

**COMMERCIAL TAXES AND REGISTRATION DEPARTMENT
PRESS RELEASE**

[Text of speech of Hon'ble Minister for Fisheries and Personnel and Administrative Reforms delivered during the 42nd Goods and Services Tax Council meeting held through video conferencing on 5.10.2020]

Respected Chairperson Madam,

I confirm the draft minutes of the 40th GST Council meeting held on 12.06.2020 and 41st GST Council meeting held on 27.08.2020.

2. Hon'ble Chairperson, I wish to state that the Group of Ministers constituted for the purpose of examining the issue of IGST settlement for the year 2017-18 has finalized its report, acknowledging that a sum of Rs.4321 crore is due to the State of Tamil Nadu towards IGST settlement for the year 2017-18. I look forward to immediate release of the dues of Tamil Nadu in one instalment as recommended by the Group of Ministers. This will bring succour to the State at this time of grave financial difficulty caused by the Covid-19 pandemic. I urge the Government of India to accept the recommendation of Group of Ministers and implement it immediately.

3. In 2020-21, for the period upto July 2020, compensation of Rs.12258.94 crore is due to be paid to Tamil Nadu. It is a matter of grave urgency that the GST compensation payments are made immediately to enable us to continue to battle against Covid-19. Our stance has consistently been that the Government of India has a moral and legal obligation to pay the compensation for the shortfall in GST collections. We have also indicated that it is for the Government of India to find the necessary funds to compensate the States, if there was a shortfall in the cess collections. As a via media in the 41st GST Council

meeting, I had suggested that the Government of India could mobilise resources and lend the funds required to the GST Compensation Fund. The loan could then be serviced through an extension of the GST Cess for a few years beyond 2021-22. This was a very reasonable and practical suggestion and was agreed to by almost all States. Our Chief Minister had also written to the Hon'ble Prime Minister in this regard.

4. However, this has not been accepted by the Government of India. In the last meeting held on 27.08.2020, the Hon'ble Chairperson had given two options to the States. Both options entail borrowings from the open market by State Governments.

5. In an effort to limit the total amount of borrowing in 2020-21, under Option 1 an artificial distinction is being drawn between GST implementation-based losses and COVID-induced losses. Any attempt to carve out losses solely on account of GST vitiates the delicately balanced pact between the Centre and the States that this August Council has held so dear since the introduction of GST regime. I am heartened by the clear and explicit statement in the note which was circulated earlier that under the operative sections of the GST (Compensation to States) Act, 2017, compensation is payable for the entire shortfall in revenue collection, even if it is not on account of GST implementation. Further, this position has been clarified by the Attorney General and is accepted by the Central Government. It has also been stated that the balance shortfall will be made good in subsequent years. It is important that this position is explicitly reiterated in a formal communication to the States.

6. I would submit to the Council that even for the current financial year, partial release of compensation may be a compulsion. But this ought not to be justified based on the presumptive loss solely on account of introduction of GST. It is a fait accompli that given the fiscal situation, States have to remain content with receiving only a portion of the compensation. Further, the State Governments had pointed out in the

meeting conducted by the Union Finance Secretary that the assumption of 10 per cent normal growth in the Option 1 is highly unrealistic and unwarranted. Hence, instead, revenue gap of States must be assessed based on an appropriate proportion of the total anticipated loss this financial year under Option 1. Option 2 has been worked out to be completely unattractive and unacceptable to almost all States. In such circumstances and given the very limited options available, Tamil Nadu chooses Option 1 in the hope it will be reworked to reflect a higher proportion of the actual loss in revenue of States.

7. I look forward to your guidance in resolving the issue of compensation to the State in a timely manner preserving the mutual trust which is the bedrock of GST and also to expedite the payment of IGST settlement dues.

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