



## ECONOMICS

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## Implications of GST Revenue Trends for FY 2019-20 and FY 2020-21

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This column analyses implications of revenue from India's GST (Goods and services Tax) for FY 2019-20 and FY 2020-21. From 1 July 2017, GST subsumed about 17 counterproductive, non-transparent, corruption and rent seeking prone, and cumbersome taxes on consumption with disproportionately high compliance costs considerably hindering ease of doing business and logistics efficiency.

The GST is levied on supply of goods and services under a single tax all across India uniformly. It is thus a dual tax, applied at the Union government level, and in all States and Union Territories. The aim is to make India a unified national internal market, and bring about one-nation-one-sales tax. Considerable improvements in design, implementation, and compliance in GST has been evident since it was introduced. Nevertheless, GST remains a work in progress.

For most of the 2020 calendar year, India, as the rest of the world have been struggling with the Wuhan, China (technically COVID-19) pandemic. There have been several lockdowns of economic and social activity in India, though with diminishing stringency. The most comprehensive lockdown across the country was in April 2020. The pandemic is still cornuting, though in India its intensity as of January 2021, is less, this could change. So, vigilance and protective measures need to be observed.

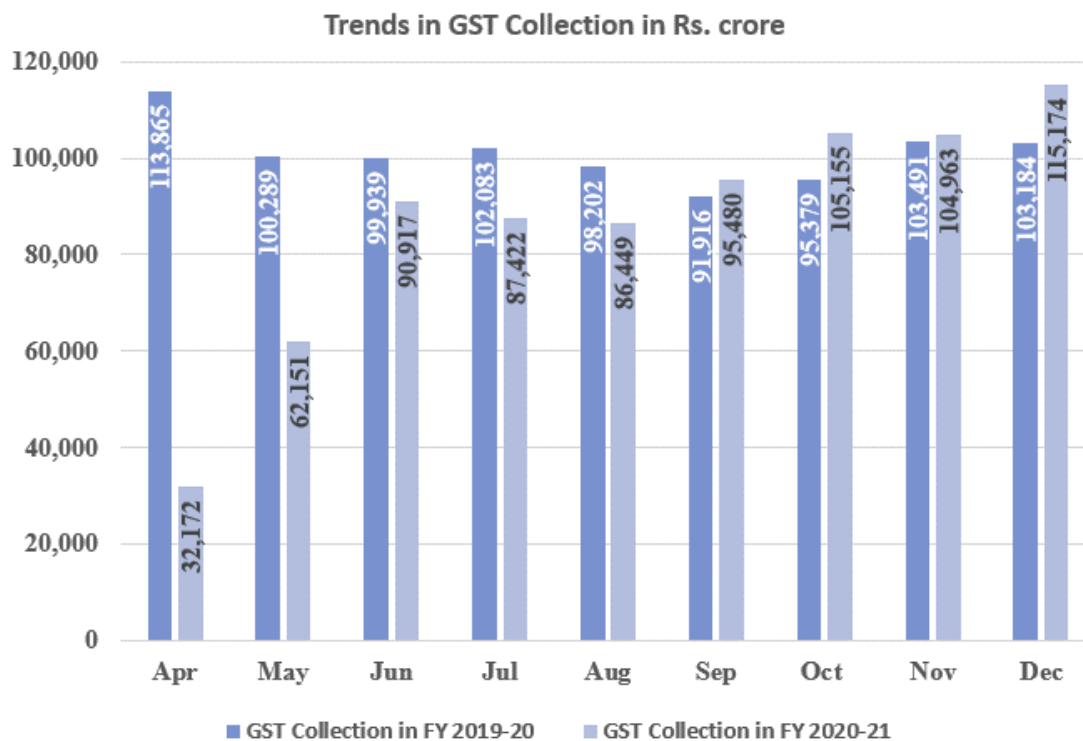
A hopeful sign of further reducing the intensity of the pandemic is that that the two made in India vaccines have also been given emergency use approval by beginning of 2021.

The above context should be taken into account in analysing the revenue trends.

### ***Aggregate GST Revenue Trends***

These are provided in Figure 1. While aggregate revenue in FY 2019-20 between April and December was INR 9.08 trillion, for the corresponding period in FY 2020-21 it fell to 7.80 trillion, a decline of one-sixth.

**Figure 1: Aggregate Revenue Trends in GST, April-December FY2019-20 and FY 2020-21 <sup>1</sup>**



Much of this is however accounted for by the severe decline in GST revenue in April 2020 due to near total lockdown of the economy. If April month is excluded from both the years, the decline in 2020-21 is less than 5%.

Data in Figure 1 suggest, that GST revenue since September has been higher than in the previous year. In December 2020, the increase in revenue was around 12 percent over the same month in FY 2019-20.

The official explanation attributes the increase to the combined effect of the rapid economic recovery post pandemic and the nation-wide drive against GST evaders and fake bills along with many systemic changes introduced recently, which have led to improved compliance.

Among the changes introduced are progressively strengthening the requirements for the e-way bill before goods can be transported. Under GST laws, e-invoice for B2B transactions has been made mandatory for companies with turnover of over Rs 500 crore from October 1, 2020. It was notified to be extended to businesses with over Rs 100 crore turnover from January 1, 2021, and is likely to be extended for all businesses beginning April 1, 2021.

An e-way bill is an electronic way bill for the movement of goods. It has to be generated on the e-way bill portal. A person registered under GST cannot transport goods in a vehicle without an e-way bill, if the value exceeds Rs 50,000.

An e-way bill ensures that the goods are transported in line with GST norms and the relevant data is uploaded before the commencement of transportation of goods. This is a means to track the movement of goods and avoid tax evasion.

As there is widespread expectation of acceleration in economic activity in 2021, encouraging trend in GST revenue is expected to continue. Continuing implementation and design rationalization can also be expected to lead to better GST revenue generation.

Gross GST revenue collected in the month of December 2020 was INR 1.15 trillion, of which CGST (Central GST) was **INR 213.6 Billion**, SGST (State GST) was **INR 278.0 Billion**, IGST (Inter-State GST) was **INR 574.3 billion** (including INR 270.5 Billion collected on import of goods), and Cess (to be used for compensating states from GST shortfall compared to 14 percent assured growth each year on 2015-16 base) was INR 85.8 Billion (including INR 9.7 Billion collected on import of goods).

The total number of GSTR-3B Returns filed for the month of November up to 31<sup>st</sup> December 2020 was 87 lakhs.

The government has settled INR 232.8 Billion to CGST and INR 176.8 Billion to SGST from IGST as regular settlement. The total revenue earned by Central Government and the State Governments after regular settlement in the month of December 2020 was INR 446.4 Billion for CGST and INR 454.8 crore for the SGST.

### ***GST Revenue by States***

Table 1 provides data on GST revenue by states<sup>1</sup>.

State-wise growth of GST Revenues during December 2020<sup>1</sup>

State	Dec-19	Dec-20	Growth
1 Jammu and Kashmir	409	318	-22%
2 Himachal Pradesh	699	670	-4%
3 Punjab	1,290	1,353	5%
4 Chandigarh	168	158	-6%
5 Uttarakhand	1,213	1,246	3%
6 Haryana	5,365	5,747	7%
7 Delhi	3,698	3,451	-7%
8 Rajasthan	2,713	3,135	16%
9 Uttar Pradesh	5,489	5,937	8%
10 Bihar	1,016	1,067	5%
11 Sikkim	214	225	5%
12 Arunachal Pradesh	58	46	-22%
13 Nagaland	31	38	23%
14 Manipur	44	41	-8%
15 Mizoram	21	25	21%
16 Tripura	59	74	25%
17 Meghalaya	123	106	-14%
18 Assam	991	984	-1%
19 West Bengal	3,748	4,114	10%
20 Jharkhand	1,943	2,150	11%
21 Odisha	2,383	2,860	20%
22 Chhattisgarh	2,136	2,349	10%
23 Madhya Pradesh	2,434	2,615	7%
24 Gujarat	6,621	7,469	13%
25 Daman and Diu	94	4	-96%
26 Dadra and Nagar Haveli	154	259	68%
27 Maharashtra	16,530	17,699	7%
29 Karnataka	6,886	7,459	8%
30 Goa	363	342	-6%
31 Lakshadweep	1	1	-32%
32 Kerala	1,651	1,776	8%
33 Tamil Nadu	6,422	6,905	8%
34 Puducherry	165	159	-4%
35 Andaman and Nicobar Islands	30	22	-26%
36 Telangana	3,420	3,543	4%
37 Andhra Pradesh	2,265	2,581	14%
38 Laddakh	0	8	
97 Other Territory	118	88	-25%
99 Center Jurisdiction	75	127	68%
<b>Grand Total</b>	<b>81,042</b>	<b>87,153</b>	<b>8%</b>

<sup>1</sup> Does not include GST on import of goods

The following observations may be made from data in Table 1.

As may be expected, there are quite divergent trends in GST revenue among the states. As a policy goal, there is a need to reduce such wide divergences.

1. In December 2020, six states accounted for about half of the GST revenue. Maharashtra (20.3%), Gujarat and Karnataks (8.6% each), Tamil Nadu (7.9%), Uttar Pradesh (6.8%), and Haryana (6.6%). Healthy growth in these states is essential for healthy growth in GST revenue.
2. In December 2020, Kerala collected less GST (INR 17.8 Billion) than the 'poor' states of Jharkhand (INR 21.5 Billion) and Chhattisgarh (INR 23.5 Billion). Once rich Punjab collected less GST (INR 13.5 Billion) than even Kerala. Contrast between GST revenue of Haryana of INR 57.5 Billion and Punjab, INR 13.5 Billion, is also noticeable.

The above strongly suggests that Kerala and Punjab need to urgently undertake structural reforms, particularly in agricultural cropping patterns, use of technology, and marketing reforms, while encouraging industry through greater focus on ease of doing business and instilling confidence and trust of stakeholders, if they are to continue to be economically relevant to the country.

3. 12 states and Union Territories exhibited double digit revenue growth between December 19 (pre-virus pandemic period) and December 2020. Among them were Odisha (20%), Rajasthan (16%), Gujarat (13%), and Jharkhand (11%).

It is noteworthy and only Odisha and Rajasthan exceeded 14% guaranteed growth in GST. The rest would need to be compensated from the cess or other central revenue.

4. Delhi (negative 7%) and Goa (negative 6%) exhibited very weak performance in GST revenue growth between December 2019 (pre-pandemic period) and December 2020. Reasons may differ, but each state needs to take initiatives to generate greater economic activities in their jurisdictions.

### ***Concluding Remarks***

The overall revenue trends in GST are encouraging, and the prospects for even better revenue generation from GST are promising as economic activity accelerates and continuing design and implementation initiatives bring results.

Wide divergence in trends in GST revenue growth needs to be examined in a greater detail with the aim of narrowing GST revenue growth differentials.

The GST revenue trends also suggest that Kerala and Punjab need to focus more urgently on structural reform, including reforming agriculture cropping patterns, using technology more effectively, and diversifying their economies.

### **References**

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