

IGST cash out of states' reach

States suggest using IGST credit to seek advance to meet cash crunch; problem temporary, says Jaitley

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Under liquidity pressure after implementing the national goods and services tax (GST), some states wanted to leverage the credit amount in the integrated GST (IGST, amounting to ₹37,000 crore) for using the ways and means advances (WMA) from the Reserve Bank of India (RBI).

WMA is a mechanism used by the RBI to help states tide over temporary mismatches in cash flow of their receipts and payments.

The suggestion was made by Jammu and Kashmir Finance Minister Haseeb Drabu, among some others. It has, however, been turned down by the GST Council. Union Finance Minister Arun Jaitley explained the IGST credit belongs to the assessee; it can't be used by governments unless it comes to them as tax, in the form of central or state GST (CGST or SGST).

"The assessee is supposed to use it for payment of CGST and SGST. That can't be diverted for any other purpose. It is only when it is used for payment of CGST or SGST that it belongs to the Centre or the states concerned," he said.

Drabu told *Business Standard* he'd suggested the IGST credit be leveraged for increasing the WMA from the RBI on a proportional basis for the states.



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HASEEB DRABU, Jammu and Kashmir finance minister

"Revenues have got stressed," he explained. "Earlier, it used to be collected on the 1st (of a month). Now, it's collected on the 15th. To tide over that one cycle, the idea is that we need to increase WMA as a transitional thing for liquidity management...the way we suggested was to put it through RBI. Treat all states' cash balance and use it as a multiplier for WMA."

He said J&K had, for the first time, crossed its overdraft (OD) facility with the RBI. "We are into special OD. Forget OD, we have crossed even the WMA," said Drabu, adding that this situation

was being experienced by most states. His own administration, he stated, was being unable to pay salaries due to the liquidity crunch.

Jaitley, however, said these were transition issues in GST implementation. In the very first month, a large part of the money that is coming is in the IGST. As and when CGST and SGST liability arises, it is getting converted every day, he said. "The issue is more in the first month (GST implementation began on July 1). It will go down in the second and third months, comparatively."

Some states, said Jaitley, had got

their SGST and some part of the IGST has also gone to the states. Also, states had some amount of pending value added tax from June, paid in July. "If you add the three and add compensation cess, the gap becomes very narrow," said the Union minister.

The government has collected around ₹48,000 crore from IGST. Of this, around ₹10,000 crore was adjusted between the Centre and the states. The other ₹37,000 crore is pending in the account.

Abhishek Rastogi of consultancy Khaitan & Co said the liquidity problem was expected in the initial months of GST implementation. "However, states should not fear — they are guaranteed the compensation due to any loss of revenue collection. Any change of the mechanism to distribute tax collection is too early as of now and not recommended," he said.

M S Mani of consultancy Deloitte said the idea of leveraging the IGST credit for WMA was not in sync with the GST framework. IGST paid by a customer for inter-state supply of goods and supply could be used as input tax credit by a recipient in the other state if he was not the end-customer. The recipient would use it as credit in his tax liability when he makes further transactions. He can claim this credit in any future transaction, Mani explained.