

What is the GST compensation?

- The [Constitution \(One Hundred and First Amendment\) Act, 2016](#), was the law which created the mechanism for levying a common nationwide Goods and Services Tax (GST).
- While States would receive the SGST (State GST) component of the GST, and a share of the IGST (integrated GST), it was agreed that revenue shortfalls arising from the transition to the new indirect taxes regime would be made good from a pooled GST Compensation Fund.

How is the [GST Compensation Fund](#) funded?

This corpus is funded through a compensation cess that is levied on so-called 'demerit' goods.

- The items are pan masala, cigarettes and tobacco products, aerated water, caffeinated beverages, coal and certain passenger motor vehicles.

Computation of the shortfall:

The computation of the shortfall is done annually by projecting a revenue assumption based on 14% compounded growth from the base year's (2015-2016) revenue and calculating the difference between that figure and the actual GST collections in that year.

Can the deadline be extended? If so, how?

The deadline for GST compensation was set in the original legislation and so in order to extend it, the GST Council must first recommend it and the Union government must then move an amendment to the GST law allowing for a new date.

INSTA CURIOUS

Did you know that even now the compensation cess will continue to be levied well beyond the current fiscal year since the borrowings made in lieu of the shortfalls in the compensation fund would need to be met?

INSTALINKS

PRELIMS LINK:

1. What is GST?
2. What are SGST and IGST?
3. Related Constitutional provisions.

MAINS LINK:

Discuss the need for GST Compensation Cess.

Q. Consider the following statements:

1. GST Compensation Fund funded through a compensation cess that is levied on so-called 'demerit' goods.
2. Under the GST Regime, States would receive the SGST (State GST) component and IGST (integrated GST) completely.

Which of the above statements is/are correct?

- A. 1 only.
- B. 2 only.
- C. Both.
- D. None.

Ans: A

