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Centre's Inability to Pay GST Dues

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Why in News

In a recent meeting, the **Parliamentary Standing Committee on Finance** has been informed that the government is not in a position to pay the **Goods and Services Tax (GST) share of States** as per the current revenue sharing formula.

Key Points

- The Centre had released the **final instalment of Rs. 13,806 crore of GST compensation for the FY 2019-20.**
It comes as a relief for States seeking to finance efforts to ramp up public health-care capacity and contain **Covid-19** effects.
- For the **FY 2020-21**, there is going to be a **revenue shortfall** due to the **pandemic.**
Even the **GST collections for March 2020 also saw a dip.**
- For such times, the **GST Act has provisions to rework the formula for paying compensation** to the State governments if the **revenue collection drops below a certain threshold.**

GST Compensations

- The GST became applicable from **1st July 2017** after the enactment of the **101st Constitution Amendment Act, 2016** and with it, a large number of central and state indirect taxes merged into a single tax.
- The Centre **promised compensation** to the States for any shortfall in tax revenue due to GST implementation for a **period of five years.** This promise **convinced a large number of reluctant States to sign** on to the new indirect tax regime.
- As per the GST Act, states are **guaranteed compensation for any revenue shortfall below 14% growth (base year 2015-16) for the first five years ending 2022.**

- GST compensation is **paid out of Compensation Cess every two months** by the Centre to states.
 - The Compensation Cess are **collected on the supply of select goods** (luxury and sin goods) **and/or services or both** till 1st July 2022.
 - All the taxpayers, except those who export specific notified goods and those who have opted for the **GST composition scheme**, are liable to collect and remit the GST compensation cess to the central government.
 - Subsequently, the central government distributes it to the states.

Concerns

- **Deviated Priorities:** The committee held its first meeting after the **lockdowns** and instead of discussing the state of the Indian economy amidst the ongoing pandemic and the fight against it, it chose the topic of ‘**Financing the Innovation Ecosystem and India’s Growth Companies**’ which is not so relevant given the times.
- **Unclear Finances:** The **Budget 2020-21 may no longer be relevant** since it was based on certain assumptions about the revenue collections and there is **no clarity so far from the government on overall revenue shortfall** this year.

There is **no clarity over the efficacy of the government’s rescue package** in the form of **different Economic Stimulus**.
- **Widening Gaps:** The **gap between the compensation cess and the payment to states is expected to widen further** with expected economic contraction denting GST collections as well.

Compensation cess inflows could reduce because of **people curbing discretionary spending on luxury goods** in order to conserve capital in the pandemic-hit economy.
- **More Difficult Payments:** **Paying compensation to States this year is going to be even more difficult** for the Centre because, for the FY 2019-20, the Compensation cess was almost Rs. 70,000 crore less than the payments due to States.

It was **overcome** by tapping cess balances from the **first two years of GST implementation** and from the **Consolidated Fund of India** by debiting **Integrated GST (IGST) funds**.

IGST is levied on inter-State supply of goods and services and some of this levy collected in 2017-18, had not yet been allocated to States.
- **Delayed Meetings:** The **GST Council** was **scheduled to meet in July** to try and work out the formula to rework the compensation **but the meeting has not been convened** so far.

Way Forward

- The chief solution officials have suggested the Centre to raise special loans against future GST cess accruals (an amount of money that accumulates) in order to help meet its compensation promise to States.
- The pandemic has thrown multiple challenges in front of the Centre and the States. They need to have more certainty and clarity on the cash at their disposal which would help them to battle the virus more effectively.
- There is a need to boost the economic growth of the country and the government needs to think about the ways through which it can increase GST collections.

Source: TH