Q12

Explain the rationale behind the Goods and Services Tax (Compensation to States) Act of 2017. How has COVID-19 impacted the GST compensation fund and created new federal tensions?

UPSC Civil Services Mains 2020 · GS III · 15 marks · Government Budgeting

Government Budgeting.

Facts & figures for this PYQ only.

Numbers move. Confirm the latest Budget, Economic Survey or census round. This sheet is for revision, not a substitute for the model answer.

https://wrapexams.com/upsc/mains-answers/gs-3/2020/explain-the-rationale-behind-the-goods-and-services-tax-compensation-to-states-act-of-2017-how-has-covid-19-impacted-the-gst-compensation-fund-and-created-new-federal-tensions/

GST (Compensation to States) Act, 2017
Statute that created the compensation fund and the 14 per cent CAGR formula for a five-year transition.

14 per cent CAGR
Assured annual growth over the specified 2015-16 State tax base - the political number of the compact.

Compensation cess
Levy on specified goods whose proceeds were meant to pay compensation; the actual source in the Act.

2020 borrowing options
GST Council path under which States could borrow against cess shortfall, with later cess extension to repay.

Five-year window
Compensation designed to sunset around June 2022, not to run as a perpetual Union subsidy.