

## **Goods and Services Tax and State Revenue: Case Study of Uttar Pradesh**

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*One of the problems in the introduction of GST relates to loss of revenue to the States, given the base and the rates of the tax. In the context of two different structures suggested by the Empowered Committee of State Finance Ministers and the Central Government, this paper is an exercise in different methodologies for estimating probable loss of revenue to the States. Three different approaches, viz., revenue approach, turnover approach and consumption approach, are adopted with finer details to estimate the revenue from GST. The projected revenue is presented for Uttar Pradesh for the period of award of the Thirteenth Finance Commission, i.e., 2010-2011 to 2014-2015.*

India's indirect tax structure is unique. While the Union Government has the authority to impose a broad spectrum of union excise duties (UEDs) on production or manufacture of goods, the State Governments are assigned the power to levy tax on sale of goods. Also, the tax on services is now assigned to the Union Government.<sup>1</sup> Due to the dichotomy of authority under the Constitution, India has not adopted a European-style-VAT. It has gone in for a dual-VAT, i.e., a VAT at the Federal level (Central VAT) and a VAT at the State level (State-VAT).

Following successful implementation of VAT, further efforts are being made to have a major reform in overall commodity tax system of the country by introducing a goods and services tax (GST). The basic objective of this reform is to have an efficient, effective and taxpayer-friendly system of taxation of goods and services encompassing union excise duty and service tax of the Union Government, and sales tax and related taxes of the State Governments.

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<sup>1</sup> Initially the authority to levy tax on services was not specifically assigned to either of the Governments and was enshrined in the Union List. With the recent constitutional amendments it has been assigned to this List.