

1. GST Council Votes for 28% GST on all Lotteries

Prelims Level: Polity

Mains Level: GS-II Functions and responsibilities of the Union and the States, issues and challenges pertaining to the federal structure, devolution of powers and finances up to local levels and challenges therein.

Why in News?

- The GST Council broke its tradition of taking decisions by consensus at its 38th meeting which was held recently.

About GST Council:

- Article 279A says that President shall by order constitute a Council to be called the Goods and Services Tax Council.
- The Goods and Services Tax Council is a constitutional body for making recommendations to the Union and State Governments on issues related to Goods and Service Tax.
- It is chaired by the Union Finance Minister.
- The other members are the Union State Minister of Revenue or Finance, and Ministers in-charge of Finance or Taxation of all the States and Union Territories of Delhi, Puducherry and Jammu & Kashmir.
- Centre has 1/3rd voting rights and states have 2/3rd voting rights in GST Council. Decisions are taken after a majority in the council.
- Article 279A (4) specifies that the Council will make recommendations to the Union and the States on the important issues related to GST, such as, the goods and services will be subject or exempted from the Goods and Services Tax.

About the Issue:

- The GST Council broke its tradition of taking decisions by consensus at its 38th meeting on Wednesday, with a first time vote on a proposal to tax all lotteries at the uniform rate of 28%. After Kerala pushed for a division, States voted 21-7 in favour of the proposal.
- There have been widespread concerns about the shortfall in tax revenue at a time of economic slowdown and lower consumption.
- In the first eight months of this financial year, only about 50% of GST collection targets and 60% of compensation cess collection targets have been achieved.
- The Centre's revenue projections indicated that it would run out of money to compensate states by February 2020. It will result in cut to social sector spending.

- With regard to lotteries, there is a dual rate regime at present, with state-run lotteries taxed at 12%, while state-authorized lotteries (run by private players) face a 28% tax rate.
- The Council was also reminded that the rules allow voting and that tradition is not part of the rulebook, and the rules are what should govern the running of the Council.
- The vote went in favour of the proposal and a uniform 28% tax rate on lotteries will come into effect from March 1, 2020.

GST and Centre – State Financial Relations:

- The Council made up of state finance ministers and with the Union finance minister as the chairperson, has served up a superb template for cooperative federalism.
- There will be disagreements, sometimes very fundamental, yet convergence for the cause of the larger global good is very much possible.
- Both the Centre and the States agreed to share their powers to achieve uniformity and remove compartmentalization in indirect taxation.
- GST Implementation Committee (GIC), Standing Committees and Sectoral Groups have representation of Centre and State Officers in to ensure quick administrative decisions.
- Realizing the future potential of India will require states to be key (if not equal) stakeholders in policy decisions, the traditional top-down approach with the Union government at the helm will no longer work.
- Given the deep political divide—given fundamentally differing political ideologies—between the Union government and some of the state governments, convergence of views is tough. And the way the council is structured, things can't go forward without a consensus or at least a majority of the votes carrying the resolution.
- This is because the states together account for two-thirds of the votes and the centre holds only a third; given this structure, a consensus would be the preferred option instead of demanding a vote.
- The council's decisions, if detrimental, cannot be undone by the states and the states will accordingly have to compromise on their budgets and the entire fiscal policies.
- It is not possible to attain the desired majority if Union doesn't vote for the recommendation. In fact, Union can veto the recommendations of the Council.
- Therefore, it will not be out of place to say that council might act as an instrument for the backdoor entry of the central government into the decision and policy making sphere of a duly elected state government.

- The above implies that the Council has the power to make binding recommendations, and Union has attained veto over the law making power of the States. This is in clear violation of concept of federal structure of the Constitution of India. This is a clear abrogation of the fundamental tenet of the Constitution's federal structure viz. the political sovereignty of states.
- It is then clear that the GST Council has shown the light on cooperative federalism.

