

Chapter 35: Goods and Services Tax (Compensation to States) Act, 2017

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35.0 GST Compensation Cess

Cess under GST is a compensation cess that will be levied on certain goods and services under section 8 of the GST (Compensation to States) Act, 2017. It is levied on inter-State and intra-State transactions of goods and services to compensate the revenue losses occurred to the States because of the implementation of GST in the country. It means Under GST, in addition to tax on supply (which are CGST + SGST/UTGST on intrastate supplies and IGST on interstate supplies), a GST Cess is to be levied on supply of certain goods.

35.1 Need of GST Compensation Cess

It is levied to compensate states who may suffer any loss of revenue due to the implementation of GST. As GST is a consumption based tax, the state in which consumption of goods or services happens will be eligible for the revenue on supplies. As a result, manufacturing states like Maharashtra, Tamil Nadu, Gujarat, Haryana and Karnataka are expected to face a decrease in revenue from indirect taxes. In order to compensate these states for this loss of revenue, GST Cess will be levied on supply of certain goods, which will be distributed to these states. This Cess will be levied for 5 years from the date of implementation of GST.

According to the GST cess (Compensation to State) Act, 2017, a compensation cess would be levied on specific items and services for compensation to the States for the loss of revenue on account of implementation of the goods and services tax in pursuance of the provisions of the Constitution (One Hundred and First Amendment) Act, 2016.

GST cess levied this way would be credited to the GST compensation fund, from where it will be used to compensate the tax revenue losses of the States caused by GST implementation. The unutilized funds, if any, would be distributed among the Centre and the States equally. The state governments would receive cess in the ratio of the indirect tax revenues generated by them in the last year before the implementation of GST.

35.2 Goods covered under GST Compensation Cess

- Pan Masala
- Tobacco and tobacco products
- Cigarettes
- Coal, briquettes, ovoids and similar solid fuels manufactured from coal, lignite excluding jet and peat.
- Aerated waters
- Motor vehicles

35.3 Rate of GST Compensation Cess

Items	GST Rate Applicable	GST Cess Range	GST Cess Ceiling
Coal	5%	INR 400/tonne	INR 400/tonne
Pan Masala	28%	60%	135%
Tobacco	28%	61% – 204%	INR 4170/thousand
Aerated Drinks	28%	12%	15%
Motor Vehicles	28%	1% – 22%	22%

35.4 How to Calculate GST Compensation Cess

The GST cess on an eligible product will be calculated according to the rate specified in the **GST cess rate** schedule and on the actual taxable value (transaction value) of the supply, not on the GST tax.

For cess applicable imports, the GST cess amount will be calculated on the taxable value + customs duty, i.e. the same value on which IGST is levied.

Example 1: M/s X Ltd. being a dealer in new car sold a Petrol Car on which applicable GST rate is 28% and GST Cess rate is 1%. Transaction value is ₹5,00,000. Find the GST liability?

Answer:	₹
Transaction value	= 5,00,000
CGST 14%	=70,000 (i.e. ₹5,00,000 x 14%)
SGST 14%	=70,000 (i.e. ₹5,00,000 x 14%)
Cess 1%	= 5,000 (i.e. ₹5,00,000 x 1%)
Invoice price of the car	=6,45,000

Example 2: Can input credit be availed on Cess paid on inward supply of these goods?

Answer: Yes, input credit can be availed on Cess paid on inward supplies. However, credit of Cess paid can be utilized only towards payment of Cess liability.