

Status Note on GST compensation released to States/UTs

2.78 lakh crore of compensation released to States for the year 2020-21 itself ; nothing is pending for the year

Centre released 7.35 lakh crore and compensation of 78,704 crore pending only for the year 2021-22

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At the time of introduction of GST, the Constitution amendment provided that the Parliament, by law shall provide compensation to States for a period of five years for loss of revenue due to introduction of GST. Accordingly, the GST Compensation to States Act was legislated which provides for release of compensation against 14% year-on-year growth over revenues in 2015-16 from taxes subsumed in GST. This compensation cess is credited to the compensation fund and as per the Act, all compensation is paid out of the fund. Presently, cess is levied on items like pan masala, tobacco, coal and cars.

Compensation of about ₹ 49,000 crore has been released for 2017-18 from the fund, which increased to ₹ 83,000 crore for 2018-19 and further to ₹ 1.65 lakh crore in 2019-20. For these three years, almost ₹ 3 lakh crore compensation was released to States. However, the compensation requirement increased substantially during 2020-21 due to impact of covid on revenues. To ensure that States have adequate and timely resources to combat covid and related issues, Centre borrowed ₹ 1.1 lakh crore in 2020-21 and ₹ 1.59 lakh crore in 2021-22 and passed it on to States on a back-to-back basis. During 2021-22, Centre ensured that release of this amount of ₹ 1.59 lakh crore was front loaded to ensure that States have adequate resources in the earlier part of the year.

Taking into account this loan, ₹ 2.78 lakh crore of compensation has been released to States for the year 2020-21 itself and nothing is pending for the year. Including the assistance released on back-to-back basis, ₹ 7.35 lakh crore has been released to States till now and, currently, only for the year 2021-22, compensation of ₹ 78,704 crore is pending due to inadequate balance in the fund, which is equivalent to compensation of four months.

Normally, compensation for ten months of April-January of any financial year is released during that year and the compensation of February-March is released only in the next financial year. As explained earlier, compensation of eight out of ten months of 2021-22 has already been released to States. The pending amount will also be released as and when amount from cess accrues in the compensation fund.

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