

## **FISCAL FEDERALISM AND TAXATION: AN ANALYSIS OF GOODS AND SERVICE TAXES AND THE PROPOSED LAW IN INDIA**

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### **Abstract**

Most of the world's nations, including India, are Federal systems, in which there is a system of power sharing in all areas, including the power of taxation. In a Constitutional system like India, however, it is a natural tendency for the Central to retain more power in matters such as taxation. For many years, taxation in India has been a federal subject leaning slightly in favour of the Centre.

The concept of Fiscal federalism is very wide in nature, and therefore for the purpose of this project, the study of this concept is limited only to the introduction of the GST in India, in as much as it is expected to cause a large shift in the balance between the Centre and the States. There are many countries which have implemented the GST in their systems, of which France was the first one. New Zealand is one of the first nations to have successfully implemented the GST in its own country, whose system was taken as a base by many other countries. Canada has been given the status of 'Quasi Federal' by K. C. Wheare, as has been India. Australia is a federal country which has a highly centralized structure. All these nations have successfully implemented GST in their own nations. India shall, if all goes as per plan, have the Goods and Service Taxation system installed in India in the coming years. The Article studies the evolution of tax law in India right up to the introduction of the Constitution (One Hundred and Twenty Second Amendment) Bill, the provisions of the Bill and the probable impacts.

**Keywords:** GST, Fiscal Federalism, Taxation, Fiscal Law, Constitutional Bill

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## INTRODUCTION

India is a part of the ongoing struggle for the restructuration of economies in a bid for progressing towards an enhanced, economically developed world. For any country, their scheme of taxation plays an extremely important role, in as much as the tax revenue is the most important factor that keeps any Government running. Taxation in any country is comparable to a contribution that a member of each household makes to the running of a house, each of whom takes on responsibilities of equal distribution of debt payment, and other fiscal responsibilities. Except that in a nation, the contribution is made on a much larger scale. Any nation is composed not solely of one entity that a single nation is, but is made of several Units or States. For a federation, which divides the powers of taxation and revenue equally between the Centre and the states, the policy decisions that are made by the Central Government have to be made, keeping in mind the states along with their allegiance at each juncture. The revenue generated by taxation is needed equally by the Centre as well as the States. Apart from fiscal independence, some amount of equality in the division of the taxation powers is required to ensure the fiscal federalism in any country. To check whether a system in any nation is indeed fiscally federal, three major questions can be posed, *firstly*, whether the nature of the Government is Federal or Unitary. If the nation is a federal nation then *secondly*, how are the states represented in the Centre? and *thirdly* how should taxing and spending responsibilities be allocated among central and state or lower tiers?

A game changing concept in the history of India, in the way of Goods and Services Taxes, is proposed to be established in India. The concept of a unified system of indirect taxation is not novel and has been implemented by a large number of countries. However, the taxation system for indirect taxes that is proposed to be implemented in India, is not only new to the Indian system, but introduces new system of taxation, i.e. Dual GST. It is proposed by the Government that a system of taxation with taxes levied at both the Centre and the state level be established. This system of taxation is 'destination based', which means that the taxation on multiple levels would be changed into only a final consumer paying the taxes that would 'stick'. It has been said frequently with regards to the introduction of GST in India, that it would enable seamless transfer of goods and services across India. In this paper, the concept of Goods and Services tax is explored, along with the Constitution 122<sup>nd</sup> Amendment Bill that has been passed by the Lok Sabha and is pending in the Rajya Sabha as of the time when this project is submitted. The introduction of this tax in India, shall be a tricky business. As mentioned earlier, Dual GST is proposed to be introduced in India, and there shall be not only one integrated GST law at work in the nation but one law for each state in India, who shall follow a model law for the purpose of enacting this law in their own state.

## EVOLUTION OF GOODS AND SERVICES TAX

The Goods and Services Tax has been on the back burner in the Indian system for quite some time and it is proposed to be introduced into the system finally, in a short time. The system has been implemented and used successfully in quite a few countries. However, before discussing the different countries, the proposition of the introduction of the law in the Indian system, the method of introduction along with related concepts are discussed here.

## The Concept of Fiscal Federalism

Fiscal Federalism in the Indian context deals with the division of Government functions that are financial in nature between State and Centre. Countries generally aim for federal structures to improve their public sectors, and therefore decentralization is in vogue<sup>1</sup>.

The proper goal of improving the public sector cannot be merely de-centralization. This public sector consists of many different levels and sub levels in most countries. The responsibilities and fiscal instruments have to be aligned with the proper levels of Government in each country, and it is here that the issue lies. This allotment of responsibility has to be done in accordance with the nature of the Constitution of the Country as well as the need of the hour. The federal system must have been created in nations with the intention to combine the various advantages, thoughts and ideologies which would result from multitude in the state units. However, in order to realize the different advantages, which functions and instruments are best centralized and which instruments are best placed in the sphere of decentralized levels of government have to be understood. To carry out their functions, the various levels of government require specific fiscal instruments. On the revenue side, governments will typically have access to tax and debt instruments. But in a federal system there is a further method for allocating funds among the different levels of the public sector: intergovernmental grants. One level of government may generate tax revenues in excess of its expenditures and then transfer the surplus to another level of government to finance part of the latter's budget.<sup>2</sup>

Therefore, basically the concept is related to the performance and improvement of the public sector, and their services by ensuring that there is a proper alignment of the different layers of their administration, responsibilities and fiscal instruments<sup>3</sup>. Other than the impact of globalisation and deepening of democracy, reasons for introduction of greater fiscal federalism are, *firstly* the central governments find that it is impossible for them to meet all of the competing needs of various constituencies, and are attempting to build local capacity by delegating responsibilities to their sub-national governments; *secondly* Central governments are dependent on sub-national governments to assist them on national economic development strategies; and *thirdly* sub-national political leaders are demanding more autonomy and want the taxation powers that go along with their expenditure responsibility<sup>4</sup>.

Therefore the concept of fiscal federalism, is an important factor taken into consideration while making amendments to the tax structure of a country, which is studied in the present project with reference to the Goods and Services Tax.

## The Concept of Goods and Services Tax (GST)

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<sup>1</sup> William E. Oates, 'An Essay on Fiscal Federalism', (1999) 33 Journal of Economic Literature 1120-1149

<sup>2</sup> William E. Oates, 'An Essay on Fiscal Federalism', (1999) 33 Journal of Economic Literature 1120-1149

<sup>3</sup> 'Issues for Parliamentarians', Parliamentarians' Forum on Economic Policy Issues, (2011) <[https://www.google.co.in/url-2011Fiscal\\_Federalism\\_in\\_India\\_Call\\_to\\_Revisit\\_the\\_Debate.pdf](https://www.google.co.in/url-2011Fiscal_Federalism_in_India_Call_to_Revisit_the_Debate.pdf)> accessed on 18 October, 2015

<sup>4</sup> Ibid

Goods and Services Tax (GST) is a form of value Added Tax. It is a unified taxation system, which aims at reduction in the multiplicity of central and state indirect taxes in order to streamline the taxation system. GST will be levied at the central and state level given the federal structure of Indian polity. In other words, central GST or CGST will incorporate taxes such as the central excise duty, additional custom duties, sales tax. The state GST or SGST shall include taxes such as electricity duty, sales tax, value added tax (VAT), entertainment tax, luxury tax, lottery tax. Further, it is proposed that the octroi (entry tax) will be discontinued altogether.

The Union government solely will be responsible for deciding on the levy of GST on imports and the inter-state trade and commerce. The revenue from the tax collected shall be distributed between the Central and state governments in a manner to be provided by the Parliament, based on the GST Council's recommendations. Certain goods will be kept outside the purview of GST until there is clarity between the states and the Centre on their taxation. These include crude petroleum, high speed diesel, petrol, natural gas, aviation turbine fuel, and alcohol for human consumption.

#### **14<sup>th</sup> Finance Committee Report**

The 14<sup>th</sup> Finance Committee Report was required to consider the impact of the proposed Goods and Service Tax on the finances of Centre and States and the mechanism for compensation for the states, in case of any revenue loss. While doing so, the committee was required to take into account the impact of the proposed goods and service tax (GST) on the finances of the Centre and States and the mechanism for compensation in case of revenue loss.

While the introduction of the GST would have a favourable impact on both the Union and State finances, there may be a need for revenue compensation to States by the Union Government for the transitional years. The Commission's mandate was to recommend the mechanism to be adopted for such compensation. Since the structure of the GST is yet to be decided, it is difficult to arrive at reliable estimates of the nature of gains and losses it could entail. Specifically, in the absence of clarity on the taxes to be merged into GST, rate structure, exemption thresholds and design, an amount required for GST compensation to States cannot be determined. However, in case there is a revenue loss to States due to the introduction of the GST, the Union Government should be able to make resources available for compensation, it was recommended.

#### *Views of the State Governments*

The States had been approached by the Finance Committee for their own views on the subject and the states had generally favoured the implementation of GST while expressing reservations on five critical issues- *firstly* Revenue compensation mechanism along with a proper estimation of revenue loss, *secondly* there are different views regarding the list of goods to be subsumed under GST, as per which they have suggested that alcohol and motor spirits should stay outside the purview of GST., some states have proposed that they should

be allowed to levy a separate entertainment tax or other such taxes for the purpose of transferring it to other local bodies. Some flexibility in the design of GST to enable the levy of a Green Tax on certain polluting goods has been suggested by the states, *thirdly* a few states have argued that although a uniform tax is desirable, they should be able to fix their own taxes within a band fixed by the government, and *lastly* a few states have also suggested that a one-time grant for the purpose of building capacity and strengthening the administration would be desirable.

### **The evolution of taxes in India**

Before the current system of Value Added Taxes (VAT) was introduced in India, in the Centre and States, a Central Excise Duty was charged at the Centre and the states had a Sales Tax system. In the *Central Excise Duty* system the producer of any Commodity has to pay taxes on two instances, when he buys the raw material, or on the *Inputs*, and then Output tax on the Produced Commodity or the *Output*.

In the *State Sales Tax* system there was a system of multi-point sales taxation at each progressive level of trade. The sales tax was added on purchase made at each level. This was in addition to the existing input tax load. This caused a burden on each consumer of multiple taxation with cascading effect.

Reformation in the indirect taxation occurred with the introduction of the Modified Value Added Tax (MODVAT) in 1986 for selected commodities at the Central level. Gradually this tax was extended to all the commodities through the Central Value Added Tax (CENVAT), and later to Services. At the State level, reform was occurred in phases through introduction of Value Added Tax (VAT), between April 2003 and January 2008. In the system of Value Added Tax that was introduced in India in place of Central Excise Duty, a set-off is given from the tax burden for input tax. There is a system of checks in this system of taxation, which results into relaxation on the issue of multiple taxation and related burden of the cascading effect is removed. Since, the benefit of Set-Off can only be obtained if tax is regularly and duly paid on the inputs at the Centre level, and on both the Inputs as well as previous purchases, at the State level. The Value Added Tax system was also very beneficial since there was a built in check in the VAT structure on tax compliance in the Centre as well as the State, with increased transparency and reduction in tax evasion.

Because of the federal nature of our nation, introduction of Value Added Taxes to states was a challenging exercise. The reason behind this is that each state has been given the power of being sovereign in the matter of levying and collecting state taxes. Another problem in this regards was that each state had the autonomy to some extent, on the fixing the sales tax in different commodities among the states. This resulted in an unhealthy competition among states in terms of tax rates, often resulting in counter-productive situation<sup>5</sup>.

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<sup>5</sup> Empowered Committee of State Finance Ministers, 'First Discussion Paper on Goods and Services Tax in India' 10 November 2009

During the UPA (United Progressive Alliance) regime, the 2006-07 Union Budget announced that the GST law would be introduced by 2010 and a roadmap for the same would be sketched and finalized<sup>6</sup>. In the budget speech P. Chidambaram had announced that the country needs to move towards a national level Goods and Services Tax that should be shared between the State and the Centre. He proposed that April 1, 2010 be set as the date for the introduction of GST in India. Instead of directly enacting the system of GST, it was proposed that the system of taxation should progressively converge the service tax and the CENVAT rate. Later, there was mention of preparation of the road map for introducing a national level Goods and Services Tax, by the empowered committee of the state governments via their finance ministers, in the budget speech for the year 2007-08<sup>7</sup>. In the budget speech of 2009-10<sup>8</sup>, it was announced that the committee had decided upon a basic structure for the tax while keeping the principles for fiscal federalism in our Constitution intact. It was then, that the structure of GST which was to be dual in nature was laid out.

The first discussion paper on GST in the public domain was submitted in 2009. In 2011-12, as a step towards the roll out towards GST, the budget proposed introduction of a Constitutional Amendment Bill, in the parliament session, which was introduced in March 2011. The structure of GST Network was approved and it was proposed to be set up as a national information Unit, by the Empowered Committee of State Finance Ministers. In the budget speech for 2015-16, in which as part of the movement towards GST a state of art indirect tax system is to be put in force with effect from 1<sup>st</sup> April, 2016<sup>9</sup>. The 122<sup>nd</sup> Constitutional Amendment Bill was tabled for the introduction of GST in India, in Lok Sabha on December 19, 2014. The Bill was passed in May 6, 2015, in the Lok Sabha. The bill has not been passed in the Rajya Sabha, as of the date of submission, as the ruling party does not have a majority in the Lok Sabha.

Currently, the model Goods and Services Tax Law for the Centre and the States has been drafted, along with an integrated GST which will be put up in public domain from November.<sup>10</sup>

## **THE CONSTITUTION (ONE HUNDRED AND TWENTY SECOND AMENDMENT) BILL, 2014**

The Constitution (One Hundred and Twenty Second Amendment) Bill, 2014 has been introduced in order to make significant changes to the Constitutional provisions pertaining to the taxation powers of the Centre and the State. The Bill inserts definition of the terms,

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<sup>6</sup> Ministry of Finance-Government of India, 'Union Budget and Economic Survey, Budget 2006-07' (India Budget) <<http://indiabudget.nic.in/ub2006-07/ubmain.htm>> Accessed 15 October, 2015

<sup>7</sup> Ministry of Finance-Government of India 'Union Budget and Economic Survey, Budget 2007-08' (India Budget) <<http://indiabudget.nic.in/ub2007-08/ubmain.htm>> accessed 15 October 2015

<sup>8</sup> Ministry of Finance-Government of India 'Union Budget and Economic Survey, Budget 2009-10' (India Budget) <<http://indiabudget.nic.in/ub2009-10/ubmain.htm>> accessed 15 October 2015

<sup>9</sup> Ministry of Finance-Government of India 'Union Budget and Economic Survey, Budget 2015-16' (India Budget) <<http://indiabudget.nic.in/ub2015-16/ubmain.htm>> accessed 15 October 2015

<sup>10</sup> <<http://www.gstindia.com/centre-circulates-model-gst-laws-among-states/>> accessed 16 October 2015



‘Goods and Services Tax’, ‘Services’, and ‘State’. (12A) “goods and services tax” means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. (26A) “Services” means anything other than goods; (26B) “State” with reference to articles 246A, 268, 269, 269A and article 279A includes a Union territory with Legislature;’.

The insertion of *Article 246A* of the Constitution of India, is a major departure from all previous laws. The insertion in fact is of major implication in comparison to all the other previous laws, in as much as the amendment brings a federalist change to the taxation system in India. It states that the legislatures of all states have power to make laws for goods and services tax imposed both by the Union or the concerned State. However, *Article 246A(2)* states that, only the Parliament has the power to make laws for supply of goods or services or both in course of inter-state trade or commerce.

Another significant amendment by way of insertion to the Constitution is *Article 269A*. In the course of inter-state supply of Goods and Services, tax shall be levied by the Government of India and the collected tax shall be apportioned between the Union and the States. The explanation appended to the Article states that the import of goods, services or both shall be deemed to be supply of goods, services or both in the course of inter-state trade and commerce. *Art. 269A (2)* states the principles for determining the place of supply, and when the trade of goods, services or both takes place in course of inter-state trade and commerce.

Also inserted by the amendment is *Article 279A*, which provides for the establishment of a Goods and Services Tax Council (Hereinafter referred as the GSTC). It provides that the council shall be set up by the President within 60 days of the commencement of the Constitution (One Hundred and Twenty Second Amendment) Act, 2014. The provisions of *Article 246A* shall take effect from the date recommended by the GSTC. The GSTC shall be responsible for advising the Union and States for tax related matters and making recommendations on *Firstly* taxes, cesses and surcharges levied by the Union, States and Local bodies, which may be subsumed in the goods and services tax; *Secondly* the various goods and services that may be subjected or exempted from the Goods and Services tax; *Thirdly* construction of model Goods and services Tax Laws, principles of levy, apportionment of Integrated Goods and services Tax, and the principles governing place of supply; *Fourthly* the threshold limit of turnover below which goods and services may be exempted from goods and services tax; *Fifthly* the rates including floor rates with bands of goods and services tax; *Sixthly* any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster; *Seventhly* special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and *Eighthly* any other matter relating to the goods and services tax, as the Council may decide.

It also provides that that the GSTC shall determine the procedure in the performance of its functions. The Centre and all the States shall be proportionately represented in GSTC in the ration of 2:3, wherein the Centre and all the States shall have a weightage of one-third and two-thirds, of the votes cast, respectively.

## **Comments of the Rajya Sabha Select Committee on the Constitution (One Hundred and Twenty Second Amendment) Bill<sup>11</sup>**

The Bill was introduced in Lok Sabha on December 19, 2014 and passed on May 5, 2015. Post that, for the purpose of further examination, the Bill was referred in the Rajya Sabha to a select Committee. The Committee in turn submitted their report on July 22, 2015.

The Bill had propositioned that the States should be provided compensation for a period *up to* five years, however the Committee was of the opinion that the States should be provided compensation *for* a period of five years, thereby suggesting that the period for compensation should be, under no circumstances, less than five years. There were certain notes of dissent in the Committee Report. On this point however, they had just further built on the already existing provisions and stated that the states should be provided with compensation up to 100% and the compensation should be deposited in a GST compensation fund under the GST council.

The Bill suggests that the alcoholic liquor for human consumption should remain outside the purview of GST. The tax would be imposed on petroleum crude, high speed diesel, motor spirit, natural gas, aviation turbine fuel at a later date. With regards to Tobacco, the bill proposed that it shall come within the purview of GST and that additional levy shall be imposed on it. Although on this point the committee proposed no changes, the dissenting opinion suggested that tobacco, alcohol and electricity supply and consumption should be brought within the purview of GST within a period of five years. It was further proposed that the States should also be allowed to levy taxes on tobacco, and that petroleum products should be kept outside the purview of GST.

With reference to the proposed GST council, the dissenting opinion in the Committee stated that there was no need for a separate GST council, and that a body like the empowered Committee of state finance ministers would be adequate. While the Bill has proposed that the GST council should have the power to decide upon the modalities to resolve disputes, the dissenting opinion in the Committee, suggests that the GST disputes settlement authority as was provided for in the 2011 Bill, should be included.

## **CONCLUSION**

With the introduction in India of the new GST regime, fiscal federalism shall take on a new role, with respect to the division of powers between the States and the Centre. India has emerged as one of the top investment destinations in the world, in a global survey of top decision makers in multinational corporations. 'Ready, set, grow : EY's 2015 India's attractiveness survey', was conducted during March and April, 2015 and includes the

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<sup>11</sup> Prianka Rao, 'Goods and Services Tax (GST): Comparison of the 2014 Bill with the recommendations of the Select Committee' (2015) PRS legislative Research, July 23, 2015 <[www.prsindia.org](http://www.prsindia.org)> accessed on 30 September, 2015



opinions more than 500 decision makers from multinational organizations across sectors<sup>12</sup>. The implementation of GST in India was considered as an important factor towards attracting FDI. The introduction of GST in India is definitely going to be path breaking.

In the Indian context, the Constitution system can be found midway between the Constitution system in Canada and Australia, as it is not highly decentralized nor does our federation lean heavily towards the Central system. The existing system of the State VAT has been devised by the State legislature under Entry 54 of List II of the Seventh Schedule to the Constitution, which states that *Tax on sale or purchase of goods other than newspapers except tax on interstate sale or purchase*. Inter-State purchase or sale of Goods cannot be legislated upon by the State. The Canada system encourages free trade between States, and has put protective provisions for this very purpose in its Constitution. The Indian system has withdrawn the very power of making laws pertaining to the transaction between states from the legislative powers of the states. This is for the very obvious objective that since up until now each state could determine its own law for certain subjects, subject to the central laws, each state was likely to look out for its own interests. Article 301 of the Indian Constitution which provides that Trade, commerce and inter-course throughout the territory of India shall be free, subject to provisions of Article 302 to 304 of Constitution, find their counter-part in the Canadian Constitution too. Much like the judicial review of the free trade between states in Canada as has been mentioned above, in *Jindal Strips Ltd. v State of Haryana and others*<sup>13</sup>, Entry tax in Haryana was held as ultra vires of article 301 by Punjab & Haryana High Court.

From a perusal of the laws of all the three above mentioned countries, one aspect that particularly comes forth is that in each case, a threat had been posed to the State Governments as the reduction of the revenue income is one of the common effects of the introduction of the GST Bill. It is probable that the compensation scheme that is proposed on a five year basis for all the states will make the situation better and ensure the smooth transition that is needed for the introduction of major changes such as the GST Bill in India.

Perhaps the most significant departure from the tradition adopted by all the countries is the proposition of the introduction of the dual GST in India, which shall certainly serve to look after the interest of the fiscal federalism in India, and to some extent, shall also give it a major boost. One of the problems that New Zealand had faced upon introduction of the GST was the enormous amount of paper work that the registration and other stages involved as there was multiplicity on the levels at which the taxes would be charged. However to avoid this and also to avoid the menace of Black Money which is the evasive companion of taxation, the Government is planning to link the permanent Account number with cash transaction in order to combat black money. This would mean that records of cash transactions beyond a

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<sup>12</sup> Puja Mehra, 'India most attractive investment destination', The Hindu, 15 October, 2015 <<http://www.thehindu.com/business/Economy/india-most-attractive-investment-destination-ey/article7762268.ece>> accessed 15 October, 2015

<sup>13</sup> (2007) 29 PHT 385 (P&H)

certain limit would be accessible by the Income Tax department<sup>14</sup>, and the online transactions would mean reduction in tedious paper work.

Other similarities or disparities between these nations, can only be chalked after the final outline of the GST, as it shall be implemented, is obtained. On a prima facie perusal of the systems which have successfully implemented the GST system, albeit minor glitches, it seems to work fine. However, it also appears that the working of the GST comes at the cost of a nation's federalist policies. GST in the present context is not discussed in view of the political parties and the conflict in their ideologies; it is instead linked to the concept of fiscal federalism in the Indian Constitution. One of the major impediments to the fiscal federalism in India lies in the uncertainty in the law and the intention of the law makers as to the implementation of the proposed structure. Although the intention of the Government seems very strong on the implementation of a Bill which was long pending, the path for GST shall only become clear after the model draft bill which is proposed to be circulated in various states, is inculcated in the system. The dual GST system shall mean that there will be one integrated Union law and about 28 State laws, and since it is apparent there is no compulsion for each state to adopt one uniform set of laws in view of the fact that the situation in each state is different, there will certainly be a lot of disparities in the way the law is implemented.

If the GST model fails or the GST council which is to be the institutional mechanism for most transactions is not able to act fairly and acts arbitrarily instead, then the failure of the fiscal federalism will be on a rather large scale. The herculean task of drafting the Central GST, the State GSTs and the inter-state GSTs is yet to be completed, and there is no way of predicting what will be the substantive and procedural law that the Acts shall contain. The Government has not yet decided a cap or declared the rate at which this tax shall be chargeable. For a nation which is infested with the problem of Black Money, a very high cap is likely to result into large scale tax evasion.

The relation of taxation with the consumers can be explained with the help of a certain illustration. For instance if a person in a certain system has Rs. 50/- to buy a certain commodity and the certain commodity costs Rs. 30 /- then the person can buy the commodity and have some surplus left over. However, with the GST structure in place, suppose the price of the commodity rises beyond Rs 50/-, then the person will not buy a certain commodity. Therefore, it is necessary that the dual GST to be imposed at both the state and the centre level should not go beyond a certain level so that it does not hinder the buying power of the economic backward section.

It is important for a federal polity like India that not only the Centre is made strong but each of the States should be made stronger, as a chain is only as strong as each of its links. Thus, all the states should be pulled up to provide a market-friendly ecosystem.

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<sup>14</sup> Santosh Tiwari, 'FM Arun Jaitley's Facebook post: Linking PAN with cash transactions will hit blackmoney hard' *Financial Express*, 5 October, 2015

The position of all states in India is not similar and some of these states are in a better position to carry out trade. The system in its content promises to be a successful one, but a correct view can only be obtained after the Government is able to implement it successfully. The compensation policies that the Government promises to provide to the states, is likely to be an important factor that shall help the states in the long run, by compensating the revenue lost and also enable them to prepare themselves for the future after the experimentation stage is over. To ensure, that the states also remain in a strong position, attain a stronger position, and to ensure that the fiscal federalism in India is maintained, having a policy is not simply enough, it has to be implemented properly. GST is made for a brighter future for taxation in India, but it is necessary that along with the Centre, Revenue, Inter-state relationships, the people of India should also benefit.

One of the most important and encouraging factors of the introduction of GST in India is the concept of Cooperative Federalism, that the Government claims, shall be boosted in the new tax regime. Cooperative federalism aims to rebalance powers between the Centre and the states. The idea is that it is, perhaps, easier for the Centre to allow states to implement their own reforms agenda than try to impose reforms, sometimes contentious, on the entire nation. That is the correct and the most important factor that has to be looked after, to effect enhancement of the smallest Unit of the Centre and thereby the Centre itself, in order to give our country the boost it requires to move towards federally, fiscally, politically and economically stable times.