

THE CRISIS IN FISCAL FEDERALISM

Relevant for: Indian Polity | Topic: Issues and Challenges Pertaining to the Federal Structure, Dispute Redressal Mechanisms, and the Centre-State Relations

Aug 29, 2020-Saturday

-°C

Humidity

-

Wind

-

[Delhi](#), [Mumbai](#), [Chennai](#), [Kolkata](#)

[Noida](#), [Gurgaon](#), [Bengaluru](#), [Hyderabad](#), [Bhopal](#), [Chandigarh](#), [Dehradun](#), [Indore](#), [Jaipur](#), [Lucknow](#), [Patna](#), [Ranchi](#)

Powered by  **OpenWeatherMap**

In July 2017, 28 state governments agreed to give up their sovereign right to levy taxes to make way for the Goods and Services Tax (GST). They agreed to do so because the central government put in an insurance clause, guaranteeing a 14% annual increase in their revenues up to 2022. Meeting this commitment has become increasingly challenging. In a GST Council meeting held on Thursday, the Centre has asked the states to borrow money to meet an (expected) shortfall of Rs 2.35 lakh crore in the promised compensation this year. Of this, it has estimated Rs 97,000 crore as arising from GST implementation — a narrow technical definition that gives it a possible way out of paying the remaining Rs 1.38 lakh crore, which it attributes to Covid-19.

The Centre will approach the Reserve Bank of India (RBI) to facilitate this process and the repayments will be done by extending the duration of cess on luxury and sin goods. But finance ministers of many Opposition-ruled states have objected, arguing that it is the Centre which should have borrowed the money rather than states. These objections are valid when read with the spirit of the GST law. The final decision will be taken next week, when the Council meets again. The states are already in a tight spot. Pending arrears for GST compensation payment to states from April-July 2020 stand at Rs 1.5 lakh crore. While the Centre has claimed that the revenue situation will improve over rest of the year and the total shortfall this year will be contained to Rs 2.35 lakh crore, there is no guarantee on this count. Many private projections estimate that the economy will remain in contraction zone until December.

GST is not the only revenue head under strain. The states will also have to contend with a big shortfall in their own revenues and lower transfers from the Centre for direct taxes and other indirect taxes. A growing share of non-divisible pool of central taxes, such as the windfall tax gains from fall in crude oil prices, will mean that the states bear a greater burden of the revenue shortfall due to the pandemic. The states are doing most of the heavy lifting in fighting the health and economic consequences of the pandemic. The uncertainty on GST compensation payments, along with a huge shortfall in states' share in other central taxes, means that India's fiscal federalism is facing its biggest crisis in a long time.

END

Downloaded from crackIAS.com

© **Zuccess App** by crackIAS.com

CrackIAS.com