

# GST compensation cess to be discussed at GoM meeting

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A 10-member Group of Ministers (GoM) led by Minister of State for Finance Pankaj Chaudhary is set to meet for the first time on Wednesday to discuss the future of GST compensation cess after the loan repayment period ends in March 2026, according to multiple sources familiar with the matter.

“By March 2026, the levy in its current form will end. We are meeting on October 16 to discuss several related issues. The panel is likely to debate whether the cess should continue to be levied separately after 2025-26 or be subsumed into a higher tax bracket,” said a source.

GST was introduced on July 1, 2017, and states were assured of compensation for any revenue loss for five years until June 2022 due to the GST rollout. Although compensation payments to states officially concluded in June 2022, the programme was extended until March 2026 to facilitate the repayment of a ₹2.7 trillion loan incurred by the Centre during the pandemic to address revenue shortfall.

During the 54th GST Council meeting on September 9, Finance Minister Nirmala Sitharaman indicated that the government plans to fully repay the loan, including interest, by January 2026. This could lead to a surplus of around ₹40,000 crore from cess collections in February and March 2026. Consequently, the Council discussed the necessity for a thorough examination of the future of the compensation cess and proposed the establishment of a GoM to develop a taxation proposal to replace the cess after its discontinuation.

“There is very little chance of merging the cess with an existing slab. Also, the GoM will need to recommend how the cess col-



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■ **The compensation cess**, which was introduced to repay a ₹2.7 trillion loan taken during the pandemic, is set to end in March 2026

■ **The GoM will explore** whether to continue the cess as a separate levy or merge it into a higher tax bracket

■ **By January 2026**, the government expects to repay the entire loan, possibly leaving a surplus of ₹40,000 crore

■ **Key decisions include how to distribute the cess collected** on demerit and luxury goods between the Centre and states

■ **Experts suggest options like aligning GST rates or introducing a new levy**, which may require constitutional review

lected on demerit and luxury goods should be distributed between the Centre and states, as well as the legal modifications necessary to implement this change,” added another source.

Pratik Jain, partner at PWC India, said that the GoM may explore various options, which may include aligning base GST rates once the cess is eliminated or implementing another levy to replace it. “Having another levy may require examination from a constitutional point of view as well,” he added.