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# Compensation cess to stay till States' dues are met: Finance panel chief

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Chairperson of the Fifteenth Finance Commission N.K. Singh. File | Photo Credit: R.V. Moorthy

## Says trust deficit between Centre, States exaggerated

The levy of compensation cess on Goods and Services Tax (GST) may have to be extended for quite a few years, perhaps till as late as 2025-26, to pay off States' GST dues, Chairperson of the Fifteenth Finance Commission N.K. Singh said.

The Commission, whose report on the devolution of funds between the Centre and States for the five-year period of 2021-22 till 2025-2026 will be submitted to the government soon, will factor in unpaid compensation dues while working out States' revenue flow calculations for the years beyond 2022.

Asserting that the Centre has at no point backtracked from the fact that States will get compensation for the first five years of the GST regime, Mr. Singh said "a lot of misgivings about the fiscal compact having been broken and there being a trust deficit" in the context of negotiations over the GST compensation cess were "somewhat exaggerated".

"On the important issue of GST compensation, the last word has not been said. Both the States and the Centre are recalibrating the contours of a consensus within the GST Council. It is for the Council to take such decisions," Mr. Singh told The Hindu. "At no point has the Centre said it will not pay for those five years. It's only a question of how it can be adjusted in the most efficient way to undertake the borrowings," he added.

Too much was being made of who should borrow to meet the shortfalls, Mr Singh suggested, stressing that the investing community looks at the Centre and States' combined debt, not their disaggregated debt levels.

"Cess shortfalls cannot be met from the Consolidated Fund of India. So it has to be raised through some borrowing arrangement like the present one. The only issue is the sequence of the borrowing. To some extent, it doesn't make much of a difference. What investors see is the general government debt, not the differentiated debt between the Centre and the States. So this entire thing would be a shuffling of accounts," he said, referring to the Centre's decision to borrow ₹1.1 lakh crore on behalf of States and lend it onward.

GST compensation cess is levied on goods such as cars, aerated drinks and tobacco products, over and above the highest GST rate of 28%, and was to be levied for the first five years of the GST regime to compensate States. The GST Council has decided to extend the levy beyond that period to meet shortfalls in accruals this year.

"I see there is now some forward movement. I have no doubt in my mind that the Union government would make sure that the period for which the cess is extended, would be adequate enough to extinguish the liabilities which arise upto July 2022. This means that the cess may have to be continued up to a much later period, I think maybe 2025-26," Mr. Singh, a former Revenue Secretary, said.

"It would be reasonable and rational for the Finance Commission to assume that since there is no suggestion whatsoever of any resiling of the obligations undertaken by the central government, that these revenues (assured to States) upto 2022 would not be extinguished, but carried forward. And for the period of our award, we would naturally fully reckon and take this into account," Mr Singh said in an interview ahead of the release of his autobiography Portraits of Power.

### Public debt review

Mr. Singh said expenditure pressures to cope with the pandemic, whose course is still shrouded in huge uncertainties, mean that the period ahead will require "fiscal forbearance" as opposed to fiscal rectitude, indicating that fiscal deficit and debt targets would have to become more flexible.

"We are closely looking at the kind of flexibility and leeway that should be given to both the Union and the States. As a Finance Commission, one of our overriding priorities is that the Union and the States must be treated in an equal way and we have ensured that. I think a sensible course would be to introduce some flexibility both on the debt trajectory and the fiscal deficit, both for the Centre and the States, ensuring that the new fiscal compact represents the partnership between the Union and States for the future," he said.

### Higher health spend

Stressing that the pandemic has laid bare the inadequacy of India's health infrastructure with a "very insignificant part of public outlay going to the health sector historically", the Finance Commission chairperson said a separate chapter has been devoted in its report to consider more resources for the health sector.
While the outlay on health from both the Centre and States is just about 1% of GDP and must be enhanced, Mr. Singh pointed out that there are regional divergences, too, with poorer States having worse healthcare systems and distorted availability of doctors and hospital beds.

"Health expenditure needs to be assigned higher priority. We have devoted a dedicated chapter to health in the Commission's report, which goes into the question of how to reprioritise existing resources available more effectively, and (how to raise) additional resources for which we will consider a sector-based initiative for health," he said, mooting a greater focus on ensuring quality infrastructure in primary health care centres and district hospitals.

***Source:*** *https://www.thehindu.com/business/Economy/compensation-cess-to-stay-till-states-dues-are-met-finance-panel-chief/article32887356.ece*