Most states demand GST cess extension for 3 years

Fin Panel To Hold Talks On Road Map For Rates In Future

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New Delhi:

In what will come as a blow to consumers, most states have pitched for extending the GST cess on automobiles, soft drinks, coal, tobacco and pan masala by another three years to compensate them for "revenue loss", N K Singh, chairman of the 15th Finance Commission (FFC), said on Friday.

While launching GST in 2017, the Centre had assured states on compensating them for "revenue loss" if collections grew less than 14% in a year. "Almost every state we have visited wants it (compensation cess) to be co-terminus with the award of the Finance Commission," Singh told reporters, after a meeting with economists. FFC's five year award will kick in from the 2020-financial year.

The statement comes at a time when several industries are seeking a reduction in GST levy, arguing that this was required to boost demand.

The FFC chairman, who is due to address the GST Council next week, however, warned of a moral hazard as a predictable revenue flow could impact the ability to raise resources. Singh is expected to discuss the predictability of rates and the road map for transition to a structure that has fewer rates. The government has said that the current four-rate structure, with two standard rates of 12% and 18%, will be replaced by three and, over time, the number of slabs may come down.

While tax experts said there are leakages in the system, which is impacting GST collections, during their consultations with the Finance Commission on Friday, economists also questioned the need to assure 14% growth in collections at a time when nominal GDP growth had slowed down. The economists said that the promise was made at a time when nominal GDP growth was of the order of 12%, which has slipped to 8%.

Further, Singh promised to provide "adequate and assured" funds for meeting the capital expenditure for defence, amid concerns that the additional terms of reference on the issue, may lower the money that is transferred to the states.

The former civil servant and lawmaker indicated that FFC was looking at various options, including setting up a non-lapsable mechanism to ensure that funds meant for large defence purchases did not lapse due to the mismatch with the annual Budget cycles. He said there was also an option to create a special purpose vehicle to keep the funds but the panel was grappling with the issue of how to route the budgetary allocations.

Finance Commission plans independent assessment of economic situation

"The best case scenario is that the first quarter is just a blip and the subsequent quarters will work out to be somewhat better

Need to review centrally sponsored schemes

"There are 115 centrally sponsored schemes with allocation of **₹3.6 lakh crore** on largely subjects that fall in the ambit of states... (A restructuring) can't be done in a jiffy

Looking at various options for defence outlays

"We are looking at adequate and assured funding so that there are enough resources for capex

—N K SINGH | CHAIRMAN, 15TH FINANCE COMMISSION