

**THE IMPACT OF TAX RATE DIFFERENTIALS ON THE TAX REVENUES –
THE CASE OF SALES TAX COMPETITION AMONG A GROUP OF BORDER-
SHARING INDIAN STATES**

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This paper provides empirical evidence on the effect of sales tax rate differentials among a group of five border-sharing states in India on their sales tax revenues during 1990-91 to 1999-00. The results indicate that sales rate differentials in respect of commodities which are susceptible to cross-border shopping cause the consumers to change the location of purchase of such commodities from their home state to the other neighboring low tax states. This is shown to cause revenue loss to the states facing adverse tax differentials. The findings support the recent commodity tax reforms at the state-level in India in the form of introduction of uniform value added tax across the states.

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