

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
RAJYA SABHA
UNSTARRED QUESTION NO 1829
ANSWERED ON – 16.12.2025

CONCERNS OVER GST RATIONALIZATION

1829 SHRI RANDEEP SINGH SURJEWALA:

Will the Minister of Finance be pleased to state:

- (a) the expected GST revenue shortfall due to GST rationalisation, whether Government will provide additional compensation to States facing losses;
- (b) whether Government will share Cesses or Surcharges with States to offset revenue loss from GST rationalisation;
- (c) whether Government has examined ITC issues where higher-taxed raw materials and lower-taxed finished goods raise consumer prices; and
- (d) whether there is any plan to reduce GST on pencils, stationery and other essential items for children and education?

ANSWER

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

(a) GST rates are prescribed on the recommendations of GST Council, which is a constitutional body comprising members from States/UTs and Centre. The GST Council in its 56th meeting held on 3rd September, 2025, has recommended a comprehensive rate rationalization and structural simplification of the tax structure. These recommendations have been notified by the Central Government with effect from 22nd September, 2025. Recent GST rate rationalization and Government's continued emphasis on ease of doing business are part of the Government's multi-pronged strategy to boost consumption growth in the economy. The strengthening of consumption demand is expected to have a positive impact on GST revenue. The new GST rates became effective only from 22nd September, 2025 and the Gross GST collections excluding Compensation Cess from October to November, 2025 registered a 4.2% Y-o-Y Growth.

(b) As per Article 270(1) of the Constitution of India, all taxes and duties referred to in the Union List, except the duties and taxes referred to in Articles 268, 269 & 269A, respectively, surcharge on taxes and duties referred to in Article 271 and any cess levied for specific purposes under any law made by Parliament shall be levied and collected by the Government of India and shall be distributed between the Union and the States. This Constitutional provision forms the basis of why receipts of cesses and surcharges are not shareable with States.

However, it may also be noted that receipts from cesses and surcharges form part of Consolidated Fund of India and are used to finance the development/welfare measures in the States through various Central Government schemes and initiatives.

(c) As per present provisions of the GST Act, there is no provision for grant of provisional refund in case of refund claims arising out of inverted duty structure. In order to provide relief to such taxpayers, the GST Council in its 56th meeting, recommended amending the provisions of Centre / State GST Acts to provide for provisional refund of 90% of the claimed amount in case of refunds arising out of inverted duty structure, on similar lines as is provided for zero rated supply refund claims.

Further, pending requisite amendments in Centre and State GST Act, 2017, instructions have been issued by the Central Board of Indirect Taxes and Customs (CBIC) to its field formations for grant of provisional refund w.e.f. 1st October, 2025, equivalent to 90% of amount claimed as refund, arising out of Inverted Duty Structure on the basis of identification and evaluation of risk by the system. This step will ensure that the working capital of businesses involved in supply of goods having inversion in rate of inputs vis-a-vis output supplies, is not blocked.

(d) GST Rates are prescribed based on the recommendations of the GST Council, which is a constitutional body consisting of representatives of the Union and State Governments / UTs. Based on the recommendations of the 56th GST Council, GST rate has been reduced to NIL for pencils, pencil sharpeners, erasers, exercise book, graph book, laboratory note book and notebooks.
