. GST AND ITS IMPACT ON INDIAN FEDERALISM

2.1. IMPACT OF GST ON THE DISTRIBUTION OF POWERS BETWEEN THE UNION AND STATES

The implementation of GST in India has had a great impact on the distribution of powers between the Union and State governments. Some of the key changes in the distribution of powers are as follows:

- Centralization of tax administration: The implementation of GST has led to the centralization of tax administration. The GST is administered by the GST Council, which comprises representatives from the Union and State governments. The Council plays a crucial role in deciding the tax rates and other matters related to GST. This has led to the centralization of tax administration, which was previously under the control of the States.
- Union government's power to levy taxes: GST has empowered the Union government to levy taxes on goods and services, which were previously under the jurisdiction of the States. This has led to powers left with the Union government in the area of taxation.
- States' role in decision-making: Despite the centralization of tax administration, the States have been given a voice in the GST Council. This has ensured their participation in the decision-making process, which has helped to maintain the federal character of India.
- Constitutional amendments: The implementation of GST required several constitutional amendments, which have had an impact on the distribution of powers between the Union and State governments. These amendments have given more powers to the Union government to levy taxes on goods and services.

In conclusion, the impact of GST on the division of powers between the Union and State governments is complex and multifaceted. The implementation of GST has led to changes in the distribution of powers, but the extent of these changes and their impact on federalism in India is a subject of ongoing debate.

2.2. VERTICAL AND HORIZONTAL DISTRIBUTION OF REVENUE AMONG THE UNION AND STATES

The impact can be analysed in terms of the following factors:

- Increase in revenue collection: The implementation of GST has led to an increase in revenue collection for both the Union and State governments.

According to the Ministry of Finance, the total revenue collected under GST in the financial year 2020-21 was Rs. 12.71 lakh crore.

- Vertical distribution of revenue: The division of revenue between the Union and States is determined by the Finance Commission. The Finance Commission is a constitutional body that recommends the distribution of taxes between the Union and States. The implementation of GST has had an impact on the vertical distribution of revenue, as the GST revenue is shared between the Union and States on the basis of the recommendations of the Finance Commission. The Fourteenth Finance Commission recommended that the

States receive 42% of the total tax revenue, which includes the revenue from GST.

- Horizontal distribution of revenue: The implementation of GST has also had an impact on the horizontal division of revenue among the States. The GST revenue is distributed among the States based on a rules that takes into account the State's population, and such other factors. This has led to a more equitable distribution of revenue among the States.
- Impact on small businesses: The implementation of GST has had an impact on small businesses. Small businesses have to comply with the GST regulations, which can be challenging. This has led to a reduction in the number of small businesses, which has had an impact on revenue collection.

Therefore, the implementation of GST in India has led to an increase in revenue collection for both the Union and State governments. The division of revenue among the Union and States is determined by the Commission of finance, and the implementation of GST has had an impact on both the vertical and horizontal distribution of revenue.

3. CHALLENGES AND OPPORTUNITIES

3.1. CHALLENGES FACED IN IMPLEMENTING GST AND ITS IMPACT ON FEDERALISM

The implementation of GST in India was a great reform in the country's indirect tax system. However, it faced several challenges during its implementation, which had an impact on the federal structure of India. The challenges faced in implementing GST in India and their impact on federalism can be analysed as follows:

- Coordination between Union and State governments: GST is a concurrent subject, and both the Union and State governments have the power to levy taxes. The implementation of GST required coordination between the Union and State governments. The GST Council was established to oversee the implementation of GST and to provide a platform for the Union and State governments to collaborate on tax policy matters. However, coordination between the Union and State governments was a challenge during the initial phase of implementation, which led to delays and confusion.
- Implementation of technology infrastructure: The implementation of GST required a robust technology infrastructure to ensure a smooth transition. The Goods and Services Tax Network (GSTN) was established to provide the technology infrastructure for GST. However, the GSTN faced several technical glitches during the initial phase of implementation, which led to delays and compliance issues.
- Multiple tax rates: The GST system has multiple tax rates, which has led to confusion among taxpayers. The multiple tax rates have also led to disputes between the Union and State governments over the classification of goods and services.

The challenges faced in implementing GST in India have had an impact on the federal structure of India. The implementation of GST required coordination between the Union and State governments, and the establishment of the GST Council has helped to promote cooperative federalism. However, the challenges faced during the implementation of GST have also led to a centralization of decision-making on tax policy matters, which has had an impact on the distribution of powers between the Union and State governments.

3.2. OPPORTUNITIES PROVIDED BY GST FOR STRENGTHENING FEDERALISM IN INDIA

The opportunities provided by GST for strengthening federalism in India can be analysed as follows:

- Cooperative federalism: GST has provided an opportunity for cooperative federalism in India. The GST Council was established to provide a platform for the Union and State governments to collaborate on tax policy matters. The GST Council comprises members from both the Union and State governments, and decisions are made based on consensus. This has helped to promote cooperative federalism in India.
- Increased revenue for State governments: The implementation of GST has led to a great rise in revenue collection for both the Union and State. GST revenue is shared between the Union and States based on the recommendations of the Finance Commission. This has led to an increase in revenue for State governments, which has provided an opportunity for them to invest in infrastructure development and other areas.
- Simplification of tax system: GST has replaced multiple indirect taxes with a single tax, which has led to a more efficient tax system. The simplification of the tax system has reduced the compliance burden for taxpayers, which has provided an opportunity for businesses to focus on growth and expansion.
- Facilitation of inter-State trade: The implementation of GST has led to the removal of inter-State barriers to trade. This has facilitated inter-State trade and has provided an opportunity for businesses to expand their operations beyond their State boundaries.

In conclusion, the implementation of GST in India has provided several opportunities for strengthening federalism in the country. GST has provided an opportunity for cooperative federalism, increased revenue for State governments, simplified the tax system, and facilitated inter-State trade.

4. CONCLUSION:

4.1. SUMMARY OF THE KEY FINDINGS

The research paper focused on the impact of GST on federalism in India. The paper analyzed the literature on the topic and identified several key findings:

1. The implementation of GST has had a significant impact on the distribution of powers between the Union and State governments in India. The GST Council was established to oversee the implementation of GST and to provide a platform for the Union and State governments to collaborate on tax policy matters.
2. The implementation of GST has led to an increase in revenue collection for both the Union and State governments. The revenue collected from GST is shared between the Union and States based on the recommendations of the Finance Commission.
3. The implementation of GST has facilitated inter-State trade by removing inter-State barriers to trade.
4. The challenges faced during the implementation of GST, such as coordination between Union and State governments, implementation of technology infrastructure, multiple tax rates, and impact on small businesses, have had an impact on federalism in India.

5. Despite the challenges, the implementation of GST has provided opportunities for strengthening federalism in India. These opportunities include cooperative federalism, increased revenue for State governments, simplification of the tax system, and facilitation of inter-State trade.

4.2. IMPLICATIONS FOR INDIAN FEDERALISM AND GST IMPLEMENTATION

Based on the analysis presented in the research paper, there are several implications for Indian federalism and GST implementation:

1. The role of the GST Council: The GST Council plays a crucial role in ensuring the smooth implementation of GST and in promoting cooperative federalism in India. The Council must continue to work towards addressing the challenges faced during the implementation of GST and to ensure that the opportunities provided by GST are fully realized.

2. Revenue sharing: The distribution of revenue between the Union and State governments is a critical issue in Indian federalism. The recommendations of the Finance Commission on

the sharing of GST revenue must be implemented effectively to ensure that State governments have the resources to carry out their responsibilities.

3. Technology infrastructure: The implementation of GST requires a robust technology infrastructure. The government must continue to invest in technology infrastructure to ensure that GST is implemented efficiently and effectively.

4. Multiple tax rates: The existence of multiple tax rates under GST has been a point of criticism and has led to confusion and complexity. The government must work towards rationalizing the tax rates to reduce the compliance burden for taxpayers.

5. Impact on small businesses: The implementation of GST has had an adverse impact on small businesses in India. The government must address the concerns of small businesses and provide support to help them comply with GST regulations.

In conclusion, the implications for Indian federalism and GST implementation highlight the need for continued collaboration between the Union and State governments, effective revenue sharing, investment in technology infrastructure, rationalization of tax rates, and support for small businesses. The government must address the challenges faced during the implementation of GST and work towards fully realizing the opportunities provided by GST for strengthening federalism in India.