GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
RAJYA SABHA
UN-STARRED QUESTION NO- 222
ANSWERED ON-19/07/2022

EXTENSION OF GST COMPENSATION

222. SHRI JOHN BRITTAS:

Will the Minister of FINANCE be pleased to state:-

(a) whether it is a fact that various State Governments have represented for extension of GST Compensation package beyond June 2022;
(b) if so, the response thereto;
(c) whether it is also a fact that the GST Compensation Cess has been extended from 01.07.2022 to 31.03.2026 to repay the loans earlier availed by the Union Government to compensate States for GST revenue loss; and
(d) if so, whether the same rationale can be adopted to consider the demands of State Governments to extend GST Compensation regime beyond June 2022?

ANSWER

THE MINISTER OF STATE IN MINISTRY OF FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) to (c):- Yes Sir, a few States have requested for extension of payment of GST compensation beyond transition period of five years. In this regard, it is submitted that as per section 18 of the Constitution (One Hundred and First Amendment) Act, 2016, Parliament shall, by law, on the recommendation of the Goods and Services Tax Council, provide for compensation to the States for loss of revenue arising on account of implementation of the goods and services tax for a period of five years.

GST Council, in its 42nd meeting has recommended extending the period of levy of GST Compensation cess beyond June 2022 to cover the entire shortfall as well as servicing the back to back loan released to States to meet the resource gap of the States due to the short release of compensation. Centre borrowed Rs 1.1 lakh crore in 2020-21 and Rs 1.59 lakh crore in 2021-22 as back-to-back loans to meet a part of the shortfall in cess collection. In addition, Government of India has further released ₹ 86,912 crore to States/UTs on 31st May, 2022 and cleared the entire provisionally admissible GST compensation due till May, 2022. This decision was taken to assist the States in managing their resources and ensuring that their programmes especially the expenditure on capital is carried out successfully during the financial year. This decision has been taken despite the fact that only about Rs.25,000 crore was available in the GST Compensation Fund. The balance around ₹62,000 crore was released by the Centre from its own resources pending collection of Cess. As per Section 12 (d) of GST (Compensation to States) Act, 2017, Notification No. 1/2022-Compensation Cess dated 24.06.2022 has been issued to continue levy and collection of GST compensation cess till March, 2026 to repay amount of back to back loan released to States in 2020-21 and 2021-22 in lieu of GST Compensation shortfall and for payment of GST compensation for the month of June, 2022 and arrears of previous FYs based upon AG reconciled figures.

The issue of compensation to States/UTs and augmenting resources under GST were discussed in detail in the 45th GST Council meeting held in Lucknow. Consequent to the decision of the Council, two GoMs, namely GoM on GST System Reforms and GoM on Rate Rationalization have been constituted. GoM on Rate Rationalization has submitted its interim report, recommending certain inverted duty corrections and pruning of exemptions, which was discussed and considered in the last GST Council meeting held at Chandigarh. As a result of the continued reforms in GST undertaken by Centre and States, on the recommendations of the GST Council, buoyancy in GST revenue has been achieved in the recent months. The average monthly gross GST collection for the first quarter of the FY 2022-23 has been ₹1.51 lakh crore against the average monthly collection of ₹1.10 lakh crore in the first quarter of the last Financial year showing an increase of 37%.

(d):- For the purposes of payment of compensation to States, section 8 of the GST (Compensation to States) Act, 2017 provides for levy and collection of cess on certain items for a period of five years or such periods as may be prescribed on the recommendations of the Council. Thus, while the Act provides for States to be compensated for a period of only five years, it allows for levy of compensation cess for a period even more than five years, primarily to cover a situation where the cess so collected during the five year period falls short of the requirement to pay compensation for the five year period.

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