

**Goods and Services Tax (Compensation to States) Act, 2017**

**Section 7 : Calculation and release of compensation**

- (1) The compensation under this Act shall be payable to any State during the transition period.
- (2) The compensation payable to a State shall be provisionally calculated and released at the end of every two months period, and shall be finally calculated for every financial year after the receipt of final revenue figures, as audited by the Comptroller and Auditor-General of India:

**Provided that** in case any excess amount has been released as compensation to a State in any financial year during the transition period, as per the audited figures of revenue collected, the excess amount so released shall be adjusted against the compensation amount payable to such State in the subsequent financial year.

- (3) The total compensation payable for any financial year during the transition period to any State shall be calculated in the following manner, namely:—
  - (a) the projected revenue for any financial year during the transition period, which could have accrued to a State in the absence of the goods and services tax, shall be calculated as per section 6;
  - (b) the actual revenue collected by a State in any financial year during the transition period shall be—
    - (i) the actual revenue from State tax collected by the State, net of refunds given by the said State under Chapters XI and XX of the State Goods and Services Tax Act;
    - (ii) the integrated goods and services tax apportioned to that State; and
    - (iii) any collection of taxes on account of the taxes levied by the respective State under the Acts specified in sub-section (4) of section 5, net of refund of such taxes,as certified by the Comptroller and Auditor-General of India;
  - (c) the total compensation payable in any financial year shall be the difference between the projected revenue for any financial year and the actual revenue collected by a State referred to in clause (b).
- (4) The loss of revenue at the end of every two months period in any year for a State during the transition period shall be calculated, at the end of the said period, in the following manner, namely:—

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- (a) the projected revenue that could have been earned by the State in absence of the goods and services tax till the end of the relevant two months period of the respective financial year shall be calculated on a pro- rata basis as a percentage of the total projected revenue for any financial year during the transition period, calculated in accordance with section 6.

**Illustration-** If the projected revenue for any year calculated in accordance with section 6 is one hundred rupees, for calculating the projected revenue that could be earned till the end of the period of ten months for the purpose of this sub-section shall be  $100 \times (5/6) = ₹ 83.33.$ ;

- (b) the actual revenue collected by a State till the end of relevant two months period in any financial year during the transition period shall be-
- (i) the actual revenue from State tax collected by the State, net of refunds given by the State under Chapters XI and XX of the State Goods and Services Tax Act;
  - (ii) the integrated goods and services tax apportioned to that State, as certified by the Principal Chief Controller of Accounts of the <sup>1</sup>[Central Board of Indirect Taxes and Customs]; and
  - (iii) any collection of taxes levied by the said State, under the Acts specified in sub-section (4) of section 5, net of refund of such taxes;
- (c) the provisional compensation payable to any State at the end of the relevant two months period in any financial year shall be the difference between the projected revenue till the end of the relevant period in accordance with clause (a) and the actual revenue collected by a State in the said period as referred to in clause (b), reduced by the provisional compensation paid to a State till the end of the previous two months period in the said financial year during the transition period.

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<sup>1</sup> Substituted for "Central Board of Excise and Customs" by Goods and Services Tax (Compensation to States) Amendment Act, 2018 (34 of 2018). It is made effective from 01-02-2019 by Noti. No. 1/2019-GST Compensation, dt. 29-01-2019.

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- (5) In case of any difference between the final compensation amount payable to a State calculated in accordance with the provisions of sub-section (3) upon receipt of the audited revenue figures from the Comptroller and Auditor-General of India, and the total provisional compensation amount released to a State in the said financial year in accordance with the provisions of sub-section (4), the same shall be adjusted against release of compensation to the State in the subsequent financial year.
- (6) Where no compensation is due to be released in any financial year, and in case any excess amount has been released to a State in the previous year, this amount shall be refunded by the State to the Central Government and such amount shall be credited to the Fund in such manner as may be prescribed.

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