

FY21 COMPENSATION

'GST transfers to states fell short by ₹81k cr'

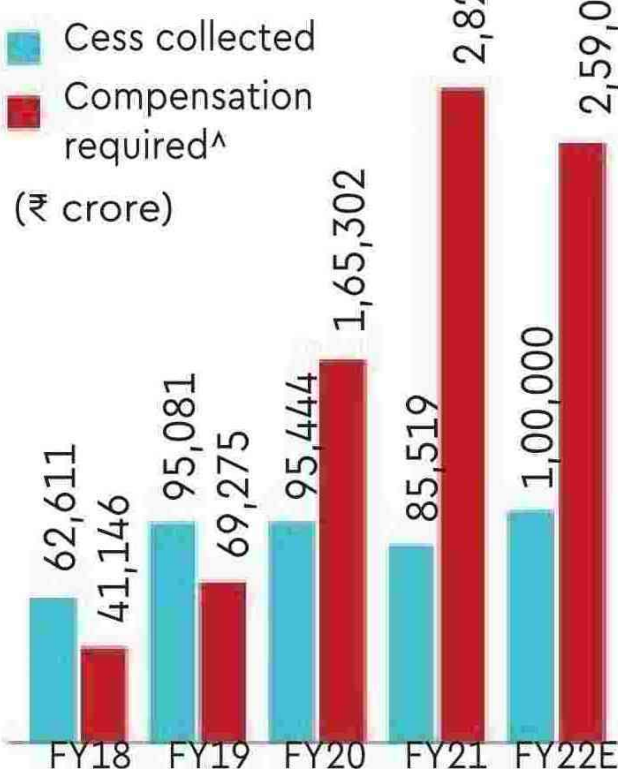
Centre's admission comes even as it is borrowing large sums to bridge shortfall for second year in a row

FE BUREAU
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THE CENTRE ON Monday acknowledged in Parliament that an amount of ₹81,179 crore was yet to be released to the state governments towards fully compensating them for their goods and services tax (GST) revenue shortfall for the financial year 2020-21. While several states have been vocal about these dues, the Centre hasn't categorically endorsed the claims so far.

The statement raises the question as to how the amount would be mobilised and increased the chances of a

WIDENING GAP



^Given the 14% annual growth in S-GST revenue guaranteed to states; *includes back-to-back loans disbursed to states of ₹1.1 lakh cr, ₹5,500 cr released separately and dues of ₹81,179 cr, #actual requirement could be much higher.

widening of the RBI-facilitated special borrowing window under which the Centre raises low-cost loans to bridge a yawning shortfall being witnessed in the designated cess kitty.

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‘GST transfers to states in FY21 fell short by ₹81k cr’

Of course, the written reply in the Lok Sabha by MoS Pankaj Chaudhary was silent on how and when the dues to the states would be settled. Against the states’ estimated total GST compensation requirement of a huge ₹2.82 lakh crore for 2020-21, a little over ₹2 lakh crore were transferred to states in the year, including over ₹85,000 crore collected via the designated cesses on demerit goods, and another ₹1.1 lakh crore under the special back-to-back loan facility. The loan mechanism doesn’t entail any direct fiscal cost to the states, though delayed release of the compensation amounts — under the relevant law, these are to be released promptly on a bi-monthly basis — has increased the states’ borrowing requirements.

2020-21 was the first year when the cess proceeds fell short of the states’ compensation requirement, thanks largely to the pandemic but also because of the series of rate cuts that

brought down the weighted average GST rate to around 11%, against a revenue neutral rate of around 15% seen before the July 2017 launch of the destination-based consumption tax. In the current financial year too, the states’ GST revenue shortfall (S-GST shortfall) is seen to be a massive ₹2.6 lakh crore and analysts estimate the shortfall to be even higher.

The 2020-21 dues to states included dues to Maharashtra of ₹15,138 crore, followed by Karnataka (₹7,202 crore), Uttar Pradesh (₹7,109 crore), Gujarat (₹6,583 crore) and Tamil Nadu (₹6,155 crore), Chaudhary stated in the lower House.

In June, the West Bengal finance minister had flagged the issue of unpaid GST compensation for 2020-21, which he had estimated to be ₹74,398 crore for all states.

Subsequent to the 43rd GST Council Meeting held on May 28, it was decided that the Union government would borrow ₹1.59 lakh crore in 2021-22 and release it to states and UTs with legislature on a back-to-back basis to meet the resource gap due to the short release of compensation on account of inadequate amount in the Compensation Fund.

As reported by *FE* earlier, a special GST Council meeting is likely to be held in the later half of August to discuss revenue shortfall compensation mechanism for states beyond June 2022 when the five year assured period comes to an end. It will likely consider streamlining GST rates and inverted duty structure and tightening of anti-evasion steps to boost revenues.

While GST compensation for April-May 2021 is estimated to be ₹55,345 crore, the Centre on July 15 released a total ₹75,000 crore to the states to bridge their GST revenue shortfall. This was in addition to normal GST compensation being released every two months out of actual cess collections.