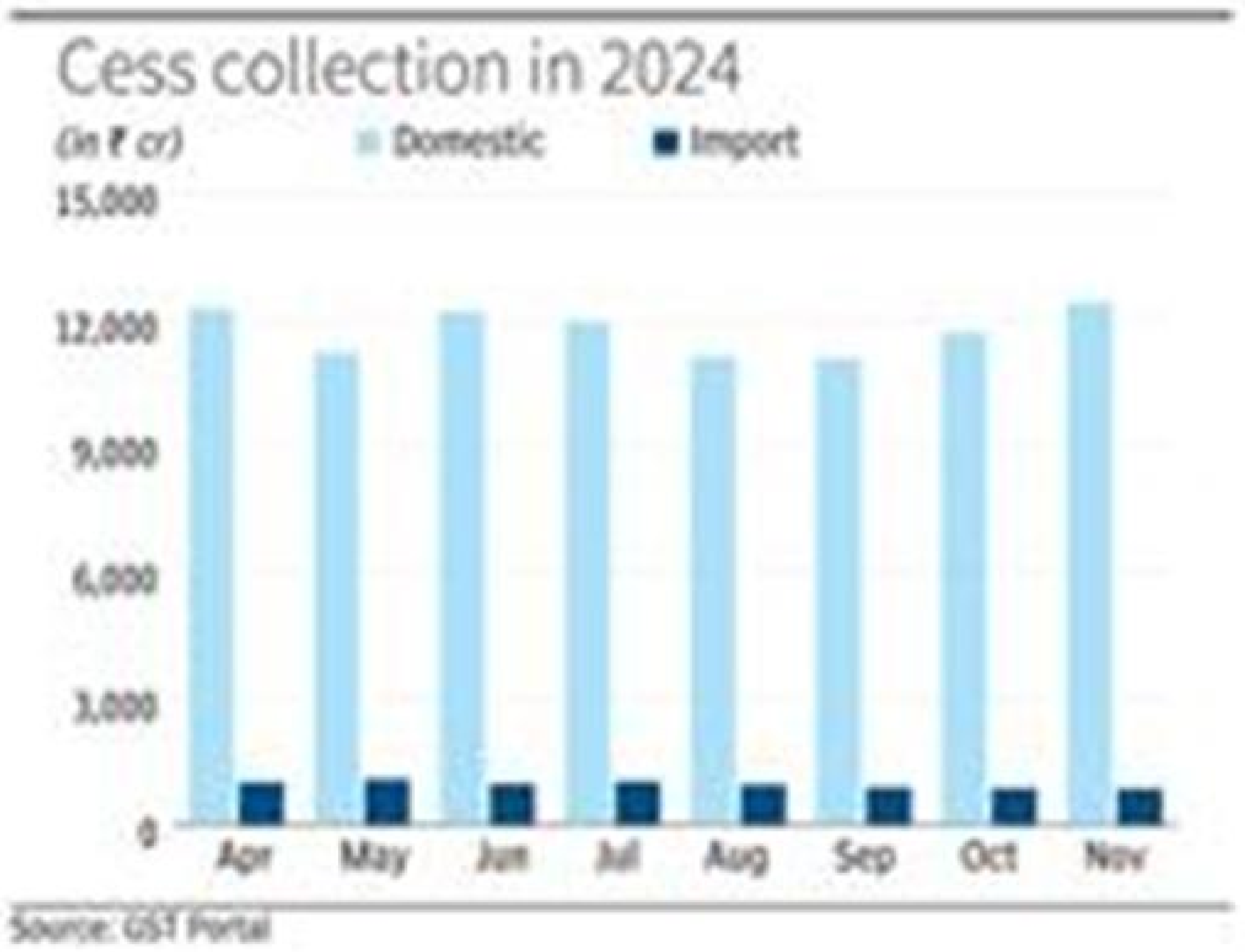
Compensation cess collection grows 6.5% in April-November



Source: GST Portal

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Collections through compensation cess in the GST mechanism have recorded growth of 6.5 per cent during the April-November period. This is higher than the Budget Estimate growth rate of 4.1 per cent but much lower than the growth rate of the last three full fiscal years, when it was in double digits.

The reworked BE for FY25 sets a target of a little over ₹1.51 lakh crore to be collected through compensation cess.

Data from the GST portal show that collections in the April-November period exceeded ₹1.01 lakh crore. This means around ₹50,000 crore needs to be collected in the remaining 4 months, requiring an average monthly collection of ₹12,500 crore. This is lower than the average monthly collection of ₹12,600 crore, indicating that there will not be any problem in achieving the BE.

NEW MECHANISM

Meanwhile, the debate has intensified over the post-March 2026 situation about a new mechanism after the compensation cess gets abolished. Technically, all cess and surcharges (Centre and States) are part of GST. However, to compensate the States for lower revenue growth post-GST introduction, a compensation cess through a separate law was prescribed for the period of first five years, that is, till 2022. Later, to repay the back-to-back loan to meet the shortfall in GST compensation, the levy and collection of cess have been extended up to March 31, 2026.

A Group of Ministers under the Chairmanship of Minister of State in Finance Ministry Pankaj Chaudhry is to make taxation proposals to replace compensation cess after its abolition.

Earlier, the group was to submit the report by this month but it is expected to be given more time. Government officials have indicated that cess is likely to continue, albeit with a new nomenclature.

UNIQUE ROLE

Sivakumar Ramjee, Executive Director – Indirect tax at Nangia Andersen LLP, said the cess' unique role in funding essential government obligations, such as the repayment of pandemic-related loans, makes its future especially important.

"Extension of the GST compensation cess beyond 2026 may delay essential structural reforms in the GST tax system. A healthy solution should include revisiting revenue-sharing formulae, incentivising the State officials to improve collection and gradually phase out the compensation cess with clear timelines and support mechanism for revenue collection," he said.

Further, continued reliance on cess could erode the very foundation of GST as a "good and simple tax". "Whether the compensation cess is merged into the broader GST structure or continues in a modified form, the decision will have far-reaching consequences for industries, State revenues and consumer prices," Ramjee said.

According to Jay Jhaveri, Partner, Bhuta Shah & Co, the discontinuation of cess after March 2026 will have a significant negative impact on government's revenue but, if extended for the second time, will defeat the overall foundation on which the GST regime was envisaged.

"A roadmap needs to be developed for gradual phasing out of the levy and by introducing a new higher tax rate for sin goods. A striking balance between government's revenue and overall growth of the economy and businesses at large is the only solution which will sustain in the long run," he said.