GST Arrears

Why in news?

The Goods and Services Tax (GST) Council has deepened the Centre-States rift over the issue of GST compensation arrears due to them.

What did the Centre propose?

- An estimated figure of ₹3 lakh crore was due as compensation to States for falling short of the 14% annual target under the GST Act.
- The Centre has now proposed that it give only ₹1.62 lakh crore.

How did the Centre jeopardise the GST system's future?

- There is no argument against the principle that a 14% annual increase was never really on the cards this year, after the Covid-19 outbreak.
- But, this 14% increase was added as compensation to the States for transiting into the new system and forgoing their revenue gathering powers.
- The Centre did not negotiate with the States regarding the transition to a new compensation arrangement.
- By doing so, the Centre has jeopardised the future of the GST system.

What is the Centre's proposal regarding the assistance to States?

- The Centre said that it will assist the States in getting loans at G-Sec rates.
- This will give them two 'options' on the extent of loan that they can take.
- This proposal does not seem to have gone down well with some States.

How did the States react?

- With the Centre being perceived as high-handed, the Chief Minister of Maharashtra has said that it is perhaps time to exit the GST.
- Punjab, Chhattisgarh and Puducherry have voiced their displeasure.
- But, the GST came into being as a showpiece of cooperative federalism.
- It took a Constitutional Amendment to create the GST Council and a new indirect tax architecture.
- All these efforts were taken to usher simplicity and uniformity in indirect taxes across regions. These efforts should not go in vain.

What could the Centre do?

- The Centre can prolong the compensation period beyond July 2022.
- It can offer a greater share of the revenues (the SGST part) to the States.
- It is important to bear in mind that the States' finances are under stress due to Covid-related welfare commitments.
- While States have to bear some of the burden, the Centre cannot absolve itself of its constitutional commitment.
- The Centre needs to invest time and energy in 'statecraft' - in reaching across to States and bridging an alarming trust deficit.
- It should reconsider 'conditionalities' for the States to exceed the FRBM limit by more than 0.5% of the SGDP.
- The GST Council should arrest the imminent slide into chaos in these unprecedented times.

Source: Business Line

