States' Resort to Liquor Sales

What is the issue?

- Many of the states decided to permit liquor shops to open amidst lockdown, despite protests against opening.
- In this context, it is imperative to look if the tax structure was a factor in forcing the states to this decision.

What are the sources of revenue for states?

- Most States raise resources through a combination of their own taxes and a share in the Centre's taxes.
- For richer States, 70% or more of their revenue comes from taxes generated within their State boundaries.
- [These include states such as Maharashtra, Tamil Nadu, Gujarat, Delhi, Karnataka, Punjab, Haryana and Kerala.]
- Nearly half of these were from the sale of goods and services within the State.
- The remaining half comes from a combination of excise duties on petrol, electricity, alcohol, land registration fees, etc.

What has GST done to the states?

- In the pre-GST era, States were free to charge sales taxes as legislated by their State legislatures.
- If a State had a natural disaster, they could raise additional resources for rehabilitation by raising sales tax rates on goods and services.
- But now, under GST, States sacrificed their fiscal powers in the promise of 'economic efficiency' and 'tax buoyancy', which never materialised.
- Under GST, States are legally entitled to their share of tax revenues collected in their State.
- But they are reliant on the Centre to release these funds to them periodically.
- When the GST was enacted, States were also guaranteed a minimum tax revenue every year for a period of 5 years.
- But the Centre has failed on these commitments.
- In all, the GST has largely forced the States to surrender their powers to raise resources independently through local State taxes.

- It has placed them entirely at the mercy of the Centre for most of their financial needs.

What does this mean at pandemic times?

- In the midst of the COVID-19 pandemic, the Centre's failure to release its due to the states mean a triple blow for the States:
    1. not being paid what they are owed
    2. not being helped with additional resources
    3. bearing the brunt of the pandemic's impact
- Not only are they not paid what is rightfully due to them, they have also lost the powers to raise their own sales tax revenues.

How would liquor sale help states?

- The other revenue options are through taxes on sale of petroleum products, alcohol, lottery tickets, electricity, and, land or vehicle registration.
- During this extreme lockdown, demand for petroleum products, electricity, land and vehicles has diminished substantially.
- So, the only option left for most States is to raise funds through the sale of alcohol.
- For the large, richer States, alcohol sales account for more than one-third of their State tax revenues.
- Ironically, thus, the States are being forced to rely on alcohol for resolving a health crisis.

Can the States borrow money to deal with the crisis?

- To borrow more, the states need the Centre's approval to raise their borrowing limit or to stand as guarantors.
- Since States do not have clear revenue visibility, the rates at which they can borrow are very high.
- Naturally, their ability to borrow is severely undermined.
- They are once again dependent on the Centre to borrow funds from the market and then release them to the States.

What does this all imply?

- The COVID-19 situation demands a decentralised approach at the local level.
- The resources needed to fight this disease should also be raised locally and not be dependent on the Centre.
- But the Centre has defaulted on its financial obligations to the States at a critical juncture.
- The efficient functioning of a GST regime are being beholden to political

party affiliations at the Centre and the States.

- The catchphrase “cooperative federalism” has proved to be neither cooperative nor federalist in times of this crisis.
- The idea of ‘one nation, one tax’ has proved to be deeply flawed in an economically and politically divergent India.
- For the five States that account for half of all GST collections in the country, it is time to rightfully challenge the very idea of GST and its way of implementation.

Source: The Hindu

