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# ODISHA WILL GAIN UNDER GST REGIME

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## ABSTRACT

***The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.***

## INTRODUCTION

The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.

## CONCEPTUAL STUDY

Indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs, counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax. It is clear by now that under the present structure of GST some states might lose revenue and some might gain under the new pan-Indian tax regime. GST will do away with the multiplicity and duplicity of the indirect taxes and a dual structure with one rate applicable to the centre and another applicable to the states will be implemented. Under the new GST structure, the states where the goods or services are consumed will collect the taxes. This means losses could be more for the producer states and the consumer states will be benefitted. That is leading to the Compensation argument by the States from the Centre for loss of their tax revenue. The Centre has decided on a five-year compensation scheme for the states that but states don't want to agree on a limited time frame out of the fear that five year may not be enough for full revenue compensation.

## 3. OBJECTIVE OF STUDY

The study has following objectives:

1) To cognize the concept of GST.
2) To study the revenue impact on different states.
3) To study the revenue impact on ODISHA.

## 4. RESEARCH METHODOLGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study. I have studied this information to have knowledge about GST operations in respect of revenue collection and its impact on consumption based state like ODISHA.

**How will a transaction be taxed simultaneously under Dual GST within a state?**

| Transaction | New System | Old System | Comments |
|---|---|---|---|
| Sale within the state | SGST CGST | VAT & Excise/ST | Under the new system, a transaction of sale within the state shall have two taxes, SGST- which goes to the state and CGST which goes to the Centre. |
| Sale outside the state | IGST | CST& Excise/ST | Under the new system, a transaction of sale from one state to another shall have only one type of tax, the IGST-which goes to the Centre. However the state portion will be remitted to destination state from it later. |

## STUDY OF IMPACT ON STATES

Under the new GST structure, the states where the goods or services are consumed will collect the taxes. This means losses could be more for the producer states and the consumer states will be benefitted. That is leading to the Compensation argument by the States from the Centre for loss of their tax revenue. The Centre has decided on a five-year compensation scheme for the states that but states don't want to agree on a limited time frame out of the fear that five year may not be enough for full revenue compensation.

Here the Centre's earlier VAT compensatory scheme may be of some vital reference implemented on 1 April, 2005. The centre in order to compensate the states for the revenue loss due to VAT implementation had came out with a compensation structure of 100 per cent in the first year, 75 per cent in the second year and 50 per cent in the third year. But the effective implementation of VAT resulted into good growth in revenue, and hence the Centre had not much financial burden on account of VAT. It received only INR 13,167 crore worth of compensation claims by the states by January, 2008. This scenario may be expected in case of GST also, but only in the long run, and not in the short run.

As GST is going to have differential impact on the more industrialized manufacturing states and the relatively less industrialized and even economically disadvantaged states, it is but legitimate to expect the states concerns as genuine. That is, the two major concerns raised by the states in the Lok Sabha debate-one, loss of revenue and two, loss of fiscal autonomy.

In terms of loss of revenue, despite the Finance Minister's assurance the manufacturing states are more worried. The reason being the nature of GST vis a vis VAT. VAT is the current tax regime by which states collect indirect taxes. But VAT is an origin-based tax while GST is a destination-based tax. In the origin-based tax system, tax is collected at the location of the supplier of the good whereas in the destination-based system, tax in collected at point of location of the consumer of a product.

Tamil Nadu, Maharashtra and Gujarat are among the more industrialized and manufacturing states from where intra-state and inter-state movement of goods takes place heavily. And hence they fear significant losses of revenues particularly in case of inter-state movement of goods from states, in which case GST tax will be collected in other states. Likewise, the overall macroeconomic equilibrium of taxation can be achieved in the medium run by the off-setting likelihood of revenue increases in the consuming states by the implementation of GST. And those states may need the full amount of revenue compensation for five years. This balance of funds can be utilized to compensate loss making states- even for more than five years- if not for ten years as some states demand.

The recent Constitutional amendment talks of assurance of revenue compensation only for 5 years with the modus operandi of 100 per cent of loss compensation in the first 3 years, 75 per cent in the 4th year and 50 per cent in the 5th year. States like West Bengal had also raised concern regarding loss of revenue. And alternative loss compensation mechanism like allocating a significant share from the coal block auction to the coal producing states is being thought out by the Finance Ministry from which West Bengal can be benefitted if implemented. Though entire revenue loss of the respective states are not available, but certain components of their taxes which are likely to be abolished by the implementation of GST can be estimated from their state budgets. For example, Tamil Nadu is estimated to loss annually about INR 3,500 crore from abolish of Central Sales Tax (CST) in the GST regime and Maharashtra is poised to lose INR 14,000 crore from its Octroi collection. States get tax revenue by levying sales tax or VAT on goods sold within their territory and get a share in Central Sales Tax (CST) from the centre on sales made outside the states. To compensate for CST losses, Government has proposed a 1 per cent additional tax on inter-state trade of goods for two years or more to be transferred to the states.

But if one takes into account the likely cascading effect of multiple imposition of this additional tax on inter-state sales of goods, the compensatory impact of the revenue generated from the tax will not be free from its negative impact in the form of net slow down in the demand and sales of those goods due the inflationary impact it might generate on account of increase of cost in the supply chain when a product moves from one state to another and every time fetches an additional tax from state to state.

## ANALYSIS:-REVENUE IMPACT ON ODISHA

ODISHA is the 9th largest state by area and 11th largest by population. Not being a manufacturing state, ODISHA is likely to gain under GST regime as GST is a destination based consumption tax. Number of tax payers following supply rule will substantially increase from the state having population of 4.43cr.Though there is a provision made by the GST council to compensate the state like ODISHA which is having growth rate less than 14% during 2015-16, for losses suffered due to switching over to GST system. It is expected that ODISHA will probably not record loss of tax revenue in GST regime due to increase in tax base and IGST provisions where ODISHA will gain in form of SGST on imports and inter-state supplies. Sectors like tourism, e-commerce, mining, steel, power generation, real estate, IT & ITES will favor the move of ODISHA. Proposed capital investments will make ODISHA a consuming state for plant and machinery and as a service receiving states. ODISHA will get more tax in form of SGST and SGST part of IGST for inter-state supplies and services.

| Tax structure of ODISHA as per 2016-17 | Amounts in crores. |
|---|---|
| Union-Direct tax share | 15,927 |
| Union-indirect tax share-excise & service tax | 6,343 |
| Union-indirect tax share-Customs Duty | 4,297 |
| Total union Taxes of ODISHA plans to get in 2016-17 | 26,568 |
| State Indirect Tax(Sales Tax) | 13,616 |
| State Tax which will not be affected | 9,584 |
| Total Tax Revenue of Odisha | 49,768 |

| Taxes that will be subsumed under GST | Amount in crores |
|---|---|
| Union-Indirect Tax share-excise & service tax | 6,343 |
| State Indirect tax(sales tax) | 13,616 |
| Total | 19,959 |
| % of the Total sales Tax Revenue that will be subsumed | 40 |

When we look the Budget Estimate of Govt. of ODISHA for the year 2016-17 we find that around 40%(rs.19,959cr) of the estimated tax revenue of Rs.49,768cr will be subsumed under GST regime. when ODISHA migrated to VAT from the earlier state sales tax in 2005-06,there was a record increase in the number of registered dealers which rose from 68,186 to 90,873(More than 33% increase in one year) and in the same line number of tax payers will substantially increase.

Though ODISHA will share part of its sales tax in form of CGST and IGST with the union Govt., still with addition of manufactures, service providers, service receivers, increase in trade volumes, inter-state supply, effective tax administration, effective collection system and compliance due to robust IT intervention in form of GST Network etc.GST will benefit ODISHA.

The state government of Odisha reiterated its demand before the Centre for imposition of green tax on mining.

At the state finance ministers meeting, chaired by Union finance minister Arun Jaitley, in New Delhi, finance minister Pradip Amat said mineral bearing states like Odisha will not benefit from the proposed Goods and Services Tax (GST) unless constitutional provisions were made to compensate such states. "Under GST, the destination principle applies and the mineral producing state where pollution may be localized does not get any part of the revenue. It is only the consuming state that gets tax revenue whereas the pollution is suffered by citizens of the producing state," Amat told the meeting. "Taking into consideration the adverse environmental impact, we propose levy of an additional non-rebatable cess under GST," he added. States have been making losses due to phasing out of central sales tax (CST), he said, noting that Odisha has over Rs 2,300 crore outstanding CST dues pending with the Centre.

## CONCLUSION

From the above study it is found that under the new GST structure, the states where the goods or services are consumed will collect the taxes. This means losses could be more for the producer states and the consumer states will be benefitted. ODISHA is consumption based state, so ODISHA will gain under GST system and if in any way the govt. will suffer loss then it will be compensated by the Central Govt. initially for five years. From above research it is seen that ODISHA will gain and it will give a new way for the development of the state.

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