



GST Council Meeting

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Why in News

Recently, the 40th **Goods and Services Tax (GST) Council** meeting was held.

Key Points

- **GST Collections:**

- In the first two months of the current financial year, 2020-21, the cumulative GST revenues of states and the Centre **has been only 45% of the monthly target.**
- In 2020-21, the combined monthly GST revenue target is estimated at Rs. 1.21 lakh crore taking into account the budget estimate and states' protected revenue.

- **Market Borrowing:**

- As revenue has fallen for both the Centre and states, the GST Council has decided to hold a single-point agenda meeting in July, 2020 which will discuss **market borrowing by the Council itself** as one of the ways to raise money and **compensate states for GST revenue losses.**
- The **GST Act, 2017** extends a **guarantee to states** that any **loss in revenues in the first five years (2017-2022) of GST implementation** will be compensated through a cess that accrues to the **Compensation Fund.**
The shortfall is calculated assuming a 14% annual growth in GST collections by states over the base year of 2015-16.
- In the 8th GST Council meeting it was discussed that in case the amount in the GST Compensation Fund fell short of the compensation payable, the Council shall decide the mode of raising additional resources including borrowing from the market.

The borrowing could be repaid by collection of cess in the sixth year or further subsequent years.

- **Issues Involved:**
 - There is a question about the **legality of the GST Council to borrow**; for instance, can it be accorded **sovereign status** like Centre and states.
 - The burden and the impact of market borrowing on the **Fiscal Responsibility and Budget Management Act (FRBM Act), 2003** is not clear.
- **Tax Rationalisation:**
 - The Council discussed correction of **inverted duty structure** for footwear, fertilisers and textiles.
 - Inverted duty structure is a situation where the rate of tax on inputs used is higher than the rate of tax on the finished good.
 - Take an imaginary situation of the tyre industry, the tax rate on natural rubber (input) purchased is 10% whereas the tax rate on rubber tyre is 5%. Here since the tax rate on input is higher than that on the finished good, there is an inverted tax structure.
 - However, the decision was deferred because it would have resulted in increase in the prices of fertiliser, footwear and ready-made garments, which would have affected the process of economic revival.
- **Compliance-related Relief:**

The GST Council also provided compliance-related relief to small taxpayers with turnover up to Rs. 5 crore.

 - It **reduced the interest by half on delayed filing of GST returns** for February, March and April, 2020 to 9%, provided the returns are filed by September 2020.
 - For May-July, 2020 the deadline for filing GST returns has been extended till 30 September, 2020 without any penalty.

GST Council

- It is a **constitutional body** under **Article 279A**. It makes recommendations to the Union and State Government on issues related to **Goods and Service Tax** and was introduced by the **Constitution (One Hundred and First Amendment) Act, 2016**.
- The GST Council is **chaired by the Union Finance Minister** and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.
- It is **considered as a federal body** where both the centre and the states get due representation.

The **Economic Survey 2017-18** also hailed the GST Council for its **cooperative federalism technology** which brings together the Center and States and can be applied to many other policy reforms.

- Every decision of the Goods and Services Tax Council shall be taken at a meeting by a **majority of not less than three-fourths of the weighted votes of the members present and voting**, in accordance with the following principles, namely:
 - The vote of the Central Government shall have a weightage of one third of the total votes cast, and
 - The votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast in that meeting.

Way Forward

- There is immediate need to clarify whether the GST Council can be accorded sovereign status or not, so that it can borrow from the market to meet the states' compensation requirement.
- If provided the authority to borrow from the market then on whom the burden of borrowing shall lie, need to be clarified.

Source: IE