Centre, states look towards markets to fill funding gaps

GST IMBROGLIO Govt has not paid states for revenue shortfalls since Dec 2019

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NEW DELHI: Cash-strapped Union and state governments could begin to borrow money from the market to make up for shortfall in the states’ share of the Goods and Services Tax (GST) revenues till 2022, according to two officials aware of a proposal with the GST Council that would also mean that the GST compensation cess will have to be extended in order to repay the borrowings.

The proposal has been discussed previously: in the seventh (December 2016) meeting and eighth (January 2017) meetings of the GST Council when Arun Jaitley was the finance minister and chairman of the council, which includes finance ministers from all states. Some members had then said compensation money could also be borrowed from the market and could be repaid from the cess after the five-year period would end, the officials said, asking not to be named.

Due to inadequate compensation cess funds, the Centre has not yet paid states for their revenue shortfalls since December 2019. The GST law ensure that states get a 14% growth in their revenue for five years starting July 2017 and the Centre is committed to meet any shortfall, which is met through a cess levied on luxury goods and sin products such as cigarette, aerated water, automobiles, and coal.

Commenting on states’ dues, finance minister Nirmala Sitharaman said at a media briefing on May 17: “GST dues have been very clearly discussed in the GST Council. It’s not for.one state... or selective states. All states’ GST dues are dues which we recognise. [Dues for] December, January, February, March have not been paid.”

On Wednesday, the finance ministry said it has issued sanction orders worth ₹46,038.70 crore for the May instalment of devolution of states’ share in central taxes and duties. The ministry tweeted: “The Union government, which has seen a sharp decline in GST collection in April, is struggling to mobilise additional resources as states should be compensated only from the GST cess amount, one of the officials mentioned above said.

Various options are being explored to compensate states—either bring more items under the GST cess base or to increase cess rates on the existing items. But, any increase in compensation cess on few items could only yield about ₹2,000-3,000 crore a year, a second official said. Average monthly GST compensation cess requirement is about ₹14,000 crore, while average cess collection is only 50% of that.

Pratik Jain, partner at PwC India said borrowing money to compensate states is not a bad idea provided, compensation should not be extended beyond 5 years, and after that cess money should only be used to repay the debt. “This is the only viable option in current circumstances,” he said.