Bill Summary

The Goods and Services Tax (Compensation to States) Bill, 2017

- The Goods and Services Tax (Compensation to States) Bill, 2017 was introduced in Lok Sabha on March 27, 2017. The Bill provides for compensation to states for any loss in revenue due to the implementation of GST.
- **Period of compensation**: 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:** 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. The growth rate of revenue for a state during the five-year period is assumed be 14% per annum.
- **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, and (ii) certain petroleum products, will not be accounted as part of 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 two months. Further, an annual calculation of the total revenue will be undertaken, which will be audited by the Comptroller and Auditor General of India.
- **Levy and compensation of GST compensation cess**: A 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 to a GST Compensation Fund. The receipts will be used for compensating states for any loss due to the implementation of GST.
- The cess will be capped at: (i) 135% for pan masala, (ii) Rs 400 per tonne for coal, (iii) Rs 4,170 + 290% per 1,000 sticks of tobacco, and (iv) 15% for all other goods and services including motor cars and aerated water.
- Any unutilised money in the Compensation Fund at the end of the compensation period will be distributed 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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