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Shortfall in aid kitty for states: GST Council to consider mkt borrowing

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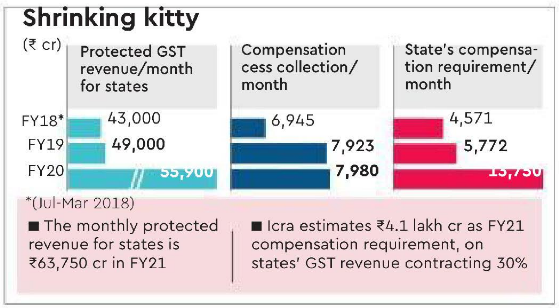
APART FROM THE Centre and states, which have raised their market borrowing plans for the current fiscal amid huge revenue shortfall, the Goods and Services Tax (GST) Council may also take an unprecedented step by resolving to tap the market to bridge the shortfall in compensation cess collection and ensure that states' guaranteed revenue growth of 14% year-on-year is protected, government sources said.

Borrowed funds could be repaid by extending collection of cess, which is now limited to five years till 2022, to one or two subsequent years.

The move is being contemplated after taking into consideration that raising tax rates by moving slabs to higher bracket to augment revenue might not be a feasible option at this juncture, given that all businesses have taken a hit due to the Covid-19 and an overall steep demand slump. Also, states may find it difficult to accept the idea of surrendering the guaranteed revenue growth and be content with available funds in the compensation cess kitty, sources said.



The finance ministry is staring at a ₹48,000-crore deficit between compensation cess fund collection and states' requirements. As things stand, the central government is still to release compensation funds to states for the December-March period of FY20. Total dues are estimated at around ₹55,000 crore. However, despite dipping into cess fund surplus from earlier years (FY18 and FY19) and accounting for the full-year collections of last fiscal, the government is left with about ₹7,000 crore only.

The sources said some states have demanded that the deficit be funded through the consolidated fund of India, but the finance ministry feels this would hamper the government's own committed expenditures. Also, the GST law is clear that the GST Council would take remedial measures in the event of any shortfall in the compensation cess fund.

The GST Council in December last year had discussed several measures to boost tax collection, including just having two slabs of 10% and 20%, or moving items from 5% and 12% slabs to higher brackets, withdrawing exemptions on certain items, bringing high-end healthcare and education under GST ambit and reversing rate cuts on certain items that were brought down to 18% from 28%.

However, a consensus was elusive on these proposals even though states sought time to study the implication of some of these measures. Another proposal to impose cess on more items was rejected as the move would only result in additional revenue of ₹2000-3000 crore/a year, not enough to bridge the deficit.

The GST law mandates that states be compensated for any shortfall in reaching a 14% revenue growth target, which is calculated on FY16 revenue base from taxes subsumed in GST. The compensation is to come from fund collected through cess imposed on certain luxury/sin items, which is paid bi-monthly and is to continue till 2022, the first five years of GST regime.

According to official data, the Centre released ₹1.2 lakh crore in FY20 as compensation, against collections of about ₹95,000 crore. In FY19, collection stood at ₹95,081 crore while disbursal was at ₹69,275 crore. In FY18, the compensation payout was ₹41,146 crore against collection of ₹62,611 crore. The government had an unutilised cess fund of ₹47,271 crore from FY18 and FY19, which it employed last fiscal to augment collections.