Revenue & compensation on table at GST Council meeting

**T**he GST Council meeting on Friday will have two objectives — addressing the government’s grim revenue position amid the pandemic and fixing the compensation mechanism for the states — given the background of a shortfall in goods and services tax (GST). The government has rung up just about ₹95,000 crore as GST in April and May together, and that is less than half compared with the collection in the corresponding months last year. With the dwindling collection of cess, which goes into the compensation fund, the council will discuss alternative means such as borrowing from the market and extending the cess period by another year or two to repay.

The 40th GST Council meeting, to be held through video-conferencing, will also discuss ways to provide relief to sectors and businesses affected by the pandemic. They include waiving late fees for not filing GST returns since the introduction of the tax in 2017. Changes in rates are unlikely to be decided in the meeting.

The state governments are under financial stress. The core agenda (of the meeting) will centre around compensation to them. Borrowing from the market seems like a feasible solution because the revenue outlook for the fiscal year appears bleak, said a government official.

He said while collection in April and May had been less than half the usual, tinkering with rates might not be practical at this point.

"A rate cut to drive demand may not help because the rates of essentials are already low and disposable income has been affected due to the pandemic. Besides, there is no study to show how a rate cut will impact demand at this time. The rest will be up to the states," he said.

The council, which is chaired by Union Finance Minister Nirmala Sitharaman and has state finance ministers as members, will meet for the first time since the nationwide lockdown was introduced in March.

The Centre could collect just ₹990 crore as compensation cess in April 2020-21, a little more than one-ninth of the ₹9,674 a year ago, according to the figures released by the Controller General of Accounts.

Under law, if the states’ GST does not grow by at least 14 per cent over the base year of 2014-15, the Centre pays them the difference every two months for the first five years of GST implementation.

Last week, the Centre released compensation of ₹36,400 crore to the states for three months up to February 2020, utilising the undisbursed integrated GST.

The GST compensation of ₹1.15 trillion for period April-November 2019 was released earlier.

This stands against ₹95,551 crore collected as cess in 2019-20. The Centre used the ₹47,271 crore surplus cess from 2017-18 and 2018-19 for distributing the excess amount last year. As such it had about ₹4.3 trillion in its cess kitty but gave about ₹1.52 trillion to the states. This means it paid about ₹8,674 crore extra.

Assam Finance Minister Himanta Biswa Sarma said while the idea of having the GST Council borrow from the market was mooted in the last Council meeting, it might not be feasible. "The GST Council is neither a sovereign nor a sub-sovereign body. So even if you take a loan, somebody has to give the guarantee. If the Central government gives guarantee to loans, it can itself borrow," he said.

West Bengal Finance Minister Amit Mitra said the Centre should borrow to compensate the states.

"Alternatively, the Centre should consider paying the states from the Consolidated Fund of India. States are in very bad shape. West Bengal collected only 13 per cent of GST revenue in April of the same period last year," he said.

Kerala Finance Minister Thomas Isaac said the GST Council should be allowed to borrow from the markets to pay the states and simultaneously extend the compensation cess by another year or so to repay the debt.