

## GST Compensation Cess [UPSC Notes]

In February 2023, the West Bengal Government rejected claims made by Union Finance Minister Nirmala Sitharaman that the state owes the Centre Rs. 1,841 crores for the deployment of the CRPF during elections and said the Centre should cover the expense because the Election Commission has the final say on whether to use central forces. The GST Compensation Cess has been in news in relation to this development. In this article, you can learn what is the GST compensation cess, its importance and issues for the [IAS Exam](#).

### Latest News in Detail:

- The West Bengal administration "disagrees" with the claim made by Union Finance Minister Nirmala Sitharaman that the state had not submitted audited data, claiming that the Centre owes it Rs 2,409.96 crore in **GST compensation**.
- Ms Sitharaman had previously stated in December 2022 that the [GST](#) claims of state governments will be approved as soon as she received the necessary paperwork and a certification from each Accountant General (AG).

### GST Compensation Cess

Manufacturing states including Gujarat, Haryana, Karnataka, Maharashtra, and Tamil Nadu feared a revenue loss due to the consumption-based character of the GST.

- As a result, the government developed the GST Compensation Cess or GST Cess to make up for any potential revenue losses sustained by such manufacturing states.
- In accordance with the GST (Compensation to States) Act of 2017, a compensation cess is imposed on five goods that are deemed to be "sin" or "luxury," such as Pan Masala, Tobacco, and Automobiles.
- To compensate states for any revenue loss, the compensation cess fund was established. It was decided to use the additional cess that had been levied on some commodities to pay the compensation.
- **Compensation Cess on Exported goods:** Compensation Cess will not be charged on goods exported by an exporter under bond/LUT and the exporter will be eligible for a refund of the input tax credit of Compensation Cess relating to goods exported.
  - In case goods have been exported on the payment of Compensation Cess the exporter will be eligible for a refund of Compensation Cess paid on goods exported by him.

### How is GST compensation cess calculated?

GST Cess is calculated on the price of the notified goods before GST. The compensation cess is levied over and above the amount of GST charged in relation to a particular supply.

## What is cess?

Cess is the name given to a designated tax that is collected for a certain purpose and that may only be used for that particular purpose.

- A cess can only be collected by the Union Government only after legislation is framed and passed in the Parliament of India.
- The legislation needs to be explicit about the goal of the money's raising.
- The Union Government must share taxes with the State Government, although a cess may be excluded from the pool of revenues that can be divided according to the rules of [Article 270](#) of the Indian Constitution.

## Need for Compensation Cess

States and Union Territories (with legislatures) were forced to cede control of their government to a [GST Council](#) as a result of the adoption of the Goods & Services Tax (GST).

- A State's overall revenue will decrease as a result of the switch from sales tax or value-added tax to GST.
  - As a result, it was decided that any revenue shortages resulting from the switch to the new indirect tax system would be covered for a five-year period by a pooled GST Compensation Fund.
  - According to GST law, the financial year 2015–16 must be used as the base year to determine compensation, and States were promised an annual income growth of 14%.
  - The Government of India recently extended the compensation cess until 31st March 2026 which was to end on June 30, 2022, five years after the single tax rolled out on July 1, 2017.
    - It is done to repay the borrowings that were done in 2020-21 and 2021-22 to compensate States for GST revenue loss.
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