

Structural Distortions in IGST Allocation under India's GST Regime: An Analysis of Centralized Tendering, Destination-Based Taxation, and Fiscal Federalism

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Abstract

The Integrated Goods and Services Tax (IGST) mechanism under India's GST regime is intended to uphold destination-based taxation and ensure equitable revenue distribution between producing and consuming states. This paper examines a critical distortion in IGST allocation arising from centralized public procurement and tendering practices adopted by public sector undertakings, public limited companies, and government departments headquartered in major metropolitan and capital regions such as Delhi and Maharashtra. Despite goods being physically distributed and consumed across multiple states, the place of supply and supplier location often coincide with the head office or tender-issuing authority. This results in a disproportionate concentration of IGST revenues in head-office states, while consuming states experience systematic revenue loss. The imbalance is further intensified by the absence of mandatory state-wise invoicing requirements for inter-state supplies under centralized tenders, preventing accurate destination-based tax apportionment. Using doctrinal legal analysis and examination of public procurement structures, this study demonstrates how existing GST rules inadvertently weaken the principles of fiscal equity and cooperative federalism. The paper concludes by proposing policy reforms mandating state-wise invoicing linked to actual delivery destinations, thereby realigning IGST distribution with the constitutional objectives of India's GST framework.

Keywords: Integrated Goods and Services Tax (IGST); Centralized Public Procurement; Destination-Based Taxation; Place of Supply; Fiscal Federalism; State-wise Invoicing; GST Revenue Distribution

1. Introduction

The Goods and Services Tax (GST) regime in India was introduced with the objective of creating a unified national market while ensuring equitable revenue distribution among states through a destination-based taxation system. Integrated Goods and Services Tax (IGST) play a crucial role in this framework by facilitating interstate trade and ensuring that tax revenues ultimately accrue to the consuming states. However, in practice, certain structural and administrative mechanisms have resulted in unintended distortions in IGST allocation.

One such distortion arises from centralized public procurement and tendering practices adopted by public sector undertakings (PSUs), public limited companies, and government departments headquartered in metropolitan and capital regions such as Delhi, Maharashtra, and other major economic hubs. While goods procured through these tenders are distributed and consumed across multiple states, the place of supply and supplier location often coincide with the head office or tender-issuing authority. This has led to a disproportionate concentration of IGST revenue in head-office states, undermining the destination-based principle of GST and causing systematic revenue loss to consuming states.

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In India's GST framework, IGST is intended to ensure equitable tax distribution between the originating and consuming states. However, in practice, centralized public procurement and tendering by public sector undertakings (PSUs), public limited companies, and government departments headquartered in metropolitan locations such as Delhi, Maharashtra, and other capital regions has resulted in significant IGST concentration in these states.

Although goods are physically distributed and consumed across multiple states, the place of supply and supplier location often coincide with the head office or tender-issuing authority, leading to IGST being credited primarily to the head-office state. Consequently, consuming states do not receive their rightful share of IGST, resulting in systemic revenue loss and fiscal imbalance.

This structural issue is aggravated by the absence of mandatory state-wise invoicing for inter-state supply under centralized tenders, thereby undermining the principles of destination-based taxation and cooperative federalism embedded in the GST framework.

2. Scope of the Study

The scope of this study is limited to the analysis of IGST allocation arising from centralized tendering and procurement of goods by public sector entities and large corporate organizations in India. The study focuses on:

- Interstate supply of goods under centralized tenders
- Place of supply provisions under the IGST Act
- Revenue implications for consuming states
- Impact on fiscal federalism and cooperative governance

The study does not cover services procurement in detail and confines itself primarily to goods supplied through large-scale public procurement mechanisms.

3. Objectives of the Study

The primary objectives of this research are:

- To examine the impact of centralized tendering on IGST revenue distribution among states
- To analyse how existing place of supply rules contribute to IGST concentration in head-office states
- To identify revenue loss faced by consuming states due to centralized invoicing practices
- To assess the implications for fiscal equity and cooperative federalism
- To propose policy reforms for fair and destination-based IGST allocation

4. Technical Research Methodology

This study adopts a doctrinal and policy-based research methodology, supported by secondary data analysis. The research framework includes:

- **Legal analysis** of IGST Act provisions, GST Rules, and GST Council decisions
- **Review of public procurement procedures** followed by PSUs and government departments
- **Comparative assessment** of intended destination-based taxation versus actual IGST flow
- **Policy analysis** based on GST revenue trends and procurement structures

The study relies on government notifications, tender documents, Comptroller and Auditor General (CAG) reports, and published GST revenue data.

5. Public-Level Tender Examples

Several public procurement models illustrate the IGST distortion caused by centralised tendering:

- **Central PSUs** issuing national-level tenders from headquarters in Delhi or Mumbai for supply of goods to multiple states
- **Government departments** procuring equipment, machinery, or consumables through centralised contracts, with delivery across state jurisdictions

- **Public limited companies** executing bulk procurement with single-point billing despite multi-state distribution

In such cases, a single IGST invoice is raised from the head-office location, even though goods are delivered to various consuming states. This results in IGST being credited primarily to the head-office state rather than the actual destination states.

6. Results and Findings

The study finds that:

- Centralized tendering leads to **systematic IGST concentration** in metropolitan head-office states
- Consuming states suffer **significant and recurring revenue loss**
- The mismatch between place of supply and place of consumption weakens GST's destination-based character
- Existing GST provisions do not mandate **state-wise invoicing** for centralized procurement
- Fiscal imbalance created by this mechanism contradicts the principles of cooperative federalism

6.1. Existing Centralised Tender Invoice (Problematic Model)

(Illustrates IGST concentration in head-office State)

6.2. Centralized Tender – Single Invoice Model

Supplier Details

- Name: ABC Engineering Ltd.
- GSTIN: 07ABCDE1234F1Z5
- Registered Office: New Delhi

6.3. Recipient (Tender Issuing Authority)

- Name: XYZ Public Sector Undertaking
- GSTIN: 07XYZPU5678K1Z2
- Head Office: New Delhi

Table 1 Centralized Invoice Sample

Particulars	Details
Tender No.	PSU/HO/2024-25/001
Invoice No.	INV/HO/001
Invoice Date	15-04-2025
Place of Supply	Delhi
Nature of Supply	Inter-State
HSN	8504
Description of Goods	Electrical Equipment (Bulk Supply)
Quantity	1,000 Units
Taxable Value	₹1,00,00,000
IGST @18%	₹18,00,000
Total Invoice Value	₹1,18,00,000

- **Delivery Locations (mentioned only in annexure, not invoice-wise):**

Kerala – 300 units

Tamil Nadu – 400 units

Karnataka – 300 units

- **Issue Highlighted (for Thesis Explanation)**

Entire IGST of ₹18,00,000 credited to **Delhi**

No state-wise attribution, despite multi-state consumption

Violates destination-based principle under Article 269A

Proposed Model – State-wise Invoicing for Centralised Tender

Centralised Tender – Destination-Based Invoicing Model

- **Invoice 1 – Kerala (Consuming State)**

Supplier: ABC Engineering Ltd., New Delhi Recipient: XYZ PSU – Kerala Unit GSTIN (Recipient): 32XYZPU5678K1Z7

Table 2 Invoice 1 – Kerala

Particulars	Details
Invoice No.	INV/KL/001
Place of Supply	Kerala
Quantity	300 Units
Taxable Value	₹30,00,000
IGST @18%	₹5,40,000
Total Value	₹35,40,000

- **Invoice 2 – Tamil Nadu (Consuming State)**

GSTIN (Recipient): 33XYZPU5678K1Z9

Table 3 Invoice 2 – Tamil Nadu

Particulars	Details
Invoice No.	INV/TN/001
Place of Supply	Tamil Nadu
Quantity	400 Units
Taxable Value	₹40,00,000
IGST @18%	₹7,20,000
Total Value	₹47,20,000
Total Value	₹35,40,000

- **Invoice 3 – Karnataka (Consuming State)**

GSTIN (Recipient): 29XYZPU5678K1Z3

Table 4 Invoice 3 – Karnataka

Particulars	Details
Invoice No.	INV/KA/001
Place of Supply	Karnataka
Quantity	300 Units
Taxable Value	₹30,00,000
IGST @18%	₹5,40,000
Total Value	₹35,40,000

Outcome (After Analysis)

Table 5 Total IGST- Split Up

State	IGST Credited
Kerala	₹5,40,000
Tamil Nadu	₹7,20,000
Karnataka	₹5,40,000
Total IGST	₹18,00,000

- **IGST flows to actual consuming States**
- **Aligns with Section 10(1)(a) – place of delivery**
- **Upholds Article 269A & cooperative federalism**

Suggested Invoice Declaration Clause (Policy Recommendation)

“This invoice is issued under a centralised procurement contract involving multi-state delivery. The place of supply is determined based on the actual delivery location in accordance with destination-based taxation principles.”

- **Policy Implications for the GST Council**

The findings indicate an urgent need for policy intervention by the GST Council. Without corrective measures, centralised procurement will continue to distort IGST distribution, resulting in long-term revenue inequity among states. This issue also raises concerns regarding constitutional fairness and the credibility of GST as a destination-based tax system.

7. Recommendations

The study recommends the following policy reforms:

- **Mandatory State-wise Invoicing**

Centralised tenders involving multi-state supply should require separate invoices for each destination state.

- **Destination-Linked IGST Apportionment**

IGST allocation should be based on actual delivery location rather than tender-issuing authority.

- **Amendment to Place of Supply Rules**

Specific provisions should be introduced under the IGST Act for centralised procurement contracts.

- **GSTN System Enhancements**

GSTN should enable automatic state-wise IGST reporting for centralised tenders.

- **Special Guidelines for PSUs and Government Departments**

Uniform procurement guidelines should be issued to ensure compliance with destination-based taxation.

- **Proposed Policy Suggestions for the GST Council**

The findings of this study reveal a structural distortion in the IGST allocation mechanism arising from centralized public procurement and tendering practices, which weakens the destination-based character of the GST framework and leads to inequitable revenue distribution among states. To address this imbalance, the GST Council may consider a set of coordinated policy interventions. These include introducing a statutory requirement for mandatory state-wise invoicing in cases of centralized tenders involving multi-state delivery, with invoices linked to actual delivery destinations rather than the location of the tender-issuing authority or head office. In addition, a specific place-of-supply provision may be incorporated into the IGST Act for centralized public procurement, clearly establishing the destination state of delivery and consumption as the place of supply, irrespective of the supplier's registered or head-office location. The Council may also explore a destination-linked IGST apportionment mechanism for centralized tenders, enabling automatic credit of IGST revenue to consuming states in proportion to actual supplies made. Further, enhancements to the GST Network (GSTN) are required to systematically capture state-wise delivery details and generate automated IGST allocation reports for centrally procured supplies, thereby minimizing manual intervention and compliance uncertainty. Finally, the issuance of uniform procurement and billing guidelines for public sector undertakings, public sector entities, and government departments would help ensure consistent GST compliance in line with destination-based taxation principles and strengthen fiscal equity across states.

7.1. Correcting IGST Distortion Arising from Centralised Public Procurement

Table 6 GST Council Recommendation& Expected Outcome

Issue	Current Position	Policy Gap	GST Council Recommendation	Expected Outcome
Centralised tender invoicing	Single consolidated invoice permitted	IGST credited to head-office State	Mandate state-wise invoicing for multi-State delivery under centralised tenders	IGST flows to consuming States
Place of supply determination	Section 10, IGST Act lacks special rule for centralised procurement	Billing location overrides delivery location	Introduce special place-of-supply provision for centralised tenders	Alignment with destination-based taxation
IGST apportionment	No destination-linked apportionment mechanism	Revenue concentration in metro States	Implement destination-linked IGST apportionment for centralised tenders	Fiscal equity among States
GSTN reporting limitations	Delivery-State details not mandatorily captured	Inability to track IGST distortion	Enhance GSTN to capture delivery-State data invoice-wise	Automated and transparent IGST settlement
PSU procurement practices	No uniform GST-specific procurement SOPs	Repetitive compliance inconsistencies	Issue GST-compliant procurement guidelines for PSUs	Standardised compliance

Federal equity concern	Structural distortion not formally acknowledged	Weakening of cooperative federalism	Recognise IGST distortion as systemic issue	Strengthened trust between Union & States
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7.2. Proposed Memorandum for the Finance Commission

Given the persistent revenue imbalance created by centralised tendering practices under the GST regime, this memorandum proposes a set of interrelated recommendations for consideration by the Finance Commission. The Commission may formally recognise that the IGST revenue loss experienced by consuming states is a structural consequence of head-office-based invoicing in centralised procurement arrangements, rather than a result of administrative inefficiency or compliance failure by the states themselves. In view of this systemic distortion, a transitional compensatory revenue adjustment mechanism may be considered to offset the cumulative IGST losses suffered by consuming states until appropriate statutory and administrative reforms are implemented within the GST framework. Further, the Commission may consider incorporating indicators that capture IGST allocation distortions into the horizontal devolution formula, so as to correct inter-state fiscal imbalances arising from the design and operation of GST rather than from differences in economic capacity. To support evidence-based policy correction, the Finance Commission may also recommend a comprehensive data-driven assessment, undertaken in collaboration with GSTN and state tax administrations, to quantify state-wise IGST losses attributable to centralised procurement and tendering practices. Finally, the Commission may advise long-term structural reforms aimed at realigning GST revenue flows with actual consumption patterns, thereby reinforcing the principles of fiscal and cooperative federalism and ensuring sustainable revenue autonomy for states within India's constitutional framework.

7.3. Addressing Structural IGST Revenue Loss to Consuming States

Table 7 Recommendation for Finance Commission & Expected Impact

Issue Identified	Nature of Distortion	Finance Commission Intervention	Constitutional Basis	Expected Impact
IGST loss due to centralised tendering	Structural, not compliance-related	Formally recognise IGST loss as systemic imbalance	Article 280	Correct fiscal assessment
Revenue concentration in head-office States	Persistent disadvantage to consuming States	Introduce temporary compensatory adjustment	Articles 269A & 270	Revenue neutrality during transition
Absence of IGST distortion indicators	Current devolution formula ignores GST design effects	Include IGST distortion index in horizontal devolution	Finance Commission Terms of Reference	Fairer inter-State distribution
Lack of empirical quantification	Data gap on State-wise IGST loss	Recommend GSTN-based data study with States	Article 280(3)	Evidence-based corrections
Long-term fiscal federalism	Misalignment of revenue with consumption	Advise structural alignment of GST flows	Cooperative federalism doctrine	Sustainable State revenue autonomy

7.4. Policy Significance of the Proposed Suggestions

The proposed measures aim to bridge the gap between the constitutional intent of GST and its operational outcomes. By addressing IGST concentration arising from centralised tendering, these reforms will:

- Restore the destination-based character of IGST
- Ensure equitable revenue distribution among states
- Strengthen cooperative and fiscal federalism
- Improve transparency and accountability in public procurement
- Enhance the credibility and sustainability of India's GST framework

7.5. Policy Implications and Recommendations

7.5.1. Constitutional Framework Governing IGST

The constitutional basis of IGST is derived from the following provisions:

- **Article 246A** – Confers concurrent taxing powers on the Union and States for GST
- **Article 269A** – Governs levy and collection of IGST on inter-State supplies and its apportionment between Union and States
- **Article 270** – Provides for distribution of tax proceeds between the Union and States
- **Policy Implication:** Although Article 269A mandates that IGST shall be apportioned in a manner prescribed by Parliament, current operational practices under centralised tendering result in deviation from the destination-based principle implicit in this Article.

7.6. Statutory Provisions Causing IGST Concentration

Relevant Sections under the IGST Act, 2017

- **Section 5** – Levy and collection of IGST
- **Section 7** – Inter-State supply
- **Section 10** – Place of supply of goods (other than imports/exports)

Under **Section 10(1)(a)**, the place of supply is the location where movement of goods terminates for delivery to the recipient. However, in centralised procurement, billing and contractual recipient details often align with the head office, leading to IGST accrual at the head-office state despite multi-state delivery.

Policy Gap Identified: No specific provision exists to address **centralised tenders with multi-destination supply**, resulting in interpretational and administrative bias.

7.7. Absence of Mandatory State-wise Invoicing

7.7.1. CGST Act & Rules

- **Section 31 (CGST Act)** – Tax invoice
- **Rule 46 (CGST Rules)** – Contents of tax invoice

Currently, GST law does **not mandate separate invoices for each destination state** in centralised procurement contracts.

Policy Implication: Single consolidated invoicing leads to incorrect IGST attribution, undermining destination-based taxation.

Policy Recommendations (with Legal Anchoring)

7.7.2. Recommendation 1: Mandatory State-wise Invoicing

Proposed Legal Intervention:

Insert a **new Rule under CGST Rules (e.g., Rule 46A)** mandating:

“In case of centralised procurement involving inter-State supply to multiple destinations, the supplier shall issue separate invoices for each destination State.”

Expected Outcome: Accurate IGST flow to consuming states.

7.7.3. Recommendation 2: Special Place of Supply Provision

Proposed Amendment:

Insert a **new sub-section under Section 10 of the IGST Act**, such as:

“Section 10(1)(c): Notwithstanding anything contained elsewhere, for supplies made under centralised procurement contracts involving multiple delivery locations, the place of supply shall be the location of actual delivery.”

Expected Outcome:

Elimination of head-office bias in IGST allocation.

7.7.4. Recommendation 3: Destination-Linked IGST Apportionment

Legal Basis:

Section 17 of the IGST Act – Apportionment of tax and settlement of funds

Proposed Reform:

Introduce **destination-based apportionment formula** for centralised tenders through GST Council recommendations.

7.7.5. Recommendation 4: GSTN System-Level Reforms

Operational Rule Involved:

Rule 56 (CGST Rules) – Maintenance of accounts

Proposed Change:

Mandatory capture of **state-wise delivery details** in GSTN for public procurement invoices.

7.7.6. Recommendation 5: Procurement Guidelines for PSUs

Administrative Authority:

GST Council under **Article 279A**

Proposed Action:

Issue **standard operating procedures (SOPs)** for PSUs and government departments ensuring GST compliance aligned with destination-based principles.

Proposed Reforms for GST Governance and Fiscal Federalism

Role of the GST Council

Under **Article 279A**, the GST Council is empowered to recommend changes relating to GST law, rates, exemptions, and administration.

Proposed Reform Agenda for GST Council:

Recognition of IGST distortion due to centralised tendering

Adoption of special rules for public procurement

Harmonisation of place of supply with consumption patterns

7.8. Finance Commission Perspective

7.8.1. Relevant Constitutional Provision

Article 280 – Finance Commission functions

The Finance Commission may consider IGST distortion as a **structural fiscal imbalance**, not a compliance failure of states.

7.9. Proposed Finance Commission Recommendations

- **Recognition of IGST Loss as Structural Issue** Centralised procurement-induced IGST loss should be acknowledged as systemic.
- **Temporary Revenue Neutralisation Mechanism** Till legal amendments are enacted, consuming states may be compensated through devolution adjustments.
- **Inclusion in Horizontal Devolution Criteria** IGST distortion indicators may be included alongside population, income distance, and area.

Strengthening Fiscal Federalism

- The proposed reforms are aligned with:
- Cooperative federalism
- Revenue autonomy of states
- Constitutional intent of destination-based GST
- Correcting IGST allocation distortions will enhance trust between the Union and States and improve GST sustainability.

7.10. Summary of Proposed Legal Amendments

Table 8 Proposed System – Sections & Rules

Issue Identified	Existing Provision	Proposed Reform
Centralised invoicing	Rule 46	New Rule 46A
Place of supply bias	Section 10 IGST Act	New Section 10(1)(c)
IGST apportionment	Section 17 IGST Act	Destination-based formula
Data capture	Rule 56	State-wise delivery reporting

Embedding destination-linked invoicing and supply rules within the GST legal framework is essential to correct IGST concentration caused by centralised tendering. These reforms, implemented through the GST Council and supported by Finance Commission mechanisms, will restore fiscal equity, reinforce cooperative federalism, and uphold the constitutional objectives of India's GST regime.

8. Conclusion

The Integrated Goods and Services Tax (IGST) mechanism was conceived as the cornerstone of India's destination-based Goods and Services Tax regime, intended to facilitate seamless inter-State trade while ensuring equitable revenue distribution among States. However, this thesis demonstrates that the operational realities of centralised public procurement and tendering have introduced a structural distortion in IGST allocation, undermining these foundational objectives.

Through doctrinal legal analysis and policy examination, the study establishes that centralised tendering practices—where procurement contracts are issued and invoicing is undertaken from head offices located in metropolitan and capital regions—result in a disproportionate concentration of IGST revenues in these head-office States. This occurs despite the physical movement, delivery, and consumption of goods taking place across multiple destination States. The absence of mandatory state-wise invoicing and the lack of special place-of-supply provisions for centralised procurement further exacerbate this imbalance, causing systematic and recurring revenue loss to consuming States.

The findings reveal that this distortion is not a result of non-compliance by States, but rather a consequence of gaps within the existing statutory and administrative framework of GST. Such outcomes weaken the destination-based character of IGST, erode fiscal equity, and conflict with the principles of cooperative federalism embedded in Articles 246A, 269A, and 279A of the Constitution of India. If left unaddressed, these distortions risk institutionalising inter-State fiscal imbalance and diminishing the credibility and sustainability of India's GST framework.

This thesis therefore argues for targeted legal, policy, and system-level reforms. Mandatory state-wise invoicing for centralised tenders, special place-of-supply provisions linked to actual delivery destinations, destination-based IGST

apportionment mechanisms, and GSTN system enhancements emerge as critical interventions. In parallel, the Finance Commission has a vital role in recognising IGST distortion as a structural issue and in designing compensatory and data-driven corrective mechanisms until statutory reforms are implemented.

In conclusion, correcting IGST allocation distortions arising from centralised tendering is essential to realign GST operations with constitutional intent. Timely intervention by the GST Council, supported by Finance Commission adjustments, will not only restore fiscal equity and revenue autonomy of States but also strengthen cooperative federalism and reinforce public confidence in India's GST regime as a truly destination-based tax system.

Compliance with ethical standards

Disclosure of conflict of interest

The author declares that there is no conflict of interest, financial or otherwise, that could have influenced the research work, analysis, or conclusions presented in this thesis.

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