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How healthy has been the recovery of GST collection?

Santosh Kumar Dash

Assistant Professor, Gulati Institute of Finance and Taxation, Thiruvananthapuram

1. Introduction

The revenue from Goods and Services Tax (GST) constitutes nearly one-third of own tax revenue of states. Thus, its recovery holds the key to the revival of the state finances and their economies. GST being a destination-based consumption tax is a good indicator of the performance of the state economy. Thus, the recovery of GST also indicates the recovery of the state domestic product of a state.

The GST collection of states disappeared as the COVID-19 pandemic hit the states' economy and the subsequent prolonged shutting down of the economy starting from last week of March 2020. As economic activities came to a grinding halt in the first quarter of the financial year 2020-21, states' revenue collection dried up. Fortunately, economic activity was in full swing in April, May, and June of this fiscal year (2021-22). How did the GST collection of states recover in the first quarter of this current fiscal year 2021-22 (Q1:FY22)? Did it recover the lost revenue in the first quarter of last fiscal year, 2020-21 (Q1:FY21)? Importantly, what holds for the future of GST collection? What implications will it have on the GST compensation? This piece intends to address those questions.

2. Trend in GST collection

The data for GST collection of each state is taken from the GST website (www.gst.gov.in). GST revenue of a state is defined as the sum of SGST (State Goods and services tax) and IGST (Integrated Goods and Services Tax) settlement to the state. GST devolution from the Government of India in accordance with the finance commission is not included as 'State revenue' in this analysis. The trend in GST revenue collection for 18 major States is reported in Table 1.

Table 1: First quarter (Q1) GST revenue and its growth – Various years

State	GST (Rs Crore)					Growth Rate (%)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	2018-19	2019-20	2020-21	2021-22	Diff*	2019-20	2020-21	2021-22
Andhra Pradesh	4401	5094	2496	5023	-72	15.8	-51.0	101.2
Bihar	3061	3914	2022	4038	124	27.9	-48.4	99.7
Chhattisgarh	1607	1868	1261	1727	-141	16.2	-32.5	37.0
Goa	514	562	274	541	-21	9.4	-51.2	97.0
Gujarat	8027	8433	4440	9791	1358	5.0	-47.4	120.5
Haryana	4204	4033	2528	5301	1268	-4.1	-37.3	109.7
Jharkhand	1637	1998	1036	1973	-25	22.0	-48.1	90.4
Karnataka	9019	9943	6045	10452	509	10.2	-39.2	72.9
Kerala	4513	5013	2160	4450	-563	11.1	-56.9	106.0
Madhya Pradesh	3969	4709	2225	4464	-245	18.7	-52.8	100.7
Maharashtra	19015	19417	10732	20481	1064	2.1	-44.7	90.8
Odisha	2555	3192	2171	3754	562	25.0	-32.0	73.0
Punjab	2707	3036	1540	3442	406	12.2	-49.3	123.5
Rajasthan	4753	5350	2669	5426	76	12.6	-50.1	103.3
Tamil Nadu	8894	9852	5025	10086	234	10.8	-49.0	100.7
Telangana	5056	5582	3003	6133	551	10.4	-46.2	104.2
Uttar Pradesh	10391	11953	5625	11813	-140	15.0	-52.9	110.0
West Bengal	5925	6465	3162	6999	534	9.1	-51.1	121.4
Average						**12.7**	**-46.7**	**97.9**

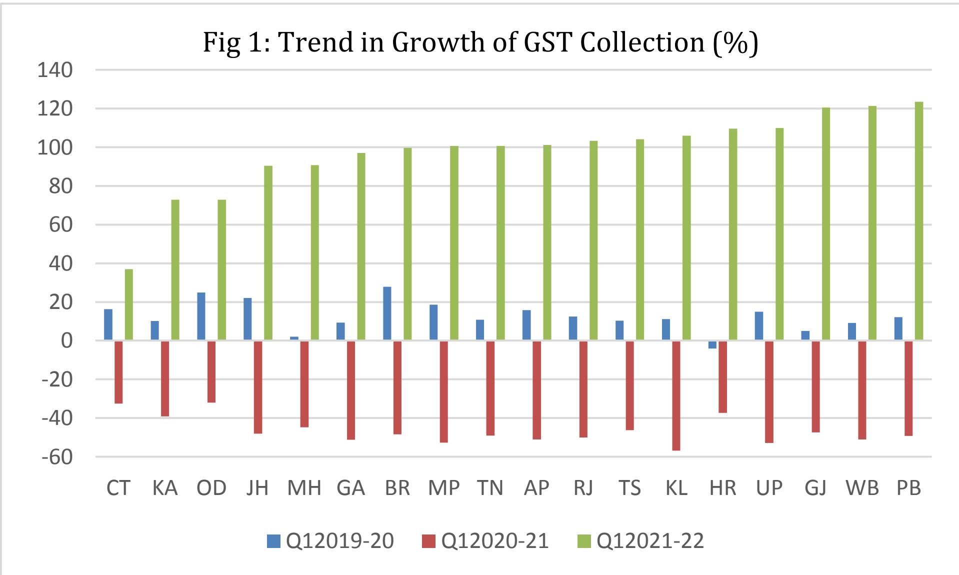
Source: Computed using data from GST Portal
Note: * Diff = GST in 2021-21Q1 – GST in 2019-20Q1

In particular, Columns 1-4 report GST collection in the first quarter for the years 2018-19, 2019-20, 2020-21, and 2021-22. A glance at the table (Column 3) indicates that the collection plummeted in the first quarter of 2020-21 for all states, almost by half. States that were badly hit in terms of GST collection are Kerala, Uttar Pradesh, and Madhya Pradesh among others. Kerala deserves special mention as its collection tanked from Rs 5013 crore in Q1:FY20 to Rs 2160 crore in Q1:FY21, approximately by 57%.

Gradual weakening of the novel coronavirus, rollout of the vaccine, and opening up of the economy led to the resumption of the economic activities in full swing. This is reflected in the GST collection in Q1:FY22. Column (4) in Table 1 indicates that for some states, the collection is back to the 2019-20 level, for some states it has exceeded, and for the rest of the states, the collection still lags behind the first quarter collection in 2019-20. This perhaps suggests that the GST collection has bounced back in Q1:FY22 for all states. However, this is only half the story since absolute numbers do not tell the whole story.

A more relevant indicator to assess the state of recovery in GST collection is the growth rate. That is to say, comparing the growth of GST in Q1:FY22 with Q1:FY21 will give an accurate picture of how quickly the states have regained the lost revenue. The relevant columns in Table 1 are Columns 6-8. Figures in Column (6) represent the growth rate of GST collection in Q1:FY20 over Q1:FY19. Although COVID-19 along with complete lockdown of the economy struck the states in the last week of March 2020, yet it can be said that FY20 (2019-20) more or less represents a normal year. The average growth of states in Q1:FY20 was 12.7%, implying that GST collection of states on average increased 12.7% in the first quarter of FY20 compared to the corresponding period in the last fiscal (2018-19). While it looks impressive, this growth rate, however, was still less than the protected revenue growth of 14%, warranting compensation to the states.

As COVID-19 knocked the state economies back on their heels, revenue from GST plummeted. Column (7) attests to this observation. Fig 1 plots the first-quarter growth rate in the last three years. The orange bars in Fig 1 show the gravity of revenue fall, averaging around 47%. Stated otherwise, GST collection in Q1:FY21 declined 47% compared to Q1:FY21. One implication of this sharp decline was that as revenue shortfall shot up, states demanded higher compensation from the Centre.



Source: Author's own compilation

In the April - June quarter of this current financial year, the GST collection of states grew at an exorbitant pace. The states on average grew by a whopping 98% compared to the corresponding period in the last fiscal year. States that have done remarkably well in Q1:FY22 in terms of GST growth are Gujarat, West Bengal, and Punjab (each more than 110%), while states that have performed poorly are Chhattisgarh, Karnataka, and Odisha (each less than 75%). Kerala's which suffered the maximum loss of revenue (56.9%) in Q1:FY21 has recorded a very impressive growth of 106%. Despite this stupendous growth, Kerala's GST collection in Q1:FY21 has not yet fully back to the Q1:FY20 level (Compare Column 4 with 2).

This observed sky-high growth rate in GST collection might give an impression that states have bounced back in the GST collection and that everything is going well. This conclusion can be misleading since the growth indicator fails to reflect the nature of recovery accurately when the comparison base is low or the comparison period witnessed a precipitous decline. The observed high growth rate in Q1:FY22 is due to the so-called "base effect".

What explains this ridiculous growth number of states? While the "base effect" is at play, yet measures like detecting the incidence of fake input tax credit (ITC)[1] , employing the latest IT tools and digital evidence, collecting information from other government departments to catch the fraudsters, reducing GST evasion involving misclassification, undervaluation and clandestine supplies of goods and services, and finally, nationwide drive to improve compliance has contributed to higher revenue collection.

Despite this stupendous growth, the revenue collection of some states is still below the first quarter of FY20, which is more or less a normal year. Column (5) of Table 1 captures this information which presents the difference in revenue collection in Q1:FY22 vis-à-vis Q1:FY19. In other words, it indicates to what extent the states are lagging/leading in GST collection in Q1:FY22 compared to Q1:FY19. While seven states still lag, eleven states have overshot the collection in Q1:FY19. It implies that one year of lost growth in GST collection for those seven states. Among the lagging states, Kerala is the only major state with a whopping revenue shortfall of Rs 563 crore. States that have comfortably surpassed Q1:FY20 collection by a margin of Rs 500 crore or more in Q1:FY22 are Gujarat, Haryana, Maharashtra, Odisha, Telangana, West Bengal, Karnataka, and Punjab.

The 98% growth (average of all states) may be exaggerated, but it's still a promising figure by all accounts, indicating a stronger recovery. Note that this astronomical growth has come despite the second wave of COVID-19 which was much more severe in India and the resultant partial lockdowns across states in India. This didn't exactly knock the economy back

1 "GST officers detect Rs 4,000 crore of ITC fraud in April-June", published on August 10, 2021, accessed on September 13, 2021. https://economictimes.indiatimes.com/news/economy/finance/gst-officers-detect-rs-4000-cr-of-itc-fraud-in-apr-jun/articleshow/85177384.cms

on its heels, but it slowed it down. While the collection dipped roughly around 50% in May 2021 over April 2021, growth in June 2021 roared back for most of the states. Hence, the first-quarter growth is by no means a small feat.

Although growth in the collection has bounced back for most of the states, yet the fact that one year of negative growth in GST collection has had a severe consequence on GST compensation. The State, as per the Goods and Services (Compensation to States) Act, 2017, will get compensation for the loss on account of the introduction of GST for five years from the date of implementation i.e., July 2017 to July 2022. States before the COVID-19 pandemic used to have revenue shortfall (the gap between the protected revenue and actual GST collection) which aggravated after the pandemic. As a result, compensation requirements increased sharply due to lower GST collection and lower collection of GST compensation cess. It will have repercussions in that states might ask for a continuation of the compensation beyond July 2022 (the terminal year of compensation). On the other hand, The Center has been also falling short of collection, and more importantly, revenue collections from the GST compensation cess are falling drastically short of demand for the compensation amount. This is expected to dominate in the forthcoming GST Council meetings.

The other repercussion of reduced GST collection will be felt on the developmental expenditure of the states. As the state's fiscal resources dry up, the impact is felt instantly in the capital expenditure of the states followed by other developmental expenditures. This in turn will have reverberations in the developmental outcomes such as health and education indicators.

3. Conclusion

While the growth numbers look robust especially in the first quarter of FY22, sustaining it depends upon the pace of double-dose vaccination and the likelihood of the third wave of COVID-19. The Delta variant of the novel coronavirus also poses a downside risk to the revenue collection. While the latest data on GST collection shows growth momentum, and the pick-up of the economic activity as reflected in 21% GDP growth in the first quarter of this financial year, yet the fact that COVID-19's course now seems less certain than ever poses a risk to sustaining this momentum.

Kerala's performance in the GST collection over the years has not been impressive, always falling short of the protected revenue. GST being a destination-based consumption tax, there is reason to believe that Kerala is yet to reach its potential. Kerala with a huge developmental focus depends on GST revenue more compared to others. Thus, the state needs to step up its effort in terms of scrutiny of GST returns, audit, enforcement activities such as vehicle checking, test purchase verification of evasion, e-way bill checking, shop inspection and even arresting of major evaders during the next three years. This will help Kerala collect the maximum revenue from GST and not falling short of the protected revenue.