

# Growth rate of compensation cess outpaced overall GST's in FY24

Sindhu Hariharan  
Chennai

As the 54th GST Council Meeting last week formed a Group of Ministers (GoM) to decide the future of the GST compensation cess, data show that the tax component contributes substantially to government coffers and merits continuation in a new form once its levy ends in March 2026.

## DATA FOCUS.

A *businessline* analysis of the annual GST compensation cess collections from FY18 to FY24 shows that the tax contributed average 8 per cent to the total GST collections during the said years, and has been growing at almost the same rate as rise in overall GST collections. In fact, in FY24, the growth in cess outpaced that of total GST collections.

The GST compensation cess grew around 22 per cent in FY22 at ₹1.07 lakh crore, 19 per cent in FY23 to come in at ₹1.28 lakh crore, and 12.7 per cent in FY24 (₹1.44 lakh crore). Overall GST collections grew at 31 per cent, 21.5 per cent and 11.6 per cent during the same post-Covid years. The growth rate in Central Goods and Services Tax (CGST) is at 29 per cent, 19.7 per cent and 16 per cent in the period.

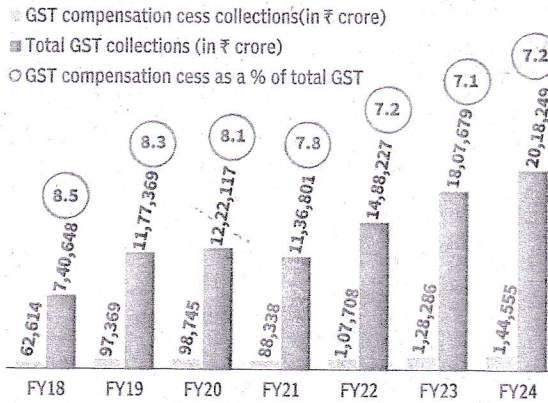
The cess is levied on supply of select so-called sin goods, luxury products and those with adverse environmental or health impacts.

### BALANCING ACT

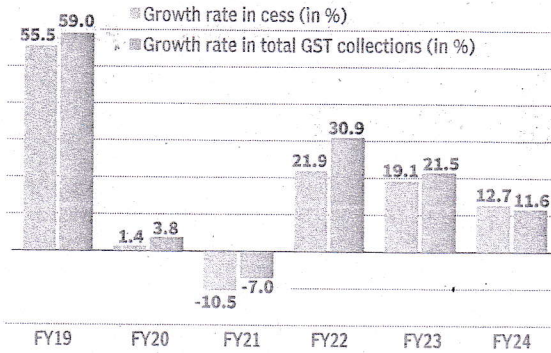
"Industries like automobile, aerated beverages and others affected by the compensation levy were hoping for its discontinuation after the five-year period and then again after its extension for covering up the previous shortfall," Abhishek Jain, Indirect Tax Head & Partner, KPMG, said. "The GoM is faced with a tough balancing

## Cess in a new form?

### GST compensation cess is 7-8% of total GST collections



### Growth in compensation cess faster than total GST growth in FY24



Source: Statistical Report on 7 Years of GST - GSTN

act between industry expectations and the government's interest in maintaining this key revenue source in some form," he added.

While the levy on tobacco and related products helps in influencing consumer behaviour towards purchase of such goods, analysts also note that given the rising demand for large motor vehicles and redefinition of luxury goods, the GoM should also review items on which the cess is currently levied and rationalise it.

GST compensation cess was brought in as a measure to meet its promise to the States to offer a 14 per cent CAGR in tax revenue for five years from the date of GST rollout. The payout to States

ended in June 2022, but subsequently it was extended till March 2026, to repay the loan of around ₹2.7 lakh crore that the Centre borrowed during the pandemic period to meet the deficit.

Finance Minister Nirmala Sitharaman at the 54th Council meet said that the government will likely clear the back-to-back loan and the interest thereon by January 2026, and thus two months of compensation cess collections (February and March 2026) totalling to roughly ₹40,000 crore is likely to be surplus. "It shall no longer be 'compensation cess' post March 2026, but what is to be done with it, will be decided by the GoM," she said.