



# GST Revenue Gap: NIPFP

## Why in News

According to the **National Institute for Public Finance and Policy (NIPFP)**, the revenue shortfall for the **Goods and Services Tax (GST) compensation** payable to States in 2020-21 could be about Rs. 1.95 lakh crore in the best-case scenario.

- The amount is **significantly lower than the Rs. 2.35 lakh crore estimated by the [GST Council](#)**.

## Key Points

### ▪ GST Compensation:

- According to the **Goods and Services Tax (Compensation to States) Act 2017**, states will receive GST compensation during the transition period of GST (first five years of GST introduction), **if State GST (SGST collection including receipts of Integrated GST settlement on account of SGST) revenue falls short of the projected revenue collection**.
  - The projection of state revenue in GST is **based on revenue that is subsumed in GST** (also known as revenue under protection in GST) **in the base year 2015-16 and 14% annual growth rate** (year-on-year) in the revenue under protection during the GST transition period.
- GST compensation is paid using funds specifically collected as **compensation cess**.
  - Compensation cess is **levied on products considered to be sin or luxury goods**.

### ▪ Findings of NIPFP:

- The **revenue gap in state GST collection** is expected to **vary between 2.85 lakh crore to Rs. 3.27 lakh crore**. **GST compensation cess** collection in 2020-21 is expected to **vary between Rs. 82,242 crore to Rs. 90,386 crore**.
  - Therefore, **revenue to the tune of Rs. 1.95 lakh to Rs. 2.45 lakh crore** may require in providing full GST compensation to states in 2020-21.
- **Maximum revenue gaps** are expected for **Goa, Punjab, Chhattisgarh, Kerala and Chhattisgarh**.

### ▪ Step Taken by the Government:

- Recently, the **Ministry of Finance** has released the eighth weekly instalment of Rs. 6,000 crore to the states to meet the GST compensation shortfall, taking the total amount released so far under this window to Rs. 48,000 crore.
- The **Central government borrows the funds under a special window and passes it on to states** in a back-to-back loan arrangement.
  - The interest rate for the latest loan instalment was 4.19%, while the average rate

for the entire borrowing so far is at 4.7%.

## National Institute for Public Finance and Policy

- **Formation:** NIPFP is an **autonomous body** set up jointly by the Ministry of Finance, the erstwhile Planning Commission, and several state governments. It was founded in 1976. It is registered under the Societies Registration Act, 1860.
- **Functions:**
  - It undertakes research, policy advocacy and capacity building in areas related to public economics.
  - One of the major mandates of the institute is to **assist the Central, State and Local governments** in formulating and reforming public policies by providing an analytical base.
- **Funding:** It receives **an annual grant from the Ministry of Finance and various State governments**. However, it **maintains an independent non-government character**.
- **Governing Body:**
  - It includes the Revenue Secretary, Economic Affairs Secretary and the Chief Economic Advisor from the **Ministry of Finance** and representatives from **NITI Aayog, Reserve Bank of India** (RBI) and three state governments.
  - It also includes three distinguished economists, members of sponsoring agencies and other invitees.
  - It is **involved in appointing the Chairman and the Director**.
    - The usual **tenure of a chairman is four years**, which can be extended.
    - At present, **Dr. Urjit Patel**, former Governor of the RBI, is the Chairman.
- **Location:** New Delhi.

[Source: TH](#)

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