

## What is GST Compensation Cess?

September 28, 2024 • vajiramandravi.com



### About GST Compensation Cess:

- It is **levied under** Section 8 of The **Goods and Services Tax (Compensation to State) Act, 2017**.
- **Why is GST Cess Levied?**
  - As **GST** is a **consumption-based tax**, the state in which the consumption of goods and supply happen would be eligible for the indirect tax revenue.
  - Hence, **after GST comes into effect**, some **states** that are **net exporters of goods** and/or services are expected to **experience a decrease in indirect tax revenue**.
  - To **compensate the States for the loss in tax revenue**, the GST Compensation Cess has been declared by the Central Government.
- **Usage of GST Cess:**

- **All the proceeds** received from the GST compensation cess would be **credited to** a non-lapsable fund known as the **GST Compensation Fund**.
  - The funds would then be **used for compensating tax revenue loss to States** on account of GST implementation.
  - **If any funds are unutilized**, then at the end of the transition period, it would be **shared in half by the Central Government and all State Governments**.
  - The State government's share would be distributed in the ratio of their total revenues from the State tax or the Union territory goods and services tax, in the last year of the transition period.
  - **Applicability:**
    - GST Cess would be applicable **to both the supply of goods or services** that have been **notified by the Central Government**.
    - Also, **both intrastate supplies** of goods or services **and interstate** supplies of goods or services would attract GST cess.
    - **All taxable persons under GST, except** taxpayers registered under the **GST composition scheme** is expected to **collect and remit GST cess**.
    - In the GST regime, compensation cess at varied rates is **levied on luxury, sin, and demerit goods** (cigarettes, pan masala, gutkha, and other tobacco products, soft drinks, cars, etc.).
    - In 2022, the **GST Council decided to extend the levy till March 2026** to repay the interest and the principle amount of the Rs 2.69 lakh crore worth loan taken in the 2021 and 2022 fiscal years to make good states' revenue loss during Covid years.
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## Q1: What is the Goods and Services Tax (GST)?

The Goods and Services Tax (GST) is a uniform indirect tax levied on goods and services across the country. GST, as an umbrella tax, replaced central taxes like central excise, service tax, additional duties of excise & customs, special additional duty of customs, besides cesses and surcharges, on supply of goods and services.

**Source:** [GST Council sets up GoM on compensation cess; panel to submit report by December 31](#)

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Source: <https://vajiramandravi.com/current-affairs/gst-compensation-cess/>

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