GST Council to discuss ways to address revenue shortfall

Sweeping rate hike unlikely soon

FE BUREAU
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THE GOOD AND Services Tax (GST) Council on Friday may consider the option of borrowing from the market to bridge the compensation cess fund deficit, and ensure states’ revenue is protected under GST regime. The Council would also resume discussions on ways to shore up revenue, which includes moving some items to higher slabs or raising the existing slabs.

Sources in the central government said that market borrowing could be repaid by collection of cess in the sixth year or subsequent years, according to discussions within the ministry. However, a senior state government official said that the option would be hard to implement because of operational issues such as the legality of GST Council as a borrower and ambiguity about the guarantor.

Another top state official said that many states have come to accept that only available resources in compensation cess fund would come to states as other options, including rate hikes, might not be practical. “Rate hike would make sense only if some slabs are done away with and a simpler structure emerges, otherwise it would be an exercise of two steps forward and one back,” he said.

The total GST collection in FY20 grew by just 3.8% to ₹12.2 lakh crore. This has meant that the compensation cess fund — which is used to prop up states’ revenue to achieve 14% growth year-on-year — has proved to be inadequate due to higher revenue demands. This is likely to be a bigger problem in the current fiscal as states’ protected revenue jumps to ₹63,720 crore per month from ₹55,900 crore in FY20.

This prompted the GST Council to discuss revenue augmentation measures in the last sitting. These included an option of just having two slabs of 10% and 20%, or moving items from 5%/12% slabs to higher brackets, withdrawing exemptions on certain items, bringing high-end healthcare and education under GST ambit and reversing rate cut on certain items that were brought down to 18% from 28% earlier.

However, the consensus was elusive on these proposals as states sought time to study the implications of some of these measures. Another proposal to simply impose cess on more items was rejected as the move would only result in additional revenue of ₹2,000-3,000 crore/a year, not enough to bridge the deficit.

On Monday, finance minister Nirmala Sitharaman said: “With regard to the need for reduction in GST rates in the badly affected sectors, GST rate reduction will go to the Council. But the Council is also looking for revenue.”

Last week, in a move that surprised states, the central government released pending compensation payment of ₹36,400 crore for November-February period of last fiscal. The total compensation paid for the eleven months is over ₹1.5 lakh crore while collection in the year is ₹95,000 crore. The central government has mobilised excess compensation funds from pervious fiscals years (FY 18 and FY 19) to pay.