

States want to levy cess to end fiscal woes

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NEW DELHI

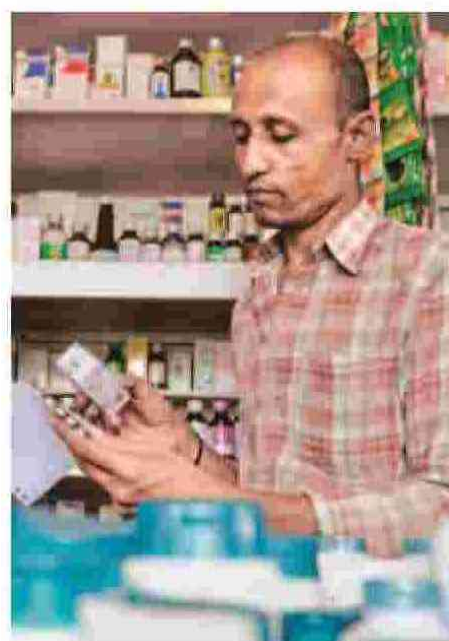
States are taking a leaf out of the central government's fiscal playbook and seeking to levy cess for extra revenue.

The Sikkim government, which is facing a major revenue gap, has sought the Goods and Services Tax (GST) Council's consent to levy a cess on its pharmaceutical and power sectors.

If granted, it would be the second state to introduce a cess after the flood cess that Kerala introduced in 2019, which set the precedent under the GST regime.

The much-criticized revenue-raising measure is an option hard to turn a blind eye to in the face of adverse events increasing spending need even as resources remain limited. The Centre has historically faced flak from states for raising revenue through cess, on which businesses don't get credit and states don't have a share.

The proposal mooted by Sikkim is to levy a corona cess of 1% on sales by the organized



Sikkim seeks to impose a corona cess of 1% on sales by the pharmaceutical sector. MINT

pharmaceutical industry in the state and a ₹0.10 on unit of power generated. This is sought to be implemented for two years, said a person privy to discussions in the Council.

Sikkim's proposal comes in the context of the covid-19 pandemic's impact on central government revenues affecting devolution of tax revenue to states, upsetting state budget calculations, said the person. The GST Council is yet to take a call on the proposal.

Experts said that fiscal stress is not a general trend seen across all states and that

the levy of cess should not be seen as the best option.

"The narrative of all states facing fiscal stress is not true. The relaxation in states' borrowing should help. Ultimately, there is no other way but to run large borrowing programmes and fiscal deficits by the Centre and states in uncertain times such as these. Levy of cess should be seen as the last option by the states as otherwise they

would lose bargaining power with the Centre on this matter," said N.R. Bhanumurthy, vice-chancellor of Dr B.R. Ambedkar School of Economics in Bengaluru.

For FY22, the central government has fixed net borrowings of the state at 4% of gross state domestic product, out of which 0.5% is linked to capital spending targets.

Demands for extra resources have been increasing with some states facing an acute resource crunch. Last month, Odisha chief minister Naveen Patnaik wrote to Union

finance minister Nirmala Sitharaman, urging that the proceeds of cess the Centre collects be shared with states to help in the provision of vaccines and free treatment.

Punjab finance minister Manpreet Singh Badal last month criticized the Centre's practice of raising revenue by way of cess, especially on petrol and diesel, which is not shared with states.

"We have become an expensive economy because of high oil price.... Neither the states nor the economy has benefited because of the fuel cess," Badal said.

Earlier this month, West Bengal finance minister Amit Mitra too urged Sitharaman to take urgent fiscal measures to ease the fund crunch faced by states, including by raising the borrowing limit of states for FY22 to 5% without any riders.

An email sent to the Union finance ministry seeking comments for the story remained unanswered till press time.

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