Bill Summary

Model Goods and Services Tax (Compensation to the States for Loss of Revenue) Bill, 2016

- The Central Bureau of Excise and Customs released the Model Goods and Services Tax (Compensation to the States for Loss of Revenue) Bill, 2016 in November 2016.
- The Bill provides compensation to the states for loss of revenue, following the implementation of Goods and Services Tax (GST). Such compensation will be provided to a state for a period of five years from the date on which the state brings its State GST Act into force.
- **Projected growth rate and base year:** The growth rate of revenue for a state during the five-year period is assumed be 14% per annum. For the purpose of calculating the compensation amount in any financial year, year 2015-16 will be assumed to be the base year, from revenue will be projected.
- **Base year revenue**: The base year tax revenue consists of the states' tax revenues from: (i) state Value Added Tax (VAT), (ii) central sales tax, (iii) entry tax, octroi, local body tax, (iv) taxes on luxuries, (v) taxes on advertisements, etc. However, any revenue among these taxes arising related to supply of (i) alcohol for human consumption, (ii) certain petroleum products, will not be accounted as the base year revenue.
- **Calculation and release of compensation:** The compensation payable to a state has to be provisionally calculated and released at the end of every quarter. Further, an annual calculation of the total revenue has to be performed, which will be audited by the Comptroller and Auditor General of India.
- **Levy and compensation of GST compensation cess**: A cess known as the GST Compensation Cess may be levied on the supply of certain goods and services, as recommended by the GST Council. The receipts from the cess will be deposited in a GST Compensation Fund. The receipts from the cess will be used for the purpose of providing compensation to the states for loss of revenue due to implementation of GST.
- Any unutilised money in the Compensation Fund at the end of the period of compensation will be distributed among the states in the following manner: (i) 50% of the fund to be shared between the states in proportion to revenues of the states, and (ii) the remaining 50% will be part of the centre's divisible pool of taxes.

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