GST Council Meet

Why in News

Recently, the 41st **Goods and Services Tax (GST) council** meeting was held to discuss the issue of compensating states on account of revenue loss due to **implementation of GST** and fall in **cess** collections.

GST Council

- It is a **constitutional body (Article 279A)** for making recommendations to the Union and State Government on issues related to Goods and Services Tax.
- 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.

Key Points

- **Shortfall in GST and Cess Collection:**
  - The economic slowdown had reduced both GST and cess collections in FY 2019-20, resulting in a 40% gap (shortfall) between the compensation paid and cess collected.
    - The central government paid over Rs.1.65 lakh crore in 2019-20 as GST compensation by utilising the excess cess amount collected during 2017-18 and 2018-19.
  - The state's GST revenue gap in 2020-21 is expected to be about Rs. 3 lakh crore, while cess collections are only projected to reach Rs. 65,000 crore, leaving a shortfall of Rs. 2.35 lakh crore.

- **Distinction in Shortfall:**
    - Only **Rs. 97,000 crore out of Rs. 2.35 lakh crore of the shortfall is due to GST implementation itself,** while the **rest is due to the impact of Covid-19.**

      The Centre **distinguished the GST shortfall** into two types:
        - Due to GST implementation itself.
        - Caused by the impact of Covid-19.
    - The Finance Minister termed the fall of GST revenue due to Covid-19 as **an act of God.** However, the **GST Compensation Act, 2017** did not foresee an act of God.
    - The GST Compensation Act, 2017 **guaranteed states that they would be compensated for any loss of revenue** in the first five years of GST implementation, until 2022, using a cess levied on **sin and luxury 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.
- **Offers Made by the Centre:**
    - It offered **two options** for borrowing by states to meet the shortfall:
        - A special window could be provided, in consultation with the **Reserve Bank of India (RBI)**, so that the states can get Rs. 97,000 crore at a reasonable rate of interest, the amount can be repaid after five years (of GST implementation) ending 2022 from cess collection.
        - Another option is that this entire gap of Rs. 2.35 lakh crore can be met by the borrowing by the states in consultation with RBI.
    - The states have been given seven days to decide which option they want.
    - Also, states choosing the first option would **get 0.5% relaxation** in states' borrowing limits under the **Fiscal Responsibility and Budget Management Act, 2003.**
    - The borrowing plan is valid for FY 2020-21 only and the GST Council would review the revenue position next fiscal to decide on payments for 2021-22.

Way Forward

The GST council can consider increasing the cess or including more products under the cess or compensation levy can be extended beyond five years, to meet this GST shortfall.

Source: TH