GST Council - Letter to the states

Why in News?

The GST Council has written to states telling them that the compensation requirements are “unlikely to be met”.

What is GST Council?

- The GST Council is a constitutional body established under **Article 279A** of Indian Constitution
- It makes recommendations to the Union and State Government on issues related to Goods and Service Tax (GST).
- The GST Council is chaired by the Union Finance Minister.
- Its other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.
- The **122nd Constitutional Amendment Bill, 2016** was passed in Parliament for introduction of Goods and Services tax in the country.
- Consequent upon this, the same was notified as the **101st Constitution Act, 2016**.

What is there purpose of GST act?

- As per the GST Act, states are guaranteed compensation for any revenue shortfall **below 14% growth** for the first 5 years **ending 2022**.
- The compensation is calculated keeping the base year as 2015-16.
- GST compensation is **paid every 2 months** by the Centre to states.

What did the GST Council write to the states?

- It has written to states telling them that the GST and compensation cess collections in the last few months have become a “matter of concern”.
- It also said that the compensation requirements are “unlikely to be met”.
- The Council is now scheduled to meet on December 18 to focus on “revenue augmentation”.
- Some state finance ministers are scheduled to meet Union Finance Minister before the meet to discuss the GST compensation dispute.

Did the Centre delay before?

- The Centre has already delayed compensating states for the shortfall in GST revenues for August-September 2019.
- The payment for the above was due in October, 2019.
- At least five Opposition-ruled states/UTs had issued a joint statement in November raising concerns about this.

- As per the Union Finance Ministry data, the Centre had collected Rs 64,528 crore in compensation cess during April-November 2019.
- It paid out only Rs.45,744 crore for April-July period, leaving the remaining in its kitty assuming no payment has yet been made to states for August-September.
- The payments were held back to states in **anticipation of the shortfall in collections** and the resultant impact on the government's fiscal deficit.

What did the Council requested the states?

- The GST Council has now asked states to give their inputs and proposals by December 6,2019 regarding,
    1. Review of items under exemption,
    2. GST and compensation cess rates on various items,
    3. Rate calibrations for inverted duty structure, compliance and revenue augmenting measures.

What are the concerns?

- **Indirect tax regime** - Cess is imposed only on luxury and sin goods under GST.
- So, any measure to generate more cess collections would either include imposing a higher cess on these items or a tinkering at the highest tax slab (28%) under the indirect tax regime.
- **Direct tax regime** - Besides faltering indirect tax collections, the mop-up on the direct tax front is also not optimistic, with gross collections during April-November growing a mere 5%.
- Net collections (less refunds) rose a meagre 0.7%, as against 2018's 14% and the Budget target of 17.3%
- Corporate tax collections contracted 1% during April-November, while personal income tax grew 5%
- Net direct tax collections have posted low growth because of a sharp rise in refunds.

What is the impact of these concerns?

- The **slowing stream** of both direct and indirect tax collections poses a big **challenge for the government** to meet its tax receipt targets set in the

Budget.

- Following the shortfall in direct tax revenue target for 2018-19, the government had reduced the tax targets for the current financial year.
- Direct tax revenue target has now been estimated at Rs 13.35 lakh crore for 2019-20, Rs 45,000 crore lower than the estimate of Rs 13.8 lakh crore in the Interim Budget presented in February, 2019.

Source: The Indian Express

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