GST shortfall of states may top ₹3L cr in FY21

Mkt Borrowing Likely To Pay Compensation Bill

New Delhi: States may need compensation in the range of Rs 3.1-3.6 lakh crore this year for a “shortfall” in GST collections, with additional market borrowings and an extended period of cess emerging as the likely solution.

The estimates were based on the trends for the four months when the average GST collection was around 65% of the monthly mop-up. “Even if the situation improves, the requirement will reduce marginally,” said a state FM, with one estimate pegging the monthly compensation bill at Rs 26,000 crore.

Although the Centre has been pushing for a rationalisation of rates and correction of the inverted duty structure, states are unwilling to accept it, citing the pandemic, which has shrunk incomes and raised demand for tax cuts. Even the calls for a possible expansion of the items facing compensation cess or an increase in the levy on some items are unlikely to be sufficient to cover the gap. “This is an extraordinary situation and there is normally a force majeure clause, which we don’t have,” said former CBFC chairman Najib Shah.

Under the bargain thrashed out by then finance minister Arun Jaitley, the Centre was to compensate states for five years in case collections grew below 14% annually. Armed with attorney general KK Venugopal’s legal opinion, the Centre is clear that it cannot foot the bill and the GST Council has to find resources. In any case, the Centre too is pressed for funds, given the tax shortfall due to Covid-19.

Now, the fight seems to be over modalities. The states want the Centre to borrow from the market and transfer the funds. Alternatively, they will borrow but backed by a government of India guarantee since it is the Centre which manages the Compensation Fund. “It appears that our worst fears are now coming true. It is surprising that the constitutional guarantee given to the states is being interpreted in a manner that the Centre is not responsible to compensate the states and it is the states (in the GST Council) which will have to find means to compensate themselves,” West Bengal FM Amit Mitra said.

Additional borrowings mean that consumers will have to pay cess on cars, soft drinks, tobacco and coal for an additional two-three years to repay the loans.