# Compensation cess in GST

**Introduction:**

Goods and Services Tax (Compensation to States) Act, 2017 was enacted to levy Compensation cess for providing compensation to the States for the loss of revenue arising on account of implementation of the goods and services tax with effect from the date from which the provisions of the Central Goods and Services Tax Act is brought into force (01/07/2017), for a period of five years or for such period as may be prescribed on the recommendations of the GST Council.

The compensation cess on goods imported into India shall be levied and collected in accordance with the provisions of section 3 of the Customs Tariff Act, 1975, at the point when duties of customs are levied on the said goods under section 12 of the Customs Act, 1962, on a value determined under the Customs Tariff Act, 1975.

Compensation Cess will not be charged on goods exported by an exporter under bond and the exporter will be eligible for refund of input tax credit of Compensation Cess relating to goods exported. In case goods have been exported on the payment of Compensation Cess the exporter will be eligible for refund of Compensation Cess paid on goods exported by him. Compensation cess shall not be leviable on supplies made by a taxable person who has decided to opt for composition levy.

**Input Tax Credit:**

The input tax credit in respect of compensation cess on supply of goods or services can be utilised only towards payment of the compensation cess on supply of goods or services.

**Valuation if Cess to be levied on value:**

In case the compensation cess is chargeable on any supply of goods or services or both with reference to their value, then for each such supply, the value has to be determined under section 15 of the Central Goods and Services Tax Act, 2017.

**Laws and Rules applicable:**

The provisions of the Central Goods and Services Tax Act, 2017 and the rules made thereunder, including those relating to assessment, input tax credit, non-levy, short-levy, interest, appeals, offences and penalties, shall apply in relation to the levy and collection of the cess on the intra-State supply of goods and services. Similarly, in case of inter-State supplies the provisions of the Integrated Goods and Services Tax Act, and the rules made thereunder will apply.

**Conclusion:**

The compensation cess is a cess that will be collected on the

supply of select goods and or services or both till 1st July 2022. The cess will compensate the states for any revenue loss on account of implementation of GST. This cess will not be payable by exporters and those persons who have opted for compensation levy. The input tax credit of this cess can be only used to pay compensation cess and not the other taxes like CGST, SGCT or IGST.

### Compensation Cess under GST

#### **Introduction**

The **Goods and Services Tax (Compensation to States) Act, 2017** was enacted to provide compensation to States for the loss of revenue arising due to the implementation of GST, effective from **1st July 2017**, for a period of **five years**, or for such further period as recommended by the **GST Council**.

This **compensation cess** is levied on certain notified goods and services, in addition to the applicable CGST and SGST/IGST, to bridge the revenue gap faced by States.

#### **Levy and Collection**

* On **imported goods**, compensation cess is levied and collected as per **Section 3 of the Customs Tariff Act, 1975**, at the point where customs duties are imposed under **Section 12 of the Customs Act, 1962**.
* The **valuation** of such goods is determined in accordance with the **Customs Tariff Act, 1975**.

#### **Exemptions and Export Benefits**

* Compensation cess is **not levied** on goods exported under **bond or Letter of Undertaking (LUT)**.
* Exporters can claim **refund of input tax credit (ITC)** of compensation cess attributable to exported goods or services.
* If goods are exported **on payment** of compensation cess, the cess paid is **refundable**.
* Suppliers registered under the **composition scheme** are not liable to pay compensation cess.

#### **Input Tax Credit (ITC)**

* ITC of compensation cess can be **utilised only** for the payment of compensation cess on outward supplies.
* It **cannot** be used to pay CGST, SGST, or IGST.

#### **Valuation for Levy of Cess**

* Where the cess is levied **on the value** of supply, such value shall be determined in accordance with **Section 15** of the **CGST Act, 2017**, which includes consideration, discounts, and other prescribed inclusions.

#### **Applicable Laws and Rules**

* For **intra-State supplies**, the provisions of the **CGST Act, 2017** and the corresponding rules (including those related to ITC, assessment, audit, penalties, and appeals) shall apply.
* For **inter-State supplies**, the provisions of the **IGST Act, 2017** and its rules shall apply.
* These laws govern all aspects of levy, collection, and enforcement related to compensation cess.

#### **Conclusion**

The **Compensation Cess** is a targeted levy designed to protect the fiscal interests of States during the transition to GST. Applicable only to notified goods and services, it was intended to be levied **until 1st July 2022**, unless extended. It is **not applicable** to exporters or composition taxpayers, and its **credit can only be utilised** against the cess liability itself. The administration of the cess is integrated with the broader GST framework to ensure consistency and compliance.