Centre considers market borrowing for GST compensation to states

DILASHA SETH
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The government is mulling ways to compensate states for the widening goods and services tax (GST) shortfall, which include borrowing from the market and extending the cess repayment period further.

Raising GST rates or rationalisation of tax slabs may be discussed by the GST Council in the next meeting to be scheduled early next month. Compensating states has become tough with dwindling cess collection in the compensation fund amid a sharp fall in revenue due to the coronavirus pandemic.

Compensation cess is levied on luxury and sin items such as aerated drinks, coal, pan masala, cigarettes and automobiles over the peak rate of 28 per cent.

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

The option of bringing more items under the cess base by expanding the base of GST cess items would only yield ₹2,000-₹3,000 crore a year. Hence, it has been put aside. Another option being considered is increasing the tax of items by shuffling the slab rates. “Raising GST rates by way of rationalising slabs remains an option. The council may discuss it with a fresh perspective amid the Covid pandemic. Borrowing from the market is another option, where the levy of cess could be extended beyond the stipulated five years. It can be used to repay the borrowed amount,” said a government official.

However, any decision will have to be taken collectively by the council, he added.

The GST Council, in the last meeting held in March, deliberated on whether it could go for borrowings if compensation cess collections fall short of the requirement of states.

It will get opinion on various legal issues, such as who will give guarantee to the borrowing, how it will be repaid, how interest is to be paid and impact on fiscal responsibility and budget management Act.

The monthly GST compensation requirement is estimated at ₹32,250 crore in 2020-21 against ₹13,750 crore last year. Under the GST structure, taxes are levied under 5, 12, 18 and 28 per cent slabs. On the pending GST compensation dues, finance minister Nirmala Sitharaman had said on Sunday, “We are periodically talking about it. GST dues are very clearly explained in the GST Council. It is not for selective states….All states’ GST dues, which we recognize for December, January, February and March have not been paid.”

Former finance minister late Arun Jaitley had, in the eighth GST Council meeting, suggested that in case the amount in the GST Compensation Fund fell short of the compensation payable in any bimonthly period, “the GST Council shall decide the mode of raising additional resources. These include borrowing from the market, which could be repaid by collection of cess in the sixth year or subsequent years.”

However, states have been demanding that the compensation period be extended by another three years, beyond the stipulated five years. It can be used to repay the borrowed amount,” said a government official.

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