

Streamline tax disbursement under GST regime: States tell Centre

Want Centre to amend Constitution to prevent clogging of fund flow

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State governments have asked Finance Minister Arun Jaitley to ensure that the tax they collect and the inter-State transactions under the proposed GST regime do not find its way into the Consolidated Fund of India, from where disbursement to States might become difficult.

At a crucial meeting with Jaitley and his team of officials on Tuesday, the Empowered Committee of State Finance Ministers pressed for a mechanism that would obviate the need to dip into the Consolidated Fund of India, or lead to Centre-State disputes, sources told *BusinessLine*.

West Bengal Finance Minister and Chairman of the Empowered Committee, Amit Mitra, had on July 11 written to Jaitley, stating that seamless transfer of State-GST and Integrated-GST could not happen unless a suitable amendment is made to the Constitution.

Currently, all revenues of the Centre and the States form part of their respective consolidated funds, from where they can be withdrawn only after legislative approval. The Union Finance



The panel of State FMs, headed by Amit Mitra (in picture), does not want the tax mopped up under the GST regime to go into the Consolidated Fund of India, from where disbursement to the States might become difficult

Minister may respond to the matter when the Constitution Amendment Bill, incorporating the recently approved amendments, comes up for discussion in the Rajya Sabha during the ongoing Monsoon Session.

"We all know it is not easy to withdraw money once it goes into the Consolidated Fund of India...so the Constitution needs to be suitably amended," said a State Finance Minister.

"We want an assurance of a clear demarcation of funds," said another State Finance Minister.

Fears unfounded: experts

However, experts have rebuffed such fears, but say

they may have risen owing to the current issues of compensation with regard to the division of the Central Sales Tax. "The concern is unfounded as I-GST funds will go to the clearing house for transmission to the respective States," said Mahesh Purohit, Director, Foundation for Public Economics and Policy Research.

Inflationary concerns

As regards concerns that the GST will be inflationary, Mitra told *BusinessLine* that the matter was raised at the State Finance Ministers meeting, and it had been subsequently decided that the tax rates will be decided based on two principles: it should not adversely impact the consumer, and should protect the revenues of the State.

A government official said: "Any new regime is bound to have inflationary impact initially... the government is well aware of the implications and is already preparing the grounds to avoid it. This is an argument which even the Congress is putting across."

Besides, the proposed GST Council is expected to resolve many such issues, including tax rates. Clarity on what will happen to the various cesses currently levied is expected only once the GST law is in place.

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