Centre, states stare at ₹2-trillion GST cess gap

Centre may borrow part of the deficit under special window

DILASHA SETH
New Delhi, 23 May

With the government anticipating goods and services tax (GST) collection to fall below ₹1 trillion in June — the first time in nine months — owing to Covid-led disruption, compensation to states is set to exceed cess collection for the second year in a row.

The GST compensation for states is expected to widen to ₹2.5-3.0 trillion in FY22, as against the cess collection of ₹1 trillion estimated in the Budget. It is higher than the ₹2.35-trillion compensation requirement estimated last year by the Centre for FY21.

Economists estimate that cess collection may fall short by ₹1.5-2.0 trillion vis-a-vis the compensation requirement, suggesting that the government may once again, like last year, need to borrow from the markets again in order to fill the gap.

However, the Centre may agree to borrow part of the shortfall due to GST implementation, and not due to Covid-19, under the special window and give to states as back-to-back loans, like last year. “The deceleration in e-way bill generation in April and May indicates a nearly 30 per cent decline in collection in May against April and collection may fall below ₹1 trillion in June. There is lack of economic activity in industrial states. Demand may show some pickup from July, which will show up in GST collection,” said a government official.

Recovery will hinge on opening up producing states like Karnataka, Maharashtra, and Tamil Nadu.

Another official pointed out that a team of officers was assessing the impact of anticipated slowdown in GST mop-up on compensation this year. This may be presented before the GST Council in its meeting on Friday.

---

**BRIDGING THE GAP**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cess collected</th>
<th>Released to states</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>₹62,596</td>
<td>₹41,456</td>
</tr>
<tr>
<td>2018-19</td>
<td>₹95,081</td>
<td>₹69,775</td>
</tr>
<tr>
<td>2019-20</td>
<td>₹95,551</td>
<td>₹1,05,302</td>
</tr>
<tr>
<td>2020-21*</td>
<td>₹85,500</td>
<td>₹1,80,208</td>
</tr>
<tr>
<td>2021-22**</td>
<td>₹100,000</td>
<td>NA</td>
</tr>
</tbody>
</table>

*₹1.1 trn released to states as back-to-back loans for deficit and ₹70,000 crore collected as cess; **Budget Estimate FY22

Source: Ministry of Finance; Union Budget
₹2-trn GST deficit...

"It will have to be seen how much of the shortfall is due to Covid-19 and how much due to GST implementation, if Option 1 is to be exercised. Borrowing the entire amount of shortfall would impact yields," he said.

Aditi Nayar, chief economist, ICRA Ratings, said while the state GST inflows were estimated to be twice those of last year in the first quarter at ₹1.7 trillion, "early estimates suggest a GST compensation requirement of ₹2.5-2.7 trillion for FY22".

Nayar added the protected revenues for the state governments for FY22 were estimated at ₹8.7 trillion.

Devendra Kumar Pant, chief economist, India Ratings, estimated the GST compensation requirement at around ₹3 trillion, of which only ₹1 trillion may be collected by way of compensation cess, leaving a gap of ₹2 trillion.

"The localised lockdowns in 2021 will have an impact on tax collection. GST collection in the first half of FY22 is expected to continue double-digit growth performance. Based on the present status of Covid-19 infections, the cess shortfall could be around ₹2 trillion," said Pant.

More on business-standard.com