PMO, Niti Aayog to discuss states’ compensation soon

AHEAD of the crucial GST Council meeting scheduled for the end of this month, the Prime Minister’s Office, the Finance Ministry, and government policy think-tank Niti Aayog are likely to meet to discuss the various options in front of the government as far as GST compensation to the states are concerned.

In the face of shrinking tax revenue, the Centre’s officials have indicated that it may be difficult for the government to pay states the agreed-upon compensation as per the GST laws. “GST compensation is a major issue since even BJP ruled states have red flagged their concerns. The PMO will have a series of meetings with the finance ministry, Niti Aayog, and the Prime Minister’s Economic Advisory Council to find out a solution,” a senior official from the PMO said.

Under the GST law, states are guaranteed to be compensated bi-monthly for any loss of revenue in the first five years of the GST regime—rolled out on July 1, 2017. However, with the drastic fall in GST collections and the states’ own revenue, it is becoming difficult for the centre to do so. The matter had snowballed into a major controversy after the revenue secretary expressed the Centre’s inability to pay up in the future, while reporting to a parliamentary standing committee. With several political allies and BJP leaders from states like Bihar and Gujarat flagging the matter, the PMO had decided to step in.

The problem is a particularly vexing one. GST collections for the first quarter of the year stood at just 59 per cent of the revenue collected during the same quarter of the previous year. The overall SGST and allocated IGST revenue for states stands at ₹84,703 crore, which is 47 per cent less than the revenue in Q1 FY20.

This makes payment to states challenging for the Centre, which is staring at a wider fiscal deficit. Experts, economists and even the 14th Finance Commission had warned that these collections is unlikely to improve drastically anytime soon, at least during this fiscal year.

In this context, the Centre wants to internally discuss all the options before the GST Council meet on August 27, where the matter would be discussed with the states.