ABSTRACT

Multiple tax regimes across production lead to misallocation of resources thereby introducing inefficiencies in sectors of domestic production. The implementation of a comprehensive Goods and Services tax in India is expected to reduce the distortions and promote efficient allocation of factors of production as integrated country-wide market will be efficient from an economic standpoint. However, before this transition, which talks of a comprehensive tax transcending all borders within the nation, there are certain issues that need to be addressed. The study looks at understanding revenue implications for one state- Tamil Nadu as a result of this transition. The study looks at calculating revenue neutral State Goods and Service tax rates for Tamil Nadu. This helps us determine the degree and extent of compensation that needs to be provided to Tamil Nadu due to the divergence in revenue neutral rates as determined by the Thirteenth Finance Commission and the rates as calculated specifically for Tamil Nadu in this study. This also includes the calculation of additional levy on petroleum products under a dual Goods and Services tax system, if petroleum goods were subsumed within the GST base. The methodology involves the comparison of estimated GST base to generate revenues to the revenues of the reference year so as to understand pattern of gains or losses. The results follow that there is a divergence in the revenue neutral rates. Hence, an adequate compensation mechanism has to be introduced.

Key Words: Goods and Services tax, Revenue neutral rates, dual system of taxes, tax base