

# EXTEND GST COMPENSATION PAYMENT BY 5 YEARS: STATES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

States raise GST compensation shortfall issue during a pre-budget meeting with Sitharaman

**NEW DELHI** : States want the Union government to pay the goods and services tax (GST) compensation for an additional five years to help them tide over the financial stress triggered by the pandemic.

The matter came up for discussion during a pre-budget meeting between Union finance minister Nirmala Sitharaman and the finance ministers of all states and Union territories on Thursday. According to the GST Act, states are to be compensated by the Centre for any shortfall in tax revenue on their switch to GST. This compensation is to be paid for five years from the launch of the indirect tax regime in July 2017 to June 2022. "Almost all states, including Delhi, want a continuation of GST compensation for states beyond 2022. This is a big issue with all states, and if this compensation is not extended, the financial position of states could deteriorate," Delhi deputy chief minister and finance minister Manish Sisodia said after the meeting.

He said when GST was conceived five years ago, it was thought that the new tax would benefit states. "Now that we know that states have not gained that much, but some states are actually incurring losses, then the responsibility for correcting this should also come to all of us, and the Centre should extend collection and distribution of compensation cess," Sisodia said.

"Have requested the finance minister to provide GST compensation for manufacturing states beyond June 2022. All the manufacturing states have supported my proposal," said Chhattisgarh chief minister Bhupesh Baghel.

Tamil Nadu finance minister Palanivel Thiaga Rajan said the state made a strong demand to the Union government to merge the cesses and surcharges currently levied for raising the compensation money into the basic rates of tax so that states receive their legitimate share in devolution. Such a merger would increase the basic rate of GST that has to be shared equally between the Centre and states. "We have sought an extension of compensation by at least two years. Most states want it for five years, and we are okay with it," Rajan said.

The Centre levies a compensation cess of 28% on luxury goods to fund states' compensation. Additionally, it also borrows from the market to top up any shortfall in this amount.

The all-powerful GST Council has already agreed to levy compensation cess for an extended period up to March 2026, but this has been done only to enable the Centre to repay the loans taken to compensate states for GST collection shortfalls during FY21 and any shortfall arising in FY22.

The extended period of GST compensation cess collection will only be recouped by the Centre without any distribution to states.

States now want the Centre to propose in Budget 2022-23 that compensation paid to states will go beyond June 2022. This will not only require an amendment to the GST Act but also require the Centre to manage its extra borrowings for compensating states while giving a large portion

of cess collection towards state compensation.

The Centre borrowed and paid GST compensation shortfall to the tune of 1.10 trillion in FY21. The shortfall in FY22 is expected to be 1.58 trillion, but the borrowing requirement of the Centre may be less due to strong revenue growth—in both direct and indirect taxes. Apart from GST compensation, states also raised the issue of increasing the share of states in the central tax pool kitty. As per the devolution formula, states get a 42% share in central taxes. “We are not getting even this. So have requested the finance minister to consider giving Delhi the share in taxes that other states get,” Sisodia said.

Never miss a story! Stay connected and informed with Mint. [Download](#) our App Now!!

Log in to our website to save your bookmarks. It'll just take a moment.

Oops! Looks like you have exceeded the limit to bookmark the image. Remove some to bookmark this image.

Your session has expired, please login again.

You are now subscribed to our newsletters. In case you can't find any email from our side, please check the spam folder.

This is a subscriber only feature [Subscribe Now](#) to get daily updates on WhatsApp

**END**

Downloaded from [crackIAS.com](https://crackias.com)

© **Zuccess App** by crackIAS.com

Cracki