



# GST Compensation

## Why in News

The **GST Council** has informed all the States that the central government might not be able to compensate them for losses arising out of the implementation of the Goods and Services Tax (GST).

- The GST Council is a **Constitutional body** chaired by the Union Finance Minister and comprises the Minister of State for Finance/ Revenue and finance ministers of all States.
- It **makes recommendations** on all important issues related to the Goods and Services Tax.

## Background

- The GST became applicable from 1<sup>st</sup> July 2017 after the enactment of the 101<sup>st</sup> Constitution Amendment Act, 2016. With GST, 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 is a cess that will be collected on the supply of select 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 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.
- The Centre has already delayed compensating states for the shortfall in GST revenues for August-September 2019, payment for which was due in October, 2019. At least five states/UTs - Kerala, West Bengal, Delhi, Rajasthan and Punjab issued a joint statement on 20<sup>th</sup> November 2019 raising concerns about the same.

## Key Points

- **Revenue Status:** The government budgeted for ₹6,63,343 crore in GST collections for the current financial year 2019-20, out of which it has collected only about 50% in the first eight months. It targeted ₹1,09,343 crore of compensation cess collections, of which it has so far collected ₹64,528 crores.
- **Compensation Status**
  - The Centre collected Rs 64,528 crore in compensation cess during April-November, 2019 and paid out Rs 45,744 crore for April-July period.
  - It has been reported that the payments were held back to the states for August -

September in anticipation of the shortfall in collections and the resultant impact on the government's fiscal deficit.

- The GST Council has also asked states to give their inputs and proposals regarding review of items under the exemption, GST and compensation cess rates on various items among others by 6<sup>th</sup> December 2019.
  - Given that cess is imposed only on luxury and sin goods under GST, any measure to generate more cess collections would either include imposing a higher cess on those items or tinkering at the highest tax slab of 28% under the GST regime.

## Impact

- A shortfall in Centre's tax receipts hurts states more since the absolute amount they receive as per the devolution formula takes a hit.
- At a time when growth is faltering, the delays in paying compensation to states as guaranteed by the GST Act will make it more difficult for them to meet their own finances.

## Way Forward

- There is a need to boost the economic growth of the country.
- The Government needs to think about the ways through which it can increase GST collections.

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