Plan for Calamity Cess on GST

Why in News

The Central Government is considering imposing a **calamity cess** on **Goods and Services Tax (GST)**, similar to the one introduced by Kerala in 2019, to deal with the economic crisis triggered by the **coronavirus** pandemic.

> The Central government is planning to raise additional revenue by imposing cess on GST, excluding goods and services in the 5% slab.

Key Points

- Kerala introduced a **disaster relief cess** following the monsoon floods of 2018. It imposed a 1% calamity cess on GST for a period of two years applicable from 1st August, 2019.
- It is the only state to have levied such a cess using the **Constitutional provision, Section (4) (f) of Article 279 A.**
  - Article 279A (4)(f) allows the Union and State to raise additional resources during any natural calamity or disaster.
    - The article was inserted through the **101st Constitutional Amendment Act, 2016.**
  - Article 279A (4)(f) specifies that the **GST Council** shall make recommendations to the Union and the States on "any special rate or rates for a specified period to raise additional resources during any natural calamity or disaster".
- The **GST (Compensation to States) Act, 2017** also provides for the imposition of cess up to the rate of 15% ad valorem (based on estimated value) on some supplies.
  - The Act provides for compensation to states for any loss in revenue due to the implementation of GST.

- **Issues involved:**
  - As the manufacturing industry is already facing a huge crisis due to Covid-19 lockdown, imposing cess on GST would not be a good idea.
    - Imposition of cess will increase the cost of products, which may decrease the demand.
  - The states are already not able to collect the GST due to closure of many economic activities.

Cess

- Cess is a **form of tax levied over and above the base tax liability of a taxpayer.** It can be **levied on both indirect and direct taxes.**
- A cess is usually imposed additionally when the state or the central government looks to **raise funds for specific purposes.** For example, for education, for disaster relief, for cleaning rivers etc.
  - An example of cess is **Swachh Bharat Cess,** which was introduced in 2015 to fund a national campaign for clearing the roads, streets and the infrastructure of India.
- It is **not a permanent source of revenue for the government,** and it is discontinued when the purpose of levying it is fulfilled.

Difference between tax and cess

- Cess is different from taxes such as income tax, GST, and excise duty etc. **as it is charged over and above the existing taxes.**
- Cess has to be **used for the purpose for which it was collected.**
  - If the cess collected in a particular year goes unspent, it cannot be allocated for other purposes. The amount gets carried over to the next year and can only be used for the cause it was meant for.
- The **central government does not need to share the cess with the state government,** unlike some other taxes.
- The **procedure for introducing, modifying and abolishing cess is comparatively simpler** than getting the provisions done for introducing, modifying and abolishing taxes, which usually means a change in the law.

Way Forward

- Additional cess on GST can be imposed after 6-7 months, when the economic condition in the country normalises.
- Till then, the states can rely on other monetary instruments, such as **borrowing,** increase in **Ways and Means Advances (WMA)**, **overdraft,** etc, to raise their income.

- They can also **consider levying a cess on "sin goods".**
    - **Sin goods** are **goods** which are considered harmful to society and individuals.
    - Example of **sin goods:** Alcohol and Tobacco, Candies, Drugs, Soft drinks, Fast foods, etc.

Source: IE