GST cess extended, but states' fiscal woes to continue

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NEW DELHI : Those who buy cars, caffeinated drinks and tobacco will continue to pay GST cess till March 2026 as per a government order on Saturday extending the levy by another four years.

However, the extension of the GST cess, the proceeds of which so far has been used to compensate states for their GST revenue losses, will no longer go to them. It will now be used to service the back-to-back loans the Centre raised and passed on to states in FY21 and FY22. During this period, the Centre had transferred ₹2.69 trillion to states to make up for the short fall in compensation.

Although some of the states are expected to demand extending the GST compensation from Central government beyond June, a decision on that is unlikely given that the proceeds of cess is required to service past debt, according to a person privy to discussions between central and state governments.

The fiscal pressures of Centre and states means there would be more tightening in technology enabled administration of GST, which could place more compliance requirements on businesses. The forthcoming two-day GST Council meeting starting Tuesday is expected to discuss rule changes meant to improve compliance and boost revenue receipts.

While the fiscal position of the Centre is weak in the wake of the excise duty reduction on petrol and diesel and the burden of additional fertilizer subsidy offered, states will have to make do without GST compensation. That is problematic for some of the states. According to an RBI study, Bihar, Kerala, Punjab, Rajasthan and West Bengal are the five highly stressed states in terms of debt to gross state domestic product ratio. Centre and states are expected to take steps to improve efficiency in the GST system to boost revenue collections.

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