

Key Highlights 41st GST Council Meeting held on 27th August 2020

In 41st GST Council Meeting it has been discussed that the shortfall for the Financial Year 2020-21 will be Rs 2,35,000 crore. Out of this, Rs 97,000 crore is the shortfall due to GST implementation, whereas the rest is considered as due to COVID-19.

The states have been provided with two options to meet the shortfall of compensation cess.

Option I- The centre can facilitate Rs 97,000 crore to states as borrowings, through a special window by the RBI, and this can be repaid after 5 years on the collection of cess paying a reasonable rate of interest.

Option II- The states can borrow Rs 2,35,000 crore directly from the RBI.

The states will have to evaluate both these options within seven working days when the GST Council will again meet to finalize the choices. Further clarifications have been given as follows-

1. The centre will provide a further relaxation of 0.5% in states' borrowing limit under the FRBM Act for Rs.2.03 lakh crore to facilitate states to borrow more depending upon the severity of COVID-19 impact.
2. The pros and cons of both the options have been discussed also.
 - If the state goes for the first option, it will be entitled to the compensation cess for later years also with support by the centre.
 - If the state goes for the second option, there will be involvement of more amount of borrowing that is paid by using the cess collected during the transition.
3. The arrangement will remain valid only for the FY 2020-21. Hence, the GST Council will reassess the situation in April 2021 and decide for the 5th year.
4. The states can borrow money with the G-security linked interest rates without any hurdles.
5. Once the arrangement is approved by the GST Council, the centre will proceed to clear these dues with the help of the RBI and also take care of the rest of the financial year.
6. The states must take a decision based on the compensation cess they can expect in the future periods/years.

About Rs 3 lakh crore would be the need of compensation to be paid to states while compensation cess collected would be Rs 65,000 crore. April-July compensation is around Rs 1.50 lakh crore.

The GST Council is in planning stage to provide quick update on the level of preparedness of the GSTN in implementing the E-invoicing system from 1st October 2020.

EXPECTATIONS:

- Issues such as compensation to states and GST rates revision.
- Issues such as compensation to states, revenue shortfall.
- Two-wheeler industry desperately seeks GST rate cut
- Finance Ministry to examine if sin tax applies to soft drinks
- Issues such as the Centre should borrow from the market and provide to states as it will get a lower rate and easier access to markets. More so, since Centre has to make good on its promise to states for paying the due compensation.

The next GST Council meeting will be tentatively held on 19th September 2020, which will cover inverted tax structure problems and certain rate rationalization matters.