41st GST COUNCIL MEETING HIGHLIGHTS

KEY POINTS FROM 41ST GST COUNCIL MEET

The 41st meeting of the GST Council held on 27th August 2020 discussed provisions of a framework for addressing the issue of revenue shortfall faced by States. The revenue shortfall at the States' level is ₹2.35 lacs crores, of which ₹97,000 crore is due to GST and the rest is due to lack of economic activities because of COVID. The Centre has provided the States with the following two options to bridge the gap:

Option 1

Centre will facilitate borrowings by States from RBI and help them get such loans at G-Security linked interest rates through a special window. The Centre aims to provide ₹97,000 crore to the State through this option. The money can be repaid by the States after 5 years from funds collected through cess ending in 2022.

Option 2

The states can borrow the entire amount of ₹2.35 lakh crore on their own after consulting with the RBI through the Special Window

These options are available for this year only. The rate of interest will remain the same for all the states irrespective of credit ratings. A further relaxation of 0.5% will be given to States for market borrowing under FRBM Act if they decide to borrow on their own, without the condition of completing tasks under Atmanirbhar Bharat program.

The States have been given 7 working days time to deliberate upon the aforementioned options and respond to the propositions.

Acquisory View:

The GST Act stipulates that the states will be compensated by the Centre through a revenue sharing mechanism and any shortfall will be met by the Centre for 5 years, i.e. till 2022. The pandemic and stalling of business activities in the last many months have drastically reduced tax collections, so much so that the shortfall cannot be met by the Centre any further. So, it is a de facto failure of the Centre to deliver on its commitment.

By proposing the above two options, the Government is trying to now facilitate credit to States. The stark choice for States is between borrowing less and getting cess later or borrow more and pay for it using cess collected during transition period. In addition, the details are yet to be finalised and accepted. We believe that the States might be left with no other option but to ask the GSTC to consider increasing the cess or including more products or extending the levy of cess by some more years, although extension of the tenure of cess beyond 5 years may be a cause of concern for businesses. The shortfall is a matter of serious concern and with economic contraction looming in the foreseeable future, and it is likely that further detail conversation between the Centre and the States will continue before any resolution can be agreed between all the stakeholders.

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