States for GST dispute resolution system

Punjab FM says not paying cess amounts to sovereign default

DILASHA SETH
New Delhi

States will pitch for putting in place a dispute resolution mechanism in the absence of consensus over the compensation payout by the Centre at the meeting of the goods and services tax (GST) Council on Thursday.

In what is expected to be a stormy meeting between the Centre and states, the latter will press for a vice-chairman post in the council, besides demanding full and timely compensation as “guaranteed by the Constitution of India”.

No compensation has been paid to states for the current fiscal, despite four months’ compensation falling due under the bi-monthly payment mechanism.

While the Centre will likely ask states to borrow to make up for the shortfall in compensation cess collection, states want either the Centre or the GST Council to borrow.

In the first four months of this fiscal, ₹21,940 crore has been collected as compensation cess, which is 33 percent lower than the previous year. Increasing the cess period by another two to five years, widening coverage of compensation cess to include more goods and services, hiking cess on existing items and market borrowing to meet the shortfall will be among the issues that will be discussed at the meeting.

Punjab Finance Minister Manpreet Singh Badal said the Centre has breached the Constitution by not paying the compensation, which amounts to a sovereign default. “We are upset that India’s finance secretary goes to the attorney general and gets a view that there is no obligation on part of government of India to pay compensation. Compensation is a part of the Constitution and I think this amounts to a sovereign default. India is not a banana republic,” he said.

Badal added that in case the Centre and states are unable to reach an agreement, there should be a dispute resolution mechanism. “This dispute resolution mechanism must be activated and if there is a refusal at that level, any state has the right to move Supreme Court and take a legal opinion. That route is always open,” he said at a press conference on Tuesday.

He also pressed for election of a vice-president from among the state finance ministers, as mentioned in the law. “Cooperative federalism can only happen if there is a vice-chairman and dispute resolution mechanism,” said Badal, who claims that the Centre owes Punjab ₹4,400 crore in compensation.

Attorney General KK Venugopal has recommended to the Centre to allow states to borrow to meet the shortfall on the strength of future receipts from the compensation fund. Most states have opposed this.

The Centre released ₹1.65 trillion as compensation to states for FY20, as against a cess collection of ₹95,444 crore.