

THE STATE OF KERALA STATE FINANCES

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Recommendations for Revenue Augmentation

Recommendations for Revenue Augmentation

In 1980 the Per capita income of Kerala (Rs. 1,690) was only about 84% of the national level and its rank was 10th among Indian states. Yet its tax GSDP ratio was about 12%. By 2018-19 Kerala's per capita income (Rs 2.27 lakhs) became 159% of the national level, but the tax GSDP ratio almost halved. The paradoxical situation of rich people and poor government needs to be changed sooner than later.

What follows is our recommendations on mobilizing more revenue from each item based on an analysis of Kerala's comparative performance with other states.

To begin with, it is recommended that all the possible taxes and non- taxes by the State shall be indexed to inflation.

Goods and Services Tax

GST accounts for about 42% of States Own Tax Revenue (SOTR). Although GST is a consumption- based tax and Kerala is a highly consumer- oriented State with heavy dependents on goods from other states, revenue from GST belied all our expectations. Kerala is the only state that recorded lower growth rate in revenue from the subsumed goods in GST during the post- GST period as compared to pre-GST period. Among the South- Indian states IGST- SGST ratio is the highest for Kerala (1.12 in 2019-20). What is more during the post- GST period (2018-19 & 2019-20) the recorded growth rate in IGST has been negative (-3.7). There is the need for more detailed enquiries on the working of GST in general and IGST in particular.

Sales Tax & Excise Duty

a. Realization of arrears and fines

According to the CAG report on Revenue Sector, 2019, there is an arrear amount of 258.80 crores, including those dates back up to 1952, under the Kerala State

Excise. Therefore, suitable actions have to be planned and implemented to realize this outstanding sum.

b. Increase in the excise duty

Increasing duty rates or increasing sales volume are the two ways the government can improve its revenue collection from excise duty. The increase in the excise duty will have a dual effect: (i) it reduces the consumption of liquor and incentivizes the majority to be responsible drinkers and (ii) it protects the State's revenue collection for adequate funding of welfare measures. This study proposes that ₹ 100 crore can be collected through a 50 percent hike in the present excise duty rates on liquor.

c. Home delivery of liquor

If the rate increase is not a feasible solution in the short run, the alternative way is to increase sales volume by (i) opening up new alcohol parks in the urban centers (ii) switching to home delivery options employing the co-operative societies. Because, in Kerala, liquor is sold either through the retail outlets of KSBC or through bar outlets of hotels/restaurants. On average, the liquor sales through these channels are in the ratio of Outlet: Bar as 60:40 (Ramanathan, 2010), while the possession limits for alcoholic beverages are 3 litres for IMFL, 3.5 litres for Beer and Wine, and 1.5 litres for toddy.

Abraham Committee (2020) recommended the following:

“The committee suggests that Rs.6452 crore can be collected as the most likely amount by Government of Kerala through a 50 per cent hike in the present rates of Excise Duty and Sales Tax and by the introduction of membership fees for home delivery of liquor on the basis of a five years membership systems to be opted for by the interested consumers”.

e. Improving the efficiency of assessment

One of the main reasons for leakages in Excise Duty is due to the underassessment or non-realization of various fees. The loss in this regard for the year 2015-16 was 45.22 crores. The system has to be made more efficient in order to bring these under surveillance.

First, at present there are only two tax slabs for IMFL. Instead of two the government could increase the tax slabs to four based on the median price of with landed cost per case. This would allow a tax rate range of 300 percent.

Second, at present the tax on FMFL and FMW is 78 and 25 percent respectively. Even after adding import duty on liquor which is maximum of 150 percent does not equate with IMFL tax rate. Since the FMFL is relatively more price inelastic, the tax on FMFL could be increased by 5-10 percent. Similarly, for FMW. The tax could be increased by 10 percent or at least made equal to wine produced in India.

Third, Kerala imposed a flood cess post 2018 devastating floods and has been removed. In the current context of COVID, the government could introduce COVID cess on alcohol for next two fiscal years.

By these measures we expect the government to mobilize at least Rs.1000 crore during the first year itself.

Motor Vehicle Tax

Tax on Motor vehicles is estimated at accounts for about 7.4% of States Own Tax Revenue in 2021-22 as compared to 6.2% in 2011-12.

- It is recommended that the regressive nature of tax for motor vehicles (higher rate of two wheelers as compared to four wheelers) needs correction which could bring additional revenue of the order of at least Rs. 100 crore.
- We recommend an annual increase of 5% in fees of various services offered by the department (that is under the control of the state), so that the revenue from this segment is indexed to inflation.
- CAG Revenue Audit Report (2021) talks about arrears amounting to 2,457.16 crore (as of October 2019) of which 1796.75 Cr is owned by KSRTC and 660.42 crores is owned by Individuals. This amount needs to be recovered as soon as possible.

Electricity Duty:

- In 2018-19, Kerala collected electricity duty of only Rs. 29, 000 per Million units of electricity sold. This has to be compared very poorly with other

states. For example, while Chhattisgarh, Gujarat and Maharashtra collected Rs. 8 lakhs per Million units, it was Rs. 5 lakhs in the case of West Bengal, Himachal Pradesh and Punjab.

- Given Kerala's consumption level and average rate of duty for different categories of consumers, the State should have collected at least Rs 1,825 crores in 2018-19 instead it reported an amount of only Rs. 62 Crores.
- The apparently disappointing performance of Kerala in this area is not because consumers of electricity do not pay their electricity duty but because KSEB which collects electricity duty on behalf of Government of Kerala (GoK) has not been remitting it.
- This non remittance is owing Government Order no. G.O. (MS) No.42/2011/PD. dated, 03-11-2011 which allows KSEB Limited to adjust the electricity duty payable to Govt for the next 10 years towards setting up a corpus of Pension Fund.
- The analysis reveals that Kerala could have raised additional revenue ranging between Rs 1,464 to 4,199 Crores in 2018-19 if Kerala's Electricity duty and tariff were at par with benchmark states.
 - For example, domestic consumers of electricity would have contributed additional revenue of Rs 2,349 to 1,246 Crores in 2018-19 provided that Kerala's tariff and duty rates were at par with either Maharashtra or Karnataka.

Stamp Duty and Registration Fees (SRF)

Stamp duty registration, for long, has been the second largest revenue in the State. It shares in SOTR declined from 11.6% in 2011 to 6.35 in 2021. In terms of its share in SOTR Kerala is 15th position among 18 major states. The growth rate of SRF in Kerala is lowest among the major states.

The additional revenue can be mobilized through a combination of measures such as raising the stamps duties and registration fees at par with other southern states, levying additional taxes, and administrative reforms among others. Some suggestions are proposed below.

- 1) It is recommended to increase the fair value of the property which is known for the undervaluation
- 2) A surcharge of 1-2 percent in all urban areas without any further distinction can be considered.
- 3) In the case of settlement not among the family members, the state has the lowest duty compared to Tamil Nadu and Karnataka. This can be raised at par with them.
- 4) As of 8th October 2020, the registration fees for registration of an agreement have been revised downward in the wake of the covid pandemic. At present, there are three slabs. Once the economy recovers from the pandemic, the registration fees in terms of the *maximum amount* have to be raised. After the upward adjustment of the *maximum amount*, it needs to be revised upwards every year by 5-10%, sort of indexed to inflation.
- 5) The state should aim to raise its share of SRF in SOTR to 9% over a period of 2-3 years which is the group average, and within 5 years, it should aim to collect 10% of SOTR. Assuming the economy returns to the pre-Covid level normalcy, this is expected to fetch the state additional revenue of approximately Rs 1000 crores per year.

Land Tax

- Land Revenue accounts about 1% of SOTR and it is only 0.24% in 2011-12. Yet in terms of share in SOTR, 'Kerala ranks 12th position among the 18 major Indian States'. Hence there is much scope for increase in land revenue following West Bengal which record highest share in SOTR
- If Kerala adopts use based fixation of land revenue, as is done by West Bengal where land tax accounts for more than 5% of total SOTR (Rs 2,747 Crores) vis-à-vis Kerala's mere 0.41%.
- If the land tax rates are based on land use, the revenue can be increased between a range of Rs. 639 crore to Rs. 871 crore from Rs.440 crore as per 2020-21(RE).

- States like Tamil Nadu, Gujarat, etc also levy vacant land tax. Tamil Nadu levy land tax at the rate of 5 to 8 % on capital value plus library cess of 10 paise per Rupee excluding Education tax. Vacant land tax can also be added to the LR component of Kerala.
- If we have the estimate of vacant land area, we can calculate the LR potential from vacant land area.

Collection of Arrears due to Government

- An arrear amount of Rs. 20146.39 Crore is due to Government of Kerala from individuals, private firms, PSUs, various Govt depts and Govt of India.
- Out of this amount, Rs. 5765.84 Crore is pending for the last five years.
- Around 30.85%, i.e. Rs. 5,362.95 Crore worth of total arrears are under stay by courts as well as the state.

If the government is successful in initiating steps to collect at least 50 per cent of the arrear amount not stayed by the courts, an amount of about Rs. 7,500 Crore could be realised. Even if we focus on those arrears pending less than five years and succeed in collecting 50 per cent of it, an amount of Rs.2,800 Crore could be realised.

States Own Tax Revenue Items	Expected Additional Revenue (Rs. Crore)
GST	0
State Excise	1,000
Motor Vehicles	100
Electricity Duty	1,500
Stamp Duty and Registration Fees	1,000
Land Revenue	430
Arrears to be collected	2,800
Total	6,830

Arrear amount considered above is rather conservative. If we succeed in collecting at least 50 per cent of the total arrears excluding the amount stayed by the court, the additional revenue mobilized would be of the order of Rs. 11,530 Crore.

Non- Tax Revenue

Mining and Quarrying Royalty

The diagnosis

- Kerala has been lagging behind compared to the neighboring states.
- While Kerala is following the *consolidated royalty payment* system for Granite mining, Tamil Nadu and Karnataka is following a *quantity-based Royalty payment* approach.
- Based on our preliminary analysis, we feel that this could be one of the major reason for the increased revenues in this segment for Karnataka and Tamil Nadu.

Specific Recommendation

- Revise the rate of Royalties for ordinary sand, earth and clay from Rs 40/Tonne to 200/Tonne, considering the change in market rates
- Auction the Sands from Dams and Rivers where ever possible, after conducting environmental assessment. It could generate a one-time revenue.
- In the short run, increase the Dead Rent and Consolidated Royalty Payment System for Mining and Machines by 20%. With this, an additional revenue of 138.53 Crs. can be generated between 2021-22 to 2025-26.
- In the long run, switch to quantity-based mining permits from CRPS and implement IT based electronic tracking system for vehicles carrying mined minerals.
- An amount of 69.76 Cr. is pending in arrears (CAG Revenue Sector Report 2021), out of which 32.68 Cr. is given stay by the State as well as by court orders. The remaining 37.06 Cr needs to be collected promptly. Further, the state must take necessary steps to vacate the stay where ever possible.
- There is a need to estimate the actual number of quarries operating in Kerala. As per the study conducted by two scientists from KFRI Peechi (2015), the number of sanctioned quarries (750) in Kerala is pretty much high than this estimate. Even though the methodology used in the report

may not be precise, the issue of the illegal quarries still remains. The illegal quarries should be either closed and/or heavily penalized and allowed to function (based on environmental assessment), and this could be a possible source of revenue.

Social Services: Education, Sports, Arts and Culture

Performance in comparison to other States

- In General Education head, Kerala receives revenue from secondary education (Rs.131 crores – (average – 2011to19)) than elementary education (Rs.23 crore). But States like, Andhra Pradesh (Rs.649.32), Telangana (Rs.317.39 crores) and Haryana (Rs.388.78 crores) collects revenue from elementary education head. Tamil Nadu collects more than Rs.500 crores from both elementary (Rs.562.04 crores) and secondary education (Rs.593.54 crores).

Action Points

- Though it is not advisable to generate income through increase of fees, cess or surcharge at this pandemic period, we are proposing an increase of 20% in fees, public contributions to the educational institutions, receipts of museums and archaeological monuments. Based on the analysis, it is expected that an additional amount of Rs.51.35 crores in 2019-20, Rs.61.60 crores in 2020-21 and Rs.73.9 crores in 2021-22 can be generated.
- Additional actions that we can do to achieve this are:
 - A cess amount may be charged from the fees paid by the students enrolled in private education institution.
 - Extend the sports training programmes to the general public with a rational fee.
 - Extend the arts training programmes to the general public with a rational fee.
 - Revise the public library membership/other fees periodically.
 - Introduce a hike in the entry fees in the Museums and Archaeological monuments

- Identify new historically important cultural heritages and make it available to the general public with a nominal fee.
- Develop industrial collaboration of technical education.

Social Services: Housing

- Kerala only gets revenue from the subsector "government residential buildings," but other states get money from sources like "urban housing" (Karnataka) and "rural housing" (Madhya Pradesh) too.

Action Points

Short term

- State governments' rent tariffs for properties they own and operate, such as inspection bungalows, rest houses, and government servants' quarters, may be raised.
- All government owned and operated housing facilities, if not occupied for government purposes, may be made available to the general public with a reasonable fee.

Long term

- If commercially exploitable, idle components of government facilities such as inspection bungalows, rest houses, auditoriums, halls, and related grounds can be competitively tendered out on a BOT basis to private parties.
- The unoccupied quarters under State Farming Corporation (eg. Chithalvetty estate, Pathanapuram, Kollam district) may be renovated and rent out to tourists with a rational charge as part of farm tourism

Social Services: Urban Development

- Kerala collects revenue from the subsector 'Other urban development schemes' only whereas other states collect revenue from other sources like Integrated Development of Small and Medium Towns (Gujarat), Slum Area Improvement (Madhya Pradesh).

Action Points

Short term

- Slight increase in fee, penalties, service charges etc
- Optimize collection and audit processes to increase collection and minimize leakage.

Long term

- Kerala, like Gujarat, might embark on an integrated development of small and medium towns in order to generate more revenue receipts from services and service fees.
- Rate of penalty/fine may be linked with the income of the violator (In Finland, for example, fines for over speed driving are broadly linked to the income of violators and how far over the speed limit they were traveling when caught.)
- Create new revenue streams; such as
 - New charges for the disposal of food-waste. (In 2013, Seoul introduced a volume-based food waste disposal charge that succeeded in reducing its daily food waste significantly.)
 - Use of unused land plots through monetizing them either as lease contracts or through other more innovative public–private partnership structures.
 - Introduce public parking facilities like multi storied parking system in more places with a rational fee.
 - Develop recreation parks and charge rational entry fee.

Social Services: Other Social Services

Action Points

- Convert the departments entrusted for SC/ST/OBC/Minority welfare into social enterprises mode (A social enterprise is an organization that applies commercial strategies to maximize improvements in financial, social and environmental well-being of the people associated with it) and encourage internal resource mobilization.

- Convert Industrial Training Centres managed by SC/ST departments to Production cum sales point etc.
- Make value-added products from minor forest products collected by Tribals and market it with an ethnic brand name through a society owned and operated by government.
- Transform traditional knowledge and traditional skill of SC/ST/OBC people into products and link them with the international market.
- Using the surplus land areas attached to the hostels/ITIs/Model Residential Schools etc. for income generation.

General Services: Public Service Commission (PSC)

Key take away

- Kerala collects very nominal amount in PSC receipt head as compared to other states at least on par with UPSC.

Action Points

- Introduce a minimum amount as fees from the candidates appearing for various competitive examinations and interviews.
- Extend the examination facilities to conduct recruitment for private/semi-governmental/banking institutions through PSC by charging fees.

General Services: Stationery and Printing

Key Take Away

- Kerala performs well in collecting revenue receipts from stationery and printing as compared with other states.

Action Points

- Channelize all the purchases for the government institutions/public sector undertakings/ autonomous institutions through the stationery departments
- Provide facilities of the stationery and printing department for the bulk purchase of private entities.
- Extent the service of Stationery Departments in schools for the supply of the stationery items.

Receipts from Co-operation

Kerala is the best performing state among major states in this area. Major receipts of the Co-operative department are audit fee, audit cost, arbitration fee, fee for appeal or revision, interest/penal interest on loan, penal interest for delay in retirement of share capital, dividend on share capital, guarantee fee and liquidation charges etc.

The Government may consider implementing the following recommendations for effective collection of co-operation receipts

- Kerala co-operative societies act, 1969 should be refurbished.
- The information on revenue recovery of the outstanding balance of principal and interest was unreliable. However, it's time to take adequate steps for the realization of the amount under revenue recovery.
- A considerable change can be made in the fees and charges, so that the receipts will grow by at least 10 percent. For Instance, the application fee charged for new registration is only ₹ 5000, which is very low. However, the department can charge double the amount since many contemporary cooperative societies emerge as part of various government schemes.
- A sperate audit fee norms can be made in respect of urban co-operative thrift & credit Societies and cooperative Banks, Youth Co-operative Societies, Consumer Co-operative Societies and other societies such as Housing, Industrial, credit and non-credit societies etc. At least a 10-percentage hike in the audit fee is to be charged to the four existing audit fee categories from the first five lakhs working capital to above 50 lakhs working capital.
- Co-operation spending to receipts ratio is likely to increase in the coming years as the government has created a space to attract new cooperative societies. However, there exists a considerable gap between receipts and spending. Therefore, spending (Revenue & Capital) to receipts ratio on Co-operation should restrict to 2 or below.
- The government may evolve a system for ascertaining the eligibility of beneficiaries before sanctioning the assistance. In addition, they may take

steps to avoid retaining huge amounts received as loans from National Co-operative Development Corporation (NCDC) on behalf of the beneficiaries in the TP account for a long period.

- Evolving appropriate mechanism for watching the realization of dividend declared by the societies and crediting the dividend to the Government account.
- The co-operation department should maintain a proper record to watch the recovery of loans sanctioned by NCDC.

Chapter 1

Stressed Fiscals of Kerala post-COVID 19

Introduction

Kerala's public finances was on steady path of improvement since 2016-17 despite several challenges such as the outbreak of Nipah virus and devastating flood. However, after Covid 19 pandemic severely affected fiscal health of the state. As per the report published by *The Economist* Indians faced the most stringent lock down in the World during the first wave at the start of the 2020-21 FY. The pandemic induced lockdown without sufficient support in terms of fiscal spending from the Central Government, led Kerala to increase its spending to provide much needed support and relief to its population. On the other side, contraction in economic activity due to lockdown led to precipitous fall in revenue streams which was already facing challenges due to the transition to GST regime.

The second wave of Covid hit the state in the beginning of FY2021-22 and may throw the revenue and expenditure realization out of sync with the Budget Estimates until sound measures are taken to curb avoidable expenditures and improve collection of tax and non-tax revenue. A new dimension is also added to the expenditures by the award of the XI Pay Revision Commission (PRC). This part of the report seeks to throw light on these aspects of the public finances of the state during the COVID year and beyond.

This report analyses and projects the fiscal state of Kerala with respect to revenue, expenditure and deficits till 2025-25 to the background for proposing expenditure restructuring and additional revenue mobilization measures. It also analyses the fiscal situation with and without GST compensation and makes the case for continuing GST compensation beyond July 2022.

Revenue Scenario for Kerala in FY 2021-22:

The implementation of the strictest lockdown ever in the history announced by the Centre to stop the growth of infection paralysed economic activity in the state resulting in unprecedented fall in revenue receipts of the Government of Kerala (GoK). In current fiscal year, the second wave of the pandemic may have been more deadly but its economic impact may not be as severe as the last fiscal year because Centre advised states to avoid lockdowns as far as possible. Thus, the Centre's pragmatic approach in allowing states to exercise an

autonomy in implementing lockdowns saved the country from devastating impact on economy that the entire nation had to suffer in last fiscal.

State's Own Tax Revenue (SOTR) as per the Revised Estimate is found to be 33% lower than the Budget Estimate for the year 2020-21 (See table 1). The largest fall has been recorded in GST followed by Sales Tax/VAT. As the two account for about 80% of the SOTR, the fall in the total too is large (Table 2). State's Own Non-tax revenue (80% of which comprises of revenue from lottery) also fell by 37%. In total, states own revenue (SOR) fell short by 34% (Rs 27,614 crores) from budgeted amount for the last fiscal.

Table 1: Kerala state government receipts (in Rs crore)

Items	2019-20 Actual	2020-21 BE	2020-21 RE	% Change from BE 2020-21 to RE 2020-21	2021-22 RBE	% Change from RE 2020-21 to RBE 2021- 22
State Own Tax Revenue	50,323.14	67,420.01	45,272.15	-32.85%	71,833.28	58.67%
State Own Non-Tax Revenue	12,265.22	14,587	91,21.27	-37.47%	14,335.79	57.17%
Central Govt. Transfers	27,636.31	32,628.89	38,721.69	18.67%	44,811.99	15.73%
i) Share of Central Taxes	16,401.05	20,934.8	9,844.1	-52.98%	12,812.08	30.15%
ii) Grant-in- Aid	11,235.26	11,694.09	28,877.59	146.94%	31,999.91	10.81%
A. Revenue Receipts	90,224.67	1,14,635.9	93,115.11	-18.77%	1,30,981.1	40.67%

Note: BE is Budget Estimates; RE is Revised Estimates; RBE is Revised Budget Estimates.

Sources: Kerala Budget Documents 2021-22

Taking actuals of 2019-20 as reference there has been a fall in tax revenue receipts of the order of 10% (Rs 5,051 Crores) corresponding to a fall in GSDP (current prices) of around 4% (Table 2). The fall in revenue has largely been contributed by Sales Tax/VAT, stamp duty and registration, taxes on vehicles and not so much by GST. The picture is worse than what is portrayed by these numbers as such a fall in tax revenue in 2020-21 has come on

an already mild fall in 2019-20 compared to 2018-19 when the GSDP growth was more than 8% in current prices. GST had fallen by 3% and most of the other taxes were stagnant. Only Sales Tax/VAT had shown a mild rise of around 2%. Thus, situation had turned grave as regards tax receipts even before COVID. It is counter intuitive to experience a dip in tax revenue receipts of the government when the economy has been growing. COVID first wave worsened it and it is hoped that the current fiscal year would show a strong rebound despite second wave as we could avoid lockdowns.

Early signals such as revenue receipts both by the Centre and in Kerala, GSDP growth of the state is likely to bounce back to past average of 11% (GSDP of Rs 91.5 lack crores in 2021-22) and the past average of state's own revenue (SOR) to GSDP ratio is 7.3%. Based on these numbers we may expect states own revenue (SOR) to be around Rs 66,772 Crores for this

Table 2: Major state's own tax revenue sources (in Rs crore)

	2019-20 Actuals	2020-21 BE	2020-21 RE	% Change from 2020-21 BE to 2020-21 RE	% Change from 2019-20 Actuals to 2020-21 RE	2021-22 RBE	% Change from 2020-21 RE to 2021-22 RBE
State's own tax revenue	50,323 (100%)	67,420	45,272	-33%	-10%	71,833	59%
State GST (SGST)	20,447 (40.63%)	32,388	19,000	-41%	-7%	36,922	94%
Sales Tax/ VAT	19,650 (39.05%)	23,263	16,998	-27%	-13%	23,101	41%
State Excise	2,255 (4.48%)	2,801	2,200	-21%	-2%	2,701	36%
Stamps Duty and Registration Fees	3,615 (-7.18%)	4,306	3,062	-29%	-15%	4,156	36%

Taxes on Vehicles	3,721 (7.39%)	3,968	3,367	-15%	-10%	4,179	24%
Taxes and Duties on Electricity	68 (0.0014%)	75	60	-21%	-12%	77	28%
Land Revenue	332 (0.006%)	376	440	17%	33%	440	0%

Note: BE is Budget Estimates; RE is Revised Estimates; RBE is Revised Budget Estimates.

Sources: Kerala Budget Documents 2021-22

fiscal. The budgeted amount for SOR for this fiscal is Rs 86,169 crores. This implicitly assumes SOR to GSDP ratio to be at 9.4% which may too high to achieve in immediate term given the past decade's average of 7.3%. Since the state is doing everything in its capacity to mop up every revenue that can be collected, we expect this ratio to increase in next years. We have assumed SOR to GSDP ratio of 8.5% in 2022-23 and 9% for consecutive years starting from 2023-24 in building scenario for future revenue.

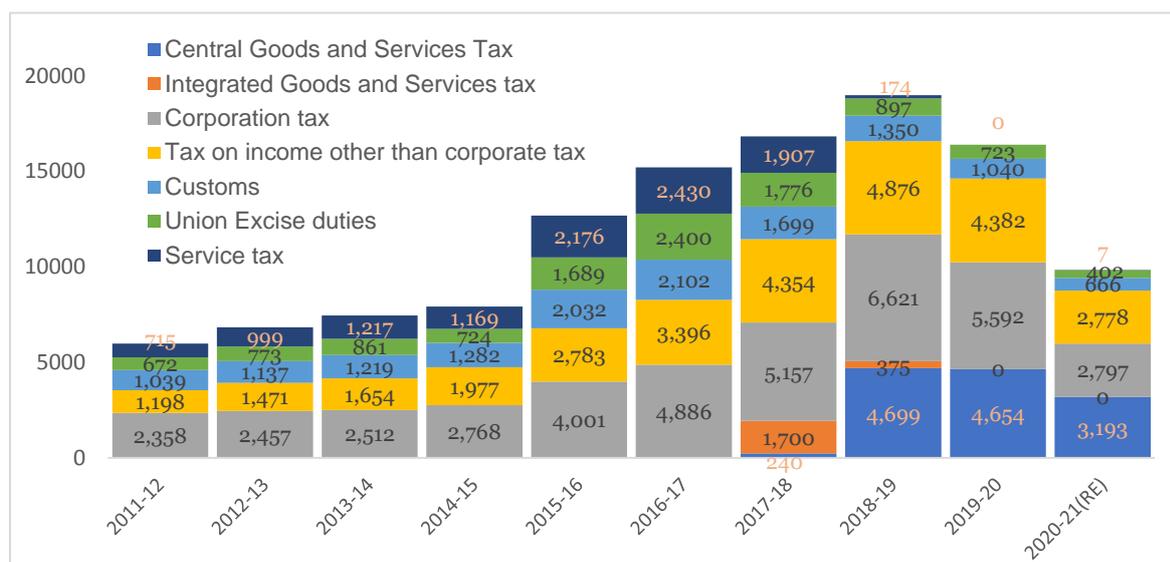
Share in Central Transfers

Share of Kerala in Central taxes also declined by 53% (Rs 11,091 Crores) in revised estimates of 2020-21 but grants-in-aid provided by the Centre via Finance Commission increased by 147% (Rs 17, 183 Crores from budget amount). Thus, in net central transfers rose by 19% (Rs 6,092 Crores) compensating for some of the fall in states own revenue receipts. However, **this increment is mainly on account of grant-in-aid via Finance commission. This will decline significantly and will not continue after 2023-24.** The enduring sources of Central transfers i.e., Kerala's share in central taxes have been falling after reaching a peak in 2018-19 (Figure 1). Table 3 and Figure 1 illustrates component wise share of Kerala in Central taxes.

Table 3: Major heads of Kerala's share in Central taxes (in Rs crore)

	2019-20 Actuals	2020-21 BE	2020-21 RE	% Change from 2020-21 BE to 2020-21 RE	% Change from 2019-20 Actuals to 2020-21 RE	2021-22 RBE	% Change from 2020-21 RE to 2021-22 RBE
Integrated Goods and Services tax	0	100	0	-100%		0	
Corporation tax	5592.06	6142.8	2797.06	-54.47%	-49.98%	5709.23	104.12%
Tax on income other than corporate tax	4381.76	5805.6	2778.02	-52.15%	-36.60%	4480.58	61.29%
Taxes on wealth	0.25	0	0		-100%	0.26	
Customs	1039.6	1613.67	666.21	-58.71%	-35.92%	1063.04	59.57%
Union Excise duties	722.8	1213.39	402.42	-66.84%	-44.32%	739.1	83.66%
Service tax	0	0	6.92			8.94	29.19%
Other taxes and Duties	10.39	0	0		-100%	0	
Centre share of taxes	16401.05	20934.8	9844.1	-52.98%	-39.98%	16760.3	70.26%

Source: Budget in Brief 2021-22, Finance Department, Kerala

Figure 1: Major heads of Kerala's share in Central taxes (in Rs crore)

Source: Various issue of Budget in Brief, Finance Department, Kerala

For the last fiscal almost all components of Central taxes show a significant decline from budgeted amount. The largest component i.e., corporate taxes decline by more than 54.5% (Nearly Rs 3,346 crores). Kerala's share in income taxes also declined by more than 52% (Rs 3027 crores). Share in Customs revenue and Union Excise Duty decline by Rs 947.5 and 811 Crores respectively. The cumulative decline in Kerala's share in central taxes for 2020-21RE compared to actuals of 2019-20 is about 40% (Rs 6,557 crores).

The scenario for current fiscal (2021-2022) looks good regarding central transfer on account of two factors. This year's grant-in-aid mainly consisting of revenue deficit grant (Rs19,891 crores) and GST compensation (Rs 13,408 crores). Other items (local body + Plan grant) in with grant-in-aid may account for additional Rs 6,500 crores. The share in taxes for this fiscal may grow by 14.5% given the faster recovery from last fiscal i.e., an increment of Rs 1,432 crores from the base of Rs 9,844 crores (2020-21 RE) owing to better growth prospects and monthly trend in revenue receipts of the Centre. **However, scenario for next year and years after that may not that good for central transfers** (Table 4). This is because GST compensation formally ends this year. Whether states and the Centre will agree on similar compensation mechanism for coming years is still uncertain. **The revenue deficit grant for next fiscal will reduce sharply by Rs 6,717 crores and will end in 2023-24.** Given the revenue scenario that is going to unfold in next years, perhaps this was the best suited year for the implementation of XIth PRC.

Table 4: Scenario for non-tax central transfers including GST compensation (Rs Crores)

items	2021-22 RBE	2021-22 estimate	2022-23 FW	2023-24 FW	2024-25 FW	2025-26 FW
Plan Grant	9440	3876	4418.64	5037	5743	6547
Revenue deficit Grant	19,891	19,891	13,174	4,749	0	0
Local Body +others	2,668	2,668	3,000	3,000	3,000	3,000
GST compensation	0	13,408	0	0	0	0
Grant-in-Aid	31,999	39,845	20,593	12,786	8,743	9,546
Decline in Grant-in-Aid from 2021-22 level			-19,251	-27,057	-31,101	-30,297

Source: Revised Budget 2021-22 at a glance, Government of Kerala,

Notes: Data for 2021-22 estimate and years beyond were arrived at by GIFT on account of historical data and GST compensation rules.

Challenges in Expenditure Front: FY2021-22

The budgeted total expenditure for current fiscal year as per Revise BE(RBE) is nearly Rs 1.5 lakh crore, 40.5% higher than the RE of last fiscal year. **A more realistic assessment indicates that revenue expenditure for this may be of order of 1.35 lakh crore. This is based on our understanding of additional spending requirement of Rs 18,000 crores from 2020-21RE would suffice given that state is doing everything in its power to reduce wasteful spending.** Additional spending in large part is on account of implementation of XIth PRC.

We are confident that state will be able to contain its expenditure within limits of budget amount because we have done so last fiscal as well. The total expenditure in 2020-21 a per RE was 11% lower than 2020-21BE implying that expenditure was well controlled during the last fiscal year.

Remarkable aspect of Kerala's expenditure management during the pandemic year i.e., 2020-21 is that it has managed to increase its capital outlay by more than 14% from the previous year and decrease its committed expenditure by close to 3.2%. The performance is more impressive when we see reduction in expenditure on salaries by 11% (Table 5). This implies Kerala was able to use this fiscal space to increase its revenue expenditure on dealing with

adverse impact of the pandemic for which the state has been rightly lauded by media and intelligentsia.

Table 5: Summary of Kerala's Public Expenditure during 2019-20 to 2021-22RBE, (Rs crore)

Items	2019-20 Actuals	2020-21 BE	2020-21 RE	% Change from Actual 2019-20 to 2020-21 RE	% Change from 2020-21 BE to 2020-21 RE	2021-22 RBE	% Change from 2020-21 RE to 2021-22 RBE
Expenditure on Capital Account	9665	14428	11061	14.44%	-23%	14141	28%
Revenue Expenditure	1,04,720	1,29,837	1,17,322	12.03%	-10%	1,47,891	26%
Total Expenditure	1,14,384	1,44,265	1,28,383	9.27%	2%	162032	22%
Capital Expenditure as % of total Expenditure	8.45	10.01	8.62			8.73	
Committed Expenditure							
Salaries	31,676	32,931	28,026	-11.52%	-15%	39,731	42%
Pensions	19,064	20,970	19,412	1.83%	-7%	23,106	19%
Interest	19,215	19,850	20,286	5.57%	2%	21,940	8%
Total Committed Expenditure	69,955	73,752	67,725	-3.19%	-8%	84,778	25%
Committed exp as % of Total Revenue Receipts	77.53	64.33	72.73	-	-	64.73	

Source: Revised Budget 2021-22 at a glance, Government of Kerala,

The state should continue the momentum of sustained increase in capital outlay with a growth of 14% annual increment because the State was able to maintain such a trend even in adverse circumstances like NIPAH, flood and COVID first wave.

Revenue and Fiscal Deficit:

Table 6 illustrates that Kerala has been prudently performing as far as FRBM target is concerned before the pandemic and we maintain so this year if Expenditure remains well within budget amount. **Fiscal deficit has been reduced from from 3.4% of GSDP in 2018-19 to 2.8% in 2019-20.** However, the RE estimates of Fiscal deficits shot to 4.3% of GSDP owing to pressure on expenditure due to pandemic. **Owing to additional expenditure**

commitment in revised budget of 2021-22 and XI PRC recommendation, it is likely that fiscal deficit target of 3.5% of GSDP in budget may overshoot. This will leave very limited space for capital expenditure because it will difficult to push the maximum cap of Fiscal Deficit (FD) i.e., 4% of GSDP. For building the fiscal scenario for this fiscal we have assumed no increase in capital expenditure from last years RE i.e. Rs 11000 crore.

Table 6: Revenue and Fiscal Deficits and outstanding debt for Kerala, 2018-19 to 2021-22RBE (% of GSDP)

Year	Revenue Deficit	Fiscal Deficit	Outstanding Debt
2018-19	-17,462	-26,958	2,35,631
Actuals	(2.20%)	(3.40%)	29.8%
2019-20	-14,495	-23,838	2,60,311
Actuals	(1.70%)	(2.80%)	(30.5%)
2020-21	-24,206	-29,295	2,96,818
RE	(2.90%)	(4.25%)	(36.1%)
2021-22	-16,910	-30,698	3,27,655
RBE	(1.90%)	(3.50%)	(37.4%)
2021-22	-17,430	-28,492	3,25,310
GIFT estimate*	(1.91%)	(3.11%)	(35.6%)

Source: Revised Budget 2021-22 at a glance, Government of Kerala,

Note: 2021-22 GIFT estimate is based on certain assumptions based on historical data and future expectations in improvements and revenue receipts collection and restricting of in revenue expenditure

The rising FD leads to an increase in debt which in turn raises the interest outgo. The difficult year of 2019-20 had already seen debt to go up by almost one percentage point of GSDP and the COVID year of 2020-21 saw it go up by another 6-percentage points. Since every one percentage point increase in debt leads to 0.75 percentage point increase in IP/TRR (assuming TRR/GSDP at 12% and interest rate at 8%), interest payment as a ratio of TRR will go up by 4.5 percentage points.

There are already signs of it as may be seen in Table 5. In 2020-21, while salary and pension expenditures were tightly controlled, interest expenditure overshoot by nearly Rs 500 crore. A

similar trend may occur in 2021-22 as well leaving little space for discretion until revenue expenditure is kept well within the amount proposed in this year's budget. **Given the due recognition to impending fiscal situation in the state right from the beginning of this fiscal, we are confident that expenditure restructuring measures taken to curb avoidable expenditures will bring things closer to balance and going forward we must increase our efforts to attain SOR to GSDP ratio of 9%.** This will also send a signal to the Centre that state is simply not waiting for Central grants and is doing everything in its capacity ram up revenue and cut wasteful expenditure.

Fiscal scenario for coming years

Going forward after this fiscal year we will see that Kerala will increasingly face serious deficit problem and building up of public debt causing interest payment burden to rise until GST compensation is continued. This will happen despite our improved performance in revenue collection. This is because our forward projection of SOR is based on SOR to GDP ratio of 8.5% in 2022-23 then 9% for next years. Table 7 summarizes the fiscal situation with and without GST compensation for coming years. This scenario assumes 14% growth rate of capital spending annually from base of Rs 11061 Crores in 2021-22 which is the same as RE of 2020-21. We did not assume any growth of capital spending in this year from previous year because of significant jump in revenue expenditure due to award of XIth PRC. **Without GST compensation, revenue deficit reaches to -3.61% and fiscal deficit almost 5% of GSDP in 2025-26 despite our assumption of improved performance in revenue collection within the state.** The SOR to GSDP ratio assumed for building the revenue scenario is 9%. If the GST compensation is continued these revenue and fiscal deficits will be reduced to 2% and 3.42% respectively. Hence GST compensation needs to be continued beyond 2022. The fact that GST compensation cess is an additional tax on sin goods, there should not be any urgency for dropping such a cess.

Table 7: Deficits and debt with and without GST compensation

Items	2020-21	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
State Own Revenue Receipts (SOR)	RE	RBE	GIFT estimate	GIFT FW	GIFT FW	GIFT FW	GIFT FW
GSDP in current Prices	822023	876283	914682	1017787	1132513	1260172	1402221
growth in GSDP	-	6.60	11.27%	11.27	11.27	11.27	11.27

	3.82 %	%		%	%	%	%
States own revenue receipts (SOR) (Tax + non-Tax)	5439 3	8616 9	66772	86512	10192 6	11341 5	12620 0
State's own revenue/GSDP	6.62 %	9.83 %	7.3%	8.5%	9.0%	9.0%	9.0%
Central Transfers							
Central Taxes	9844	1281 2	11276	12916	14794	16946	19411
growth Central taxes	-40%	30%	14.5%	14.5%	14.5%	14.5%	14.5%
Grants-in-Aid Including GST compensation till 2021-22	2887 8	3199 9	39843	20593	12786	8742	9546
Central Transfers total	3872 2	4481 1	51119	33509	27581	25689	28957
Total Revenue Receipt	9311 6	1309 80	117891	12002 0	12950 7	13910 4	15515 7
Total Revenue Expenditure	1173 22	1478 91	135322	15026 2	16685 2	18527 4	20573 0
Growth in Revenue Expenditure	12%	26%	2020- 21RE + Rs 18000	11.04 %	11.04 %	11.04 %	11.04 %
Deficits and debts							
Revenue Deficit	- 2420 6	- 1691 0	-17430	-30242	-37345	-46170	-50572
Fiscal Deficit	- 3495 0	- 3069 8	-28491	-42851	-51720	-62557	-69254
Borrowing	3495 0	3069 8	28491	42851	51720	62557	69254
Public Debt	2968 18	3276 55	325309	36816 1	41988 1	48243 8	55169 3
Deficits and Debts as % of GSDP							
Revenue Deficit	2.94 %	1.93 %	-1.91%	-2.97%	-3.30%	-3.66%	-3.61%

Fiscal Deficit	4.25 %	3.50 %	-3.11%	-4.21%	-4.57%	-4.96%	-4.94%
Public Debt	36.11 %	37.39 %	35.57%	36.17 %	37.08 %	38.28 %	39.34 %
GST compensation based on 14% growth in protected revenue				15050	16887	18940	21234
Revenue Deficit with GST compensation				-15191	-20458	-27229	-29338
Fiscal Deficit with GST compensation				-27801	-34833	-43617	-48020
Public Debt with GST compensation				35311 0	40299 4	46349 8	53045 8
RD with GST compensation as % GSDP				-1.49%	-1.81%	-2.16%	-2.09%
FD with GST compensation as % of GSDP				-2.73%	-3.08%	-3.46%	-3.42%
Public Debt with GST compensation as % of GSDP				34.69 %	35.58 %	36.78 %	37.83 %

Source: Revised Budget 2021-22 at a glance, Government of Kerala,

Note: Estimates for years 2021-22 and beyond done by GFIT based on certain assumptions of growth rates of GSDP and SOR to GSDP ratio and growth of revenue expenditure. These assumptions are based on historical data and future commitments from government to improve revenue collection efficiency

Chapter 2

Fiscal Scenario: A Comparative Analysis

One of the key features of fiscal management in the Indian states following the Fiscal Responsibility and Budget Management Acts of early 2000s is that almost all states brought their revenue accounts into balance. In fact, many of them started showing revenue surpluses curtailing revenue expenditure in many development sectors. Kerala, West Bengal and Punjab were the exceptions to this trend. Kerala, in particular has continued to run Revenue Deficits well above 2% of GSDP. But things have begun changing in the last few years. At the all-states level during 2016-17 to 2019-20 revenue balance has turned into a small deficit (see Table 1). Among the Southern states, Telangana and Karnataka show a small surplus but Tamil Nadu, Andhra Pradesh and Kerala show deficits that are not small. While Andhra Pradesh and Tamil Nadu show a rise in RD from 2011-15 to 2016-20, Kerala has been able to maintain the ratio. More importantly, Kerala has shown a steady fall in RD from 2.44% in 2016-17 to 1.7% in 2019-20 (See Figure 1). This is remarkable given that Kerala was passing through difficult times with NIPAH, massive floods and cyclone damages during these years.

Table 1. Revenue Deficits in the South Indian States, 2011-12 to 2019-20

State	Average Revenue Deficit % GSDP	
	2011-12 to 2015-16	2016-17 to 2019-20
Andhra Pradesh		2.23
Karnataka	-0.26	-0.13
Kerala	2.26	2.28
Telangana		-0.30
Tamil Nadu	0.28	1.32
All States	0.00	0.28

Along with balancing the revenue budget the states were also running fiscal deficits well below the 3% targeted in the FRBM Acts, Kerala being one of the exceptions. But the last few years have seen a change in the scenario. At the all-states level the FD has risen by 0.29 percentage points (see Table 2). This has arisen because all the Southern states, except Karnataka have crossed the 3% target. What is striking, however, is that Kerala has made a valiant attempt at bringing down FD that had crossed 4.18% in 2016-17 to 2.8% in 2019-20

(see Figure 2). It has been able to contain it below 3% in 2019-20 as shown by the final accounts despite the GSDP growth rate falling below 3.5 per cent (in constant prices) and around 8 per cent (in current prices) in that year.

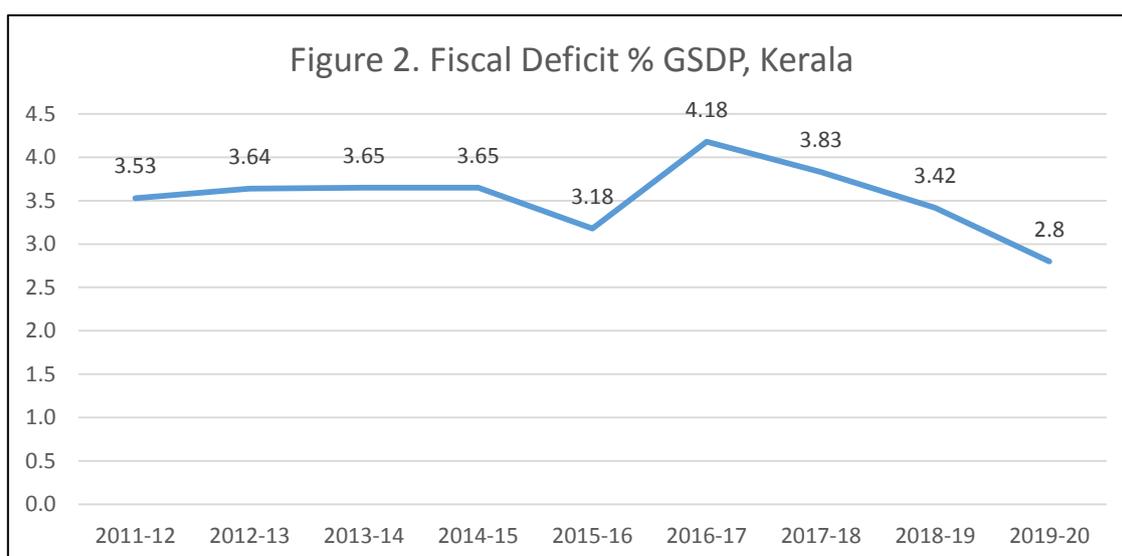
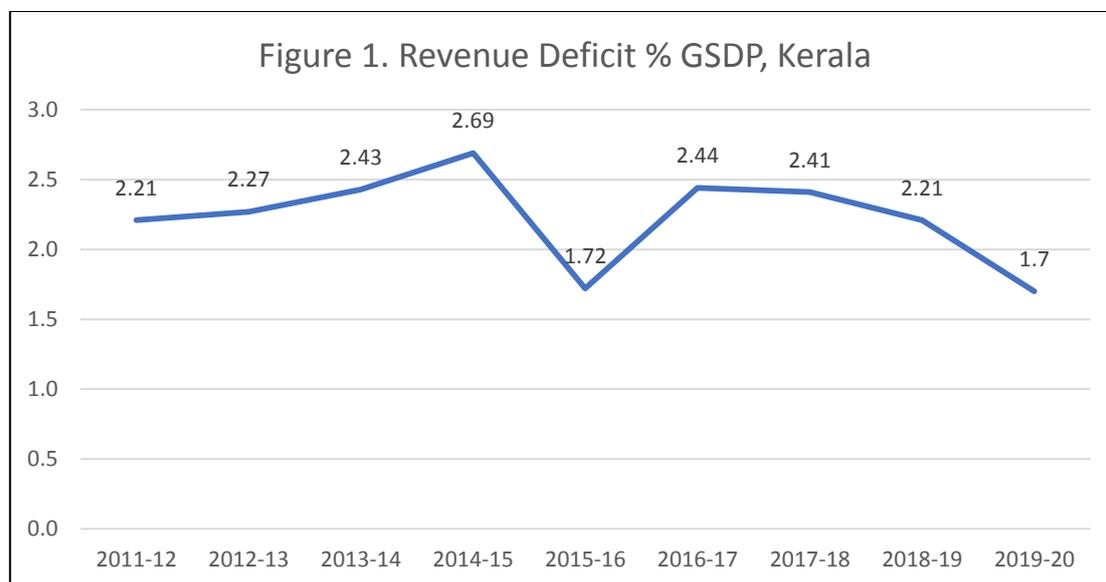


Table 2. Fiscal Deficits in the South Indian States, 2011-12 to 2019-20

State	Average Fiscal Deficit % GSDP	
	2011-12 to 2015-16	2016-17 to 2019-20
Andhra Pradesh		3.13
Karnataka	2.06	2.42
Kerala	3.53	3.63
Tamil Nadu	2.33	3.23
Telangana		3.58
All States	2.40	2.69

Higher fiscal deficit would translate into a rising debt-GSDP ratio. This has happened in all the states in recent years at diverse rates. The states reporting high fiscal deficit - Kerala, Telangana and Tamil Nadu - have seen their debt ratio rise by over 4 percentage points (see Table 3). The rising debt burden translates into a rising burden of interest payment: one percentage point increase in debt-GSDP ratio would translate into 0.67 percentage point rise in interest payment-total revenue receipt ratio if the interest rate is 8% and TRR is 12% of GSDP. As regards Kerala, the increase of Debt-GSDP ratio from 26% to 31% over 2011-12 to 2019-20 had meant an increase in interest outgo of over 3.3 percentage points of TRR. Lower TRR ratio would raise the interest burden further. Thus, the need to control deficits and debt, and raise TRR is too evident.

Table 3. Growth of Public Debt in the South Indian States, 2011-12 to 2019-20

States	Average Debt to GSDP Ratio (%)		Public Debt Growth-Average%	
	2011-12 to 2015-16	2016-17 to 2019-20	2011-12 to 2015-16	2016-17 to 2019-20
Andhra Pradesh		32.21		23.01
Karnataka	16.97	18.52	14.86	14.36
Kerala	26.48	30.53	14.27	13.41
Tamil Nadu	17.81	22.05	15.02	15.5
Telangana		19.2		28.42
All States	24.31	27.72	11.61	10.08

Kerala's attempt to bring down the fiscal deficit below the target of 3% by 2019-20 gets reflected in relatively lower growth in the public debt compared to the other states. It may be seen that growth rate of debt during 2016-17 to 2019-20 is not only lower than that during the previous period but also the growth rate for Kerala is significantly lower than that for the other states. These are all signs of prudential fiscal management.

Revenue Receipts of the State

The revenue receipts of the Indian states consist of state's own revenue receipts and transfers from the Centre. Transfers from the Centre fall into two categories, namely share in Central taxes and grants in aid, both of which are largely governed by the awards of the Finance

Commissions. Transfers for centrally sponsored schemes and GST compensation are also shown under the grants.

Share in Central Taxes

One distinct feature of the trends in horizontal share of the states is that for each Southern state the share has steadily fallen since the X Finance Commission (1995-96 to 1999-00) (Table 4). For Andhra Pradesh (including Telangana) the fall has been from 8.47 per cent (X FC) to 6.149 per cent (XV FC- 2021-22 to 2025-26). In Tamil Nadu it has fallen from 6.64 per cent to 4.079 per cent; in Karnataka from 5.34 per cent to 3.647 per cent and in Kerala from 3.88 per cent to 1.925 per cent. It is close to 2 percentage point decline in all the states which is not a small decline. While the fall was steady from one Finance Commission to the next, there were two exceptions. For both Karnataka and Kerala, the XIV Finance Commission award was slightly higher than that by the XIII Finance Commission but in the next FC the decline continued. For Tamil Nadu, the fall from the XIII Finance Commission to the XIV Finance Commission was large but not from the XIV to the XV.

Table 4. Share of Central Taxes to States, X to XV Finance Commissions

States	Percentage Share of States in the Divisible Pool by Finance Commission					
	X	XI	XII	XIII	XIV	XV
Andhra Pradesh	8.47	7.70	7.36	6.94	6.74	6.149
Telangana						
Karnataka	5.34	4.93	4.46	4.33	4.71	3.647
Kerala	3.88	3.06	2.67	2.34	2.50	1.925
Tamil Nadu	6.64	5.39	5.31	4.97	4.02	4.079

Table 5. Share in Central Taxes of Southern States (%GSDP), 2011-12 to 2019-20

State	Share in Central Taxes as % of GSDP	
	2011-12 to 2015-16	2016-17 to 2019-20
Andhra Pradesh		3.4
Karnataka	1.85	2.1
Kerala	1.74	2.33
Tamil Nadu	1.67	1.7
Telangana		1.95
All States	3.05	4.37

The declining share of Southern states in Central taxes has resulted in hardly any increase in the flow of resources from the Centre despite the vertical share of the states or the divisible pool increasing from 32 percent to 42 percent from the XIII to the XIV Finance Commission (Table 5). For instance, in the case of Tamil Nadu the share of Central taxes constituted only 1.7 percent of the GSDP throughout this period because the share of the state in the divisible pool fell by almost one percentage point. Karnataka too gained little. Only Kerala gained about 0.59 percentage point of GSDP comparable to the all-states gain of 1.32 percentage points. Such gains will not come during the next five years as the vertical share has been held fixed by the XV Finance Commission and the horizontal share of each Southern state has fallen.

Grants- in- Aid

Grants-in-aid is an inalienable part of Finance Commission awards. There have broadly been five different categories of grants: (a) revenue deficit grants, (b) grants for local governments, (c) grants for disaster management, (d) sector-specific grants and (e) State-specific grants. While the importance attached to the different grants has varied widely among the Finance Commissions, one of the trends observed is that since the X Finance Commission the share of grants in the total transfers has steadily increased. It was only 8.96 percent in the X Finance Commission but reached 19.65 percent by the XV Finance Commission with a drop to 11.97 percent in the XIV Finance Commission.

Table 6. Grants from the Centre to the Southern States, 2011-12 to 2019-20

	Grants from the Centre as % of GSDP	
	2011-12 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	2.9	2.7
Karnataka	1.3	1.7
Kerala	1.1	1.3
Tamil Nadu	1.2	1.4
Telangana	0.6	1.2
All States	2.2	2.5

Unlike the share in Central taxes that showed a sharp increase between the two periods at the all-states level grants in aid (including non-FC grants) have showed only a marginal increase (Table 6). Compared to the all-states level the grants as a ratio of GSDP are almost half of it in the Southern states; the exception being Andhra Pradesh. Further, the increase from the first period is only marginal in all the three states.

Table 7. Share of Taxes and Grants to the Southern States, 2011-12 to 2019-20

	Share in Taxes and Grants from the Centre as % of GSDP	
	2011-12 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	-	6.1
Karnataka	3.15	3.8
Kerala	2.84	3.63
Tamil Nadu	2.87	3.10
Telangana	-	3.15
All States	5.25	7.87

Taking the two, namely share of taxes and grants, together it may be seen that at the all-states level there has been an increase of around 2.6 percentage points of GSDP in the central transfers to the states (Table 7). But the increases are significantly lower for the Southern states, varying between 0.24 percentage point for Tamil Nadu and 0.79 percentage point for Kerala. The transfers will show a slight rise during the award period of the XV Finance Commission as the grants share in the total transfers has gone up from 11.97 percent during the period of the XIV Finance Commission to 19.65 percent in the period of the XV Finance Commission (2021-22 to 2025-26). Overall, the Southern states cannot hope to receive larger transfers from the Centre in the coming years.

State's Own Revenue Receipts

State's Own Tax Revenue

In a situation where the Central transfers are showing a falling trend state's own tax and non-tax revenues become key resources for the Southern states. Their spending will crucially depend on how much they mobilise. In this context it is remarkable to see that the Southern

states without exception mobilise more taxes than the all-states average (Table 8). During 2011-12 to 2015-16, it was more than one percentage point higher than the all-states average for Karnataka and Tamil Nadu and for Kerala it was 0.59 percentage point higher. The second period saw a perceptible fall in the mobilisation of tax revenue in all the Southern states but not at the all-states level. So, the tax revenue ratios of the Southern states have moved closer to the all-states average. In particular, Kerala has reached closest. In successive steps we examine the specific tax item that has contributed to this fall in Kerala's tax revenue receipts.

Table 8. State's Own Tax Revenue in the Southern States, 2011-12 to 2019-20

States	Average Own Tax Revenue as % of GSDP		Average Growth of Own Tax revenue	
	2011-12 to 2015-16	2016-17 to 2019-20	2012-13 to 2015-16	2016-17 to 2019-20
Andhra Pradesh		6.62		13.76
Karnataka	7.59	6.72	12.97	8.89
Kerala	7.01	6.45	11.03	9.43
Tamil Nadu	7.61	6.56	8.05	9.69
Telangana	NA	7.59	NA	17.69
All States	6.42	6.33	11.09	13.02

Sales Tax/VAT and GST

Around 75 per cent of the state's own tax revenue originates in Sales Tax/ Value Added Tax and GST. Table 9 presents the data on the total of these three taxes for the two sub periods. It may be seen that introduction of GST has not raised the tax revenue to any significant extent for All-States or in the Southern states. The performance of Kerala is comparable to that of that of Karnataka and Tamil Nadu as well as with that of All-States. But it is important that this performance be viewed from a larger perspective. While Sales Tax/GST accounts for 75 per cent of the tax revenue in Kerala, it is only 54 per cent in Karnataka and 68 per cent in Tamil Nadu. Hence, in Kerala GST has to do well if the tax revenue of the state has to go up and that is not happening.

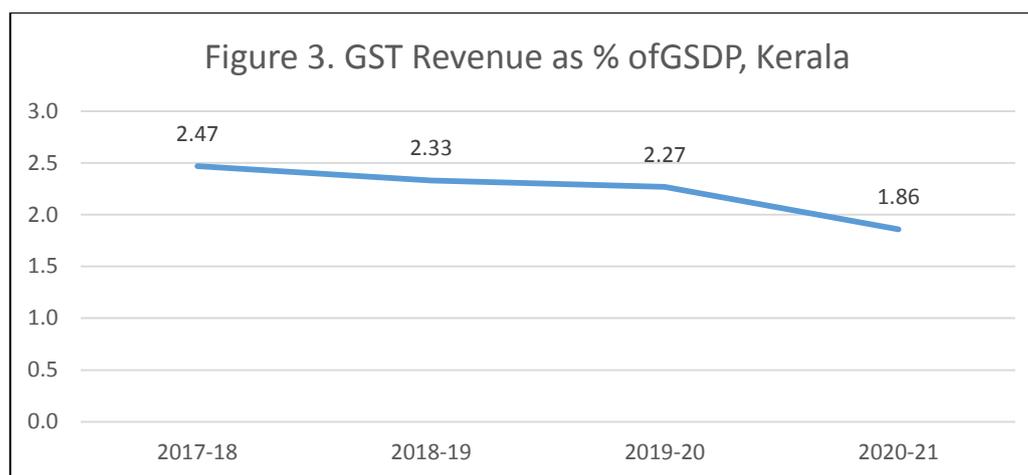
Table 9. Sales Tax/VAT and GST in the Southern States, 2011-12 to 2019-20

State	Average Share of Sales Tax/VAT and GST to GSDP ratio%		Average growth %	
	2012-2015	2016-2019	2012-2015	2016-2019
Andhra Pradesh		4.7		8.7
Karnataka	4.1	3.8	12.9	9.0
Kerala	5.4	5.2	12.9	7.6
Tamil Nadu	5.1	5.0	12.6	12.7
Telangana		5.2		10.6
All States	4.0	3.9	11.3	11.5

The performance of GST presented in Table 10 does not instil much confidence. Firstly, as a proportion of GSDP it is very low for almost all the states and the All-States average is below 2.5 per cent. The inter- state variation too is rather limited. For instance, in 2017-18, the values for the southern states were between 2.42 and 2.55 with the exception of Andhra Pradesh which reported 1.95. Kerala's performance is on par with the other south Indian states. Only Maharashtra reported a ratio that was one-third higher than the All-States average. The more distressing fact is that both Tamil Nadu and Kerala reported a declining trend in the ratio. The decline is rather sharp (Figure 3) in Kerala which is a cause for worry

Table 10. Progress of GST in the Southern States, 2011-12 to 2019-20

State	GST revenue as % of GSDP		
	2017-18	2018-19	2019-20
Andhra Pradesh	1.95	2.13	2.04
Karnataka	2.55	2.48	2.59
Kerala	2.47	2.33	2.27
Maharashtra	3.08	2.95	2.94
Tamil Nadu	2.42	2.27	2.17
Telangana	2.47	2.52	2.43
All States	2.33	2.36	2.04

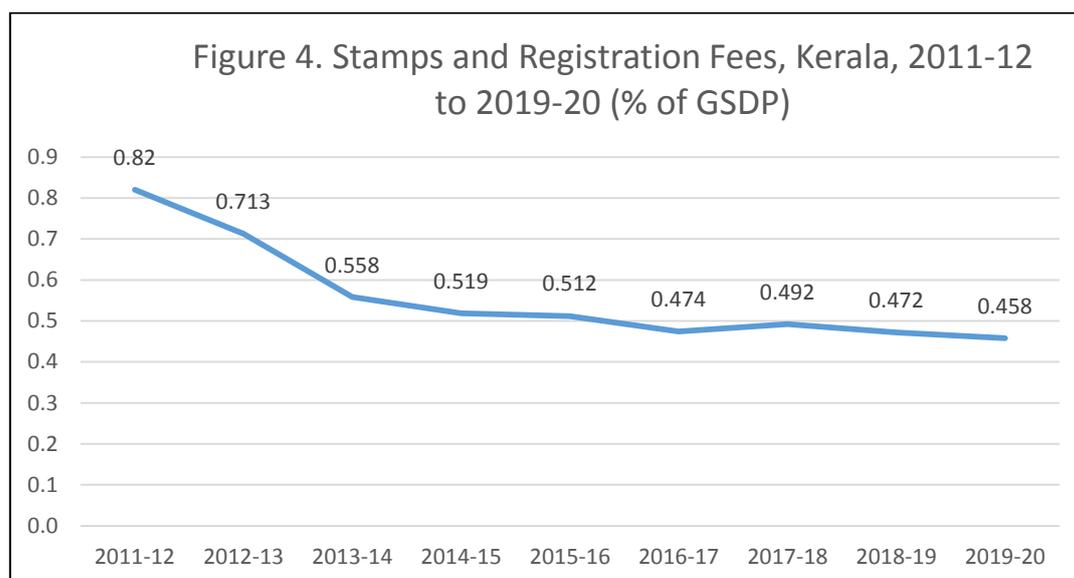


Stamp Duty and Registration Fees

Turning to the other major source of revenue in Kerala, namely stamps and registration fees, it may be seen from Table 11 that the average for the first period in Kerala is lower than the all-states average. It is also significantly lower than that of other Southern states. Further, this source of revenue has shown a sharp decline between the two periods in all the states and Kerala is not an exception. In Kerala, it is a long-time trend. As may be seen from Figure 4, this ratio has steadily fallen since 2011-12. The large fall in the initial years of the decade has been arrested from 2016-17 by raising the fair value of land by 10 per cent every year. But the decline continues. Obviously, undervaluation of land is only one of the factors but there are more serious structural factors which are drying up this source of revenue. This is an issue calling for some deeper research.

Table 11. Stamp Duty and Registration Fees in the Southern States, 2011-12 to 2019-20

State	Average Share of Stamps and Registration Fees (% GSDP)		Average Growth of Stamps and Registration Fees	
	2011-12 to 2015-16	2016-17 to 2019-20	2012-13 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	0.91	0.56	-3.7	11.6
Karnataka	0.77	0.68	15.5	10.0
Kerala	0.62	0.47	-0.7	8.1
Tamil Nadu	0.83	0.64	7.4	12.2
Telangana	NA	0.61	NA	20.2
All States	0.73	0.59	14.5	11.0

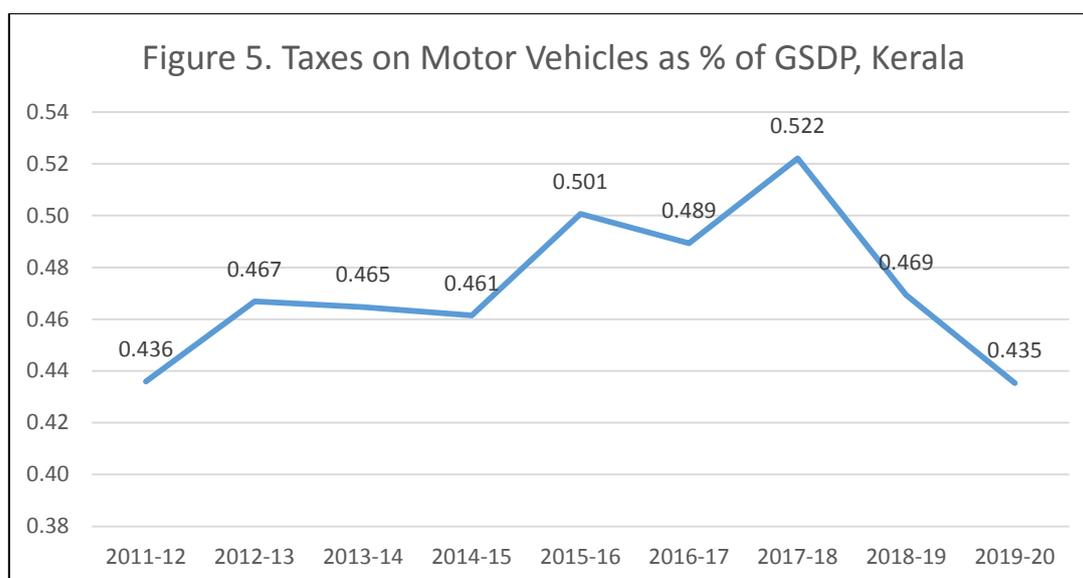


Motor Vehicles Tax

An equally large source of revenue in Kerala is motor vehicle tax. As a ratio of GSDP, the collection in Kerala is over a third higher than the all-states average (Table 12). But it is slightly lower than that in Karnataka. Between the two subperiods motor vehicle tax showed an increase at the all-states level. But most of the southern states showed a fall, except Kerala (Table 11). Kerala showed an increase in the second period on the strength of the large collection in 2017-18 following the dip in 2016-17. But the recent trend is downwards (Figure 5). The recent fall has been so large that the ratio of motor vehicle tax to GSDP has fallen below that of 2011-12.

Table 12. Motor Vehicle Tax in the Southern States, 2011-12 to 2019-20

States	Average Motor Vehicle Tax Revenue (as % of GSDP)		Average Growth of Motor Vehicle Tax revenue	
	2011-12 to 2015-16	2016-17 to 2019-20	2012-13 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	NA	0.377	NA	17.21
Karnataka	0.499	0.456	14.47	9.54
Kerala	0.466	0.479	15.49	7.46
Tamil Nadu	0.394	0.360	8.74	9.69
Telangana	NA	0.479	NA	19.19
All India	0.334	0.360	11.97	15.45



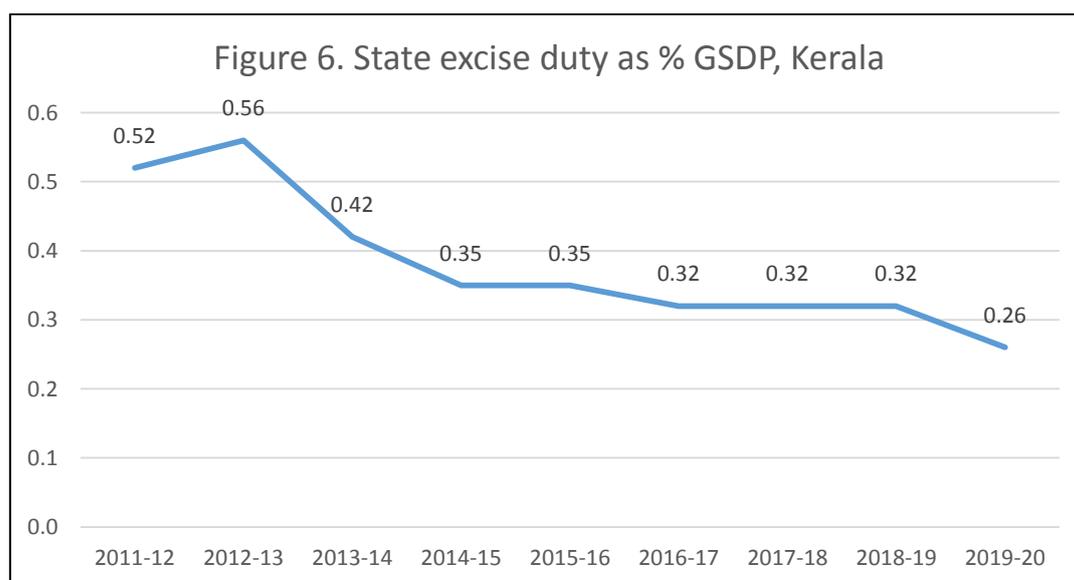
The large fall since 2017-18 is a cause for worry as the GSDP growth was high and remittance inflow too was robust during this period calling for some investigation of why vehicle registration has gone down in the state. Unlike stamp duty and registration fees undervaluation does not affect the motor vehicle tax numbers. So, the reasons must be different.

Excise Duty

Along with stamp duty and registration, and motor vehicle tax, excise duty holds an equal place among the non- sales tax category of taxes in Kerala (Table 13). In the other south Indian states excise duty generates more revenue two to three times the ratio reported by Kerala. The all-states average is almost twice the Kerala ratio in the first sub period. Between the first and the second sub period the ratio has fallen in almost all the southern states, and the largest fall has been in Tamil Nadu and Kerala when the all-states ratio has not shown any change. In Kerala, it is a falling trend throughout the period (Figure 6). In about ten years the ratio has fallen from around 0.50 per cent to 0.26 per cent. Like the stamp duty this too shows a steady decline the reasons for which are not too obvious.

Table 13. Excise Duty (as %GSDP) in the Southern States, 2011-12 to 2019-20

States	Average of state excise duty as % GSDP		Average Growth of State Excise duty	
	2011-12 to 2015-16	2016-17 to 2019-20	2012-13 to 2015-16	2016-17 to 2019-20
Andhra Pradesh		0.70		12.14
Karnataka	1.55	1.37	11.95	8.14
Kerala	0.44	0.32	2.21	7.46
Telangana		1.17		36.67
Tamil Nadu	0.86	0.42	-5.31	5.99
All States	0.78	0.76	9.08	14.28



Land Revenue

Land revenue accounts for less than half a per cent of the state's own tax revenue in any of the southern states and over one percent at the all-states level. As is evident from Table 14, in Kerala the contribution of land revenue is less than one third the all-states average. But among the southern states Kerala (along with Karnataka) has made an attempt to garner the most and between the two sub periods its contribution has increased. It is unlike the other

southern states where its contribution has come down. But the scope for raising further revenue from land is limited because it does not go well with the objective of raising agricultural incomes. Classifying land by use and imposing a levy may not be practicable in a state like Kerala where most of the land has some crops standing, and often houses too stand in such plots.

Table 14. Land Revenue (as %GSDP) in the Southern States, 2011-12 to 2019-20

States	Average Land Revenue as % of GSDP		Average Growth in Land Revenue	
	2011-12 to 2015-16	2016-17 to 2019-20	2012-13 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	0.018	0.012		18.83
Karnataka	0.025	0.014	-4.2	11.63
Kerala	0.025	0.027	40.02	18.58
Tamil Nadu	0.019	0.012	43.12	8.12
Telangana		0.001		236.78
All India	0.080	0.070	11.72	10.22

Non-Tax Revenue

Among the southern states Kerala is performing well in mobilising non tax revenue. It accounted for 1.2 per cent of GSDP during 2011-12 to 2015-16 in the state compared to the all-states average of 1.2 per cent that is one-third higher than that of Tamil Nadu and double that of Karnataka (Table 15). In the next period, Kerala mobilised 1.5 per cent of its GSDP compared to the all-states average of 1.1 per cent when there was hardly any change in the collection in Tamil Nadu or Karnataka. It is, however, important to note here that in Kerala, lotteries account for around 80 per cent of the non-tax revenue. And these are gross receipts and that the expenditure for running lotteries is fairly high – close to 85% of the gross revenue. The net receipts tell an interesting story for the recent period and there, probably, is a lesson to learn. Both in 2018-19 and 2019-20, the net receipts were only 15 per cent of the gross receipts that were Rs 9265 crore and Rs 9974 crore respectively. In 2020-21, the gross receipt fell to Rs 6648 crore but the net receipt increased by a small margin to Rs 1510 crore from Rs 1498 crore in the previous year. The margin increased from around 15 to 23 per cent. As the prize money and incentives to sellers do not fall as a proportion of sales, it is possible that administrative cost of running the lotteries has come down during the COVID 19 times. If so, this is an aspect that calls for careful implementation post-COVID 19.

Table 15. State's Own Non-Tax Revenue of Southern States, 2011-12 to 2019-20

State	Average SONTR as % of GSDP	
	2011-12 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	2.6	0.5
Karnataka	0.6	0.5
Kerala	1.2	1.5
Tamil Nadu	0.8	0.8
Telangana	0.8	1.2
All States	1.2	1.1

Summing up on Revenue Flow

Central transfers to the southern states have been falling over the last 25 years and Kerala's share has taken a bigger hit as the state's share in the total population has been falling rapidly and income distance has been reducing. Revenue deficit grant comes as a windfall gain once a while. The year 2015-16, 2016-17 and the period 2020-21 to 2022-23 are such exceptional years. Otherwise, it is a fall all the way. So, the state has to raise more own resources to sustain expenditures.

The state compares well with the southern states in mobilising own tax revenue. But along with the other states in the region Kerala too has seen its own tax revenue fall. The fall has been contributed more by Sales Tax/VAT and GST has worsened it. The other major revenue sources, such as stamp duty and registration fees, motor vehicle tax and excise duty too show steady fall, more rapid than the other southern states. The factors behind such precipitous fall call for careful study.

The saving grace has been the higher collection of non-tax revenue by Kerala compared to the other southern states. This is largely on the strength of lotteries gross revenues of which have begun stagnating. It was feared that the COVID 19 pandemic would hit lottery revenues hard. Surprisingly, the net revenue from lottery has shown a mild increase during 2020-21

suggesting that the crisis provided an opportunity for cost controls which need to be continued beyond the COVID times.

In a situation of all-round decline in revenues the options before the state are rather limited. Deficits are already high and the scope for raising them further does not exist. The exceptional situation of COVID 19 has pushed the state to borrow more and the consequence is a higher interest outgo putting a further squeeze on other expenses. The state has done well to limit total revenue expenditure and control deficits during the last five years and especially in 2020-21. Such efforts need to continue in the medium term.

Expenditure

One of the ways the states have managed to achieve balance in the revenue account following the FRBM Acts is by curtailing the revenue expenditure. Kerala has not subscribed to this philosophy. This is evident from the data presented in Table 16. Among the south Indian states Kerala was reporting one of the highest revenue expenditures (as %GSDP) during the first period (2011-12 to 2015-16); it was about two percentage points higher than that of Karnataka and Tamil Nadu and closer to the all-states average. But with the pressure on revenue receipts following the developments since 2016-17, the south Indian states had to cut their revenue expenditures. It was mild in Karnataka and Tamil Nadu but Kerala had to bring it down by 2.7 percent points which turned Kerala into one of the lowest spenders at 10.6 per cent of GSDP. Kerala is, obviously, catching up with the public finance rule that 'you cannot go on spending beyond your means, sooner or later your expenditure has to fall below your revenues'.

Table 16. Revenue Expenditure (as %GSDP) of the south Indian States, 2010-11 to 2019-20

State	Average Revenue Expenditure (% GSDP)		Average Growth of Revenue Expenditure	
	2011-12 to 2015-16	2016-17 to 2019-20	2012-13 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	22.1	15.3	2.2	9.6
Karnataka	11.0	10.6	15.8	10.9
Kerala	13.3	10.6	14.4	10.4
Tamil Nadu	11.6	11.8	13.9	11.4
Telangana	NA	11.6	NA	10.0
All States	14.3	15.2	15.9	13.2

One of the results of spending beyond one's means by borrowing is the rising interest payments. Table 17 depicts that picture well. Interest outgo for Kerala in the first period at 1.8 percent of GSDP was one of the highest and above the all-state average. While for all-states and Karnataka, there was only a marginal increase Kerala showed a steep increase in the second period. A higher and rising interest outgo means less and falling revenues are available for other spending, development or capital.

Table 17. Interest Payment (as %GSDP) of the south Indian States, 2010-11 to 2019-20

	Average Interest Payment (% GSDP)		Average Growth of Interest Payment	
	2011-12 to 2015-16	2016-17 to 2019-20	2012-13 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	2.4	1.7	-0.7	13.7
Karnataka	1.0	1.0	15.4	14.8
Kerala	1.8	2.1	15.3	13.7
Tamil Nadu	1.3	1.7	18.4	16.4
Telangana	NA	1.4	NA	17.6
All States	1.7	1.8	13.6	14.1

The squeeze on total spending and the larger outgo on account of interest payments would leave less for other expenditures. Table 18 does confirm such a trend. Already in the first period development expenditure of Kerala was almost three percent points below the all-state average and the lowest among the south Indian states. While states other than south Indian states raised their development expenditure by a whisker, most of the south Indian states showed hardly any increase in the second period and Kerala continued to be at the bottom. The days of Kerala being in the forefront of development spending are gone. The fiscal reality is hitting it hard.

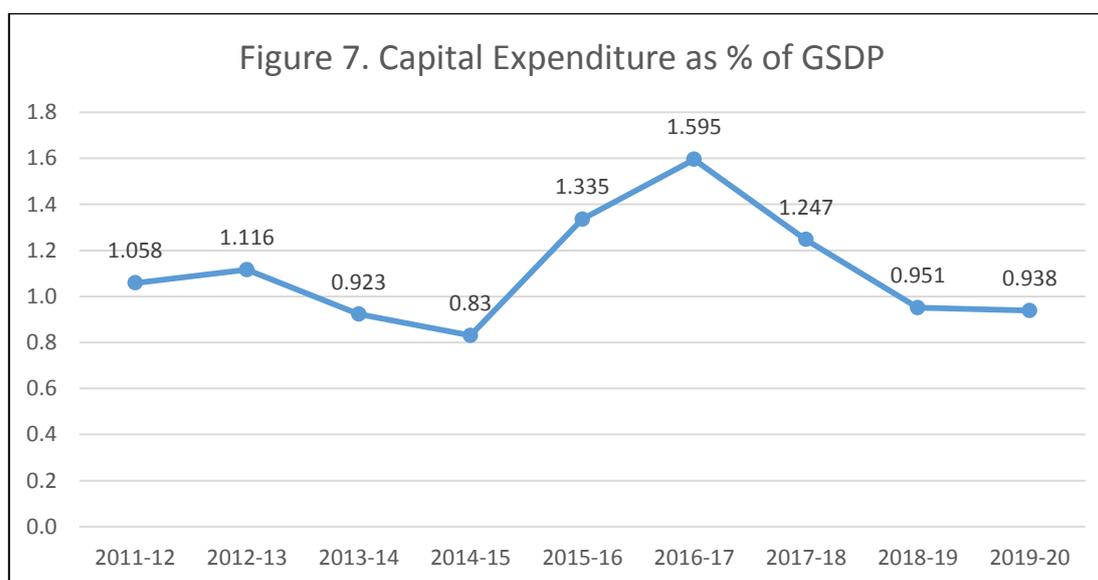
Table 18. Development Expenditure (as %GSDP) of the south Indian States, 2010-11 to 2019-20

State	Average Development Expenditure (% GSDP)		Average Growth of Developmental Expenditure	
	2011-12 to 2015-16	2016-17 to 2019-20	2012-13 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	15.2	10.6	4.1	9.0
Karnataka	7.5	7.5	16.0	10.6
Kerala	6.5	6.5	14.8	6.1
Tamil Nadu	6.8	6.7	15.7	9.0
Telangana	NA	7.8	NA	10.8
All States	9.2	9.8	17.2	12.8

The hit has been so hard that despite overshooting the fiscal deficit target of 3% most of the time, there is hardly any resources left for capital spending. Table 19 presents the data on capital expenditure which shows that Kerala on an average spent less than half the all-state average. The central transfers to the south Indian states has been falling but most of them have maintained fairly high level of capital expenditure. But compared to the first period the expenditure has fallen in Tamil Nadu and Andhra Pradesh. Karnataka has been able to maintain it at a high level. Kerala has made a small effort to reverse the trend during the second period. Still it is very low. But the fact that such reversal has been attempted during the crisis filled period since 2016-17 shows that Kerala has recognised the importance of capital expenditure and has made an attempt at curtailing revenue spending to achieve it. But it is too little too late and with COVID 19 raising expenditure on many fronts there will be little left for capital spending unless a concerted effort is made to control the committed expenditures, other than interest payments.

Table 19. Capital Expenditure (as %GSDP) of the south Indian States, 2010-11 to 2019-20

State	Average Capital Expenditure (% GSDP)		Average Growth of Capital Expenditure	
	2011-12 to 2015-16	2016-17 to 2019-20	2012-13 to 2015-16	2016-17 to 2019-20
Andhra Pradesh	3.0	1.9	2.1	3.9
Karnataka	2.2	2.3	7.7	16.1
Kerala	1.1	1.2	22.0	3.5
Tamil Nadu	1.8	1.5	4.4	13.8
Telangana	NA	3.1	NA	17.5
All States	2.3	2.8	22.9	23.1



The capital expenditure numbers for Kerala need to be interpreted with care. In fact, they are lower than what is reflected by 1.1 and 1.2 percent respectively for the two subperiods. The higher averages are a result of the windfall of Finance Commission grants in 2015-16 and 2016-17 the bulk of which allowed the state to raise the capital spending (see Figure 7). Dropping these two exceptional years means the capital expenditure has remained below almost one per cent of GSDP through out the decade. It is expected to fall further as the bounty of higher grants in 2020-21 to 2022-23 are not available for capital spending. The pressures of COVID 19 expenditures and higher salary and pension expenditures following the XI Pay Commission awards will eat away whatever windfall gains by way of grants!

Highlights

Medium term

It is evident that the Central transfers to Kerala have been coming down but the years 2020-21 to 2022-23 are not too bad for Kerala for two reasons: One, the anticipated fall in Centre's tax revenues during the COVID times has not happened and hence the feared fall in tax share may not materialise. Two, the XV Finance Commission award of large Revenue Deficit grant for these three years will cushion our depressing tax collection.

State's own tax revenue has fallen and the fall has largely been of GST, VAT/Sales Tax, and stamp duty and registration fee. No significant pick up is expected as depressed collection pre-dated COVID – 19 and the pandemic only accentuated it.

On the expenditure side, in the medium term, the pressure of committed expenditure that is already high is bound to go up with the increasing interest payment on account of rising debt, XI Pay Revision Commission awards and expenditure on account of the pandemic.

Overall, the medium term public finance scenario for Kerala is one where own revenue faces a squeeze, expenditures cannot be compressed much, and trend would be for the deficits to go up. The gains of prudential fiscal management of the last few years would be dissipated and the pressure will be on tight expenditure controls.

Long term in a Comparative Perspective

As regards revenue mobilisation over the long term, Central transfers to the Southern states have been falling and Kerala is no exception to the trend. So, the focus has to be on own revenue mobilisation.

The trend of state's own revenue in all the Southern states during the last ten years too is one of steady decline. Comparatively Kerala's performance is not too bad. The falling trend is visible in almost all components of SOTR, namely VAT/Sales Tax, GST, Stamps and Registration and Excise. Only in Non Tax Revenue, Kerala is doing significantly better than the other Southern states. Obviously, bad economic times (the steadily falling GDP since 2016-17) had affected all the states and revenue mobilisation is suffering. COVID 19 has worsened the situation and looks like only a quick recovery would be able to turn the tide.

Turning to expenditure (as a proportion of GSDP), in the early part of the last decade Kerala was spending more than the other Southern states. But it has fallen below the level of other states towards the end of the decade. Out of the total revenue expenditure, interest outgo (as a proportion of GSDP) has steadily been rising for all the states leaving less for discretionary spending. The result is that Kerala known for higher development spending is now on level with the other states. And our capital spending is less than 1 per cent (of GSDP) whereas it is more than 2 per cent in all the other Southern states. We have some hard choices to make on both revenue mobilisation as well as expenditure.

Chapter 3

In Search of New Avenues of Revenue

Tax revenue

Goods and Service Tax

With the introduction of India's Goods and Services Tax (GST) from July 1, 2017, backed by the 101st Constitutional amendment, India adopted one of the most significant tax reforms since independence by subsuming multiple states and central indirect taxes to create a simpler national tax. The new indirect tax regime encompasses various taxes from the union and state indirect tax bases, and it is a dual VAT system with concurrent taxation power to the union (federal) and state (provincial or sub-national) governments. The shift from origin-based VAT system to destination-based GST is an attempt at economic integration of the country by removing different taxation regimes, easing the mobility of goods and services, and removing state-level entry barriers to improving trade as well as aid the overall economy. Further, it was also expected to reduce horizontal fiscal imbalance among Indian states. High hopes have been pegged on to this reform by way of enhanced tax compliance, increased revenue mobilization, and above all stimulation of economic activities inter-alia through increased scale and scope along with the IT-enabled ease of doing business. Indeed, since the introduction of the GST, there has been an increase in indirect tax collections (compared to VAT) and also a sustained improvement in compliance (compared to VAT). The enhanced buoyancy has been due to a simplification of the taxation system as well as the rationalization of rates. Another gain has been the expansion of the tax net: around 45-50 lakh new taxpayers have joined the GST regime¹.

Some argued that Kerala, a state that heavily depends on imports from other states, would benefit due to GST. In this context, the concern is how has Kerala performed with respect to GST revenue collection. A simple comparison of growth of taxes subsumed under GST during the pre-GST period with the that GST revenue collection after 2017 clearly shows the sharp decline in GST revenue growth in Kerala whereas all other states showed an increase. In the pre-GST period (2013-16) the growth of taxes subsumed under GST was 9.85 per cent. The GST revenue collection declined to 5.72 percent during 2018-19, the lowest growth rate among all the major states. It may be noted that except Kerala all other states showed growth acceleration of the GST revenue.

Growth of taxes subsumed under GST before and after GST		
Name of State/UT	2013-2016	2018-2019
Andhra Pradesh		13.73
Assam	11.83	22.24

¹ [GST regime brings in nearly 50 lakh new taxpayers](#), July 29, 2018, The Hindu Business Line, accessed on June 03, 2021.

Bihar	17.77	29.03
Chhattisgarh	7.71	11.89
Delhi	7.50	0.63
Goa	11.67	7.97
Gujarat		6.74
Haryana		11.14
Jharkhand	12.29	19.02
Karnataka	11.70	11.25
Kerala	8.95	5.72
Madhya Pradesh	9.09	17.14
Maharashtra	5.18	7.10
Odisha	8.34	18.85
Punjab	7.39	8.05
Rajasthan	10.68	12.49
Tamil Nadu	5.75	6.50
Telangana		12.37
Uttar Pradesh	6.91	13.55
Uttarakhand	12.24	15.57
West Bengal	10.43	11.95

Although there is a huge concern over the GST growth rates not meeting the targets and many states falling behind the targets, the growth of GST revenue shows a significant increase over the years across all the states except for pandemic year. The comparison of GST growth rates during 2018-19 and 2019-20, the two normal years, shows a very interesting pattern. Among the south Indian states, Kerala shows the lowest growth rate before the COVID pandemic (5.72 percent) followed by Tamil Nadu (6.50 percent). Among five South Indian states, Andhra Pradesh and Telangana showed the highest growth in GST. During the pandemic year, the growth deceleration in Kerala was -8.88 percent which is second lowest after Telangana.

Growth of GST revenue before and during COVID pandemic					
	2018-19	2019-20	2020-21	Pre-Pandemic	Entire period
ANDHRA PRADESH	20.88	6.58	-9.77	13.73	5.90
KARNATAKA	8.56	13.93	-9.41	11.25	4.36
KERALA	5.97	5.47	-8.88	5.72	0.85
TAMIL NADU	4.29	8.71	-12.73	6.50	0.09
TELANGANA	15.41	9.34	-4.75	12.37	6.67

An analysis of composition of GST revenue collection indicates that Kerala has the high IGST component as evident from the share of IGST to SGST. It may be noted that Kerala's IGST to SGST ratio is almost double that of all India average and the highest among all other South Indian states. The neighbouring states such as Karnataka and Tamil Nadu. While high IGST to SGST is no surprise the ratio seems to still lower than what is expected. Basen on the GST e-way bill data, Khanna (2020) argued that Kerala about 70 percent of the total consumption in Kerala is met through imports from other states. If this argument is true, the ratio of IGST to SGST is expected to be higher. These finds require a careful empirical analysis on whether IGST settlement rate is the underlying problem for Kerala's poor performance.

Ratio of IGST to SGST				
State	2017-18	2018-19	2019-20	2020-21
Andhra Pradesh	1.02	1.09	1.13	1.08
Karnataka	0.55	0.58	0.59	0.65
Kerala	1.10	1.22	1.05	1.12
Tamil Nadu	0.46	0.51	0.48	0.47
Telangana	0.89	0.90	0.80	0.89
Total	0.58	0.61	0.61	0.64

In order to understand which component is driving the total GST revenue growth, the growth SGST and IGST is separately for Kerala in comparison with other South Indian states. It may be noted that lack of data for the complete financial year for 2017-18, the growth rates 2019-20 and 2020-21 are used for comparison purpose. The disaggregate analysis shows some interesting patterns. The growth of SGST for the year 2019-20 is the second highest (14.35) among the south Indian states and also higher than the national average. However, the growth of IGST is lowest for Kerala (-1.79) while no other state showed a negative growth rate.

Growth in SGST and IGST in percent				
	Growth in SGST		Growth in IGST	
State	2019-20	2020-21	2019-20	2020-21
Andhra Pradesh	4.14	-7.59	8.83	-11.70
Karnataka	13.05	-12.32	15.47	-4.51
Kerala	14.35	-11.95	-1.79	-5.94
Tamil Nadu	10.79	-12.24	4.62	-13.74
Telangana	15.42	-9.16	2.61	0.75
Total	10.91	-11.90	10.62	-7.90

Having examined Kerala's fiscal position with respect of various source of revenue, in this chapter we shall try to explore the potential of revenue mobilizing by analysing Kerala's performance with each item in comparison with other States.

Sales tax after GST

Definition

A sales tax is a consumption tax imposed by the government on the sale of goods and services. A conventional sales tax is levied at the point of sale, collected by the retailer, and passed on to the government. A business is liable for sales taxes in a given jurisdiction if it has a nexus there, which can be a brick-and-mortar location, an employee, an affiliate, or some other presence, depending on the laws in that jurisdiction. Sales Tax is imposed under both, Central Government (Central Sales Tax) and State Government (Sales Tax) Legislation. Generally, each State follows its own Sales Tax Act and levies tax at various rates. Apart from sales tax, certain States also imposes additional charges like works contracts tax, turnover tax and purchaser tax. Thus, Sales Tax Acts as a major revenue-generator for the various State Governments. From 10th April, 2005, most of the States in India have supplemented sales tax with a new Value Added Tax (VAT). In July 2017, the government has introduced Goods and Service tax (GST) which has subsumed the following taxes.

- Central Excise Duty
- Duties of Excise
- Additional Duties of Excise
- Additional Duties of Customs
- Special Additional Duty of Customs
- Cess
- State VAT
- Central Sales Tax
- Purchase Tax
- Luxury Tax
- Entertainment Tax
- Entry Tax
- Taxes on advertisements
- Taxes on lotteries, betting, and gambling

After the GST, the taxing capacity of the state is limited to two major components. 1) Tax on alcohol and liquor and 2) tax on petroleum. The other components include b) Central Sales Tax, c) Surcharge on Sales Tax, d) Receipts of Turnover Tax, e) Other Receipts. Among all, state taxes on the aforementioned two components contributing majorly to the state's revenue.

In this section, we analyse the performance of Sales tax and its major components of Kerala in comparison with the major states.

Approach to Analysis and comparison process

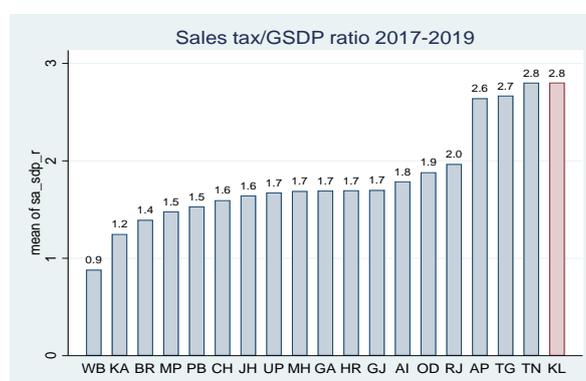
Since the sales tax components have changed after the implementation of GST, we have restricted our analysis to 2017-18 to 2019-20 for a meaningful comparison. Second, we have selected 18 general category states to analyse the trends and patterns. Third, we have used three indicators for analysis 1) Share of sales tax in state own tax revenue 2) Share of sales tax in GSDP 3) Per-capita GSDP revenue. Fourth, based on these indicators we compare Kerala's performance in relation to two top performing states, four south Indian states and two states based on per-capita income.

Further, in the second stage analysis involves a detailed analysis of select states and the lessons that Kerala could draw from other champion states.

Performance of Sales Tax: Aggregate Analysis

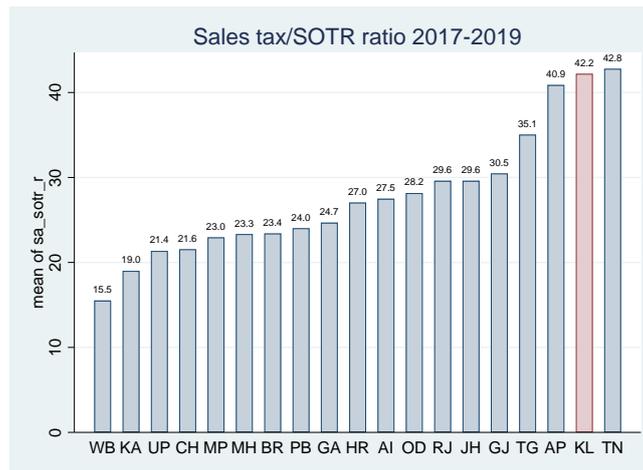
- Kerala shows the highest sales tax to GSDP ratio (2.8) percent along with Tamil Nadu followed by other South Indian states viz. Telangana and Andhra Pradesh. (Figure 1)
- In terms of share of sales tax in states own tax revenue, Kerala ranks number 2 after Tamil Nadu. Other South Indian states Telangana and Andhra Pradesh are in number 3 and 4 respectively (Figure 2).
- Going by the third indicator, per-capita sales tax revenue, Kerala ranks number 2 after Goa. This could be due to the size of the state. Goa being a small state, per-capita revenue increases. Tamil Nadu, Telangana and Andhra Pradesh are positioned after Kerala.
- The aggregate analysis is a clear indication of Kerala's better performance irrespective of the indicator we consider.

Figure 1: Sales tax as % GSDP (2017-2019)



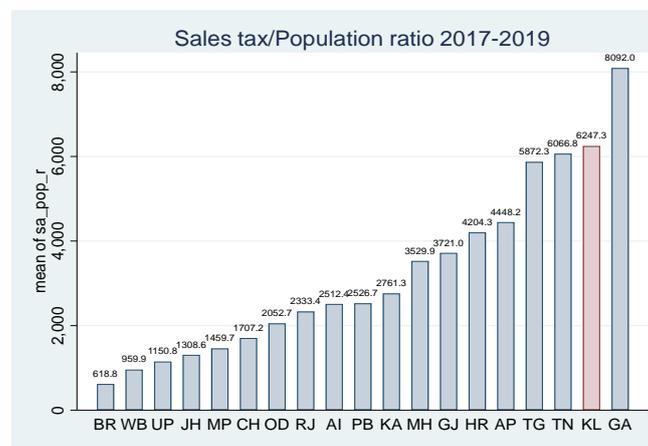
Source: Based on RBI State Finances: A Study of Budgets, various years

Figure 2: Sales tax as % State Own Tax Revenue (2017-2019)



Source: Based on RBI State Finances: A Study of Budgets, various years

Figure 3: Per-capita Sales tax revenue (2017-2019) (in Rs)



Source: Based on RBI State Finances: A Study of Budgets, various years

Key Components of Sales Tax

- Among the components of state sales tax is the single major contributor of tax revenues

Figure 4: State Sales tax as % Sales Tax (2017-2019)



Source: Based on RBI State Finances: A Study of Budgets, various years

Behind Kerala's high state sales tax: Curious Case of Alcohol

- The sale of alcohol has always been a strong source of inflow for states—one of the reasons why the Centre never brought it under the purview of GST. The 29 states/UTs in India approach liquor taxation differently. For instance, Gujarat has banned its citizens from consuming liquor since 1961. But outsiders with special licenses can still buy. Puducherry, on the other hand, earns most of its revenue from alcohol trading. Bihar has prohibited alcohol consumption entirely, meaning the state’s revenue from liquor consumption is nil. Its neighbour, Uttar Pradesh, earns the most excise duty on liquor.
- For Kerala, the tax on liquor is its single largest revenue source. The state also has the highest liquor sales tax – almost 250 percent. The state controls the liquor market with its agency, Kerala State Beverages Corporation. In response to the pent-up demand, it increased the price of liquor by 7 percent in 2021.
- Kerala has become the latest state after Andhra Pradesh, Delhi, West Bengal, Rajasthan and Karnataka to announce a Covid cess on liquor. The Kerala Cabinet, decided to hike liquor prices by 10-35%. The government introduced The Covid cess of 35% and 10% will be clamped on IMFL and beer, respectively
- The tax rate slab can be seen from Table 1 below. It may be noted that the information furnished below is dated as the new rates in 2019 and 2020 subsequently have not been updated in the website.

SALES TAX RATE in Kerala		
IMFL	200% for IMFL with landed cost below Rs.400 per case and 210% for IMFL with landed cost above Rs.400 per case	Collected from customers and Paid by KSBC
Beer	100%	Collected from customers and Paid by KSBC
Wine	100%	Collected from customers and Paid by KSBC
FMFL	78%	Collected from customers and Paid by KSBC
FMW	25%	Collected from customers and Paid by KSBC
TOT on Gross Sales	5%	Paid by KSBC from its profits
Cess on TOT	1%	Paid by KSBC from its profits

Source: Kerala State Beverage Corporation

In May 2020, Kerala government joined other states like Tamil Nadu, Delhi, Andhra Pradesh and Haryana where liquor prices have been hiked to shore up revenues during lockdown.² The government has proposed a 35% sales tax hike on hard liquor. The increase will apply uniformly to low-priced, mid-priced, and premium brands.³ As per 2019 revised rates, the government levies a 202% sales tax on liquor that costs the Kerala State Beverages Corporation (Bevco) less than ₹400 per case (12 bottles). The sales tax for liquor with a purchase price of over ₹400 per case is 212%. The purchase price also includes the warehouse margin of 20% charged by Bevco. Officials said the proposed tax regime would bring about an increase in price ranging from ₹70 to ₹130 per bottle, according to an initial estimate. The government has also increased the sales tax on beer and wine by 10%. It justified the hike by stating that the COVID-19 crisis had caused conventional streams of State revenue to dry up. With the latest changes, Kerala has become the latest state after Andhra Pradesh, Delhi, West Bengal, Rajasthan and Karnataka to announce a Covid cess on liquor.

Alcohol Sale in Kerala

	IMFL (unit in Lakhs)	BEER (unit in Lakhs)	Ratio of IMFL/BEER	Gross Value (In crores)	Amount Contributed (in crores)
1984-85	9.34	5.05	1.84	55.46	25.63
1990-91	15.43	9.53	1.61	142.33	92.07
1995-96	32.52	32.15	1.01	477.6	315.51
2000-01	72.19	28.93	2.49	1337.58	1025.93
2005-06	109.47	40.19	2.72	2635.81	2055.71
2010-11	217.41	85.61	2.53	6730.3	5232.53
2011-12	241.78	97.82	2.47	7860.15	6292.48
2012-13	244.33	101.64	2.40	8818.18	7240.89
2013-14	240.67	107.96	2.22	9353.74	7575.77
2014-15	220.58	95.59	2.30	10012.84	8283.79
2015-16	201.75	154.2	1.30	11577.29	9787.05
2016-17	205.41	150.13	1.36	12134.14	10353.65
2017-18	208.51	115.42	1.80	12937.09	11024.22

Source: Kerala State Beverage Corporation

² Tamil Nadu hikes liquor prices from tomorrow, accessed from <https://www.livemint.com/news/india/tamil-nadu-hikes-liquor-prices-from-tomorrow-11588747658700.html>.

³ Liquor prices to go up by ₹70-₹130 a bottle in Kerala, accessed from <https://www.thehindu.com/news/national/kerala/ordinance-to-hike-liquor-sales-tax-sought/article31575667.ece>.

Possible recommendations

Since tax on alcohol is the major source of revenue for the government and the price of petroleum is already on an unprecedented increase, we focus on some possible ways to increase the revenue from tweaking the existing tax slabs.

First, at present there are only two tax slabs for IMFL. Instead of two the government could increase the tax slabs to four based on the median price of with landed cost per case. This would allow a tax rate range of 300 percent.

Second, at present the tax on FMFL and FMW is 78 and 25 percent respectively. Even after adding import duty on liquor which is maximum of 150 percent does not equate with IMFL tax rate. Since the FMFL is relatively more price inelastic, the tax on FMFL could be increased by 5-10 percent. Similarly, for FMW. The tax could be increased by 10 percent or at least made equal to wine produced in India.

Third, Kerala imposed a flood cess post 2018 devastating floods and has been removed. In the current context of COVID, the government could introduce COVID cess on alcohol for next two fiscal years.

Fourth, the experience of Goa indicates tourism has been a major factor in increasing the sale of alcohol. In Kerala, sales can be increased by harnessing the tourism potential of the state.

Annexure

State	State Own Tax Revenue			Sales Tax		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
ANDHRA PRADESH	52414	58677	57429	25335	21914	21238
BIHAR	29708	30858	34100	8298	6584	7150
CHHATTISGARH	21989	21889	25190	6450	4088	4196
GOA	4988	4871	5271	1622	1014	1091
GUJARAT	73646	80565	97258	29639	22414	22725
HARYANA	41836	42744	47842	15609	8998	10900
JHARKHAND	14488	14752	20908	5715	3475	5400
KARNATAKA	90335	97537	101740	25093	14003	15149
KERALA	48160	51019	55771	24578	19226	21148
MAHARASHTRA	171686	188341	199534	54894	35725	38066
MADHYA PRADESH	49943	52125	54638	14984	9903	10851
ODISHA	31070	31015	33550	11522	7310	8000
PUNJAB	31496	31811	33739	11160	6572	5402
RAJASTHAN	54342	58205	70351	19008	14791	20000
TELANGANA	58177	65040	71328	25106	20290	21972
TAMIL NADU	96472	106138	120810	46356	42701	48452
UTTAR PRADESH	109605	122816	137169	31113	23798	22356
WEST BENGAL	57701	61831	65806	12999	7813	7477
All India	1130460	1214845	1339940	401562	288683	310839

State	Sales Tax/SOTR ratio			Sales tax/GSDP ratio			Per-capita Sales tax (in Rs)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
All India	35.52	23.76	23.20	2.36	1.52	1.49	3054.25	2171.38	2311.52
ANDHRA PRADESH	48.34	37.35	36.98	3.22	2.52	2.19	4963.66	4268.32	4112.54
BIHAR	27.93	21.34	20.97	1.77	1.24	1.17	709.26	554.31	592.93
CHHATTISGARH	29.33	18.68	16.66	2.28	1.29	1.22	2272.41	1417.38	1431.69
GOA	32.52	20.82	20.70	2.34	1.39	1.36	10622.13	6601.56	7052.36
GUJARAT	40.25	27.82	23.37	2.23	1.49	1.38	4448.70	3356.19	3358.26
HARYANA	37.31	21.05	22.78	2.42	1.28	1.40	5612.53	3190.10	3810.39
JHARKHAND	39.45	23.56	25.83	2.12	1.17	1.64	1559.52	934.64	1431.79
KARNATAKA	27.78	14.36	14.89	1.88	0.94	0.93	3857.08	2135.26	2291.69
KERALA	51.03	37.68	37.92	3.50	2.43	2.47	7125.50	5546.07	6070.21
MAHARASHTRA	31.97	18.97	19.08	2.33	1.38	1.35	4554.20	2936.05	3099.36
MADHYA PRADESH	30.00	19.00	19.86	2.06	1.22	1.16	1858.73	1211.29	1308.96
ODISHA	37.08	23.57	23.85	2.61	1.50	1.53	2653.92	1676.76	1827.44
PUNJAB	35.43	20.66	16.01	2.37	1.25	0.97	3692.43	2146.31	1741.40
RAJASTHAN	34.98	25.41	28.43	2.29	1.60	2.00	2506.46	1924.81	2568.94
TELANGANA	43.15	31.20	30.80	3.35	2.39	2.28	6627.60	5303.19	5686.04
TAMIL NADU	48.05	40.23	40.11	3.16	2.62	2.62	6164.77	5652.17	6383.50
UTTAR PRADESH	28.39	19.38	16.30	2.20	1.50	1.32	1408.87	1061.38	982.03
WEST BENGAL	22.53	12.64	11.36	1.33	0.72	0.60	1333.83	793.76	752.10

State Excise in Kerala

1. Introduction

The seventh schedule of the Indian constitution restricts the legislative powers between Centre and states under three lists- the Union, the State, and the Concurrent. Of these, the State list, where states have the power to make the law, plays a decisive role in the federal arrangements of the country. The list contains 61 items, of which the 51st entry is State Excise Duty.⁴ All alcoholic liquors for human consumption, opium, Indian hemp and other narcotic drugs, and medicinal and toilet preparations with alcohol content are subject to state excise duty. While alcohol is a demerit good, states regulate consumption by licensing production and sale and levy the state excise (Tandon and Rao, 2019).

State excise is a vital source of revenue for states. It contributes a considerable amount to the exchequers of all states and Union Territories (UTs) except Gujarat, Bihar, Nagaland, Mizoram, and Manipur, all of which have enforced prohibition. Whereas it is the second or third largest contributor to the category State's Own Tax revenue (OTR), it accounts for around 10-15% of the Own Tax Revenue for majority of the states (RBI, 2019). This is why states have always wanted liquor kept out of the purview of the GST. Thus, unlike Central Excise, State Excise persists even after the GST implementation.

In its essence, the State Excise is a production tax. It is imposed on manufactured items in India that are meant for domestic consumption. Moreover, it is generally charged on inelastic goods and it acts as a tool to control the consumption of relatively harmful sin goods. However, enough arguments exist to suggest that an increase in the Excise tax rate is not a solution. Excise tax rate reductions will lead to a rise in the consumer's real income, which subsequently results in increased consumption of consumer goods that are relatively less harmful, leading to stimulate continued growth in national income. The actual base for this tax is alcohol consumption⁵, and the alcoholic beverages subject to state excise are classified under the heads- Country Spirits, Country fermented Liquors, Malt Liquor, Liquor, Foreign Liquors and Spirits, Commercial and denatured spirits, and medicated wines. Moreover, a substantial amount comes from licenses, fines, and confiscation of alcohol products.

⁴ Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India: - (a) alcoholic liquors for human consumption; (b) opium, Indian hemp and other narcotic drugs and narcotics, but not including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry

⁵ The convention followed in regard to taxation of liquors is that —duty follows consumption. This convention applies in the case of liquors moved from one State to another. Thus, in respect of liquors manufactured, say, in Tamil Nadu but exported to Kerala, duty is levied only in Kerala but not in Tamil Nadu⁵.

Tandon and Rao (2019)⁶ identified that the number of tourists visiting a state, the GSDP, the share of service and manufacturing sector and inequality are the major determinants of State excise.

The current study attempts to analyze the trends, patterns, policies, and practices followed by the Kerala State Excise Department and identify the challenges faced by the same in a comparative perspective. It also addresses whether there is a need to significantly change the overall excise system to increase the State's Excise Revenue.

2. Methodology

We use secondary data on State Excise Revenue, States' Own-Tax Revenue, and Gross State Domestic Product (GSDP) for the analysis, compiled from the RBI database for the period from 2011-12 to 2020-21 for 18 major Indian states. The states considered for the analysis are Andhra Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Odisha, Punjab, Rajasthan, Telangana, Tamil Nadu, Uttar Pradesh, and West Bengal. First, the contribution of Excise Duty on States' Own Tax Revenue and GSDP has been calculated. Then, the average of these ratios is computed for the aforesaid years. States are ranked based on this to analyze their relative performances. Based on the ranking, the best performing states are identified, and Kerala's performance is compared in particular with the former. Along with Share, the annual average growth of state excise is also calculated and compared accordingly. Further, the trend of state excise of each sample state has also been examined. Finally, the policies of the best-performing states are gathered, and following the findings, policy suggestions are recommended.

3. State Excise: Where does Kerala Stand?

As a source of revenue for states, state excise remained “*unpredictable and fluctuating revenues from 1990s*” (Tax Reforms Commission Report, 2001). Even in recent times, volatility is observed in state excise revenues of the states, not just in terms of the revenue share but also in proportion to GSDP. Table 1 shows the ten-year average share of state excise in own tax revenues (OTR) and in proportion to GSDP of major Indian States. Karnataka has ranked first both in case of Excise Duty-Own Tax Revenue ratio and Excise duty-GSDP ratio. Karnataka has a share of 20.32% in the former and 1.45% in the latter. Chhattisgarh ranks second both in the case of Excise Duty-Own Tax Revenue ratio and Excise duty-GSDP ratio. The average contribution of Excise duty in Own Tax Revenue of Chhattisgarh is 18.61% while in GSDP, it amounts to 1.34%

Comparing the stance of Kerala in the component, the average contribution of Excise Duty in Own Tax Revenue from 2011 to 2019 is 5.58% and Excise Duty's share in GSDP is 0.38%, and in both the indicators, Kerala stands 17th among the 18 major states considered for analysis. This makes it evident

⁶ Tandon, S., & Rao, R.K. (2019). Frontier analysis for State Excise in India. NIPFP working paper no 276

that Kerala has to move in a more planned manner to boost the revenue generated through Excise Duty.

Table 1: Average share of various states' Excise Duty in Own Tax Revenue and GSDP for the period from 2011-12 to 2020-21

State	SE_OTR	State	SE_GSDP	State	PC_SE
Karnataka	20.31	Karnataka	1.44	Karnataka	2489.05
Chhattisgarh	18.74	Uttar Pradesh	1.39	Telangana	2272.21
Uttar Pradesh	18.07	Chhattisgarh	1.36	Goa	2269.89
Madhya Pradesh	17.83	Madhya Pradesh	1.25	Haryana	1721.78
Punjab	16.20	Andhra Pradesh	1.16	Punjab	1521.47
Rajasthan	14.64	Punjab	1.10	Andhra Pradesh	1284.58
Telangana	14.23	Telangana	1.07	Chhattisgarh	1254.68
Haryana	13.67	Rajasthan	0.95	Maharashtra	1089.55
West Bengal	12.40	Haryana	0.88	Tamil Nadu	982.46
All India	12.08	All India	0.86	Madhya Pradesh	943.93
Andhra Pradesh	11.90	Odisha	0.74	Rajasthan	941.02
Odisha	11.50	Tamil Nadu	0.64	All India	897.76
Maharashtra	9.04	West Bengal	0.64	Uttar Pradesh	816.01
Tamil Nadu	8.70	Maharashtra	0.62	Odisha	669.87
Goa	7.99	Goa	0.58	West Bengal	665.18
Jharkhand	7.67	Bihar	0.49	Kerala	643.57
Bihar	7.45	Jharkhand	0.39	Jharkhand	293.72
Kerala	5.44	Kerala	0.38	Bihar	128.30
Gujarat	0.17	Gujarat	0.01	Gujarat	18.10

Source (Basic Data): RBI; SE_OTR- State Excise to Own Tax Ratio (%), SE_GSDP- State Excise to GSDP Ratio (%), PC_SE- Per capita State Excise.

Note: The state excise of various state governments is not strictly comparable as some states consider the sales tax components in the state excise.

3.1. Trends and Patterns of State Excise

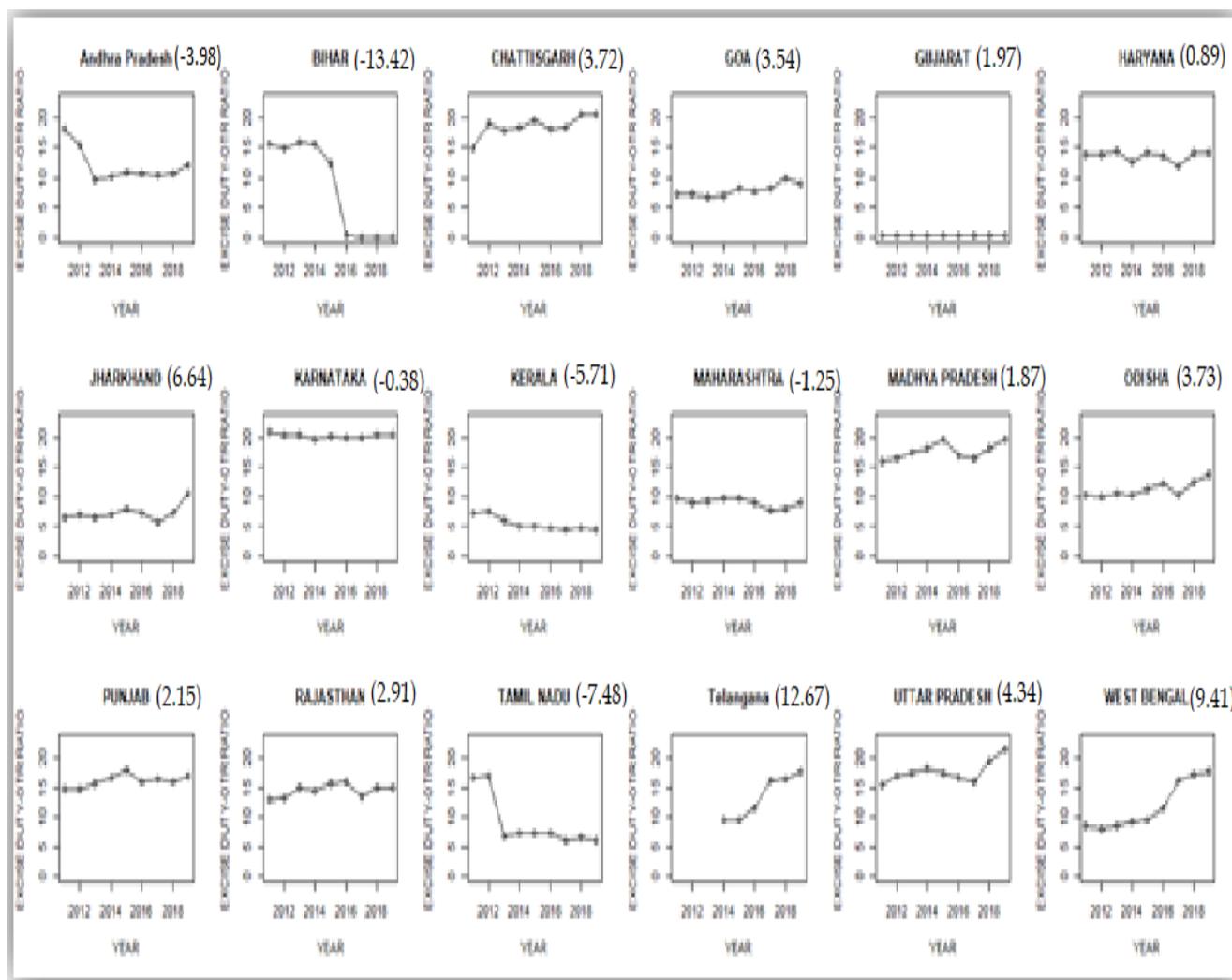
As far as the trend and patterns of the share of State Excise in Own Tax Revenue are concerned (See figure 1), the state excise collections have been declining steadily for states such as Andhra Pradesh and Bihar Maharashtra, and Tamil Nadu.⁷ As a result, these states report negative growth (see in

⁷ While the Bihar case is due to prohibition

parentheses of figure 1) on an average. The decline in share for Tamil Nadu has been attributed to changing liquor orders, favoring local players. On the flip side, the share share for states such as Telangana, West Bengal, Jharkhand, Uttar Pradesh, Odisha, Chhattisgarh, Goa, and Rajasthan increased from 2011-12 to 2020-21. Notably, Kerala shows a declining trend throughout the period. Concerning the average growth in State Excise to OTR ratio, Kerala positions as one among the bottom three states. The movement is very similar in the case of other similar indicators (see table 2)

Thus, comparatively, the state performance is off the way mark.

Figure 1: Trends in State Excise to OTR Ratio



Source (Basic Data): RBI; The average growth rate (%) is denoted in the parentheses

Table 2: State Excise in Kerala: Select Ratios

Year	SE/RR	SE/OT	SE/TT	SE/OR	SE/GSDP
2012-2013	4.71	7.23	5.86	6.16	0.56
2013-2014	3.35	5.51	4.50	4.57	0.42
2014-2015	3.07	5.04	4.12	4.18	0.35
2015-2016	2.85	5.04	3.80	4.14	0.35
2016-2017	2.67	4.79	3.52	3.89	0.32
2017-2018	2.70	4.82	3.54	3.89	0.32
2018-2019	2.72	4.98	3.62	4.04	0.32
2019-2020	2.50	4.48	3.38	3.60	0.26
2020-2021 (RE)	2.36	4.86	3.99	4.04	-
2021-2022 (BE)	2.18	3.83	3.12	3.18	-

Source (Basic Data): RBI; SE/RR- State Excise to Revenue Receipts; SE/OT- State Excise to Own Tax Revenue, SE/TT – State excise to Total Revenue; SE/OR (State excise to Own Revenue; SE/GSDP – State excise to GSDP Ratio.

3.2 Components of State Excise

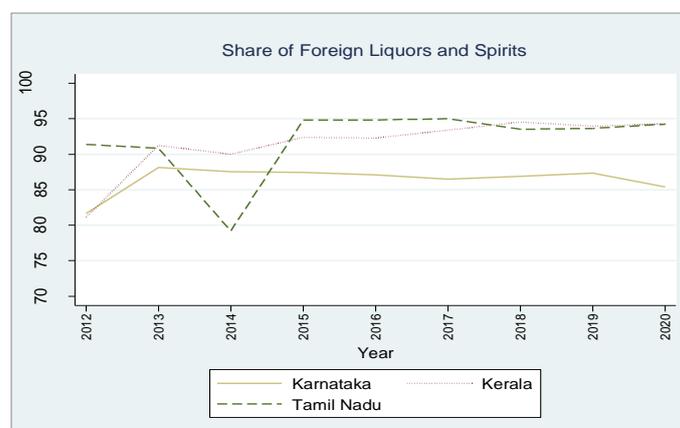
Though Kerala's per capita consumption of liquor is among the highest in the country, there is a vast mismatch between demand and supply. Table 3 provides a comparative picture of the share of various components in total State Excise of select states. Comparatively, southern states, including Kerala primarily rely on foreign liquor. In contrast, there is a significant share in the case of Country Spirit in northern states. As far as Kerala is concerned, about 90-95 percent of the excise revenue relates to foreign liquor. The spirit and Foreign Liquor revenue is remitted from the distilleries, or the Kerala State Beverages Corporation (KSBC), the sole licensee in the state for storage, distribution, and sale of foreign goods liquor. Figure 1 represents the share of Foreign Liquors and Spirits in Kerala's state excise.

Table 3: Share of various components to the total state excise (2020) of select states.

State Excise	UP	CH	TN	TG	KA	AP	MH	HR	KL
Country Spirits	47.73	47.48	0.01	0.00	0.00	0.00	24.41	98.72	0.01
Country Fermented Liquors	0.05	0.00	0.00	0.01	0.00	0.00	0.27	0.06	1.81
Malt Liquor	15.00	3.57	3.78	14.40	12.09	4.45	18.37	0.02	2.37
Foreign Liquors and Spirits	35.99	26.27	93.64	76.70	87.33	87.38	55.20	0.04	93.95
Commercial and denatured spirits and medicated wines	0.10	0.85	0.06	0.02	0.00	0.02	0.02	0.07	0.00
Medicinal & toilet preparations containing alcohol, opium etc.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Opium, hemp and other drugs	0.39	0.01	0.00	0.00	0.00	0.00	0.00	0.03	0.00
Fines and confiscations	0.21	0.01	0.05	0.12	0.16	0.21	0.09	0.52	0.53
Services and service fees	0.00	0.00	0.39	0.00	0.00	0.00	0.09	0.00	0.00
Other Receipts	0.53	21.82	2.06	8.76	0.42	7.94	1.55	0.55	1.33

Source (Basic Data): RBI; UP-Uttar Pradesh, CH- Chhattisgarh, TG- Telangana, TN- Tamil Nadu, KA- Karnataka, AP- Andhra Pradesh, MH- Maharashtra, HR- Haryana, KL- Kerala

Figure 1: The pattern of foreign liquors and Spirits among states



Since foreign liquors and spirits hold a lion share of the excise duty, it is essential to look at the rate charged for foreign liquors. Table 4 exhibits the excise duty levied on Indian Made Foreign Liquor and Foreign Made Foreign Liquor. The revenue collected from excise duty during 2019-20 is ₹2255.28 (Actual). The estimated excise duty for 2020-21, 2021-22 using nine year's average growth is ₹2324.56 and ₹2395.97, respectively. At a 50 percent increase from the current rates of excise duty, additional revenue of ₹100 crores is expected.

Table 4: Excise Duty on Liquor

Excise Duty on Indian Made Foreign Liquor (IMFL)	
Rs.235 and above but below Rs.250	21% of purchase cost / case / PL (Rs.354.30 per case)
Rs.250 and above but below to 300	22.5% of purchase cost / case / PL (Rs.455.55 per case)
Rs.300 and above but below Rs.400	22.5% of purchase cost / case / PL (Rs.607.43 per case)
Rs.400 and above but below Rs.500	23.5% of purchase cost / case / PL (Rs.793.05 per case)
Rs.500 and above but below Rs.1000	23.5% of purchase cost / case / PL (Rs.1586.18 per case)
Rs.1000 and above	23.5% of purchase cost / case / PL subject to a maximum of Rs.237 per PL (Rs.1600 per case)
Excise Duty on Beer	Rs.5 per bulk litre (Rs.39 per case) for within the state supply - Paid by Brewery Rs.5 per bulk litre (Rs.39 per case) for outside state supply - Paid in advance by KSBC
IMFL Import Fee	Rs.5 per PL (Rs.33.75 per case) paid in advance by KSBC
Beer Import Fee	Rs.2 per bulk litre (Rs.15.60 per case) paid in advance by KSBC
Excise Duty on Foreign Made Foreign Liquor (FMFL) AND Foreign Made Wine (FMW)	
Excise Duty on FMFL	Rs.87.70 per proof litre (Rs.592 per case) paid in advance by KSBC
Excise Duty on FMW	Rs.1.25 per bulk litre (Rs.11.25 per case) paid in advance by KSBC

Source: Covid 19 Pandemic and Kerala: A Response Strategy, Finance Department, GOK

4. Policy Challenges and Recommendations

a. Realization of arrears and fines

According to the CAG report on Revenue Sector, 2019, there is an arrear amount of 258.80 crores, including those dates back up to 1952, under the Kerala State Excise. Therefore, suitable actions have to be planned and implemented to realize this outstanding sum.

b. Focus on imported liquor

As discussed, in the case of liquor, Excise Duty is levied in the state in which alcohol is consumed. Therefore, size of production is irrelevant in determining the revenue. But when alcohol is imported from other states, we receive an import fee, instead of the relatively minimal brand registration fee had it been domestically produced. The CAG audit 2019, found that the additional revenue mobilized through the brand registration fee is a meagre 2.16 crores. The report pointed out that, had the distilleries outside the state manufactured the IMFL in their own distilleries and imported into Kerala, a revenue of almost 20 times that of the branding fee would have been realized as import fees. Hence, more emphasis should be given to imported liquor.

c. Increase in the excise duty

Increasing duty rates or increasing sales volume are the two ways the government can improve its revenue collection from excise duty. The increase in the excise duty will have a dual effect: (i) it reduces the consumption of liquor and incentivizes the majority to be responsible drinkers and (ii) it protects the State's revenue collection for adequate funding of welfare measures. This study proposes that ₹ 100 crore can be collected through a 50 percent hike in the present excise duty rates on liquor.

d. Opening -up of alcohol parks and home delivery of liquor

Suppose the rate increase is not a feasible solution in the short run. In that case, the alternative way is to increase sales volume by (i) opening up new alcohol parks in the urban centers (ii) switching to home delivery options employing the co-operative societies. Because, in Kerala, liquor is sold either through the retail outlets of KSBC or through bar outlets of hotels/restaurants. On average, the liquor sales through these channels are in the ratio of Outlet: Bar as 60:40 (Ramanathan, 2010), while the possession limits for alcoholic beverages are 3 liters for IMFL, 3.5 liters for Beer and Wine, and 1.5 liters for toddy.

e. Special duty on Liquor/ Countervailing Duty

Some states have created avenues for generating additional revenue from State Excise in special/ countervailing duty. For example, Uttar Pradesh has imposed a '*special duty on liquor*' to collect funds for special purposes, such as maintaining stray cattle. Likewise, Chhattisgarh introduced

'*Countervailing Duty*' under New Excise Policy 2017 to protect domestic excise products. Likewise, the state can bring similar charges under the purview of State Excise.

f. Identification of licensees

The State Excise Department incurs a loss of revenue of over 2 crores each year since manufacturers do not take a license from the Excise Department but are highly engaged in the trade. Moreover, the CAG audits for various years observe that the licenses are issued only to those who approach the system. Therefore, an arrangement has to be made to identify the persons engaged in the trade of spirituous preparation by conducting surveys or collecting data available with other licensing agencies such as the Office of the Drugs Controller functioning under the Health Department/ Directorate Homoeopathy, etc.

g. Improving the efficiency of assessment

One of the main reasons for leakages in Excise Duty is due to the underassessment or non-realization of various fees. The loss in this regard for the year 2015-16 was 45.22 crores. The system has to be made more efficient in order to bring these under surveillance.

h. Development of Tourism

The consumption of alcohol in a state may not be solely that of locals. It is expected that states that attract higher number of tourists will also witness a higher sale of alcohol, thus contributing to excise revenues. Measures to develop tourism must be planned out. Even if the COVID situation currently acts as a barrier, this has to be taken as an opportunity to rejuvenate the infrastructural amenities as well as develop new schemes and packages in the tourism sector.

5. Conclusion

Excise duty is a major component in the tax revenue of Kerala even after GST. The findings of this study make it clear that Kerala, compared with other states, has to go a long way in making the excise element a better performer in the state's tax revenue. Excise policies must be framed with increased revenue realization as one of the main drivers. It is high time the excise department should set forth a clear-cut vision and mission for State Excise.

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Stamps and Registration Fees

Stamps and Registration Fees

The Seventh Schedule of the Constitution of India (Article 246) authorizes both the Union government and the State governments to legislate provisions regarding stamp duties. Stamp duty and registration fees together (SRF) constitute an important source of revenue for the State governments in general and Kerala in particular. As per the 2019-20 (Accounts) data, this is the third most

Highlights

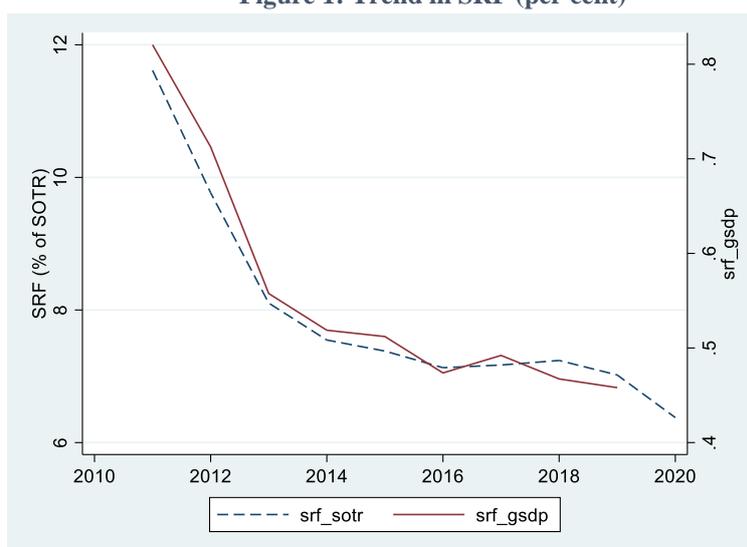
- Kerala's performance in the last 10 years is analysed.
- Stamps and registration fees as a per cent of SOTR and GSDP has been continuously declining since 2010-11.
- Per capita SRF revenue and growth of SRF has been rising since 2014-15.

important tax revenue component for Kerala contributing 7.2% to the state own tax revenue.

Trend in Collection

The trend in collection of SRF as a share of state own tax revenue (SOTR) and GSDP is plotted in Figure 1. The share has been secularly declining over the last 10 years in both indicators. As a percent of SOTR, SRF has fallen from 11.6% in 2010-11 to 6.33% in 2020-21. During the same period, SRF as a percent of GSDP also shrunk from 0.8% to 0.45%.

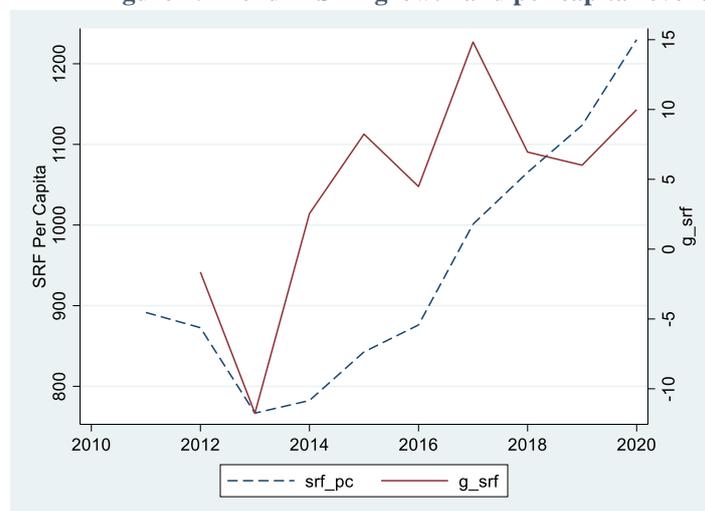
Figure 1: Trend in SRF (per cent)



Note: SRF/GSDP is measured in the secondary axis.

Next, growth of and per capita SRF revenue are plotted in Figure 2. While SRF registered negative growth rate for first four years, it has been positive since 2014-15, and is growing at approximately 7% per annum. Similar trend is observed in case of per capita SRF revenue.

Figure 2: Trend in SRF growth and per capita revenue



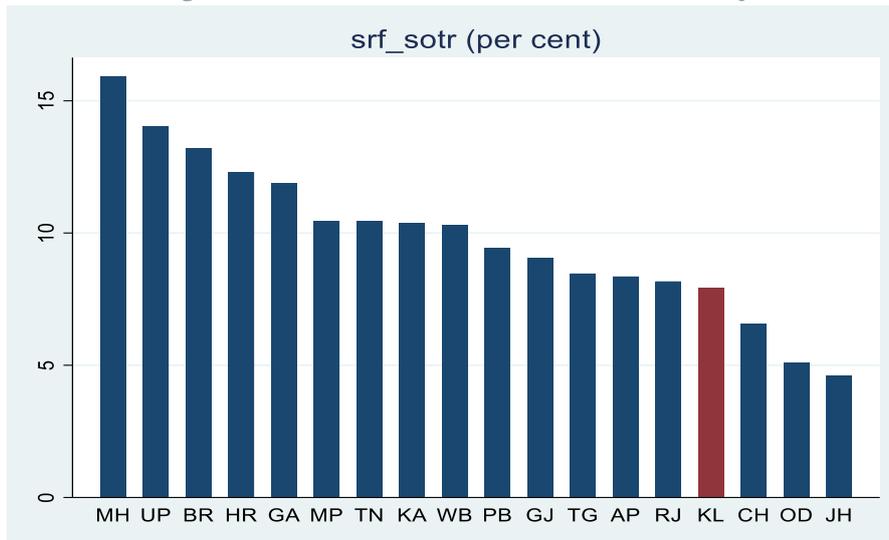
Note: SRF growth rate is measured in the secondary axis.

Where does Kerala stand?

Kerala's performance is compared with 18 major states to assess how it is doing relative to others. The 10-year average share of SRF in SOTR for each state is plotted in Figure 3. The chart reveals while Maharashtra and UP are the top-performing states, Kerala ranks 14th. Neighboring states such as Karnataka and Tamil Nadu collect two percentage points more than Kerala. When the 1-year period is divided into two 5-year periods, the ranking across states remains stable. It indicates that Kerala needs to raise its collection. Table A1 presents the trend in the SRF-SOTR ratio for all years.

Next, SRF collection as a percent of GSDP across 18 major states is compared and it plotted in Figure 4. The pattern is similar to Figure 3. It indicates that Kerala gets less revenue compared to the other states. While Maharashtra and UP are the top-performing states collecting more than 1% of GSDP, Kerala gets only 0.6% of GSDP. Table A2 reports year-wise figures for all states. This suggests that the state is perhaps is not able to realize the full potential from stamps and registration fees. This analysis suggests that the state can raise more revenue by raising the stamp duties, registration fees, and raising the fees for updating government records.

Figure 3: The Share of SRF in SOTR across 18 Major States



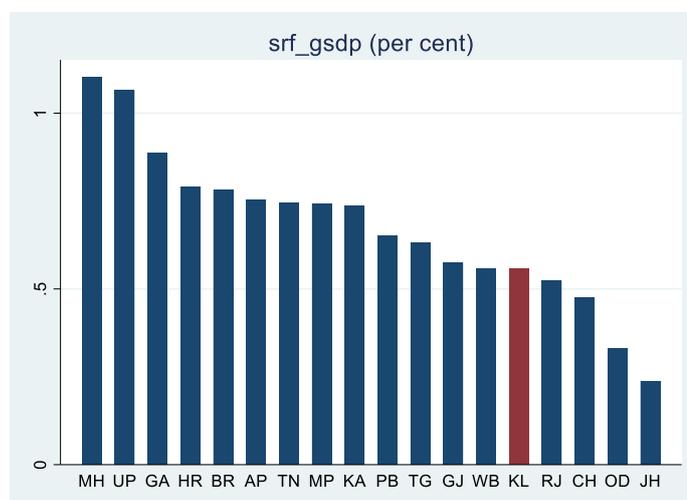
Source: Gulati Institute of Finance and Taxation

Note: AP: Andhra Pradesh, KA: Karnataka, KL: Kerala, TN: Tamil Nadu, TS: Telangana; SOTR: State Own Tax Revenue.

Figure 4: The Share of SRF in GSDP across 18 Major States

Highlights

- Kerala’s performance in the last 10 years is compared with 18 major states.
- In terms of SRF as a percent of SOTR, Kerala ranks 15th among 18 major states.
- As a percent of GSDP, Kerala’s SRF revenue collection is at 15th position among 18 major states.
- The growth of SRF revenue is the lowest in Kerala, hovering at around 4%.
- In terms of per capita SRF revenue, Kerala lags behind its neighbouring states.
- Based on per capita SRF revenue, share of SRF in SOTR, and growth of SRF in the last decade, the identified peer states are identified such as Maharashtra, Tamil Nadu, and Karnataka.
- The comparison analysis reveals that Kerala’s performance lags behind all the peer groups



Note: Same as Chart 1. Source: Same as Chart 1

Fig 5 plots the 10-year average growth of SRF revenue for all the major states. It can be seen that Kerala has the lowest growth in the last decade, whereas the states with the highest growth rates are Odisha, Telangana, and Goa. Kerala needs to improve the growth rate in the coming years. Year-wise growth figures for all states are reported in Table A3.

Fig 5: Growth of SRF revenue across 18 Major States

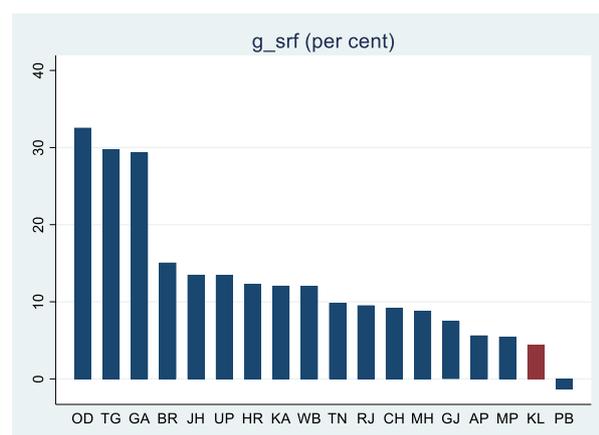
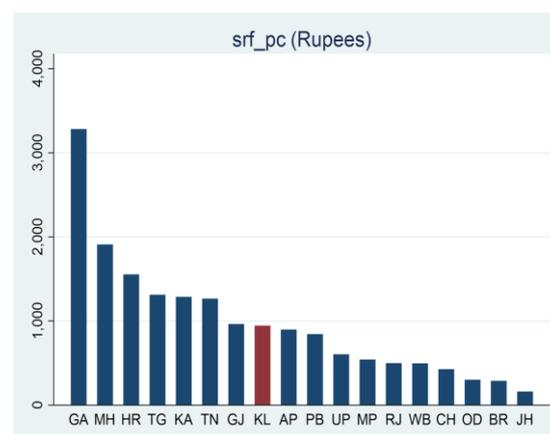


Fig 6: The Per capita SRF revenue across 18 Major States



Finally, Fig 6 shows the 10-year average per capita GST revenue of states. It reveals that Kerala is performing better compared to other indicators. However, it is collecting less (Rs 914) compared to Karnataka (Rs 1290) and Tamil Nadu (Rs 1266). Kerala can aim to collect more on a per capita basis. Table A4 presents per capita revenue over the years for all states. Based on the above state-wise analysis, the peer states are identified based on similar per-capita income, two top-performing states based on SRF-SOTR ratio, and neighboring states for comparison and evaluation of Kerala's position.

Table 1: Identification of Peer groups based on Decadal average

State	PCI (Rs)	SRF-SOTR (%)	SRF-GSDP (%)	SRF growth (%)	SRF Per capita (Rs)
KA	137013	10	0.8	12	1289
KL	134605	08	0.6	04	0945
MH	142268	16	1.1	09	1909
TN	137699	10	0.7	10	1266

Source: Compiled from RBI'S *State Finances a Study of Budgets*, Various Years.

Table 1 reveals very interesting findings. Karnataka, Kerala, and Tamil Nadu have a similar level of per capita income, yet Kerala's SRF-SOTR ratio is 2 percentage points lower. Further, Kerala has the lowest growth of SRF revenue. Maharashtra, despite getting 15% of SOTR from SRF, it is able to grow at 9% per annum in the last decade.

Stamps Duties and Registration Fees: Comparison across States

A glance at the existing [stamp and registration fees](#) of Kerala suggests that the combined rate is 10% for most of the instruments. The stamp duties and registration fees of Kerala are compared with neighboring states of Tamil Nadu and Karnataka and are shown in Table A5 in the Appendix. The comparison suggests that the rates of some instruments are either at par or higher than Tamil Nadu and Karnataka.

Since the duties and rates are already higher, the fair value of properties in both urban and rural areas are compared.

Suggestions to Mobilize Additional SRF Revenue

The additional revenue can be mobilized through a combination of measures such as raising the stamps duties and registration fees at par with other southern states, levying additional taxes, and administrative reforms among others. Some suggestions are proposed below.

The comparison table shows that in order to extract more revenue, a prudent strategy would be to increase the fair value of the immovable property every year just to keep up the pace with inflation and market demand, and as the state reaps the benefit from this, slowly the rate can be reduced over a period of 2-3 years.

A surcharge of 1-2 percent in all urban areas without any further distinction can be considered.

In the case of settlement not among the family members, the state has the lowest duty compared to Tamil Nadu and Karnataka. This can be raised at par with them.

As of 8th October 2020, the [registration fees](#) for registration of an agreement have been revised downward in the wake of the covid pandemic. At present, there are three slabs. Once the economy recovers from the pandemic, the registration fees in terms of the *maximum amount* have to be raised. After the upward adjustment of the *maximum amount*, it needs to be revised upwards every year by 5-10%, sort of indexed to inflation.

Estimating the Revenue Potential from SRF

The state should aim to raise its share of SRF in SOTR to 9% over a period of 2-3 years which is the group average, and within 5 years, it should aim to collect 10% of SOTR. Assuming the economy returns to the pre-covid level normalcy, this is expected to fetch the state additional revenue of approximately 1000 crores per year.

Table A1: Trend in share of SRF in SOTR Table

state	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
AP	8.2	8.5	6.9	7.6	8.8	7.9	8.1	9.3	9.3	9.0
BR	11.7	13.4	13.6	13.0	13.4	12.6	12.5	13.6	14.7	13.5
CH	7.9	7.3	6.9	6.5	6.9	6.4	5.4	5.1	6.7	6.5
GA	7.2	17.8	11.1	16.9	13.2	8.6	10.6	8.9	12.0	12.5
GJ	10.6	8.2	8.4	9.0	8.9	9.0	9.9	9.7	8.7	8.3
HR	13.7	14.1	12.5	11.3	10.3	9.6	10.0	13.2	13.8	14.4
JH	5.8	6.0	5.4	5.1	4.6	4.6	3.2	3.1	3.8	4.5
KA	9.9	9.7	9.9	10.0	10.9	9.4	10.0	11.0	11.6	11.3
KL	11.6	9.8	8.1	7.5	7.4	7.1	7.2	7.2	7.0	6.4
MH	16.4	17.0	17.2	17.3	17.2	15.4	15.4	15.2	14.8	13.3
MP	12.2	12.9	10.1	10.6	9.6	8.9	9.6	10.1	10.2	10.2
OD	3.7	3.6	3.6	4.0	9.6	6.0	3.3	4.0	5.4	7.8
PB	16.3	12.9	10.4	9.7	9.2	7.4	6.8	7.2	7.1	7.3
RJ	10.4	10.9	9.3	8.2	7.6	6.9	6.8	6.7	7.6	7.3
TG				7.4	7.8	7.9	7.2	8.2	9.0	11.7
TN	11.1	10.7	11.2	10.6	10.8	8.4	9.5	10.4	10.9	10.8
UP	14.6	15.0	14.3	15.9	15.3	13.5	12.2	12.8	13.1	13.6
WB	11.0	13.3	11.3	10.6	9.8	9.6	9.1	9.1	9.5	9.7

Source: Compiled from RBI'S *State Finances a Study of Budgets*, Various Years.

Table A2: Trend in share of SRF in GSDP

state	2011- 12	2012- 13	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	2018- 19	2019- 20	2020- 21
AP	1.2	1.2	0.9	0.6	0.6	0.5	0.5	0.6	0.5	
BR	0.6	0.8	0.9	0.8	0.9	0.7	0.8	0.8	0.8	
CH	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.5	0.5
GA	0.4	1.4	1.1	1.4	1.0	0.6	0.8	0.6	0.8	0.9
GJ	0.8	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	
HR	0.9	1.0	0.8	0.7	0.6	0.6	0.6	0.8	0.8	1.0
JH	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2	
KA	0.8	0.8	0.8	0.8	0.8	0.6	0.7	0.7	0.7	0.8
KL	0.8	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	
MH	1.1	1.2	1.1	1.1	1.1	1.0	1.1	1.1	1.0	
MP	1.0	1.0	0.8	0.8	0.7	0.6	0.7	0.6	0.6	0.5
OD	0.2	0.2	0.2	0.3	0.7	0.3	0.2	0.3	0.3	0.6
PB	1.2	1.0	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.5
RJ	0.6	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.5	0.6
TG				0.4	0.5	0.6	0.6	0.6	0.7	1.0
TN	0.9	0.9	0.9	0.8	0.7	0.6	0.6	0.7	0.7	0.7
UP	1.1	1.1	1.0	1.2	1.1	0.9	0.9	1.0	1.1	1.4
WB	0.5	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	

Source: Compiled from RBI'S *State Finances a Study of Budgets*, Various Years.

Table A3: Trend in growth of SRF revenue

state	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
AP	16.6	-14.1	-26.0	8.6	-1.4	22.9	27.1	-2.0	19.2	16.6
BR	46.8	24.8	-0.5	26.3	-12.5	24.9	12.4	19.4	-6.0	46.8
CH	12.5	4.0	3.3	15.8	2.2	-1.2	-7.4	53.4	0.3	12.5
GA	184.8	-24.4	66.7	-20.5	-30.5	45.2	-18.5	46.1	15.4	184.8
GJ	-5.2	7.3	15.9	0.8	4.2	25.5	7.3	9.2	2.4	-5.2
HR	19.1	-3.7	-2.9	2.6	2.9	27.7	34.4	17.1	13.6	19.1
JH	22.7	2.2	5.6	0.2	14.1	-22.7	-3.8	77.4	25.9	22.7
KA	13.0	18.4	13.5	16.9	-5.0	15.6	19.4	9.8	7.0	13.0
KL	-1.6	-11.7	2.5	8.2	4.5	14.8	7.0	6.0	10.0	-1.6
MH	21.8	6.4	6.9	9.1	-3.5	25.8	8.0	3.3	1.7	21.8
MP	20.1	-13.8	14.5	-0.6	1.5	22.0	10.2	5.6	-10.2	20.1
OD	9.4	11.0	32.2	169.6	-36.8	-24.0	19.3	45.5	66.7	9.4
PB	-5.2	-14.4	-1.0	-1.0	-16.5	4.5	7.6	4.4	9.4	-5.2
RJ	25.8	-6.3	2.0	1.4	-5.6	20.4	5.7	37.7	4.7	25.8
TG				42.5	23.2	9.9	27.2	20.6	55.1	
TN	16.2	7.9	1.3	4.3	-17.0	27.1	20.3	18.6	10.0	16.2
UP	13.6	8.9	24.0	5.1	-6.8	15.9	17.4	14.2	29.1	13.6
WB	59.5	-7.0	3.5	-0.5	5.0	20.0	6.8	11.2	10.0	59.5

Source: Compiled from RBI'S *State Finances a Study of Budgets*, Various Years.

Table A4: Trend in share of SRF in GSDP

state	2011- 12	2012- 13	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	2018- 19	2019- 20	2020- 21
AP	890	1032	881	648	699	685	837	1057	1030	1220
BR	141	204	250	245	305	262	319	353	415	384
CH	328	363	372	378	431	434	422	384	580	573
GA	1256	3553	2667	4415	3488	2408	3471	2813	4079	4676
GJ	767	717	760	869	864	889	1089	1165	1256	1269
HR	1093	1283	1218	1166	1180	1197	1507	1998	2307	2585
JH	120	145	146	152	150	168	128	121	212	263
KA	752	841	985	1106	1280	1203	1387	1643	1789	1899
KL	892	873	767	782	843	876	1001	1065	1124	1230
MH	1274	1534	1615	1707	1842	1760	2194	2346	2402	2420
MP	448	529	448	505	494	494	594	646	672	595
OD	118	129	142	187	501	316	239	284	411	683
PB	1101	1031	871	851	832	685	706	751	774	835
RJ	384	476	439	442	442	411	485	506	687	710
TG				592	835	1019	1109	1397	1668	2562
TN	909	1048	1124	1131	1172	967	1223	1465	1729	1893
UP	382	427	458	559	579	532	607	702	789	1004
WB	298	470	433	444	437	454	540	571	628	685

Source: Compiled from RBI'S *State Finances a Study of Budgets*, Various Years.

Table A5: Comparison of Stamp Duties and Registration Fees

	Instrument Type	Stamp Duty (%)			Registration Fee (%)		
		KL	TN	KA	KL	TN	KA
1	Conveyance (Sale)	8	7	5% on Consideration shown in the document + Surcharge + Additional duty	2	4	1
2	Gift to a non-family member	8	7	5 % on the market value+ Surcharge + Additional duty	2	4	1
3	Exchange	8	7	5% on the market value on the higher value of the two + Surcharge + Additional duty	2	4	1
4	Mortgage with possession	6.5	4	5 % on the amount + surcharge	2	1	1
5	Lease						
	<i>Lease below 30 years</i>	8	1	NA	2% of three times the amount of AAR	1% subject to a maximum of Rs.20000/-	NA
	<i>Lease upto 99 years</i>	8	4	NA	2% of four times the amount of AAR	1% subject to a maximum of Rs.20000/-	NA
	<i>Lease above 99 years or perpetual Leave</i>	8	7	As per Art 20(1) on Market value or AAR+ advance + premium + deposit + fine whichever is higher	2% of “one-sixth of the whole amount of the rent”	1% subject to a maximum of Rs.20000/-	1
6	Agreement relating to construction of building	1*	1**	5	2	1 % on the cost of the proposed construction or the value of construction or the consideration specified in the agreement whichever is higher	1
7	Partition among Non-family members	6	4		2	1	
8	Release among non-family members	8	7	5	2	1	1
9	Settlement						
	<i>Family members</i>	2^	1^^	Rs.1000 + Additional duty	1	1% on the market value of the property subject to a maximum of Rs.4000/-	Rs. 500/-
	<i>Not among the family members</i>	5	7	5% on the market value + Additional duty	2	4	1
10	Trust						

	<i>Declaration of – or concerning any property when made by any writing</i>	8		5	2		1
11	Power of Attorney						
	<i>General Power of Attorney given for consideration</i>	8	4	5	2	1% on Consideration or Rs.10,000/- whichever is higher	1
12	Transfer of Lease						
	< 30 years	8		5	2		1
	> 30 years	8		5	2		1

Source: Data collected from state's stamps and registration departments

Note:

* 1% of the value or the estimated cost of construction or consideration or fair value of land whichever is higher, subject to a maximum of Rs 1000.

** 1% on the cost of the proposed construction or the value of construction or the consideration specified in the agreement whichever is higher.

^ Two rupees for every rupee 1000, subject to a minimum of rupees 1000.

^^ 1% On the market value of the property but not exceeding Rs.25000/-.

LAND REVENUE

Land Revenue is collected by levying tax on land for all the lands within the state irrespective of the nature or type of land, subject to the exemptions provided in the section 2 of the Kerala Land Tax Act, 1961(lands belonging to the Government are exempted).

Collection: The Village Officer is authorized to collect the land tax remitted at the village office and issue receipts on the same.

The revenue collected by the Land Revenue Department includes **basic/land tax, building tax, plantation tax and revenue recovery.**

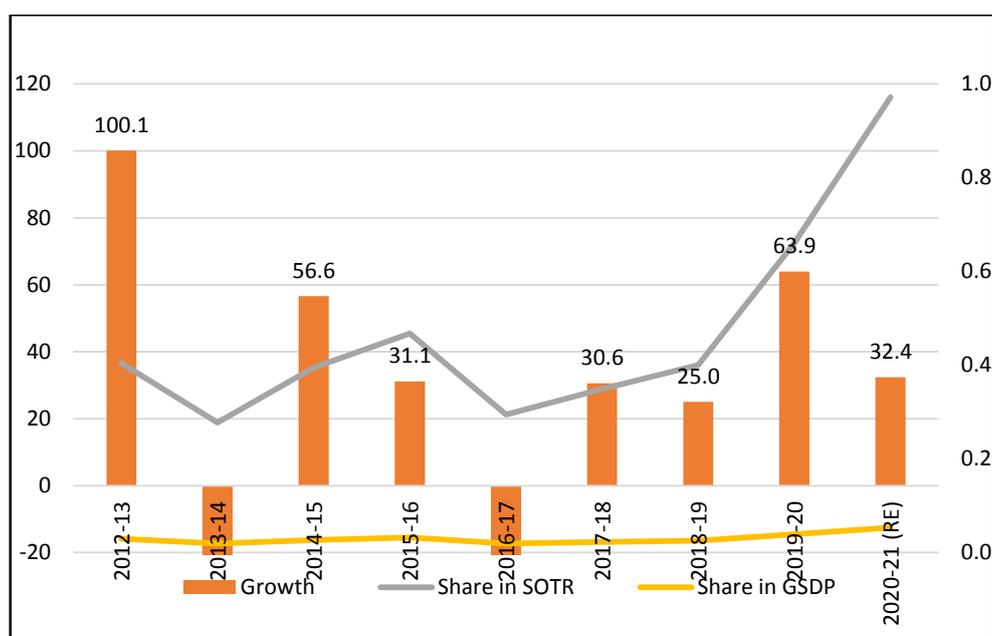
Basic Tax: Tax imposed on land in the state of Kerala under Kerala Land Tax Act, 1961, other than those having exemptions under Section 2 of the Act.

Building Tax: the Kerala Building Tax Act 1975 stipulates that Building tax shall be charged on every building, the construction of which is completed on or after 10th February 1992, based on the plinth area of the building, at the rates prescribed in the Act.

Plantation tax: Tax is levied on Coconut, arecanut, rubber, coffee, tea, cardamom or pepper plantations above 2 Ha.

Revenue recovery: Revenue Recovery Act, 1968 and rules empower the Government to collect any arrears and interest due to Government as public revenue due on land.

Figure 1: Trend in Land Revenue for different measures: Kerala



Source: Computed from Kerala state budget for various years

- Land revenue shows a positive growth rate with fluctuating trend.
- Some years experienced huge jump in the growth rates. This may be attributed to the upward revision of basic land tax, building tax and amendment of Kerala Conservation of Paddy and Wetland Act
- In recent years land revenue shows a fall in growth from 63.9% in 2019-20 to 32.4% in 2020-21
- Share in SOTR increased from 0.4% in 2012-13 to 0.97% in 2020-21
- Share in GSDP slightly increased from 0.03% in 2012-13 to 0.05% in 2020-21

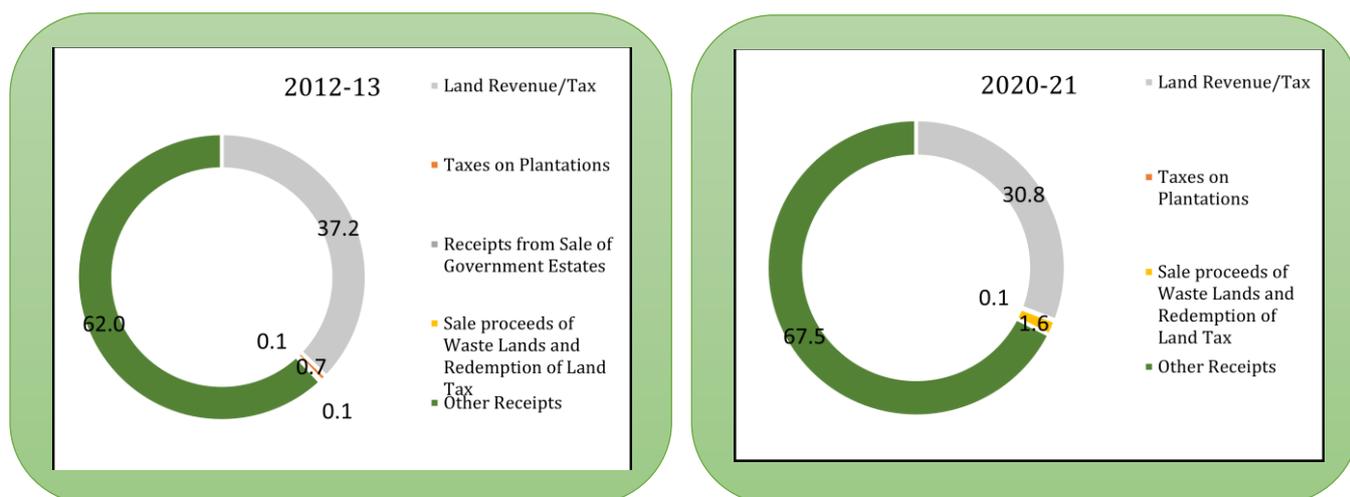
Table1: Land Revenue and its components (In crore)

Land Revenue	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Land Revenue/Tax	29.6	45.2	51.8	55.9	130.9	66.3	68.9	119.1	121.6	135.3
Taxes on Plantations	1.0	0.9	0.8	1.3	0.9	1.8	1.8	1.0	0.4	0.6
Receipts from Sale of Government Estates	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.0
Sale proceeds of Waste Lands and Redemption of Land Tax	0.2	0.1	0.1	40.5	0.9	9.0	8.2	4.0	8.0	7.0
Other Receipts	29.8	75.3	36.1	41.3	49.4	46.9	83.2	78.7	202.3	297.1
Land Revenue	60.8	121.6	88.8	139.0	182.3	124.1	162.2	202.8	332.4	440.0

Table 2: Other Receipts (In crore)

Land Revenue (800-Other Receipts)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Receipts in connection with survey and settlement operations	3.29	5.95	5.98	7.10	8.86	7.27	8.31	10.53	10.90	9
Collection fees for jenmikaram	0.06	0.04	0.02	0.02	0.05	0.10	0.05	0.05	0.05	0.39
Collection of payments for the extinguishment of jenmikaram	0.04	0.09	0.07	0.06	0.08	0.05	0.11	0.08	0.02	0.01
Receipts from lands assigned on registry to landless and indigent persons	1.12	0.11	0.12	0.58	0.60	0.51	14.64	0.60	0.25	0.16
Receipts from Tamilnadu on account of share of the expenditure on karathilchilavu	0.21	0.39	0.07	0.10	0.17	0.01	0.00	0.00	0.01	0.00
Interest on arrears of land revenue	0.97	1.03	0.79	1.38	1.32	1.69	11.83	12.49	3.31	5.0
Purchase price under the service Inam lands	0.01	0.39	0.01	0.11	0.02	0.01	0.02	0.03	0.11	0.01
Other items	23.01	66.13	27.92	30.55	32.34	33.95	46.89	47.34	46.27	52
Compensation in Lieu of Beriz Deduction	1.18	1.19	1.08	1.37	1.12	0.88	1.23	1.44	0.63	0.40
Receipts under the Kerala Conservation of Paddy land and Wetland Act, 2008.	0.00	0.01	0.04	0.01	4.92	2.66	0.16	0.33	0.04	0.17
Receipts under the scheme - Zero Landless Kerala	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00
Receipts collected under the Kerala Conservation of Paddy and Wetland (Amendment) Act	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.78	140.71	230.00
Deduct-Refunds	-0.06	-0.01	-0.06	-0.02	-0.05	-0.23	0.00	0.00	0.00	0
Total-800	29.89	75.32	36.05	41.25	49.43	46.90	83.24	78.67	202.31	297.06

Source: Computed from Kerala state budget for various years

Chart 1: Composition of Land Revenue in Kerala

Source: Computed from Kerala state budget for various years

- The share of other receipts shows an increase from 62% during 2012-13 to 67.5% during 2020-21
- Share of Land tax shows a decline from 37.2% during 2012-13 to 30.8% in 2020-21
- Out of the land revenue of Rs. 440 crores, other receipts comprise of Rs. 297 crores and Land tax comprises of Rs. 135 crores
- The major components contributing to higher other receipts are interest on arrears of land revenue, Receipts under the Kerala Conservation of Paddy land and Wetland Act, 2008 and Receipts in connection with survey and settlement operations
- Recent amendment in Kerala Conservation of Paddy and Wetland Act in 2018-19 have generated Rs. 140.71 crores in 2019-20 and Rs. 230 crores in 2020-21 which amount to 42% and 52% share in aggregate land revenue during 2019-20 and 2020-21, respectively.

State-wise comparison

Table 3: Top and Bottom 5 States in Land Revenue Collection and other indicators (9 years avg. 2011 to 2019)

Categories	Land revenue (LR)	Geographical area (GA)	Population	SOTR	LR/GA	Per capita land revenue (PCLR)	LR/SOTR
Top 5 States	West Bengal	Rajasthan	Uttar Pradesh	Maharashtra	West Bengal	Gujarat	West Bengal
	Gujarat	Madhya Pradesh	Maharashtra	Uttar Pradesh	Gujarat	West Bengal	Gujarat
	Maharashtra	Maharashtra	Bihar	Tamil Nadu	Bihar	Maharashtra	Odisha
	Uttar Pradesh	Uttar Pradesh	West Bengal	Karnataka	Maharashtra	Chhattisgarh	Chhattisgarh
	Bihar	Gujarat	Madhya Pradesh	Gujarat	Kerala	Odisha	Bihar
Bottom 5 States	Kerala	West Bengal	Jharkhand	Punjab	Karnataka	Tamil Nadu	Tamil Nadu
	Andhra Pradesh	Jharkhand	Kerala	Bihar	Rajasthan	Punjab	Punjab
	Punjab	Punjab	Punjab	Odisha	Andhra Pradesh	Andhra Pradesh	Andhra Pradesh
	Telangana	Haryana	Chhattisgarh	Chhattisgarh	Haryana	Haryana	Telangana
	Haryana	Kerala	Haryana	Jharkhand	Telangana	Telangana	Haryana

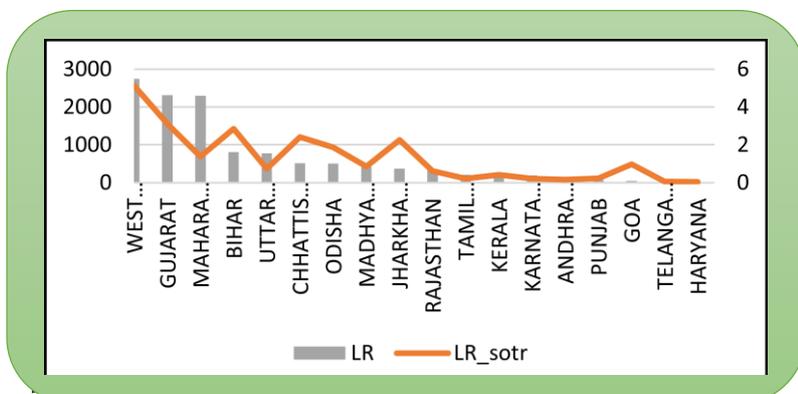
Source: Computed from State Finances: A study of budget by RBI

The top 5 and bottom 5 states are listed in the above table 3 with respect to land revenue collection in absolute terms, geographical area, population, SOTR and LR as a share of GA and SOTR and PCLR for an average of 9 years (2011 to 2019). When we compare the indicators across the country it becomes challenging to choose comparable indicators to make sensible comparison between the states. In this case, we have chosen LR/GA, LR/population and LR/SOTR. The selected indicators need to be carefully handled while comparing the states. This is because some ratios may be attaining high values and will be taking the top positions because of the lowest value of denominators, therefore, we need to ignore those states taking the top positions.

In the above table 3, we can see Odisha, Chhattisgarh and Bihar are coming among the top 5 states in terms of LR/SOTR but we can also see that these 3 states also belong to the bottom 5 states in terms of SOTR and are not among the top 5 states in terms of LR, therefore, we

are not taking them as bench mark states with respect to LR collection. In that parameter LR/SOTR, West Bengal and Gujarat are at the top position.

Figure 2: State-wise comparison of LR as a share of SOTR



- Kerala ranks 12th position with respect to Land revenue, LR/SOTR as compared to other 18 states.
- Tamil Nadu ranks 11th position and other southern states, Karnataka, Andhra Pradesh and Telangana are at the bottom 7 positions

Table 4: state-wise LR and LR/SOTR

State	LR/SOTR (%)	LR (Cr)
West Bengal	5.11	2747.2
Gujarat	3.10	2309
Maharashtra	1.38	2293
Bihar	2.84	804.4
Uttar Pradesh	0.74	772.4
Chhattisgarh	2.41	510.4
Odisha	1.86	507.8
Madhya Pradesh	0.86	418.33
Jharkhand	2.25	369.8
Rajasthan	0.62	329.2
Tamil Nadu	0.21	204
Kerala	0.41	195.2
Karnataka	0.22	193
Andhra Pradesh	0.17	80.8
Punjab	0.24	72.2
Goa	0.98	46.6
Telangana	0.06	24
Haryana	0.05	18.6

Source: Computed from State Finances: A study of budget by RBI

Kerala has a total land area of 38,863 sq. km with a coastline of about 580 km with an approximate breadth of 35 to 120 km. The State has a population of 3,34,06,061 (Census 2011) which translates to about 860 people/sq.km. (CAG Report, 2017). The state is prone to vulnerability from floods and sea erosion.

Although the share of land revenue in SOTR for Kerala is small but it is growing over the years. Also, the state has undergone an upward revision in land tax rate which contributed to higher growth in land revenue in 2014-15 and 2019-20.

Land Tax

As per Section 5 of the Kerala Land Tax (KLT) Act, 1961, basic tax/land tax is levied and collected on land in the State of Kerala, other than those having exemptions under Section 2

of the Act. As per Section 5(2) the tax shall be paid by the land holder before such date as may be prescribed.

Table 5: The rate of land tax in Kerala

Local body	1 April 2012 to 29 September 2014	30 September 2014 onwards	01 April 2018 onwards
Corporation	₹ 8/Are for greater than 2 Ares	₹ 1600 + ₹ 20/Are for each Are above 2 Hectares or 200 Ares	₹10.00/Are for less than or equal to 1.62 Are
			₹20.00/Are for more than 1.62 Are
Municipality	₹ 4/Are for greater than 6 Ares	₹ 800 + ₹ 10/Are for each Are above 2 Hectares or 200 Ares	₹5.00/Are for less than or equal to 2.43 Are
			₹10.00/Are for More than 2.43 Are
Panchayath	₹ 2/Are for greater than 20 Ares	₹ 400 + ₹ 5/Are for each Are above 2 Hectares or 200 Ares	₹2.50/ Are for less than or equal to 8.10 Are
			₹5.00/Are for More than 8.10 Are

Source: Report of The Comptroller and Auditor General of India on Revenue Sector, Government of Kerala

Building Tax

One time building tax is applicable for all buildings constructed on or after April 1, 1973 as per the Kerala Building Tax Act, 1975. A yearly luxury tax of Rs. 4000 is levied on buildings which are constructed on or after 1.4.1997 having a plinth area of 278.7 sqm or more, in addition to the one-time tax.

Section 5(1) of the Kerala Building Tax Act 1975 stipulates that Building tax shall be charged on every building, the construction of which is completed on or after 10th February 1992, based on the plinth area of the building, at the rates prescribed.

Non assessment of building tax resulted in a short levy of Rs. 13 crores as on 2019 (CAG, 2021) (Detail is given in appendix 1). A separate section is also provided on revenue recovery, i.e., the revenue to be recovered by the state.

Plantation Tax: Plantation tax is one of the sources of income for the State. This tax is levied on Coconut, arecanut, rubber, coffee, tea, cardamom or pepper plantations above 2 Ha.

Table 6: Plantation Tax Rates per Tree

Trees	Rate per tree
Coconut	4
Arecanut	3
Jack	1.50
Palmyrah	0.25
Tamarind	3
Punna	0.25

Revenue Recovery: Revenue Recovery Act, 1968 and rules empower the Government to collect any arrears and interest due to Government as public revenue due on land.

Land Revenue Structure and Rates in Best Performing state

In this section we are trying to see the rates and structure of land revenue in the best performing state with respect to LR/SOTR. As West Bengal is at the top position in terms of LR/SOTR, we are analysing the LR structure of the West Bengal.

The West Bengal Land Reforms Act, 1955 came into force on February, 1956 and the said Act has undergone quite a number of significant amendments until now. All kinds of land have been brought within the Act.

Rate of land revenue is determined as per land use and not as per recorded classification of land. (WBLR Act, 2005)

No arrears towards land revenue and cess for land used for agricultural purpose is chargeable (WBLR Act, 2007).

Table 7: Present Rate of Land as per land use

Location	Land used for Agriculture* (Per decimal)	Land used for Bastu and Agriculture (Per decimal)	Land used for Commercial (Per decimal)	Act Applicable
Land situated within Panchayat Area	0	40 paisa +Cess	Different for different Activities +Cess	WBLR Act
Land situated within Municipality area (other than KMDA)	0	Bastu-Rs. 35/25/20 /15 /10/ 5 (As per category of municipality) + 15% surcharge	Rs. 175/150.100/75/50/25 (As per category of Municipality) + 15% Surcharge	WBLR Act
		Non-agricultural land-50 paisa + 15%Surcharge		
Land situated within Municipal Corporation of Kolkata and Howrah and Bidhannagar Municipality	0	Rs.45 + 15% surcharge	Rs.200/ decimal +15% surcharge	Kolkata Land Revenue Act
		Vacant Land- Rs. 40+ 15% Surcharge		
Land situated within other Municipal areas under KMDA	0	Rs. 35+15% Surcharge	Rs. 175/decimal +15% Surcharge	Kolkata Land Revenue Act

Note: Detailed of this table is furnished in table 11

* Land revenue and cesses for land used for agricultural purpose has become nil.

If land revenue is not paid within current year, 6.25% interest will be imposed.

Every raiyat of Kolkata, Howrah and Bidhannagar Municipality and Municipal areas under KMDA who makes payment of revenue within the year shall be entitled to a rebate of 5% of the amount of current year's revenue paid.

Table 8: Various Cesses and Cess Rates

Cess	Rates
Road Cess	6%
P.W.Cess	25%
Education Cess	10%
Rural Employment Cess	30%
Rural Employment surcharge	15%

Table 9: Rates of different categories of Land used for different purposes with effect from 17 December 2005

S. No.	Category	Tax Rate
Kolkata Metropolitan Development Authority		
i	Land for agriculture purpose	Omitted by WBLR Act, 2017
ii	Land for agricultural allied activities	Omitted by WBLR Act, 2017
iii	land is comprised in tea garden and land used for cultivation of tea	Rs. 30.00 per acre
iv	homesteads and non- agriculture purposes other than commercial and industrial activities	Rs. 40.00 per acre
v	land by any Government undertaking	Rs. 50.00 per acre
vi	land is used by a company or a body corporate, other than Government Company as defined in section 617 of the Companies Act, 1956 for the purpose of activities allied to agriculture as defined in Explanation to clause (b)	Rs. 150.00 per acre
vii	land is used for brackish water fisheries by individual fish farmers or by any co-operative society	Rs. 200.00 per acre
viii	land is used for brackish water fisheries by a company or any body corporate other than a Government Company as defined in section 617 of the Companies Act, 1956	Rs. 400.00 per acre
ix	land is used for any commercial and industrial activities without having any pucca structure	Rs. 500.00 per acre
x	land is used under multi- storied building by any co—operative society	Rs. 600.00 per acre
xi	of land is used for housing complex developed by any private company or any public company, Other than a Government Company	Rs. 800.00 per acre
Xii	land is used for any commercial and industrial activities, not specified in clause (n), in any pucca structure	Rs. 1000.00 per acre
Xiii	land is used for agro processing, food processing, agro- industries, agricultural commodities storage warehouses and godowns, food parks in pucca structure	Rs. 1200.00 per acre
xiv	land is used for any commercial and industrial activities: cold storages, rice mills, general trading warehouses, godowns, automobiles garages, repairing shops, business establishments xv in market place or supermarket, multiplexes, cinema, theatre or video halls, and hotels, restaurants, and hospitals, pathological laboratories, nursing homes, and include other offices and establishments of any company or body corporate other than a	Rs. 1500.00 per acre

	Government company	
XV	land is comprised in and used for mills, factories or workshops other than those commercial and industrial activities specified in clause (l) and clause (n)	Rs. 2000.00 per acre
Urban Area (Municipality or Municipal Corporation)		
i)	land is used for the purpose of agriculture and activities allied to agriculture	Omitted by WBLR Act, 2017
land is used for homesteads and is situated within the local limits of:		
	a) any Municipal Corporation	Rs. 35.00 per decimal
	b) any Municipality of Category A	Rs. 25.00 per decimal
	c) any Municipality of Category B	Rs. 20.00 per decimal
	d) any Municipality of Category C	Rs. 15.00 per decimal
	e) any Municipality of Category D	Rs. 10.00 per decimal
	f) any Municipality of Category E	Rs. 5.00 per decimal
ii)	land used for mills, factories, workshops or any other commercial and industrial activities and such plot of land is situated within the local limits of	
	a) any Municipal Corporation	Rs. 175.00 per decimal
	b) any Municipality of Category A	Rs. 150.00 per decimal
	c) any Municipality of Category B	Rs. 100.00 per decimal
	d) any Municipality of Category C	Rs. 75.00 per decimal
	e) any Municipality of Category D	Rs. 50.00 per decimal
	f) any Municipality of Category E	Rs. 25.00 per decimal
	land is used for non- agricultural purposes other than commercial and industrial activities	Rs. 50.00 per acre

Category A: Municipal areas having population more than 2,15,000

Category B: Municipal areas having population above 1,70,000 but not exceeding 2,15,000

Category C: Municipal area having population above 85,000 but not exceeding 1,70,000

Category D: Municipal area having population above 35,000 but not exceeding 85,000

Category E: Municipal area having population not exceeding 35,000

Some Propositions by GIFT

If the land tax rates are based on land use rates, the revenue can be increased between a range of Rs. 639 crore to Rs. 871 crore from Rs.440 crore as per 2020-21(RE). The present study uses the data provided by Kerala State Land use Board on land uses by Kerala. Out of the total area of 38,865 Sq.km, 29 per cent of area comprises of land used for agricultural purpose, reserve forest, water logged and marshy area. 24 per cent is used for plantation of tea, Coffee, Cardamom, Coconut, Pepper, cashew. 14.5 per cent is used for mixed crops and trees. Densed mixed forest, scrub forest, grass land, covers 12 per cent of the total area. 10 per cent is covered by area under rubber and teak plantation. Built up land for residential, commercial and industrial including rural and urban comprises of 4 per cent of total area. Trees like, Arecanut, Coconut, Coconut, Oil palm, Eucalyptus, covers 3.25 per cent and water bodies cover 3 per cent of the total area.

We propose different rates based on the land use. We have categorised the land use in to 10 categories, (i) land used for Residential/Commercial/Industrial, (ii) Agricultural use and degraded land, (iii) Industrial Wastelands, (iv) Mixed crops, (v) Land used for cultivation of commercial plants and fruits, (vi) Paddy reclaimed, (vii) Tea/Coffee/pepper plantation, (viii) Water bodies, (ix) Commercial trees and x) vacant land.

We have estimated the land revenue by applying different rates to each category by land use. The rates are almost similar to that of West Bengal with some variation. The estimates can be improved further by using the data on land use data by different local bodies (Panchayat, municipality and Corporation).

The estimates are given below. Rates per decimal are generally used for urban areas and rates per acre are used for rural areas. Two rates for urban area are considered as given in column (5) and column (6). Based on the columns (5), (7) and (3), the land revenue is estimated at Rs. 697 crore. Based on columns (6), (7) and (3), the estimate is Rs. 871 crore.

Land Revenue estimate

Categories	Type of Land	Area (In Sq.Km)	Tax Rate	Rate ¹ Per Decimal (PD)	Rate ² Per Decimal (PD)	Rate Per acre (PA)	Revenue ¹ (In Rs.)	Revenue ² (In Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Residential/ Commercial/ Industrial	Built up land (residential and mixed built up) in rural area	1056.27	Rs. 700 per acre			700	182706839.4	182706839.4
	Built up land (urban) - residential	8.12	(Rs. 5 to 35 per decimal)	20	35		4009876.543	7017283.951
	Built up land (urban) - industrial	0.31	(Rs. 50 to 175 per decimal)	50	100		382716.0494	765432.0988
	Built up land (urban) - commercial	226.15	(Rs. 50 to 175 per decimal)	50	100		279197530.9	558395061.7
	Built up land (urban) - mixed builtup	199.48	(Rs. 50 to 175 per decimal)	50	100		246271604.9	492543209.9
	Built up land (urban) - beaches	47.66	(Rs. 50 to 175 per decimal)	50	100		58839506.17	117679012.3
Agricultural use and degraded land	Land used for agricultural purpose, Degraded land, Reserve Forest, water logged area, coastal sand and Marshy Area	11214.68		0	0	0	0	0
Industrial Wastelands	Mining/Industrial wastelands	20.24	Rs. 10 per decimal	10	10		4997530.864	4997530.864
Mixed crops	Mixed crop, Mixed trees	5635.45	Rs. 30 per acre			30	41776463.73	41776463.73

Land used for cultivation of commercial plants and fruits	Arecanut, Coconut, Coconut + Arecanut, Cardamom, Oil palm, Eucalyptus, Orange	1264.82	Rs. 50 to Rs. 100 per acre			75	23440766.42	23440766.42
Paddy reclaimed	Paddy Reclaimed residential, rubber and built up	314.14	Rs. 40 per acre			40	3105024.636	3105024.636
Tea/Coffee/pepper plantation	Tea, Coffee, Cardamom, Pepper, cashew	9331.06	Rs. 100 to Rs.300 per acre			200	461150620.5	461150620.5
Water bodies	Water bodies	1172.84	Rs.200 per acre to 400 per acre/ Rs. 100 per decimal	100	100	0	2895901235	2895901235
Commercial trees	Rubber and Teak	3690.61	Rs. 500 per acre			500	455984392.8	455984392.8
Vacant Land	Dense mixed forest, Scrub forest, Forest blank, Grass land, Land with scrub, Land without scrub	4683.1	Rs. 5 to Rs.30 per decimal	15	30		1734481481	3468962963
Total		38864.93 Sq. Km				Rs.	6392245589	8714425836
						Rs. crore	639.2245589	871.4425836

Recommendations:

- If the land tax rates are based on land use, the revenue can be increased between a range of Rs. 639 crores to Rs. 871 crores from Rs.440 crore as per 2020-21(RE).
- If dense mixed forest, grass land, land with scrub, forest blank categorises them as vacant land and add a rate of at least Rs. 5 per decimal, we can collect Rs. 58 crores from area of 4683 sq.km
- States like Tamil Nadu, Gujarat, etc also levy vacant land tax. Tamil Nadu levy land tax at the rate of 5 to 8 % on capital value plus library cess of 10 paise per Rupee excluding Education tax. Vacant land tax can also be added to the LR component of Kerala.
- Rural Employment Cess can also be added to the land situated in Panchayat area and rural employment surcharge to the urban land.
- Based on the 10 years average growth rate of 31 per cent, the LR for 2021-22 is estimated to be Rs. 576 crores (crude method).

Appendix I

Table A1: Revenue Receipts and its components in Kerala (In crore)

Year	Revenue Receipts (RR)	State Own Tax Revenue (SOTR)	State Own Non-Tax Revenue (SONTR)	Central Govt. Transfers (CT)	i) Share of Central Taxes (SCT)	ii) Grant-in- Aid (Grants)	GSDP
2011-12	38010	25719	2592	9700	5990	3709	364048
2012-13	44137	30077	4199	9862	6841	3022	412313
2013-14	49177	31995	5575	11607	7469	4138	465041
2014-15	57950	35233	7284	15434	7926	7508	512564
2015-16	69033	38995	8425	21612	12691	8921	561994
2016-17	75612	42176	9700	23735	15225	8510	634886
2017-18	83020	46460	11200	25361	16833	8528	701588
2018-19	92854	50644	11783	30427	19038	11389	790302
2019-20	90225	50323	12265	27636	16401	11235	854689
2020-21 (RE)	93115	45272	9121	38722	9844	28878	822023
2021-22 (BE)	128376	73121	14836	40419	16760	23659	--

Building Tax Details on revenue pending

- 2,453 buildings in 28 *Taluk* Offices were not assessed to building tax by the *Tahsildars* concerned, even though the Village Officers had reported these cases in 2016-17 and 2017-18 which resulted in a short levy of Rs.13 crore (CAG, 2021).
- 898 buildings in 20 *Taluk* Offices assessed under property tax by local bodies were not identified by the Village Officers and reported to the *Tahsildars* concerned for assessment under Building Tax Act/Rules which resulted in non-levy of building tax amounting to Rs. 6.72 crore.
- It is pointed out in CAG, Report (2021), that the arrears on land revenue and building tax are increasing due to lack of proper land recording system.

Table A2: Non assessment of Building tax in cases reported by the Village Officers

Sl. No.	Name of <i>Taluk</i> Office	No. of cases	BT leviable In Lakhs)
1	Ambalapuzha	70	37.6
2	Chengannur	33	3.3
3	Cherthala	21	0.8
4	Chirayinkeezhu	20	17.6
5	Ernad	111	52.9
6	Idukki	7	12.7
7	Iritty	47	8.4
8	Kodungallur	22	8.2
9	Kollam	77	9.9
10	Kondotty	9	11.0
11	Kottarakara	60	15.6
12	Kottayam	287	193.4
13	Kozhenchery	99	27.9
14	Kozhikode	211	407.6

15	Mallappally	13	9.7
16	Mananthawady	29	5.1
17	Mannarkadu	30	78.8
18	Nedumangadu	46	29.7
19	Neyyatinkara	9	4.8
20	Pattambi	186	24.2
21	Punalur	21	4.5
22	Sulthan Bathery	6	1.8
23	Thiruvalla	170	71.1
24	Tirur	345	100.3
25	Tirurangadi	462	152.5
26	Udumbanchola	34	5.6
27	Varkala	16	2.6
28	Vellarikundu	12	1.9
	Total	2,453	1299.5

Source: Report of The Comptroller and Auditor General of India on Revenue Sector, Government Of Kerala

TableA3: Non levy of building tax due to buildings escaping assessment

Sl No.	Name of Taluk Office	Name of the local body	No. of cases	BT leviable (In lakhs)
1	Ambalapuzha	Alappuzha (M)	20	7.3
2	Chalakydy	Chalakydy (M) Kodakara (SGP)	75	14.0
3	Chengannur	Mulakuzha (P) Budhanoor (P)	17	3.5
4	Cherthala	Cherthala (M)	1	0.1
5	Idukki	Kattapana (M)	3	0.4
6	Iritty	Ayyankunnu (P)	15	0.4
7	Kondotty	Kondotty (M) Pallickal (P)	28	22.6
8	Kottarakara	Kottarakara (M)	5	6.5
9	Kottayam	Kottayam (M)	66	130.3
10	Kozhenchery	Pathanamthitta (M)	82	34.3
11	Kozhikode	Kozhikode (C)	83	355.6
12	Mananthavady	Mananthavady (M)	4	5.6
13	Mannarkad	Mannarkad (M)	3	1.4
14	Neyyatinkara	Neyyatinkara (M)	33	14.8
15	Pattambi	Pattambi (M) Nagalassery(P) Ongallur(P)	295	16.9
16	Sultan Bathery	Sultan Bathery (M)	19	17.8
17	Thirurangadi	Thirurangadi (M) Vengara (P)	48	9.0
18	Thiruvalla	Thiruvalla (M)	14	9.0
19	Varkala	Varkala (M)	43	21.1
20	Vellarikundu	Panathady (P)	44	1.3
		Total	898	671.9

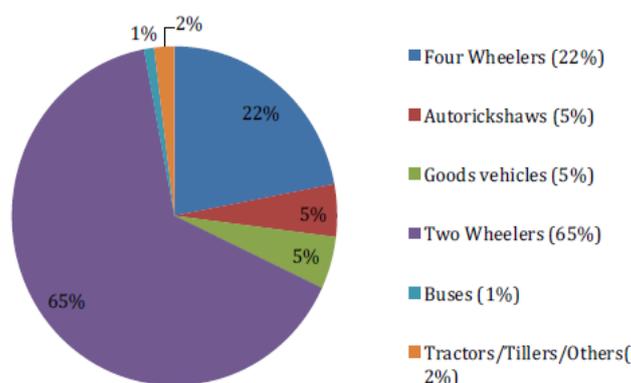
Source: Report of The Comptroller and Auditor General of India on Revenue Sector, Government Of Kerala

Motor Vehicle Tax Revenue

1. Introduction and Overview

As of March 2020, Kerala has a total of 141.84 Lacs of registered motor vehicles and the compound annual growth in this segment for the last two decades is above 10%. The number of Vehicles per 1000 of population for Kerala is 425 as on March 2019, while the same for India is 18, according to the 2015 WDI figures. From these numbers, we can make a rough estimate that on an average, one person in three in Kerala owns a motor vehicle. Road density in Kerala is 390 km/100 sq. km, roughly three times the national average, might be a contributing factor in this as well. (Economic Review, 2020).

Figure 1: Distribution of Motor vehicles registered by Type in Kerala (as on 2019-20, Economic Review 2020)

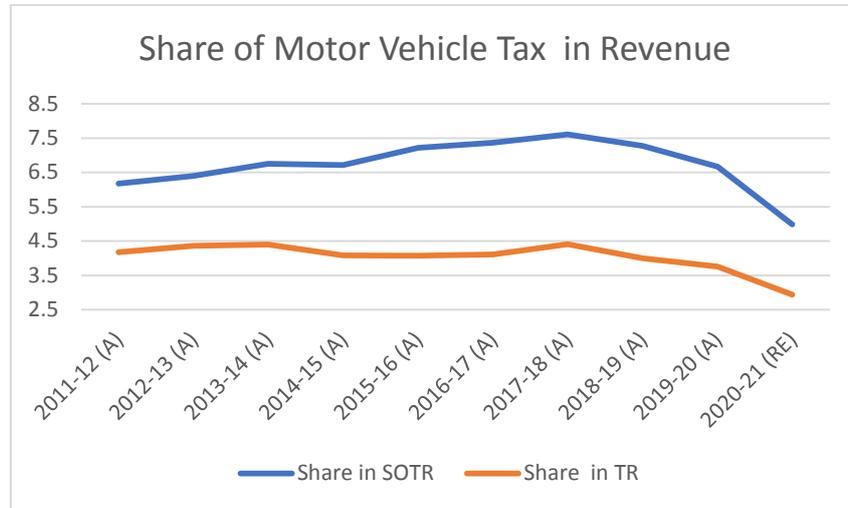


Therefore, motor vehicle taxes remain one of the major components in Kerala's tax revenue. The levy and collection of motor vehicle tax in the State of Kerala is governed by the Motor Vehicles Act, 1988, Central Motor Vehicles (CMV) Rules, 1989, and the Kerala Motor Vehicles Taxation (KMVT) Act, 1976. The Motor Vehicle department collects taxes and fees on various activities related to automobiles. They include:

- Tax
- Registration fee
- Permit fee
- Driving license fee
- Conductor license fee
- Penalties and composite fee

Income from the Motor Vehicle segment comprises of 6.9 % of the state's own tax revenue and about 4.14 % of the state's total revenue. In this segment, we try to analyze the tax revenue generated from the motor vehicle taxes and search for any scope for improvement.

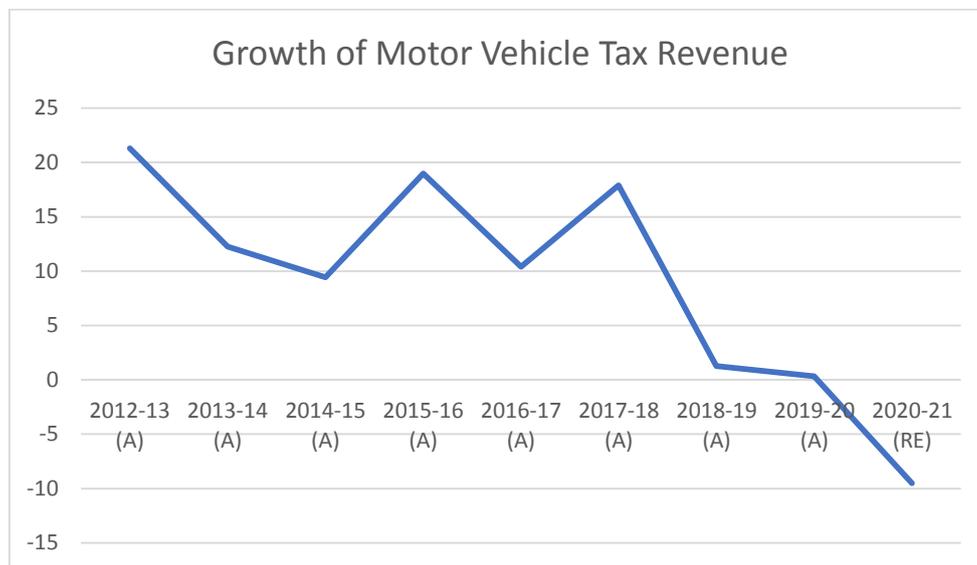
Figure 2: Share of Motor vehicle tax in Kerala’s revenue (Source: Kerala Revenue Budget Documents)



Note: SOTR stands for State’s own tax revenue and TR stands for state’s own revenue.

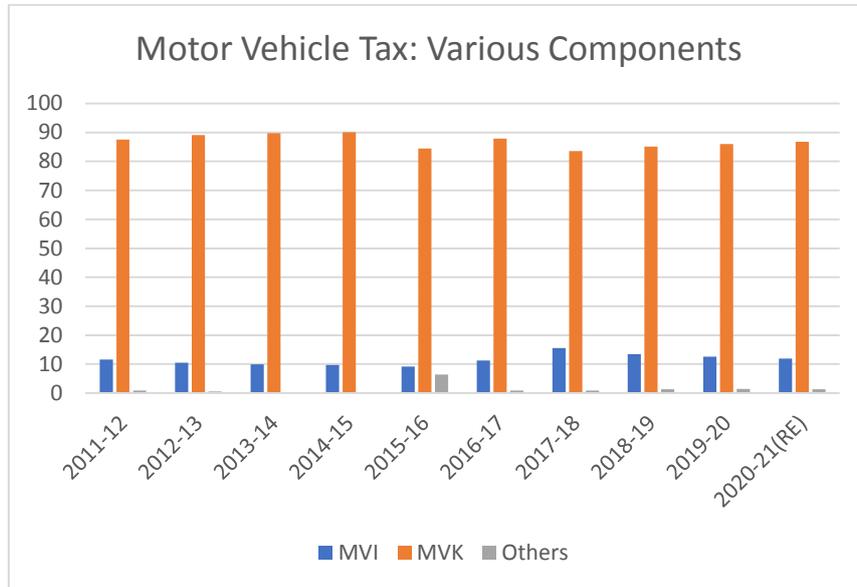
From figure 2, we see that the growth of this segment is highly fluctuating, especially in the last three financial years. It could be attributed to the floods in 2018 as well as the Covid-19 induced financial crisis.

Figure 3: Growth in Motor Vehicle tax revenue (Source: Kerala Revenue Budget Documents)



Majority of the revenue from this segment is from revenues under the Indian motor vehicles act (11%) and the state motor vehicles act (88%), while the other receipts account for the rest 1%. A Detailed revenue breakup is given in Table 1.

Figure 4: Share of Various components in Motor Vehicle Tax revenue (Source: Kerala Revenue Budget Documents)



Note: **MVI- Receipts under the Indian Motor Vehicles Act, MVK- Receipts under the Kerala Motor Vehicles Act, Others- Other Receipts**

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21(RE)
Receipts under the Indian Motor Vehicles Act	183.35	200.77	213.80	229.62	256.51	349.99	571.34	500.70	467.24	399.99
Gross Receipts	183.74	201.54	214.95	229.62	258.21	353.88	571.43	500.76	467.25	400.00
Deduct-Refunds	-0.40	-0.77	-	-1.40	-1.70	-3.90	-0.09	-0.05	-0.01	-0.01
Receipts under the State Motor Vehicles Taxation Act	1390.14	1714.11	1939.70	2129.92	2376.14	2730.59	3059.88	3156.71	3200.77	2922.01
Transport vehicles	474.89	485.14	554.12	636.43	558.95	609.61	651.06	704.43	693.42	693.42
Non-transport vehicles	845.91	1110.82	1228.95	1336.51	1651.81	1937.52	2219.29	2275.27	2288.07	2021.78
Compounding fee	69.43	118.23	156.80	157.20	165.73	182.23	186.59	171.45	213.18	200.70
Green Tax	0.00	0.00	0.00	0.00	0.00	1.57	3.02	5.59	6.11	6.11
Deduct-Refunds	-0.08	-0.08	-0.17	-0.22	-0.36	-0.33	-0.08	-0.02	-0.01	0.00
Other receipts	13.64	9.73	7.60	6.81	181.66	26.65	31.63	51.20	53.13	45.11
Receipts under Kerala Road Safety Authority Act,2007	0.00	0.00	0.00	0.00	0.00	8.28	0.00	0.00	0.00	0.00
Other receipts	13.64	9.73	7.60	6.81	15.53	0.52	7.68	7.68	6.61	5.11
Charges for the services rendered by Motor Vehicles Department	0.00	0.00	0.00	0.00	166.13	17.85	23.95	43.51	46.52	40.00
Deduct-Refunds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	1587.13	1924.62	2161.09	2364.95	2814.30	3107.23	3662.85	3708.61	3721.14	3367.11

Table 1: Revenue Breakup of Motor Vehicle Taxes (Source: Kerala Revenue Budget documents)

2. Kerala and Other states: A comparative analysis

In this segment, we compare Kerala with respect to other states in relation of motor vehicle tax revenue. First, we take up two measures, i.e., the average share in own tax revenue (SOTR) and per-capita share (POP). Two of best performing states are selected in this manner. The mean values for all the major states, (computed for the period od 2011-12 to 2019-20) in these categories are shown in table 2. Second, we select two states based on their GSDP. Third, we select the four neighbouring states i.e., Karnataka, Tamil Nadu, Telangana and Andhra Pradesh. Here, we include GSDP as a proxy of the size of the economy and the per-capita share to account for the influence of population. Therefore, in each category, we might have 5 southern states, 2 states based on the component share to OTR and population, and 2 states based on their GSDP; i.e. a maximum of 9 states. However, it is possible that one state may feature in more than one category.

State	Mean Per capita collection	State	Share of OTR
TELANGANA	851.49619	RAJASTHAN	7.7225933
KERALA	843.94458	KERALA	6.8023396
KARNATAKA	817.39462	KARNATAKA	6.6511242
HARYANA	709.01009	ANDHRA PRADESH	5.9382231
TAMIL NADU	635.20562	TELANGANA	5.7875708
ANDHRA PRADESH	632.65624	JHARKHAND	5.7758512
MAHARASHTRA	567.49955	PUNJAB	5.5030953
PUNJAB	522.9772	BIHAR	5.3704811
GUJARAT	502.84827	UTTAR PRADESH	5.3481023
RAJASTHAN	493.00873	HARYANA	5.286781
CHHATTISGARH	349.6668	TAMIL NADU	5.2454278
ODISHA	292.86674	ODISHA	5.1696825
MADHYA PRADESH	273.39811	CHHATTISGARH	5.165294
UTTAR PRADESH	235.8664	MADHYA PRADESH	5.1537945
JHARKHAND	213.61921	GUJARAT	4.6943452
WEST BENGAL	196.25811	MAHARASHTRA	4.6809562
BIHAR	121.31691	WEST BENGAL	3.9647159

Source: RBI State Finance Reports

In the SOTR category, Rajasthan tops with an average of 7.71% while Kerala is in the second position with 6.90%. In the per-capita share, Telangana ranks first with a share of 851.49 Rs. While Kerala occupies a close second position with 843.94 Rs. As we can see, Kerala is doing well in the both categories. If we compare the average growth rate of Motor Vehicle Tax revenue growth for the select states, Haryana is in the first place with 22.90% growth while Telangana is in the second place with 19.79%. Kerala is in the fifth position with 11.44%. The details are provided in Annexure-I

From analysing various components of Kerala's motor vehicle tax collection (Annexure-II), we can see that around 60% of the revenue is generated from one time tax collected from non-transport vehicles. Therefore, it makes sense to analyse the tax structure of this component across the select states and identify the differences, if any. Towards that, we present the one-time tax rates for two wheelers and four wheelers in the comparable states (selected based on the aforementioned criteria)

2.1. One-time tax-rate for non-transport vehicles: A comparative analysis

In tables 3 and 4, we present the one-time tax rates for two wheelers and four-wheelers for the select states, identified in the previous section.

State	Two-Wheelers			
Rajasthan	200 CC	200-500 CC	500 CC Above	
	8%	13%	15%	
Maharashtra	99 CC	99-299 CC	299 CC Above	
	10%(max1500)	11%(1500Max)	12% (1500 Max)	
Haryana	0.75 Lcs	0.75-2 Lacs	2 Lcs above	
	4%	6%	8%	
Kerala	Up to 1 Lcs	1-2 Lcs	2 Lcs Above	Electric Vehicles
	10% of the PV	12% of the PV	21% of the PV	5%
Tamil Nadu	Flat Rate			
	8%			
Karnataka	Up to 50000	50000- 1 Lcs	> 1Lcs	Electric Vehicles
	10%	12%	18%	4%
Andhra Pradesh	Up to 60 CC	More than 60 CC		
	9%	9%		

Telangana	Upto 60 CC	More than 60 CC	
	9%	9%	

Table 3: Tax rate of two wheelers among select states (Source: Respective States' motor vehicle acts)

Note: Lcs stands for Lac rupees and PV stands for purchase value

From table 3, we can observe that the two-wheeler taxes are either collected on engine capacity or the purchase value. While most of the states are having a maximum of three slabs (excluding Electrical vehicles), Tamil Nadu, Andhra Pradesh and Telangana is having a single rate. Kerala collects tax across 4 slabs (including Electric vehicles) in the two-wheeler segment. From table 3, we can see that our two-wheeler tax rates are at par with prevailing tax rates among the comparable states. Therefore, we do not believe that there is any scope of taxing this segment.

4 Wheelers					
Rajasthan	800CC	800-1200CC	1200 Above		
	6%(P) 8%(D)	9%(P) 11%(D)	10%(P) 12%(D)		
Maharashtra	upto 10 Lcs	10-20 Lcs	20 Lcs above		
	11%(P) 13%(D) 7%(C)	12%(P) 14%(D) 8%(C)	13%(P) 15%(D) 9%(C)		
Haryana	6 Lcs	6-20 Lcs	20 Lcs above		
	5%	8%	10%		
Kerala	Up to 5 LCs	>5-10 Lcs	>10-15 Lcs	>15-20 Lcs	>20 Lcs
	9% of PV	11%of PV	13% of PV	16% of PV	21%of PV
Tamil Nadu	Up to 10 Lcs	More than 10 Lcs			
	10%	15%			
Karnataka	Up to 5 Lcs	5-10 Lcs	>10-20 Lcs	>20 Lcs	Electric
	13%	14%	17%	18%	4%
Andhra	Up to 10 Lcs	>10 Lcs			
	12%	14%			
Telangana	Up to 10 Lcs	>10 Lcs			

	12%	14%	
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Table 4: Tax rate of four wheelers among select states (Source: Respective States' motor vehicle acts)

Note: Lcs stands for Lac rupees, PV stands for purchase value, P denotes petrol, D denotes diesel and C denotes CNG

After looking into the four-wheeler tax rates among the select states, we can see that there is considerable variation across the different categories. Like in the previous case, the slabs vary across states and therefore, it may be possible to rationalize some of the rates. However, considering the present economic scenario, we feel that it may not be prudent to revise the rates and therefore, we do not recommend any tax rate revision at this point.

2.2. Other possible sources of Revenue

Apart from taxes, the motor vehicle tax department collects various fees for the services rendered. We suggest that a 5% annual increase to be implemented in the items in this segment under the control of the state. CAG Revenue Audit Report (2021) talks about arrear of the magnitude of 2,457.16 crore (as of October 2019) of which 1796.75 Cr is owned by KSRTC and 660.42 crores is owned by Individuals. This amount needs to be recovered as soon as possible.

3. Conclusion and Recommendations

Motor vehicle taxes remain a major contributor towards states own tax revenue. Kerala is one among the best performing states in this segment all over India. The Average growth in Motor vehicle tax revenue in Kerala is around 11.4% while the growth rate of vehicle registration in Kerala is around 10%. However, we see a decline in growth in both registrations and tax revenue for the last couple of years, attributable to the Floods and the Covid-19 induced financial crisis. Kerala's motor vehicle tax rates, especially in the four-wheeler segment remains relatively low among the comparable states. However, considering the current economic scenario, it may not be prudent to revise the tax rates. Another potential revenue generation is from fees charged by the motor vehicle department for the various services rendered. Based on the analysis, we provide the following recommendations.

- It is recommended that the regressive nature of tax for motor vehicles (higher rate of two wheelers as compared to four wheelers) needs correction which could bring additional revenue.

- We recommend an annual increase of 5% in fees of various services offered by the department (that is under the control of the state), so that the revenue from this segment is indexed to inflation.
- CAG Revenue Audit Report (2021) talks about arrears amounting to 2,457.16 crore (as of October 2019) of which 1796.75 Cr is owned by KSRTC and 660.42 crores is owned by Individuals. This amount needs to be recovered as soon as possible.

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Revenue from Electricity Duty

The electricity duty i.e., tax on use or consumption of electricity, remains a minor source of revenue for most states but Kerala's collection under this head very marginal. The annual average collection of electricity duty in Kerala between 2011 and 2020 is mere Rs 53 crores (ranging between 21 to 75 crores) compared to Rs 7308 and 6170 crores Maharashtra and Gujarat Respectively for the same period. The marginal amount reported under this head is mainly because KSEB which collects electricity duty on behalf of Government of Kerala (GoK) has not been remitting it since middle of 1990s. KSEB argued that amount should be adjusted to compensate KSEB's own shortfall in revenue because of non-revision of tariff while costs kept increasing. Finally, GoK issued an order to formalise this arrangement in November 2011 allowing KSEB to use revenue collected as Electricity duty for next 10 years to create corpus of Pension Fund (as mentioned in Fourth Report of Fourth Kerala Public Expenditure Review Committee)⁸. Given this backdrop comparing Kerala with other states to assess the performance of Kerala in collecting electricity duty would not be a helpful exercise. However, to get an idea about the scale, the outstanding amount that GoK should have received under the head of electricity duty as of 31st March 2019 was Rs 1486.50 crores.

As next step we develop two scenarios for possibility of additional revenue that KSEB or GoK could have generated in 2018-19 provided that Kerala's duty and average tariff rates together were at par with tariff levels of two state which are one of the best performing states in terms electricity duty.

⁸ G.O.(Ms) No 42/2011/PD Date: 3/11/2011

The hypothetical estimate of additional revenue generation then may be divided between GoK and KSEB depending on proportion of total increment distributed between additional average tariff and additional duty. However, we have avoided doing this because our purpose is to just indicate how much additional revenue may have been generated if Kerala's tariff were at par with benchmark states. Distribution of this revenue between GoK and KSEB is matter of mutual agreement between the two parties.

The estimate of additional revenue generation in first scenario is developed using best performing states as the benchmark. First scenario provides an estimate of maximum possible additional revenue that state of Kerala would have earned (either as tariff or electricity duty) when tariff and duty together are at par with best performing state. The second scenario is developed using the benchmark state whose average tariff inclusive of duty is just above Kerala's. Thus, scenario 2 provides an estimate of minimal increment in additional revenue that could have been generated in 2018-19. While developing scenarios we consider 2018-19 consumption levels of different categories as it is. The analysis reveals that Kerala could have raised additional revenue ranging between Rs 1,464 to 4,199 Crores in 2018-19 (Table 1).

Consumer Category wise estimate of additional revenue

More than half of Kerala's electricity consumption (51%) comes domestic consumers. Thus, even small increment in duty rates for this consumers category brings large revenue benefits as is indicated by analysis in Table 1. The domestic consumers would have contributed additional revenue in 2018-19 somewhere between Rs 2349 to 1246 Crores provided that Kerala's tariff and duty rates were between rates of two benchmark rates.

However, raising tariffs or duty for domestic consumers is seen as politically undesirable. Luckily, in case of Kerala where average tariffs for the least consuming category within domestic segment are lower than many states while Kerala enjoys highest level of per capita aggregate consumption expenditure and human development. In such a context, it would be relatively easy to arrive at a consensus for raising electricity duty through nuanced discussion in popular media to ensure sustained improvement in fiscal health of the state.

Another major consumption category in Kerala is Commercial sector. The scope for additional revenue in 2018-19 for this segment lies between Rs 756 to 111 crores. Industries consuming electricity at low tensions (LT) have minimal potential for additional revenue i.e., 65 to 30 crores.

Potential for additional revenue from High Tension (HT) Industrial consumers lies between Rs 910 to 73 crores. The duty rate applied HT-industry consumers of electricity significantly lower than other consumer categories. This is because duty rate for HT consumption of electricity is guided by *Kerala Electricity Surcharge (Levy and Collection) Act, 1989* which was fixed the duty rate of 10 paise per unit of consumption (quantity based or specific taxation). While the duty rate for LT consumption of electricity is guided by *Kerala Electricity Duty (Amendment) Act 1969* which mandates the duty rate of 10% on the tariff charged (value based or *ad-valerom* taxation). As result of this duty rates for HT-industry consumption never increased as tariff rates of HT-industry increased while for other consumer categories duty rates kept rising as tariffs rose. Therefore, collection of duty remained very low from HT-industry sector.

Another important sector of electricity consumption is railway traction which remains untaxed. While most states do not, some states do charge duties on consumption of electricity for railway traction. Thus, Kerala should also practice it if it wishes augment its revenue. Our analysis shows that Kerala would have earned an additional revenue between Rs 117 to 4 crores if it had imposed electricity duty on railway traction to bring its tariff rate (inclusive of duty rate) at par with benchmark states.

Major Action Points:

- 1) The government order that allows KSEB to retain revenue collected under the head of electricity duty should be amended for sake of following common accounting standards, greater transparency. Additionally, this change would improve the ratio of interest payment to Revenue Receipt (IP/RR) which is parameter used to gauge state's performance in fiscal responsibility.
- 2) The legal framework for applying electricity duty at specific rate of 10 paise for HT consumption turns out to be much lower in effective rate terms when compared with rates for other categories of consumer. There is need to amend the legal framework for applying electricity duty on HT-industry consumption as well as for other categories.
- 3) Necessary steps should be taken to introduce electricity consumption for railway traction

Table 1: Scenarios for additional revenue under electricity duty provided that duty rates were high enough to match the tariff (inclusive of duty) level of Benchmark states in 2018-19

Consumer category	Consumption Level in 2018-19 (Million Units)	Existing Average Tariff (Paise/unit)	Existing Duty Rate (Paise/unit)	Scenarios for possibility of Additional Revenue in 2018-19									
				Maximum Scenario					Minimum Scenario 2				
				Benchmark state	Average Tariff (paise/unit)	Duty (Paise/unit)	space for increment in Duty or tariff (in Paise/unit) *	Additional revenue in 2018-19 (Rs Crore)	Benchmark state	Average Tariff (paise/unit)	Duty (Paise/unit)	space for increment in Duty or tariff (Paise/unit)	Additional revenue in 2018-19 (Rs Crore)
Domestic	10927.01	345	32	Maharashtra	510	82	215	2349.31	Karnataka	463	28	114	1245.68
Commercial	2455.89	780	74	Maharashtra	953	209	308	756.41	Karnataka	848	51	45	110.52
LT Industry	1186.05	617	55	Andhra Pradesh	721	6	53	65.23	Punjab	618	80	24	30.84
HT Industry	3336.89	664	10	Maharashtra	858	89	275	910.97	Odisha	644	52	24	73.41
Railway Traction	321.07	619	0	Punjab	871	113	365	117.19	Telangana	632	0	13	4.17
Total								4199.12					1464.62

Details of Arrears (As on 31-03-2019)

- An arrear amount of Rs. 20146.39 Crore is due to Government of Kerala from individuals, private firms, PSUs, various Govt depts and Govt of India.
- Out of this amount, Rs. 5765.84 Crore is pending for the last five years.
- Taxes on sales and trade accounts for the largest amount (13305.08 Crore), of which 6821.31 Crore is covered under revenue recovery, while 4,669.99 Crore worth of recovery is stayed by court orders.
- In stamps and revenue dept., information pertaining to the status of Rs. 1,380 Crore worth of arrears has not been provided to CAG.
- In the case of motor vehicles and electricity duty, a large part of the arrear amount is owed by various govt. departments or state-owned corporations such as KSRTC
- The total amount owed by various govt. departments are 5,564.64 Crore.
- Around 30.85%, i.e. Rs. 5,362.95 Crore worth of total arrears are under stay by courts as well as the state.

If the government is successful in initiating steps to collect at least 50 per cent of the arrear amount not stayed by the courts, an amount of about Rs. 7,500 Crore could be realised.

Chapter 4

In Search of New Avenues of Revenue: Non-Tax Revenue

General Services: Public Service Commission (PSC)

Public Service Commission Receipts mainly represent examination fees, etc. of the Union Public Service Commission (UPSC) and Staff Selection Commission (SSC).

Receipts from Public Service Commission comes in the broad category of General Services receipts under State's own non-tax revenue. When we analyse the past ten-year performance of the General Services (without lotteries), we can find that the receipts from it contribute to 1.25% of the total revenue receipts. It is 4.74% of the Non-Tax Revenue of the states. Further, it contributes to 14.6% of the total Own Non-Tax Revenue. This component shows a growth of 20.84% for the past years from 2011-12 to 2019-20 (RE). The best performers in this item among the states for the past 10 years are Uttar Pradesh and Punjab.

Performance of Kerala in General Services (without lotteries)

Kerala ranks 12th among the states in revenue receipts from General Services as percentage of GSDP with 0.1%. While our neighbouring state, Telangana is in fifth position with 0.23% of the GSDP. The receipts of Kerala in per capita terms is Rs.166.37 against Rs.455.11 of Telangana.

While we analyse the receipts from General Services in proportion to revenue receipts, we can see that it is 0.86% of the total revenue of Kerala, while it is around 5% of the total revenue of Punjab. Among the southern states, 4% of the total revenue of Telangana is from the General Services receipts. This is 16.48% of their total non-tax revenue and 30.7% of the total own non-tax revenue. In Kerala, 4.02% in proportion to non-tax revenue is from the General Services receipts. It is 7.8% of the total own non-tax revenue.

The General Service receipts shows a growth of 20.84% for all states. While Telangana comes in the first position and is followed by Gujarat, Kerala is falling behind to all other states except Karnataka and Andhra Pradesh in the case of growth of the receipts for the past 10 years.

Table 1: Performance of General Services (Without Lotteries) Receipts

Top Performers													
Rank	GSDP		Per capita		Total Revenue		Non-Tax Revenue		Own Non-Tax Revenue		AAGR		
	State	%	State	Rs.	State	%	State	%	State	%	State	%	
	All States (VIII)	0.17	All States (VI)	189.45	All States (VI)	1.25	All States (VI)	4.74	All States (V)	14.6	All States (X)	20.84	
I	Uttar Pradesh	0.65	Goa	1181.64	Punjab	4.96	Punjab	21.9	Punjab	53.9	Telangana	166.4	
II	Punjab	0.57	Punjab	820.02	Telangana	3.79	Telangana	16.48	Uttar Pradesh	36.9	Gujarat	150.89	
II	Maharashtra	0.31	Telangana	455.11	Uttar Pradesh	3.31	Uttar Pradesh	14.15	Telangana	30.7	Jharkhand	81.27	
			Uttar Pradesh	365.77							Punjab	67.35	
Southern States													
Rank	GSDP		Per capita		Total Revenue		Non-Tax Revenue		Own Non-Tax Revenue		AAGR		
	State	Rank	%	Rank	Rs.	Rank	%	Rank	%	Rank	%	Rank	%
	Kerala	XII	0.1	X	166.37	IX	0.86	X	4.02	XIV	7.8	XVII	13.77
	Tamil Nadu	VII	0.17	V	281.71	X	0.78	IX	4.09	IX	10.8	XII	18.48
	Karnataka	XIV	0.07	XII	123.09	XIII	0.67	XI	3.81	VI	14.5	XVIII	10.32
	Andhra Pradesh	X	0.11	XI	127.1	XIV	60	XIV	2.52	VIII	11.1	XIX	5.25
	Telangana	V	0.23	III	455.11	II	3.79	II	16.48	III	30.7	I	166.4

Source: State Finances: A Study of Budgets, Various years

Based on this analysis, we selected Punjab, Uttar Pradesh and all the southern states to compare the performance of Public Service Commission with Kerala. Haryana is also included in the selected list since they are receiving a considerable amount from PSC.

Performance of Kerala in Public Service Commission Receipts

PSC receipts comes mainly from State PSC fees, UPSC/SSC examination fee and other receipts. Though Kerala increased PSC receipts from 1.70 crores in 2011-12 to Rs.5 crores in

2018-19, we are receiving very nominal amount from PSC as compared with other states. In some years Tamil Nadu and Karnataka are collecting a good amount. In 2018-19, Uttar Pradesh is collecting Rs.82 crores. Haryana performs well in both absolute terms and per capita terms. Per capita receipt of Kerala is Rs.1.44 in 2018-19 while it is Rs.11.61 for Haryana.

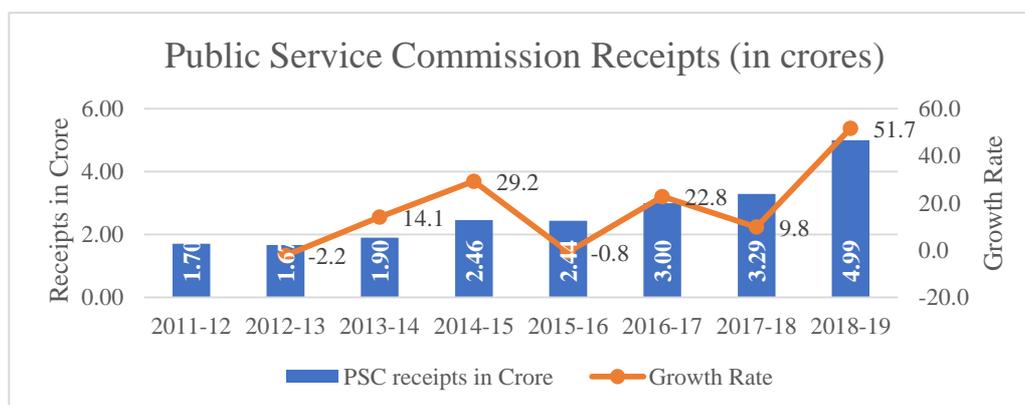


Figure 1

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Kerala	1.70	1.67	1.90	2.46	2.44	3.00	3.29	4.99	
Tamil Nadu	3.19	24.21	21.16	15.93	15.86	13.54	34.45	14.07	
Karnataka	21.30	9.26	1.76	9.48	32.69	25.49	21.56	8.08	15.44
Telangana				0.00	0.00	0.00	0.01		
Andhra Pradesh	2.79	28.64	11.02	0.08	2.02	43.75	3.74	34.39	
Uttar Pradesh	6.02	2.12	19.30	27.91	101.06	53.24	13.60	82.15	
Punjab	3.64	8.16	16.33	1.01	14.17	15.26	4.07	13.77	
Haryana	19.56	5.92	28.90	3.70	41.09	13.38	10.67	32.75	41.50

Source: Finance Accounts, Various years

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Kerala	0.51	0.50	0.56	0.72	0.71	0.87	0.95	1.44	
Tamil Nadu	0.44	3.32	2.88	2.15	2.13	1.81	4.58	1.86	
Karnataka	3.46	1.49	0.28	1.49	5.09	3.93	3.31	1.23	2.34

Telangana				0.00	0.00	0.00	0.00	0.00	0.00
Andhra Pradesh	0.57	5.78	2.21	0.02	0.40	8.62	0.73	6.70	
Uttar Pradesh	0.30	0.10	0.93	1.32	4.72	2.45	0.62	3.66	
Punjab	1.30	2.88	5.69	0.35	4.81	5.11	1.35	4.50	
Haryana	7.65	2.29	10.99	1.39	15.19	4.88	3.84	11.61	14.51

Source: Same as table 2

Key take away

- Kerala collects very nominal amount in PSC receipt head as compared to other states.

Action Points

- Introduce a minimum amount as fees from the candidates appearing for various competitive examinations and interviews.
- Extend the examination facilities to conduct recruitment for private/semi-governmental/banking institutions through PSC by charging fees.

General Services: Stationery and Printing

Stationery and Printing Receipts collected from the sale proceeds of stationery supplied to government departments, sale proceeds of State Gazette, printing charges for government departments and other miscellaneous receipts.

Receipts from Stationery and Printing comes in the broad category of General Services receipts under State's own non-tax revenue. The best performers in this item among the states for the past 10 years are Uttar Pradesh and Punjab. Therefore, we are taking these two states along with the southern states to compare Kerala's revenue performance from Stationery and printing. The major revenue heads in Stationery and Printing are stationery receipts, sale of gazettes, other press receipts and other receipts.

In 2011-12, Kerala was collecting Rs.10.75 crore from the item and it increased to Rs.28.61 crores in 2018-19. In per capita terms Kerala performs well as compared with other states. The major heads in which Kerala receives revenue under Stationery and printing are Stationery receipts and other press receipts. Tamil Nadu, Karnataka, Uttar Pradesh and Maharashtra collects revenue under other receipts head. Maharashtra collects a good amount from the sale of gazettes also.

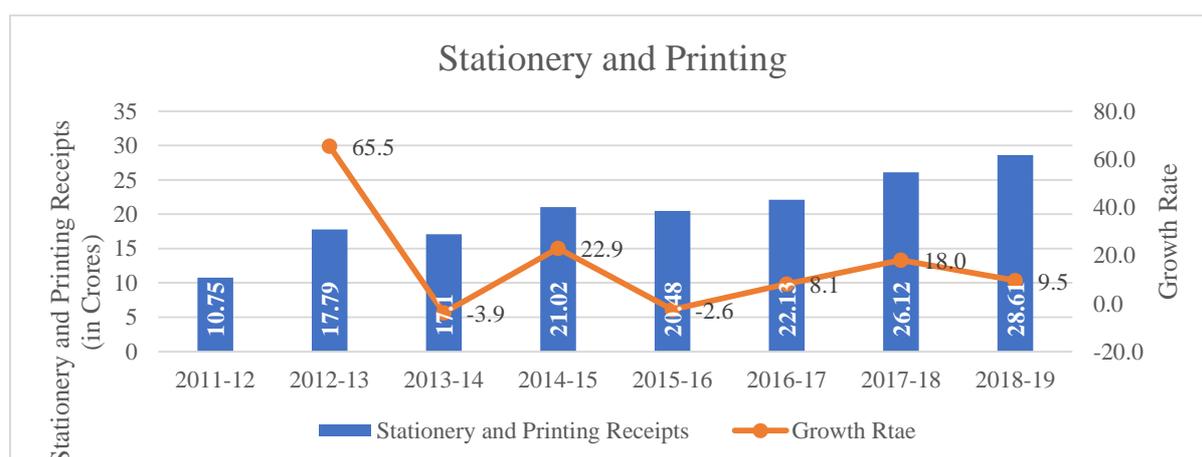


Figure 1

Table 1: Receipts from Stationery and Printing (in crores)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Kerala	10.75	17.79	17.10	21.02	20.48	22.13	26.12	28.61	
Tamil Nadu	8.35	15.24	15.38	18.17	19.80	18.74	23.54	36.13	
Karnataka	16.55	13.25	19.23	18.94	23.13	25.66	28.32	29.45	16.58
Telangana				0.58	0.46	0.41	0.59	1.58	
Andhra Pradesh	0.45	0.63	1.48	0.24	0.24	0.22	0.19	0.14	

Uttar Pradesh	16.76	21.06	23.55	16.46	22.34	49.39	27.36	47.76	
Punjab	3.26	6.96	1.19	8.61	10.81	7.36	7.49	5.90	
Maharashtra	20.63	27.88	33.26	21.47	23.07	47.85	40.42	32.31	41.15

Source: Finance Accounts, Various years

Table 2: Per capita Receipts from Stationery and Printing (in Rs.)									
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Kerala	3.21	5.28	5.06	6.18	6.00	6.45	7.57	8.25	
Tamil Nadu	1.15	2.09	2.09	2.46	2.66	2.50	3.13	4.78	
Karnataka	2.69	2.13	3.06	2.98	3.60	3.95	4.35	4.49	2.51
Telangana				0.16	0.12	0.11	0.16	0.41	
Andhra Pradesh	0.09	0.13	0.30	0.05	0.05	0.04	0.04	0.03	
Uttar Pradesh	0.83	1.03	1.13	0.78	1.04	2.27	1.24	2.13	
Punjab	1.17	2.46	0.42	2.96	3.67	2.47	2.48	1.93	
Maharashtra	2.81	3.74	4.39	2.79	2.95	6.02	5.01	3.95	4.96

Source: Finance Accounts, Various years

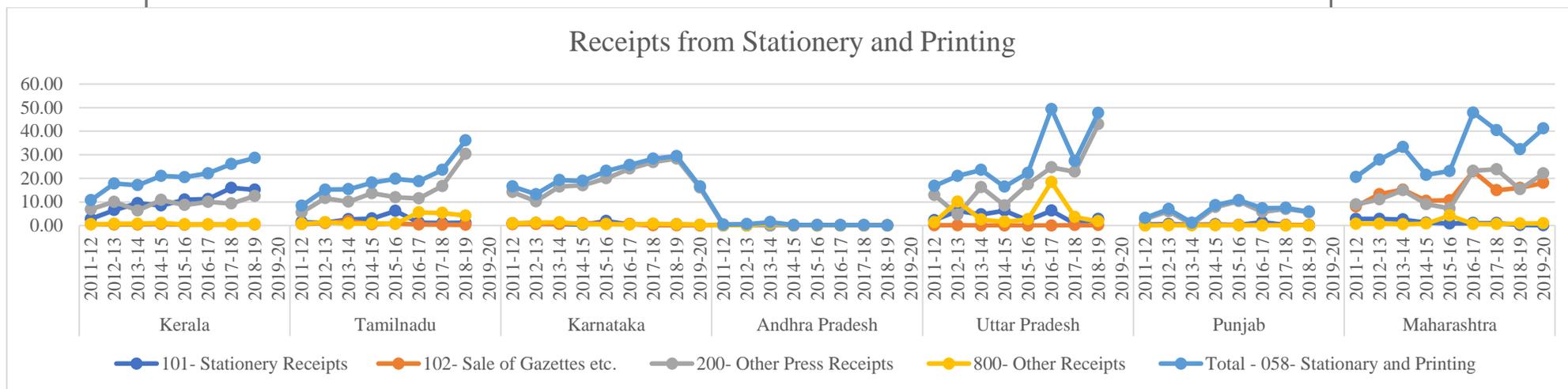
Key Take Away

- Kerala performs well in collecting revenue receipts from stationery and printing as compared with other states.

Action Points

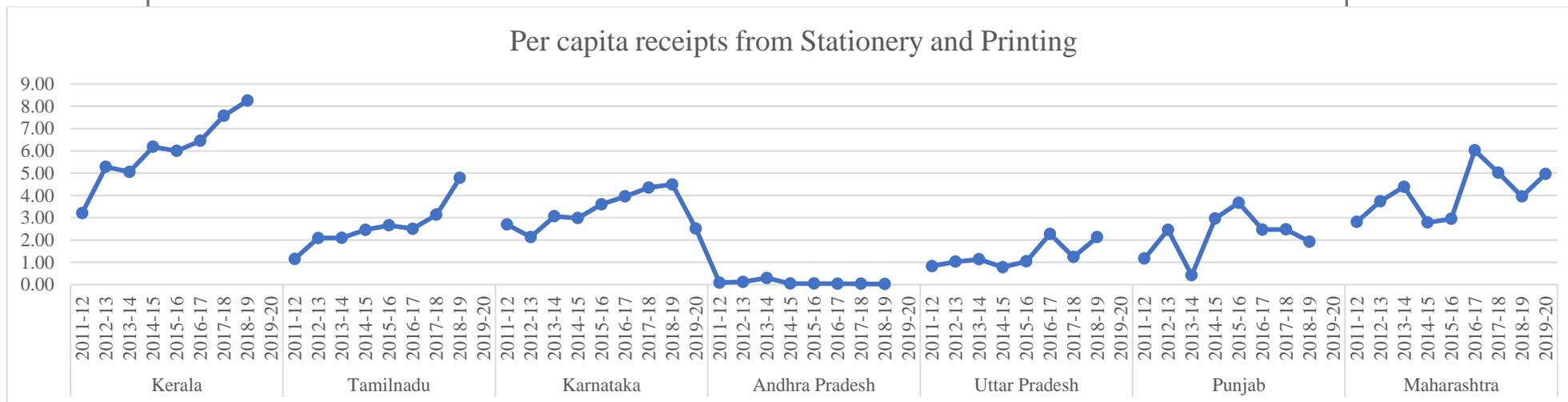
- Channelize all the purchases for the government institutions through the stationery departments
- Provide facilities of the stationery and printing department for the bulk purchase of private entities.
- Extent the service of Stationery Departments in schools for the supply of the stationery items.

Figure 1



Source: Finance Accounts, Various years

Figure 2



Source: Same as figure 1

Social Services: Education, Sports, Arts and Culture

Education, Sports, Arts and Culture Receipts are the receipts from tuition and other fees realized from students in Government educational institutions, public contributions to the educational institutions, receipts of museums and archaeological monuments.

Receipts from Education, Sports, Arts and Culture are included in the broad category of social services receipts which comes as a component under State's own non-tax revenue. From the analysis of past ten-year performance from 2011-12 to 2019-20 (RE), we can find that the receipts from Education, Sports, Arts and Culture contribute to 0.68% of the total revenue receipts and 2.63% of the Non-Tax Revenue. Further, it contributes to 7.83% of the total State Own Non-Tax Revenue (SONTR). Average annual growth of this component for the period is 12.9%.

Performance of Kerala

The average figure for Kerala for the receipts from Education, Sports, Arts and Culture in proportion to total revenue is 0.39%. It is 1.83% of the non-tax revenue and 3.55% of the total SONTR.

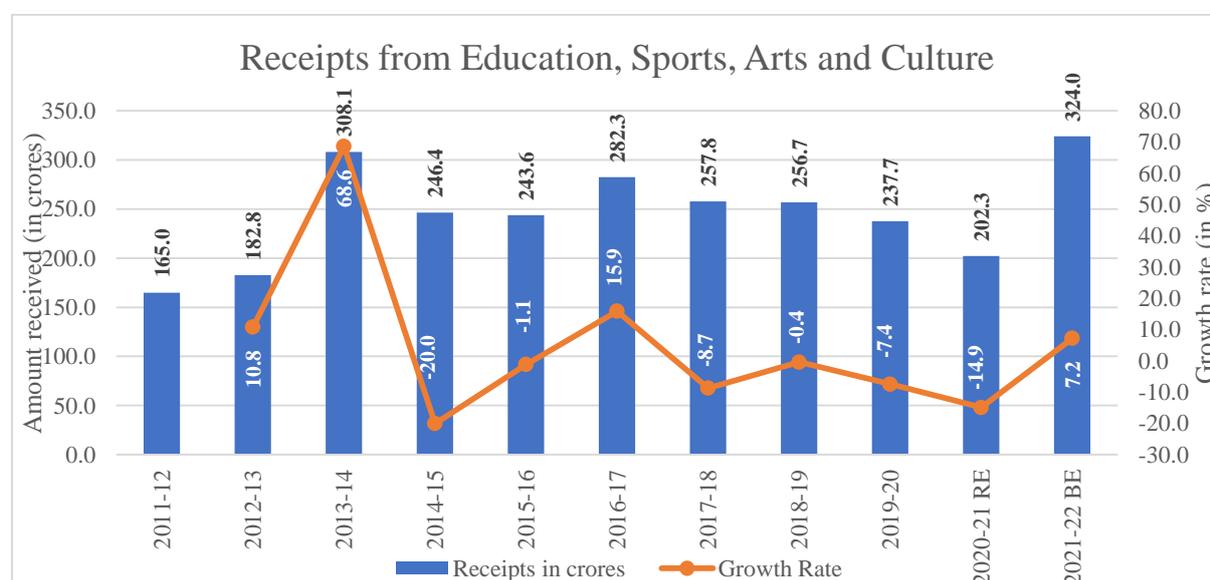


Figure 1

Receipts from Education, Sports, Arts and Culture was Rs.165 crores in 2011-12. It increased to Rs.308 crores in 2013-14. But then it declines continuously except in 2016-17. The

Estimated Budget figure expects a growth of 7.2% from the 2020-21 RE. This can be achieved only by adding Rs.122 crores to the existing receipts.

When we comparing the performance in collecting receipts from Education, Sports, Arts and Culture for the past 10 years, we can find that Kerala is in 9th position in the receipts from Education, Sports, Arts and Culture in both absolute (figure 2) and per capita (figure 3) terms among other major States. The receipts of Kerala in per capita terms is Rs.71.8/- against Rs.179.9/- of Haryana and Rs.170.9/- of Tamil Nadu. The State falls behind the all State per capita figure, of Rs.93/- . Per capita receipts of all the other southern States is more than Rs.100 except Karnataka, which is far behind with Rs.25.5/-.

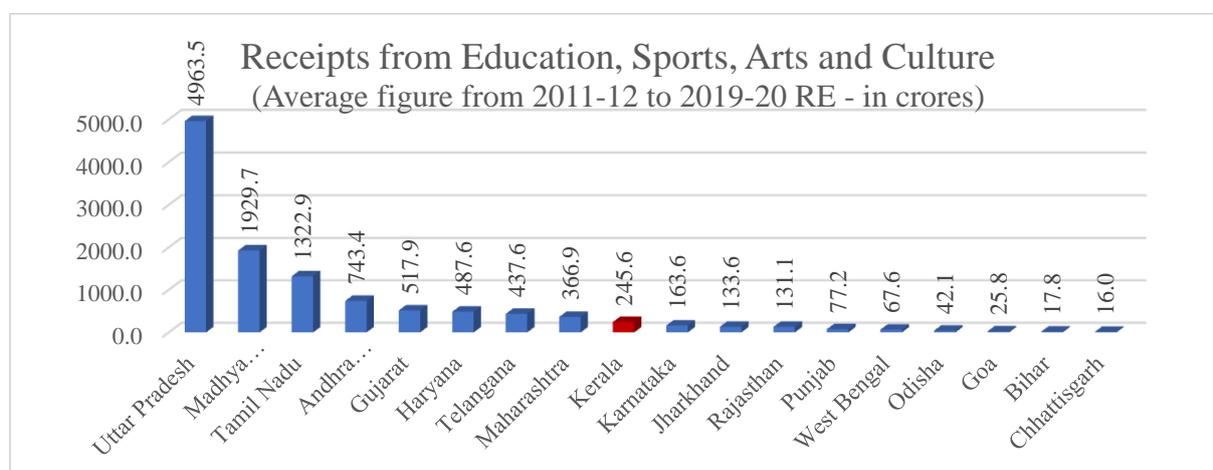


Figure 2

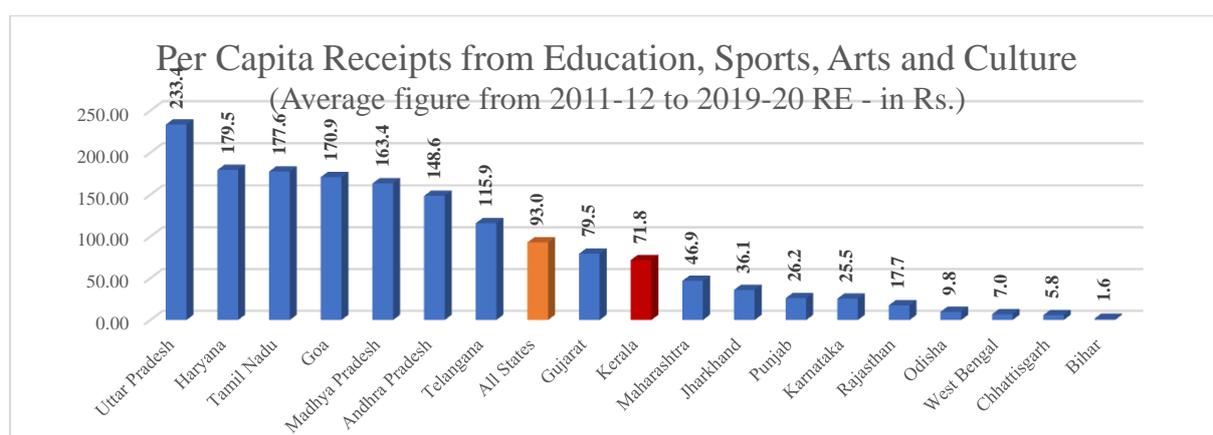


Figure 3

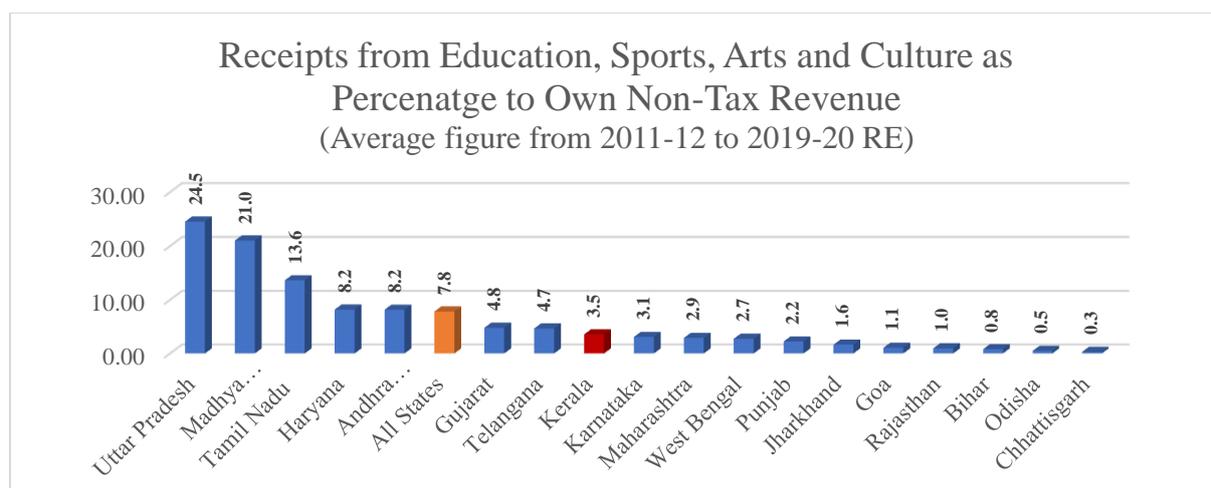


Figure 4

Based on Figures 2 and 3, the best performer among the major States is Uttar Pradesh. But we are excluding the State for further analysis. Because, the recent data of Uttar Pradesh shows a huge decline after 2017-18 and is out of the top ten in receiving revenue from Education, Sports, Arts and Culture (Appendix Table 1). Therefore, we are taking Madhya Pradesh and Haryana for a detailed comparison along with the southern States, especially Tamil Nadu, one of the best performers in education receipts in the country.

Share of Education, Sports, Arts and Culture Receipts in SONTR

The share of receipts from Education, Sports, Arts and Culture in SONTR for all States was increasing continuously till 2016-17. It was 12.6% of the SONTR in 2016-17. But after this, the share is revolving around 3-4%. This may be because of the drastic reduction of share in the receipts from Uttar Pradesh. Though the share is declined in some years, 20% of the SONTR of Madhya Pradesh is from Education, Sports, Arts and Culture. One of the top performing southern State, Tamil Nadu is receiving more than 10% of the SONTR from this. The share of Education, Sports, Arts and Culture Receipts in SONTR for Kerala was 6.4% in 2011-12, declined to 2% in 2019-20 RE. That is, performance of Kerala in this regard is very poor and falls behind to all other southern States except, Karnataka.

Table 1: Education, Sports, Arts and Culture Receipts as percentage of SONTR												
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 RE	2020-21 BE	Average Value	Rank
Top Performers												
All States	6.2	8.3	10.5	10.7	11.2	12.6	3.4	3.5	4.0	3.1	7.8	VI
Haryana	6.3	8.2	6.4	12.2	13.4	10.3	7.4	3.4	5.9	5.2	8.2	IV
Madhya Pradesh	20.7	24.0	26.1	31.6	15.1	20.1	14.5	17.8	19.4	12.4	21.0	II

Tamil Nadu	8.5	11.5	18.1	23.1	15.2	12.1	10.7	11.2	12.3	12.1	13.6	III
Uttar Pradesh	19.8	32.5	39.0	29.1	46.0	48.7	2.2	1.3	2.2	1.9	24.5	I
Southern States												
Andhra Pradesh	5.8	7.5	10.8	13.0	17.4	11.1	2.7	0.7	4.4	2.7	8.2	V
Karnataka	3.2	3.8	3.0	3.3	3.0	3.3	2.7	2.9	2.5	2.3	3.1	X
Kerala	6.4	4.4	5.5	3.4	2.9	2.9	2.3	2.2	2.0	2.0	3.5	IX
Tamil Nadu	8.5	11.5	18.1	23.1	15.2	12.1	10.7	11.2	12.3	12.1	13.6	III
Telangana				6.4	1.3	7.9	4.3	3.2	5.0	2.3	4.7	VIII

Note: (i) Top performers are ranked and selected on the basis of their mean value.

(ii) We omitted the BE figure for the mean value calculation. Therefore, all the figures calculated from the year 2011-12 to 2019-20 RE.

Source: Calculated based on the data from State Finances: A Study of Budgets, Various years

Per Capita Receipts from Education, Sports, Arts and Culture

Kerala is lagging behind many States especially the southern States, except Karnataka in the performance on the basis Per Capita receipts from Education, Sports, Arts and Culture. Haryana and Tamil Nadu receive more than Rs.200/- per head from Education, Sports, Arts and Culture. All other top performing States and southern States receive more than Rs.100/- per head. But Kerala receives Rs.77/- per head as per the 2019-20 RE.

Top Performers												
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 RE	2020-21 BE	Average Value	Rank
All States	50.8	78.8	111.8	121.9	133.7	165.0	45.8	57.4	71.3	62.0	93.0	VIII
Haryana	115.7	148.7	121.3	211.7	235.7	233.6	242.4	96.5	209.7	275.9	179.5	II
Madhya Pradesh	137.1	147.1	173.7	280.2	109.3	152.8	108.7	194.5	167.4	88.3	163.4	V
Tamil Nadu	66.7	103.1	230.6	261.3	182.1	159.7	153.4	210.8	230.5	251.8	177.6	III
Uttar Pradesh	99.6	205.8	308.6	274.8	497.2	647.9	19.6	17.0	29.9	25.3	233.4	I
Southern States												
Andhra Pradesh	137.0	241.2	336.1	285.0	169.7	113.7	20.3	6.0	28.5	30.9	148.6	VI
Karnataka	21.2	23.9	19.1	24.4	24.9	29.8	27.0	30.5	28.7	26.7	25.5	XIV
Kerala	49.2	54.3	91.1	72.5	71.3	82.3	74.7	74.1	76.8	84.1	71.8	X
Tamil Nadu	66.7	103.1	230.6	261.3	182.1	159.7	153.4	210.8	230.5	251.8	177.6	III

Telangana	0.0	0.0	0.0	111.9	49.5	204.9	88.7	83.0	157.3	180.5	115.9	VII
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Source: Same as Table 1

Growth of Education, Sports, Arts and Culture Receipts

Among the selected States, Telangana is on the top position in growth of Education, Sports, Arts and Culture Receipts with an average growth of 51.3% after the formation of the State. One of the top performer, Madhya Pradesh is lagging behind Kerala with an average growth of 7.1% for the past ten years from 2011-12 to 2019-20 RE. All the other selected States excluding Karnataka is ahead of Kerala in the growth of Education, Sports, Arts and Culture Receipts.

Table 3: Growth Rate of Education, Sports, Arts and Culture Receipts												
Top Performers												
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 RE	2020-21 BE	Average Value	Rank
All States		57.2	43.5	10.4	11.1	24.9	-71.9	26.8	25.5	-12.0	12.9	XVI
Haryana		30.3	-17.3	77.0	12.9	0.5	5.2	-59.6	120.5	33.4	22.6	XI
Madhya Pradesh		8.5	19.4	63.1	-60.6	41.1	-28.2	80.7	-13.1	-46.8	7.1	XVIII
Telangana					-55.3	317.6	-56.3	-5.4	91.3	15.9	51.3	II
Uttar Pradesh		109.7	52.3	-9.6	83.7	32.3	-96.9	-11.8	78.8	-14.1	24.9	IX
Southern States												
Andhra Pradesh		77.1	40.1	-14.7	-40.1	-32.6	-82.0	-70.1	375.8	9.0	29.2	VIII
Karnataka		13.9	-19.3	29.0	3.1	21.1	-9.2	13.8	-4.9	-6.2	4.6	XIX
Kerala		10.8	68.6	-20.0	-1.1	15.9	-8.7	-0.4	4.2	10.1	8.8	XVII
Tamil Nadu		55.6	125.2	14.1	-29.9	-11.8	-3.5	38.1	9.9	9.7	23.0	X
Telangana					-55.3	317.6	-56.3	-5.4	91.3	15.9	51.3	II

Source: Same as Table 1

Revenue Projection

We can project revenue receipts from Education, Sports, Arts and Culture in two ways: (1) based on Average Annual Growth Rate (AAGR) and (2) based on the share of Education, Sports, Arts and Culture receipts in SONTR.

(1) Based on AAGR

Based on the 2019-20 RE and average growth rate for the past 10 years, we can project revenue for the next five years. With an average growth of 8.8%, we can project that Kerala may get an additional amount of Rs.23.6 crores from Education, Sports, Arts and Culture in

2020-21 (Table 4). But an important thing to note is that the 2019-20 growth rate of this component is 4.2% only.

Table 4: Revenue Projection From Education, Sports, Arts and Culture based on the Current AAGR							
			Projected Revenue				
	2019-20 RE	Growth Rate	2020-21	2021-22	2022-23	2023-24	2024-25
Top Performers							
All States	9585.5	12.9	10817.4	12207.7	13776.6	15547.2	17545.4
Haryana	600.0	22.6	735.3	901.1	1104.3	1353.4	1658.6
Madhya Pradesh	2056.4	7.1	2203.0	2360.1	2528.4	2708.7	2901.8
Uttar Pradesh	681.2	24.9	851.0	1063.1	1328.1	1659.1	2072.6
Southern States							
Andhra Pradesh	147.3	29.2	190.3	245.8	317.5	410.0	529.6
Karnataka	189.9	4.6	198.6	207.7	217.2	227.2	237.6
Tamil Nadu	1749.8	23.0	2153.0	2649.2	3259.7	4010.9	4935.1
Telangana	607.8	51.3	919.6	1391.3	2105.0	3184.7	4818.3
Kerala	267.6	8.8	291.1	316.8	344.7	375.1	408.1
Additional Revenue Projected			23.6	25.7	27.9	30.4	33.0

Source: Calculated

Based on the growth rate of the receipts from Education, Sports, Arts and Culture of the top performing States, we can project revenue and additional amount that Kerala can generate if we increase the revenue potential of the State (Table 5). Here we are omitting Madhya Pradesh and Karnataka due to that the growth rate is lower than Kerala. Based on Table 5, if the receipts can grow at a rate of Tamil Nadu (23%), Kerala can increase receipts from RS. 267.6 crores in 2019-20 to Rs.329.1 crores in 2020-21. This implies Kerala can get an additional amount of Rs.61.5 crores.

Table 5: Projected Revenue of Kerala Based on the Growth Rate of Other Selected States						
2019-20 RE of Kerala - 267.6 Crore		Projected Revenue				
State	Growth Rate	2020-21	2021-22	2022-23	2023-24	2024-25
Kerala	8.8	291.1	316.8	344.7	375.1	408.1
Additional Revenue Projected		23.6	25.7	27.9	30.4	33.0
Projected Revenue based on the Growth rate of other selected States						
Top Performers						
All States	12.9	302.1	341.0	385.0	434.7	490.8

Haryana	22.6	328.0	402.2	493.1	604.5	741.1
Uttar Pradesh	24.9	334.2	417.4	521.3	651.1	813.3
Southern States						
Andhra Pradesh	29.2	345.7	446.6	577.0	745.5	963.2
Tamil Nadu	23.0	329.1	404.8	497.9	612.4	753.3
Telangana	51.3	404.8	612.5	926.7	1402.1	2121.4
State	Growth Rate	Additional Revenue Projected				
Top Performers						
All States	12.9	34.5	39.0	44.0	49.7	56.1
Haryana	22.6	60.5	74.1	90.9	111.4	136.6
Uttar Pradesh	24.9	66.6	83.2	103.9	129.8	162.1
Southern States						
Andhra Pradesh	29.2	78.1	100.9	130.4	168.5	217.7
Tamil Nadu	23.0	61.5	75.7	93.1	114.5	140.9
Telangana	51.3	137.3	207.7	314.2	475.4	719.3

Source: Calculated

(2) Based on the Share of Education, Sports, Arts and Culture Receipts in SONTR

Here, revenue can be projected on the basis of the average share of the receipts from Education, Sports, Arts and Culture in SONTR for the past 10 years from 2011-12 to 2019-20 RE. Based on this, average share of receipts from Education, Sports, Arts and Culture is 3.5% of the SONTR of Kerala. If the State can sustain the share for the coming years, Kerala can mobilize an additional amount of Rs.313.4 crores in 2020-21. Now, the share is 2% of the SONTR as per the 2019-20 RE.

Table 6: Revenue Projection Based on the Average Share of Education, Sports, Arts and Culture Receipts in Total SONTR (from 2011-12 to 2019-20 RE)							
	SONTR		Projected SONTR				
	2019-20 RE (in crores)	Avg. Growth Rate	2020-21	2021-22	2022-23	2023-24	2024-25
Top states							
All States	239114.4	11.8	267224.2	298638.5	333745.9	372980.3	416827.2
Haryana	10135.1	11.7	11316.2	12634.8	14107.2	15751.2	17586.7
Madhya Pradesh	10591.9	6.6	11293.4	12041.3	12838.8	13689.1	14595.7
Uttar Pradesh	31375.9	17.7	36933.8	43476.2	51177.5	60242.9	70914.2
Southern States							
Andhra Pradesh	3323.9	-10.1	2988.0	2686.0	2414.5	2170.5	1951.2
Karnataka	7507.7	8.1	8114.1	8769.4	9477.6	10243.0	11070.2
Kerala	13243.8	23.7	16377.2	20251.9	25043.3	30968.2	38295.0
Tamil Nadu	14195.3	13.2	16070.3	18193.1	20596.2	23316.8	26396.7

Telangana	12275.0	24.4	15270.0	18995.6	23630.3	29395.8	36567.9
	Edn. Receipts 2019-20 RE	Share of Edn. Receipts in SONTR (Avg.)	Projected Receipts from Education, Sports, Arts and Culture				
			2020-21	2021-22	2022-23	2023-24	2024-25
Top states							
All States	9585.5	7.8	20918.8	23378.0	26126.2	29197.6	32630.0
Haryana	600.0	8.2	925.9	1033.8	1154.2	1288.7	1438.9
Madhya Pradesh	2056.4	21.0	2374.7	2531.9	2699.6	2878.4	3069.0
Uttar Pradesh	681.2	24.5	9057.0	10661.4	12549.9	14773.0	17389.8
Southern States							
Andhra Pradesh	147.3	8.2	243.9	219.3	197.1	177.2	159.3
Karnataka	189.9	3.1	250.1	270.3	292.1	315.7	341.2
Tamil Nadu	1749.8	13.6	2191.6	2481.1	2808.9	3179.9	3599.9
Telangana	607.8	4.7	711.0	884.5	1100.2	1368.7	1702.6
Kerala	267.6	3.5	581.0	718.5	888.5	1098.7	1358.6
Additional Revenue projected			313.4	137.5	170.0	210.2	259.9

Source: Calculated

We can project revenue and additional amount that Kerala can generate, if we increase the share of Education, Sports, Arts and Culture in SONTR at the same rate as the top performing States has (Table 7). Based on Table 7, if the share increases to 21% as with Madhya Pradesh, Kerala can increase receipts from Rs. 267.6 crores in 2019-20 to Rs.3443.6 crores in 2020-21. This implies Kerala can get an additional amount of Rs.3176.1 crores. Likewise, the average share of the receipts in SONTR for Tamil Nadu is 13.6%. If Kerala can increase the share of the receipts to 13.6%, we can generate an amount of Rs.2233.5 crores from Education, Sports, Arts and Culture.

Table 7: Projected Revenue of Kerala Based on the Share of Education, Sports, Arts and Culture Receipts in SONTR of Other Selected States						
		Projected				
	2019-20 RE	2020-21	2021-22	2022-23	2023-24	2024-25
Kerala - SONTR	13243.8	16377.2	20251.9	25043.3	30968.2	38295.0
Top States	Share of Edn. Receipts in SONTR (Avg.)	Projected Receipts from Education, Sports, Arts and Culture based on the shares of other States				
All States	7.8	1282.0	1585.4	1960.4	2424.2	2997.8
Haryana	8.2	1339.9	1657.0	2049.0	2533.8	3133.2
Madhya Pradesh	21.0	3443.6	4258.4	5265.8	6511.7	8052.3
Uttar Pradesh	24.5	4016.1	4966.2	6141.2	7594.1	9390.8
Southern States						
Andhra Pradesh	8.2	1336.8	1653.1	2044.3	2527.9	3126.0

Karnataka	3.1	504.7	624.2	771.8	954.4	1180.3
Tamil Nadu	13.6	2233.5	2761.9	3415.3	4223.4	5222.6
Telangana	4.7	762.5	942.9	1166.0	1441.9	1783.1
		Additional Revenue Projected				
All States		1014.5	303.3	375.1	463.8	573.6
Haryana		1072.4	317.0	392.0	484.8	599.5
Madhya Pradesh		3176.1	814.7	1007.5	1245.8	1540.6
Uttar Pradesh		3748.5	950.2	1175.0	1452.9	1796.7
Southern States						
Andhra Pradesh		1069.3	316.3	391.1	483.6	598.1
Karnataka		237.2	119.4	147.7	182.6	225.8
Tamil Nadu		1965.9	528.4	653.4	808.0	999.2
Telangana		495.0	180.4	223.1	275.9	341.1

Source: Calculated

Component-wise performance of Education, Sports, Arts and Culture Receipts

To get a clearer picture, we can compare the component wise performance of the Education, Sports, Arts and Culture receipts of Kerala with the selected States. For this purpose, we are using Finance Accounts of the selected States for various years. The available accounted data from Finance Accounts for all the States is till 2018-19. Therefore, we are using the data from 2011-12 to 2018-19 for the purpose of comparison and projection.

The major components of Education, Sports, Arts and Culture receipts are:

- 01 General Education
- 02 Technical Education
- 03 Sports and Youth Services
- 04 Art and Culture

Among these four major components, General Education receipts contribute to more as compared with other components (Table 7). The major items included in General Education receipts are elementary education receipts, secondary education receipts, university and higher education receipts, general receipts and other receipts.

	Kerala	Tamil Nadu	Karnataka	Telangana	Andhra Pradesh	Madhya Pradesh	Haryana
01 General Education	80.9	91.5	62.0	98.2	94.7	100.0	94.6
02 Technical Education	15.5	7.7	31.9	1.5	5.0	0.0	3.4
03 Sports and Youth Services	0.1	0.1	5.1	0.0	0.4	0.0	4.0
04 Arts and Culture	3.5	0.7	2.9	0.4	0.1	0.0	0.9

Source: Calculated based on the data from Finance Accounts of the States, Various years

The top performer of education receipts, Madhya Pradesh receives entire amount of their receipts from General Education under the head of general receipts. Other States such as Tamil Nadu, Telangana, Andhra Pradesh and Haryana collect more than 90% from the component, General Education. The major contributor of revenue receipts from the General Education in Telangana, Andhra Pradesh and Haryana is elementary education. In Tamil Nadu, both elementary education and secondary education contribute to revenue. But the biggest component in Kerala is secondary education.

The major items included in technical education receipts are tuition and other fees, services and service fees, general receipts and other receipts. Tamil Nadu (7.7%), Karnataka (31.9%) and Kerala (15.5%) receive a good amount of revenue from Technical Education. Of this, Karnataka gets revenue from tuition and other fees only. But Tamil Nadu receives revenue from the heads such as tuition and other fees, services and service fees and other receipts. The major contributor in Technical Education receipts for Kerala is other receipts.

The major items in Sports and Youth Services are physical education, youth and sports welfare receipts, and other receipts. On this, Karnataka and Haryana alone perform in a decent way. All the other States selected for our analysis including Kerala generate a very minute amount only.

The items included in Arts and Culture are receipts from archives and museums, public libraries and other receipts. On this head also, south Indian States such as Kerala, Tamil Nadu and Karnataka perform well. Kerala receives from archives and museums and other receipts. Other receipt is the top contributor for Karnataka. But in Tamil Nadu, public libraries are the top contributor in receipts in the category of Arts and Culture.

The projected amount of revenue based on the head-wise average growth of the components from 2011-2019 is given in Table 9, which tells us the amount we can generate for the coming years, if we sustain our growth in the same path we moved for the past years. Based on this, the table projects an amount of Rs.281.5 crores in 2019-20, which implies an additional amount of Rs.24.8 crores. (But the actual amount received from Education, Sports, Arts and Culture in 2019-20 is Rs.237.7 crores only, which is Rs.19 crores lesser than the amount collected in 2018-19).

Table 9: Revenue Projected based on the Average Growth Rate (from 2011-12 to 2018-19 Accounts) of the Components in Education, Sports, Arts and Culture									
	Avg. Growth Rate (from 2011-2019)	Accounts	Projected Revenue						
		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	
01 General Education									
101- Elementary Education	26.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4	
102- Secondary Education	8.4	149.7	162.2	175.8	190.6	206.5	223.9	242.6	
103- University and Higher Education	12.5	56.3	63.4	71.3	80.2	90.3	101.6	114.3	
Total - 01 General Education	9.4	206.2	225.7	247.0	270.3	295.7	323.6	354.1	
02 Technical Education									
101- Tuition and other Fees	13.3	11.8	13.3	15.1	17.1	19.4	21.9	24.8	
800- Other Receipts	8.6	27.6	30.0	32.6	35.4	38.4	41.8	45.4	
Total - 02 Technical Education	9.6	39.4	43.2	47.3	51.9	56.9	62.3	68.3	
03 Sports and Youth Services									
Total - 03 Sports and Youth Services	50.6	0.1	0.2	0.3	0.5	0.7	1.0	1.5	
04 Arts and Culture									
101- Archives and Museums	12.6	8.8	10.0	11.2	12.6	14.2	16.0	18.1	
102- Public Libraries	5.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	
800- Other Receipts	29.8	1.9	2.4	3.1	4.1	5.3	6.8	8.9	
Total - 04 Art And Culture	13.5	11.0	12.5	14.2	16.1	18.3	20.7	23.5	
Total - Education, Arts, Sports and Culture	9.3	256.7	281.5	308.7	338.7	371.5	407.7	447.5	
Additional Revenue Projected									
Total - 01 General Education			19.4	21.3	23.3	25.5	27.9	30.5	
Total - 02 Technical Education			3.8	4.2	4.6	5.0	5.5	6.0	
Total - 03 Sports and Youth Services			0.1	0.1	0.2	0.2	0.3	0.5	
Total - 04 Art And Culture			1.5	1.7	1.9	2.2	2.5	2.8	
Total - Education, Arts, Sports and Culture			24.8	27.2	29.9	32.9	36.2	39.8	

Source: Same as Table 8

Table 10 projects revenue of Kerala, based on the AAGR (2011-12 to 2018-19) of Education, Sports, Arts and Culture Receipts of the best performing State like Tamil Nadu. It projects an amount of Rs.92.2 crores, if Kerala can maintain a growth of 26.8%.

	Avg. growth rate of Tamil Nadu	2018-19 (A)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
01 General Education	29.1	206.25	266.3	343.9	444.1	573.4	740.4	956.1
02 Technical Education	46.7	39.36	57.8	84.8	124.4	182.5	267.8	393.0
03 Sports and Youth Services	90.3	0.13	11.1	21.1	40.2	76.6	145.7	277.3
04 Arts and Culture	25.5	10.99	13.8	17.3	21.7	27.2	34.2	42.9
Total	26.8	256.7	349.0	467.1	630.4	859.7	1188.1	1669.2
Additional Revenue Projected			92.2	118.1	163.3	229.3	328.4	481.1

Note: (A) - Accounts

Source: Same as Table 8

From the analysis after comparing the performance of the top States along with the southern States, the rate increase we are proposing and the amount of receipts projected from Education, Sports, Arts and Culture is given in the Table 11.

	01 General Education	02 Technical Education	03 Sports And Youth Services	04- Art And Culture	Total
Average Growth of Components in Education, Sports, Arts and Culture from 2011-12 to 2018-19					
Top States					
Madhya Pradesh	17.7	-25.1	-90.3	0.0	17.7
Haryana	6.7	8.6	155.9	423.7	7.2
Southern States					
Andhra Pradesh	-17.9	-5.1	-14.8	-9.5	-17.7
Kerala	9.4	9.6	50.6	13.5	9.3
	(2.7)*	(-15.7)	(69.5)	(7.5)	(-0.4)
Karnataka	13.2	1.4	15.6	-9.0	7.5
Tamil Nadu	29.1	46.7	90.3	25.5	26.8
Telangana	52.5	1.8	-77.3	2.4	50.1
Proposed and Projected					
Proposed increase in fees and charges based on the Avg. Growth rate (in %)	20	20	60	20	20
In effect Increase	10.6	10.4	9.4	6.5	10.7
2018-19 (A)	206.3	39.4	0.13	10.99	256.7
2019-20 (P)	247.5	47.2	0.2	13.2	308.1
Additional - 2019-20	41.3	7.9	0.03	2.2	51.35
2020-21 (P)	297.0	56.7	0.2	15.8	369.7

Additional - 2020-21	49.5	9.4	0.0	2.6	61.6
2021-22 (P)	356.4	68.0	0.2	19.0	443.6
Additional - 2021-22	59.4	11.3	0.0	3.2	73.9
2022-23(P)	427.7	81.6	0.3	22.8	532.4
Additional - 2022-23	71.3	13.6	0.0	3.8	88.7
2023-24 (P)	513.2	97.9	0.3	27.3	638.8
Additional - 2023-24	85.5	16.3	0.1	4.6	106.5
2024-25 (P)	615.9	117.5	0.4	32.8	766.6
Additional - 2024-25	102.6	19.6	0.1	5.5	127.8

Note: (A) – Accounts, (P) – Projected

*figures in parenthesis is the annual growth rate in 2018-19 (A)

Source: Same as Table 8

Though it is not advisable to generate income through increase of fees, SEZ or surcharge at this pandemic period we are proposing an increase of 20% in fees, public contributions to the educational institutions, receipts of museums and archaeological monuments.

This is inevitable while looking into the expenditure side, Kerala is at the third position in Per Capita Revenue Expenditure on Education, Sports, Arts and Culture, behind Goa and Maharashtra and tops among the southern States. RE in proportion to GSDP is 2.5% for Kerala, which is similar to the “All States” proportion. Kerala is ahead of all other southern States, except Andhra Pradesh in RE on Education, Sports, Arts and Culture – GSDP ratio.

Highlights

- Kerala performs poor in:
 - Share of Education, Sports, Arts and Culture receipts in GSDP (0.04%),
 - Per capita receipts from Education, Sports, Arts and Culture (Rs.71.8)
 - Receipts in proportion to total revenue, total non-tax revenue and own non-tax revenue
 - Growth of the receipts for the past 10 years (8.8%).
- Kerala performs well in
 - Per Capita Revenue Expenditure on Education, Sports, Arts and Culture (3rd – Rs.4284.2).
 - RE on Education, Sports, Arts and Culture – GSDP ratio (2.5%).
- In General Education head, Kerala receives revenue from secondary education (Rs.131 crores – (average – 2011to19)) than elementary education (Rs.23 crore). But States like, Andhra Pradesh (Rs.649.32), Telangana (Rs.317.39 crores) and Haryana (Rs.388.78 crores) collects revenue from elementary education head. Tamil Nadu collects more than Rs.500 crores from both elementary (Rs.562.04 crores) and secondary education (Rs.593.54 crores).
- The major contributor in Technical Education receipts for Kerala is other receipts (Rs.26.37 crores). While Tamil Nadu (Rs.50.75 crores) and Karnataka (Rs.45.93 crores) collects from tuition and other fees.

- Kerala receives revenue from archives and museums (Rs.7.17 crores) in Arts and Culture receipts. Tamil Nadu collects from archives and museums (Rs.2.46 crores) and public libraries (Rs.3.78 crores)

Action Points

- Though it is not advisable to generate income through increase of fees, SEZ or surcharge at this pandemic period, we are proposing an increase of 20% in fees, public contributions to the educational institutions, receipts of museums and archaeological monuments. Based on the analysis, it is expected that an additional amount of Rs.51.35 crores in 2019-20, Rs.61.60 crores in 2020-21 and Rs.73.9 crores in 2021-22 can be generated.
- Additional actions that we can do to achieve this are:
 - A cess amount may be charged from the fees paid by the students enrolled in private education institution.
 - Extend the sports training programmes to the general public with a rational fee.
 - Extend the arts training programmes to the general public with a rational fee.
 - Revise the public library membership/other fees periodically.
 - Introduce a hike in the entry fees in the Museums and Archaeological monuments
 - Identify new historically important cultural heritages and make it available to the general public with a nominal fee.
 - Develop industrial collaboration of technical education.

Appendix

State Name	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Average
All States	6191.4	9733.4	13969.1	15423.4	17136.3	21408.1	6021.2	7637.7	9585.5	8437.5	11900.7
Andhra Pradesh	675.0	1195.8	1675.6	1429.3	856.3	577.0	103.6	31.0	147.3	160.6	743.4
Bihar	7.1	7.6	14.5	10.8	41.3	17.1	21.5	18.9	21.5	21.1	17.8
Chhattisgarh	11.3	9.3	6.8	30.8	13.1	27.0	17.2	14.0	14.8	16.1	16.0
Goa	16.2	26.9	22.8	17.2	30.0	26.2	26.5	25.0	41.7	53.2	25.8
Gujarat	251.9	261.0	424.6	507.6	295.5	658.5	253.3	688.5	1320.0	805.6	517.9
Haryana	295.7	385.4	318.9	564.5	637.4	640.5	674.0	272.2	600.0	800.5	487.6
Jharkhand	28.2	8.0	23.9	42.3	20.0	21.1	19.5	589.9	450.0	510.0	133.6
Karnataka	130.6	148.7	120.1	155.0	159.7	193.4	175.5	199.7	189.9	178.1	163.6
Kerala	165.0	182.8	308.1	246.4	243.6	282.3	257.8	256.7	267.6	294.5	245.6
Madhya Pradesh	1551.2	1682.5	2008.5	3276.1	1292.4	1824.0	1309.7	2366.4	2056.4	1095.0	1929.7
Maharashtra	262.0	394.5	319.2	362.4	606.6	256.7	449.7	210.9	439.8	461.8	366.9
Odisha	21.2	89.1	75.9	18.9	66.9	30.8	23.9	25.9	26.0	28.9	42.1
Punjab	32.0	39.3	96.5	159.4	88.7	95.9	41.9	56.8	84.2	65.0	77.2

Rajasthan	59.3	83.4	95.9	80.9	176.2	169.0	161.8	159.5	194.0	208.5	131.1
Tamil Nadu	483.3	751.9	1693.3	1932.0	1355.0	1195.2	1153.4	1592.4	1749.8	1920.0	1322.9
Telangana				411.6	184.0	768.3	336.0	317.7	607.8	704.4	437.6
Uttar Pradesh	2008.6	4211.7	6414.1	5798.5	10652.1	14092.3	432.1	380.9	681.2	585.0	4963.5
West Bengal	20.5	38.3	63.2	53.3	58.0	176.6	68.3	62.5	67.5	72.9	67.6

Table 2: Growth Rate of Receipts from Education Sports Arts and Culture (in Crores)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Average
All States		57.2	43.5	10.4	11.1	24.9	-71.9	26.8	25.5	-12.0	12.9
Andhra Pradesh		77.1	40.1	-14.7	-40.1	-32.6	-82.0	-70.1	375.8	9.0	29.2
Bihar		7.9	89.6	-25.5	283.7	-58.6	25.6	-12.2	14.2	-1.9	35.9
Chhattisgarh		-17.5	-27.0	353.9	-57.5	106.8	-36.6	-18.1	5.7	8.4	35.3
Goa		66.6	-15.4	-24.6	74.5	-12.6	1.2	-5.8	67.1	27.5	19.8
Gujarat		3.6	62.7	19.5	-41.8	122.8	-61.5	171.8	91.7	-39.0	36.7
Haryana		30.3	-17.3	77.0	12.9	0.5	5.2	-59.6	120.5	33.4	22.6
Jharkhand		-71.5	197.8	76.7	-52.7	5.6	-7.8	2932.1	-23.7	13.3	341.1
Karnataka		13.9	-19.3	29.0	3.1	21.1	-9.2	13.8	-4.9	-6.2	4.6
Kerala		10.8	68.6	-20.0	-1.1	15.9	-8.7	-0.4	4.2	10.1	8.8
Madhya Pradesh		8.5	19.4	63.1	-60.6	41.1	-28.2	80.7	-13.1	-46.8	7.1
Maharashtra		50.6	-19.1	13.6	67.4	-57.7	75.2	-53.1	108.6	5.0	21.2
Odisha		320.7	-14.9	-75.1	254.5	-54.0	-22.4	8.6	0.3	11.2	47.6
Punjab		22.6	145.7	65.2	-44.4	8.1	-56.3	35.6	48.4	-22.8	22.4
Rajasthan		40.8	15.0	-15.6	117.7	-4.0	-4.3	-1.4	21.6	7.5	19.7
Tamil Nadu		55.6	125.2	14.1	-29.9	-11.8	-3.5	38.1	9.9	9.7	23.0
Telangana					-55.3	317.6	-56.3	-5.4	91.3	15.9	51.3
Uttar Pradesh		109.7	52.3	-9.6	83.7	32.3	-96.9	-11.8	78.8	-14.1	24.9
West Bengal		86.6	64.9	-15.6	8.8	204.5	-61.3	-8.5	8.0	8.0	32.8

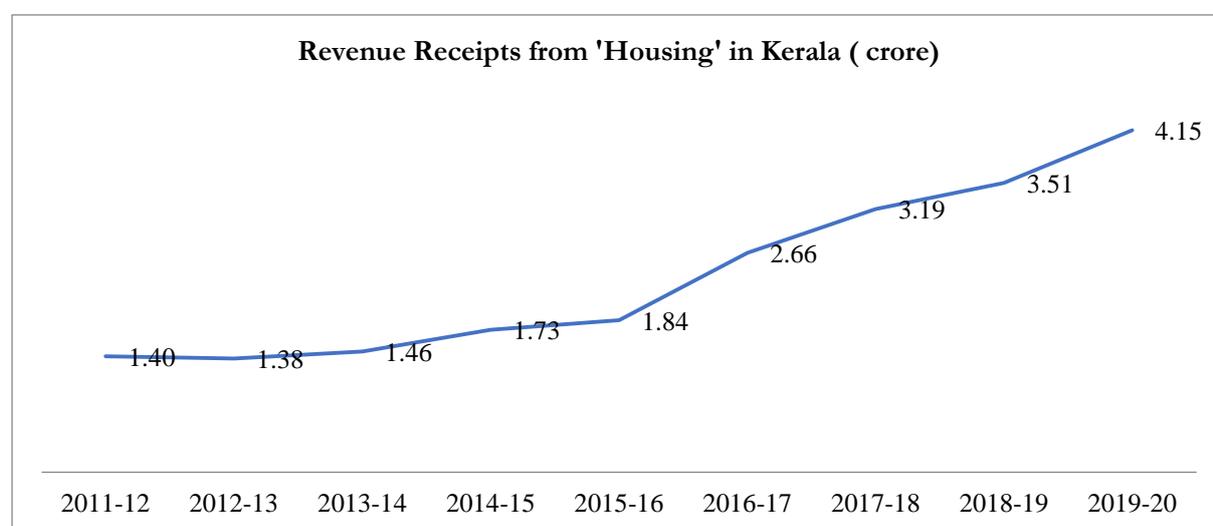
Receipts from Education Sports Arts and Culture as percentage of Own Non-Tax Revenue (%)											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Average
	-12	-13	-14	-15	-16	-17	-18	-19	-20	-21	
All States	6.2	8.3	10.5	10.7	11.2	12.6	3.4	3.5	4.0	3.1	7.8
Andhra Pradesh	5.8	7.5	10.8	13.0	17.4	11.1	2.7	0.7	4.4	2.7	8.2
Bihar	0.8	0.7	0.9	0.7	1.9	0.7	0.6	0.5	0.4	0.4	0.8
Chhattisgarh	0.3	0.2	0.1	0.6	0.3	0.5	0.3	0.2	0.2	0.2	0.3
Goa	0.7	1.5	1.4	0.7	1.2	1.0	0.9	0.9	1.3	1.4	1.1
Gujarat	4.8	4.3	6.0	5.3	2.9	4.9	1.7	5.1	8.0	5.5	4.8
Haryana	6.3	8.2	6.4	12.2	13.4	10.3	7.4	3.4	5.9	5.2	8.2
Jharkhand	0.9	0.2	0.6	1.0	0.3	0.4	0.2	7.1	3.8	4.3	1.6
Karnataka	3.2	3.8	3.0	3.3	3.0	3.3	2.7	2.9	2.5	2.3	3.1
Kerala	6.4	4.4	5.5	3.4	2.9	2.9	2.3	2.2	2.0	2.0	3.5
Madhya Pradesh	20.7	24.0	26.1	31.6	15.1	20.1	14.5	17.8	19.4	12.4	21.0
Maharashtra	3.2	4.0	2.8	2.9	4.5	2.0	2.7	1.3	2.6	2.3	2.9
Odisha	0.3	1.1	0.9	0.2	0.8	0.4	0.3	0.2	0.2	0.2	0.5
Punjab	2.3	1.5	3.0	5.5	3.3	1.6	1.0	0.7	1.1	0.8	2.2
Rajasthan	0.6	0.7	0.7	0.6	1.6	1.5	1.0	0.9	1.0	1.1	1.0
Tamil Nadu	8.5	11.5	18.1	23.1	15.2	12.1	10.7	11.2	12.3	12.1	13.6
Telangana				6.4	1.3	7.9	4.3	3.2	5.0	2.3	4.7
Uttar Pradesh	19.8	32.5	39.0	29.1	46.0	48.7	2.2	1.3	2.2	1.9	24.5
West Bengal	1.5	2.0	3.1	3.3	3.1	6.0	2.2	1.7	1.7	1.7	2.7

Social Services: Housing

Housing: An underutilized component

Housing receipts in Kerala mainly relate to fees for Government residential buildings which includes employees' quarters, inspection bungalows, rest houses etc. A considerable portion of the housing provided by the government is given at subsidised rates. During the last 9 years (2011-12 to 2019-20), the annual average revenue collected from this sector was Rs. 2.15 crore. But the revenue receipt shows a gradual increase from Rs.1.40 crore in 2011-12 to Rs. 4.15 crore in 2019-20. The Budget Estimate from this sector in 2021-22 is Rs. 4.81 crore.

Revenue receipts from Housing in Kerala: Figure 1



Source: Finance Accounts, various years

Where Kerala Stands?

In the following indicators, Kerala's position in revenue receipts under "Housing" is at the bottom.

- In share of 'Housing' in own non tax revenue
Kerala stands 18th among the 18 states (Average value from 2011-12 to 2019-20 is 0.03 per cent (Table 1 & Figure 2))
- In share of 'Housing' in total revenue receipts
Kerala stands 17th among the 18 states (Average value from 2011-12 to 2019-20 is 0.003 per cent (Table 2 & Figure 3))
- In Per capita non tax revenue for 'Housing'
Kerala stands 16th among the 18 states (Average value from 2011-12 to 2019-20 is 0.68 per cent (Table 3 & Figure 4))

Top performing states

Telangana comes out on top in every metric analysed. The following are the specifics:

- Share of 'Housing' in own non tax revenue (%) – Telangana (3.57), Tamil Nadu (1.28)
- Share of 'Housing' in total revenue receipts (%) – Telangana (0.553), Gujarat (0.114)
- Per capita non tax revenue for 'Housing' – Telangana (Rs.116.56), Gujarat (Rs.18.69)

Performance of Kerala in comparison with southern states

The relative performance of Kerala among southern states is given in Table 4.

- In south India, apart from Telangana, Tamil Nadu (1.28 %) and Karnataka (1.04 %) perform better than Kerala in their share in own non tax revenue. The similar pattern prevails in share of housing in total revenue receipts and per capita housing revenue.

Highlight

- Kerala only gets revenue from the subsector "government residential buildings," but other states get money from sources like "urban housing" (Karnataka) and "rural housing" (Madhya Pradesh) too.

Action Points

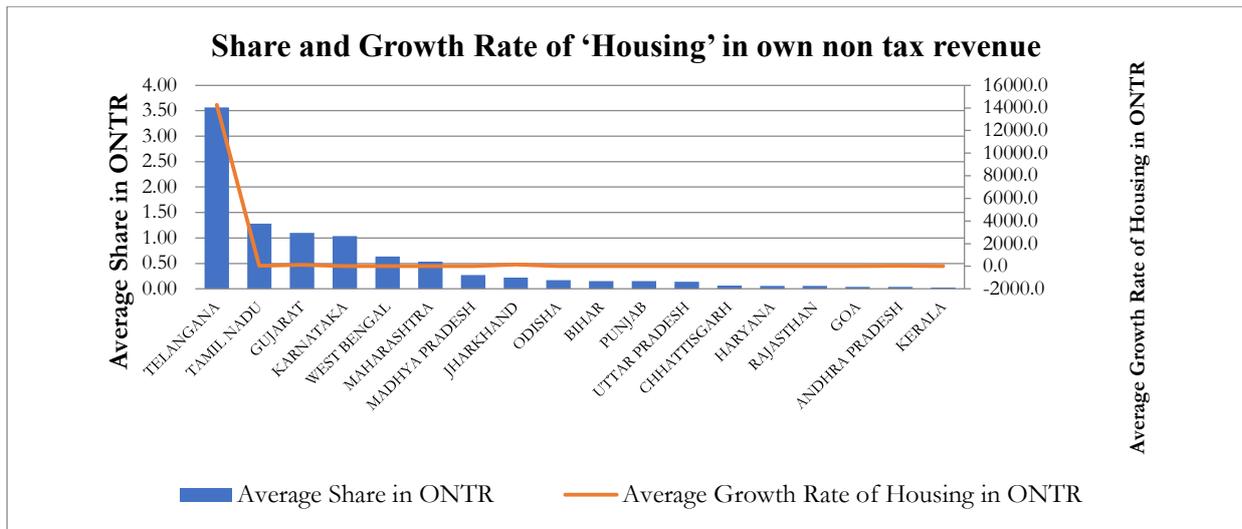
Short term

- State governments' rent tariffs for properties they own and operate, such as inspection bungalows, rest houses, and government servants' quarters, may be raised slightly.
- All government owned and operated housing facilities, if not occupied for government purposes, may be made available to the general public with a reasonable fee.

Long term

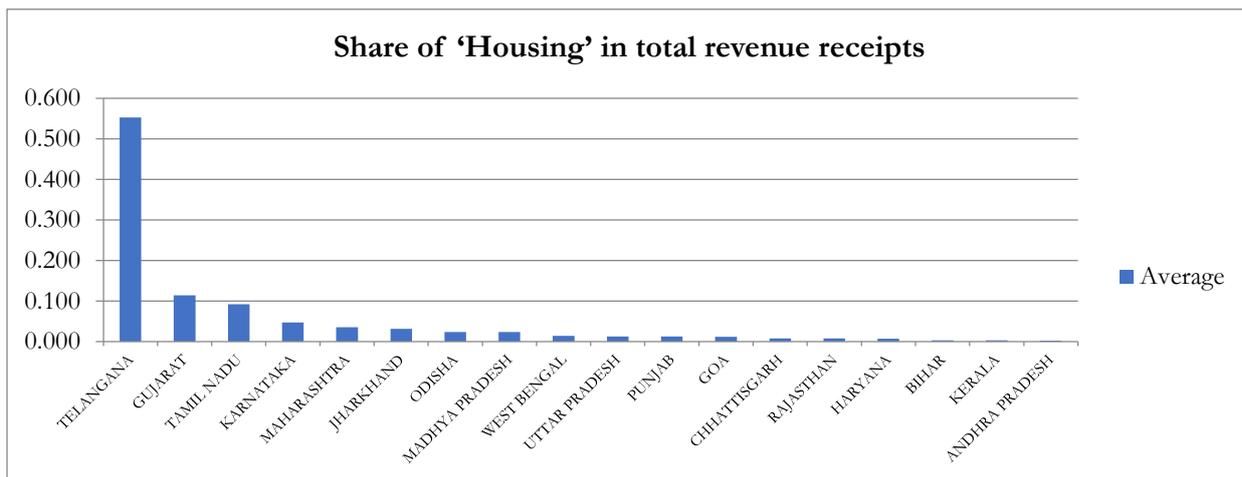
- If commercially exploitable, idle components of government facilities such as inspection bungalows, rest houses, auditoriums, halls, and related grounds can be competitively tendered out on a BOT basis to private parties.
- The unoccupied quarters under State Farming Corporation (eg. Chithalvetty estate, Pathanapuram, Kollam district) may be renovated and rent out to tourists with a rational charge as part of farm tourism

Figure 2



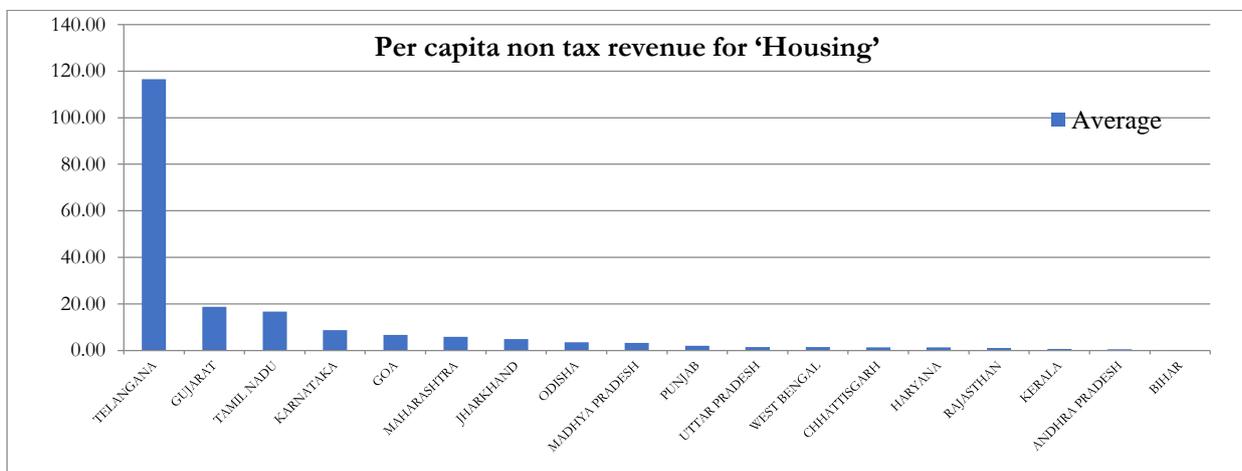
Source: RBI, State finances: A study of Budgets

Figure 3



Source: RBI, State finances: A study of Budgets

Figure 4



Source: RBI, State finances: A study of Budgets

Table 1: Share of 'Housing' in own non tax revenue									
state	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
All India	0.25	0.38	0.30	0.26	1.33	1.06	0.29	0.35	0.37
Telangana				0.02	11.11	10.24	0.01	0.01	0.01
Tamil Nadu	0.99	2.44	0.65	1.10	1.21	0.68	1.49	1.47	1.48
Gujarat	0.61	0.71	1.98	0.67	0.45	3.24	0.16	0.83	1.21
Karnataka	0.59	1.08	1.36	1.15	0.99	0.91	1.00	1.08	1.15
West Bengal	0.90	0.57	0.59	1.04	1.34	0.37	0.32	0.30	0.30
Maharashtra	0.42	0.97	0.27	0.28	0.70	0.55	0.46	0.66	0.49
Madhya Pradesh	0.20	0.23	0.22	0.19	0.32	0.31	0.29	0.21	0.47
Jharkhand	0.03	0.03	0.03	0.05	0.03	0.45	0.32	0.61	0.47
Odisha	0.20	0.16	0.17	0.17	0.16	0.20	0.19	0.13	0.14
Bihar	0.22	0.26	0.13	0.19	0.14	0.08	0.20	0.07	0.06
Punjab	0.21	0.15	0.16	0.17	0.19	0.09	0.14	0.08	0.18
Uttar Pradesh	0.14	0.10	0.12	0.12	0.11	0.11	0.17	0.20	0.20
Chhattisgarh	0.07	0.06	0.06	0.06	0.08	0.07	0.06	0.05	0.05
Haryana	0.06	0.06	0.06	0.07	0.06	0.05	0.04	0.05	0.05
Rajasthan	0.07	0.05	0.05	0.05	0.06	0.06	0.05	0.05	0.05
Goa	0.04	0.05	0.06	0.04	0.04	0.04	0.03	0.03	0.03
Andhra Pradesh	0.02	0.01	0.02	0.02	0.02	0.02	0.03	0.09	0.12
Kerala	0.04	0.02	0.02	0.03	0.02	0.03	0.03	0.03	0.03
Source: RBI, State finances: A study of Budgets									

Table 2 : Share of 'Housing' in total revenue receipts

state	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Telangana				0.002	2.103	1.210	0.001	0.001	0.001
Gujarat	0.051	0.057	0.174	0.070	0.047	0.394	0.019	0.082	0.133
Tamil Nadu	0.066	0.162	0.056	0.075	0.084	0.048	0.109	0.120	0.109
Karnataka	0.034	0.055	0.061	0.052	0.045	0.040	0.044	0.044	0.049
Maharashtra	0.028	0.068	0.021	0.021	0.051	0.034	0.032	0.037	0.026
Jharkhand	0.004	0.004	0.004	0.006	0.005	0.051	0.047	0.089	0.075
Odisha	0.032	0.030	0.029	0.025	0.020	0.022	0.019	0.018	0.018
Madhya Pradesh	0.024	0.023	0.022	0.023	0.026	0.023	0.019	0.019	0.034
West Bengal	0.020	0.016	0.016	0.020	0.023	0.009	0.008	0.008	0.007
Uttar Pradesh	0.011	0.009	0.011	0.012	0.011	0.012	0.012	0.018	0.017
Punjab	0.011	0.012	0.014	0.013	0.012	0.010	0.011	0.010	0.019
Goa	0.017	0.017	0.016	0.013	0.012	0.010	0.009	0.009	0.007
Chhattisgarh	0.012	0.010	0.009	0.008	0.009	0.007	0.007	0.006	0.007
Rajasthan	0.011	0.009	0.009	0.008	0.007	0.006	0.006	0.007	0.006
Haryana	0.010	0.009	0.008	0.007	0.006	0.006	0.006	0.006	0.006
Bihar	0.004	0.005	0.003	0.004	0.003	0.002	0.006	0.002	0.002
Kerala	0.003	0.002	0.002	0.003	0.003	0.004	0.004	0.004	0.004
Andhra Pradesh	0.002	0.002	0.003	0.002	0.001	0.001	0.001	0.003	0.004

Source: RBI, State finances: A study of Budgets

Table 3 : Per capita non tax revenue for 'Housing'

state	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Telangana				0.27	431.14	267.16	0.26	0.26	0.26
Gujarat	5.25	6.97	22.23	10.10	7.17	66.57	3.60	16.77	29.56
Tamil Nadu	7.73	21.94	8.31	12.44	14.51	8.95	21.28	27.66	27.67
Karnataka	3.90	6.92	8.75	8.50	8.26	8.17	9.99	11.13	13.01
Goa	6.83	6.78	6.73	6.69	6.64	6.60	6.55	6.51	6.46
Maharashtra	3.01	8.48	2.68	2.99	7.95	5.86	6.39	8.55	6.68
Jharkhand	0.30	0.30	0.29	0.57	0.56	6.64	6.82	13.45	14.58
Odisha	3.09	3.07	3.29	3.27	3.25	3.70	3.69	4.13	4.57
Madhya Pradesh	2.05	2.15	2.24	2.60	3.45	3.52	3.23	3.42	6.03
Punjab	1.07	1.41	1.74	1.72	1.70	1.68	1.99	1.96	4.51
Uttar Pradesh	0.69	0.64	0.91	1.09	1.21	1.47	1.54	2.68	2.81
West Bengal	1.31	1.19	1.28	1.80	2.62	1.14	1.03	1.12	1.21
Chhattisgarh	1.16	1.14	1.13	1.11	1.46	1.43	1.41	1.39	1.71
Haryana	1.17	1.16	1.14	1.13	1.11	1.09	1.44	1.42	1.75
Rajasthan	0.87	0.86	0.98	0.97	0.96	0.94	1.05	1.17	1.28
Kerala	0.30	0.30	0.30	0.59	0.59	0.87	0.87	1.15	1.15
Andhra Pradesh	0.41	0.40	0.60	0.40	0.20	0.20	0.20	0.78	0.77
Bihar	0.19	0.28	0.18	0.27	0.27	0.18	0.60	0.25	0.25

Source: RBI, State finances: A study of Budgets

Table 4: Performance of Kerala in comparison with southern states

State	Share of 'Housing' in own non tax revenue (%)	Share of 'Housing' in total revenue receipts (%)	Per capita non tax revenue for 'Housing' (Rs)
Kerala	0.03	0.003	0.68
Tamil Nadu	1.28	0.092	16.72
Karnataka	1.04	0.047	8.74
Andhra Pradesh	0.04	0.002	0.44
Telangana	3.57	0.553	116.56

Source: RBI, State finances: A study of Budgets

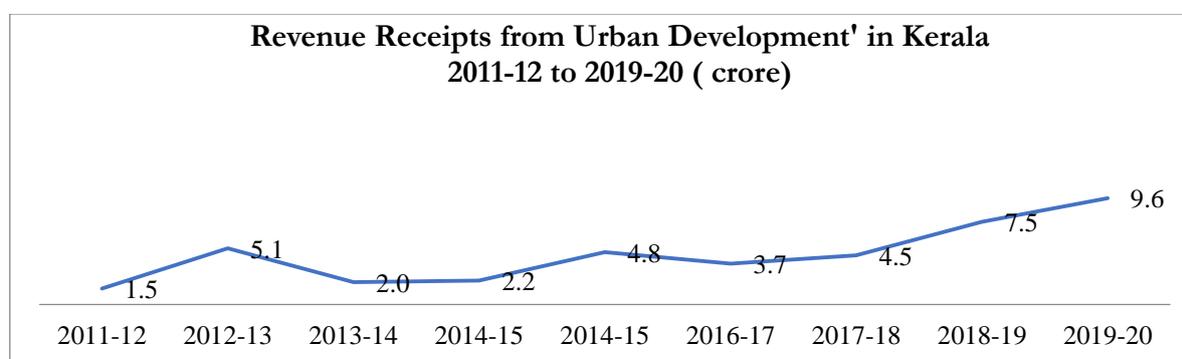
Social Services: Urban Development

'Urban Development': A sector with high revenue optimization potential

'Urban Development' receipts include license fees and ground rent. This sector also collects revenue from sub sectors like 'Other urban development schemes', 'Integrated Development of Small and Medium Towns', 'Slum Area Improvement' etc. In Kerala, during the last 9 years (2011-12 to 2019-20), the average revenue collected from this sector was Rs. 4.5 crore. However, the revenue receipt shows a gradual increase from Rs.1.5 crore in 2011-12 to Rs. 9.6 crore in 2019-20. The Budget Estimate from this sector in 2021-22 is Rs. 13.8 crore.

Revenue receipts from Urban Development in Kerala

Figure 1



Source: Finance Accounts, various years

Where Kerala Stands?

In the following indicators, Kerala's position in revenue receipts under "Urban Development" is at the bottom.

- In share of 'Urban Development' in own non tax revenue
Kerala stands 16th among the 18 states (Average value from 2011-12 to 2019-20 is 0.062 per cent (Table 1 & Figure 2))
- In share of 'Urban Development' in total revenue receipts
Kerala stands 16th among the 18 states (Average value from 2011-12 to 2019-20 is 0.007 per cent (Table 2 & Figure 3))
- In Per capita non tax revenue for 'Urban Development'
Kerala stands 16th among the 18 states (Average value from 2011-12 to 2019-20 is Rs. 1.42 (Table 3 & Figure 4))

Top performing states

Haryana comes out on top in every metric analysed. The following are the specifics:

- Share of ‘Urban Development’ in own non tax revenue (%) – Haryana (21.41), Maharashtra (8.90)
- Share of ‘Urban Development’ in total revenue receipts (%) – Haryana (2.8), Goa (0.6)
- Per capita non tax revenue for ‘Urban Development’ – (Rs. 534), Goa (Rs. 374)

Performance of Kerala in comparison with other states

The relative performance of Kerala with other states in revenue receipts is given in Table 4 & 5

- In south India, apart from Telangana, Tamil Nadu performs better than Kerala in their share in own non tax revenue, share of housing in total revenue receipts and per capita housing revenue.

Highlight

- Kerala collects revenue from the subsector ‘Other urban development schemes’ only whereas other states collect revenue from other sources like Integrated Development of Small and Medium Towns (Gujarat), Slum Area Improvement (Madhya Pradesh).

Action Points

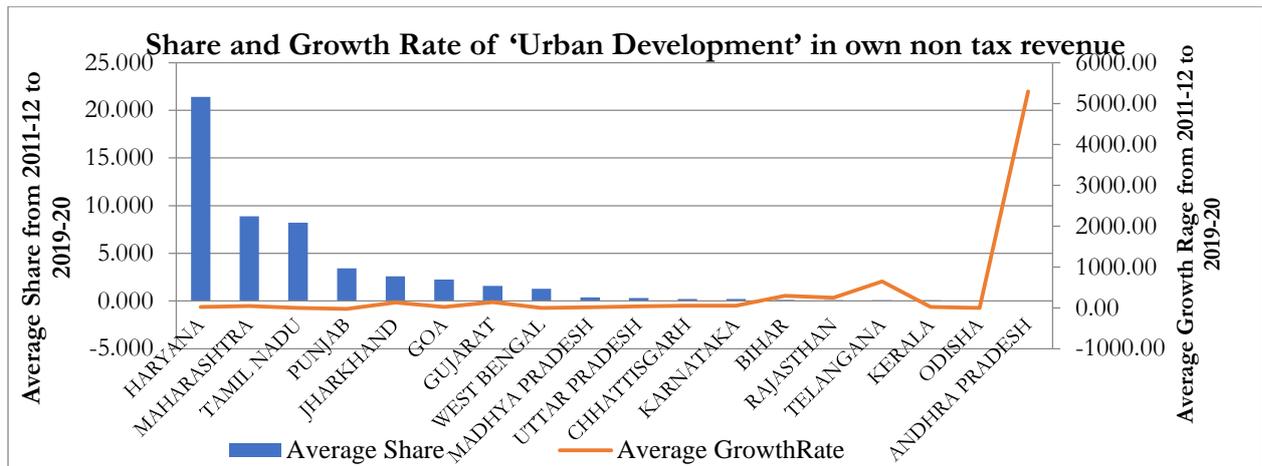
Short term

- Slight increase in fee, penalties, service charges etc
- Optimize collection and audit processes to increase collection and minimize leakage.

Long term

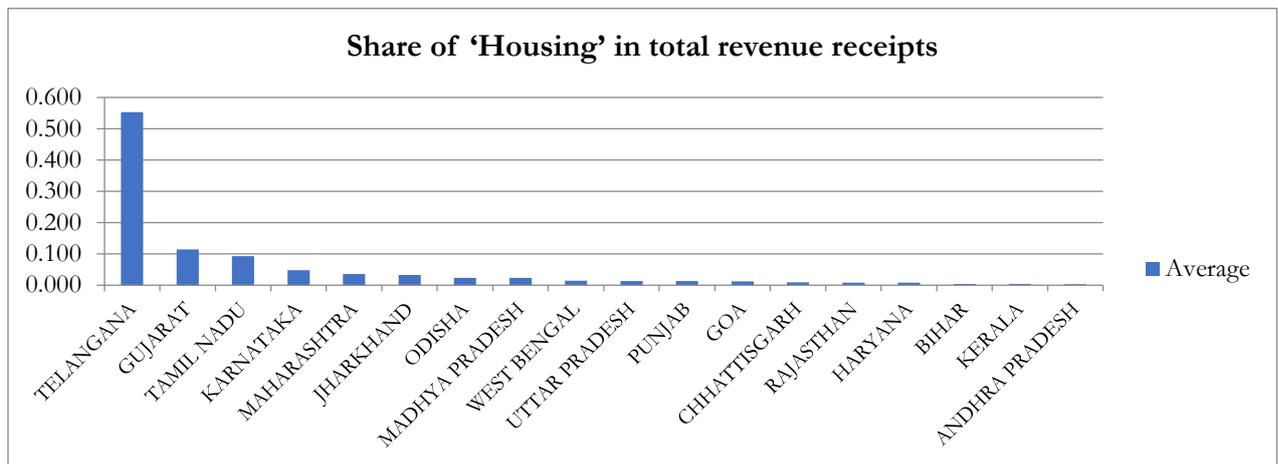
- Kerala, like Gujarat, might embark on an integrated development of small and medium towns in order to generate more revenue receipts from services and service fees.
- Rate of penalty/fine may be linked with the income of the violator (In Finland, for example, fines for over speed driving are broadly linked to the income of violators and how far over the speed limit they were traveling when caught.)
- Create new revenue streams; such as
 - New charges for the disposal of food-waste. (In 2013, Seoul introduced a volume-based food waste disposal charge that succeeded in reducing its daily food waste significantly.)
 - Use of unused land plots through monetizing them either as lease contracts or through other more innovative public–private partnership structures.
 - Introduce public parking facilities like multi storied parking system in more places with a rational fee.
 - Develop recreation parks and charge rational entry fee.

Figure 1



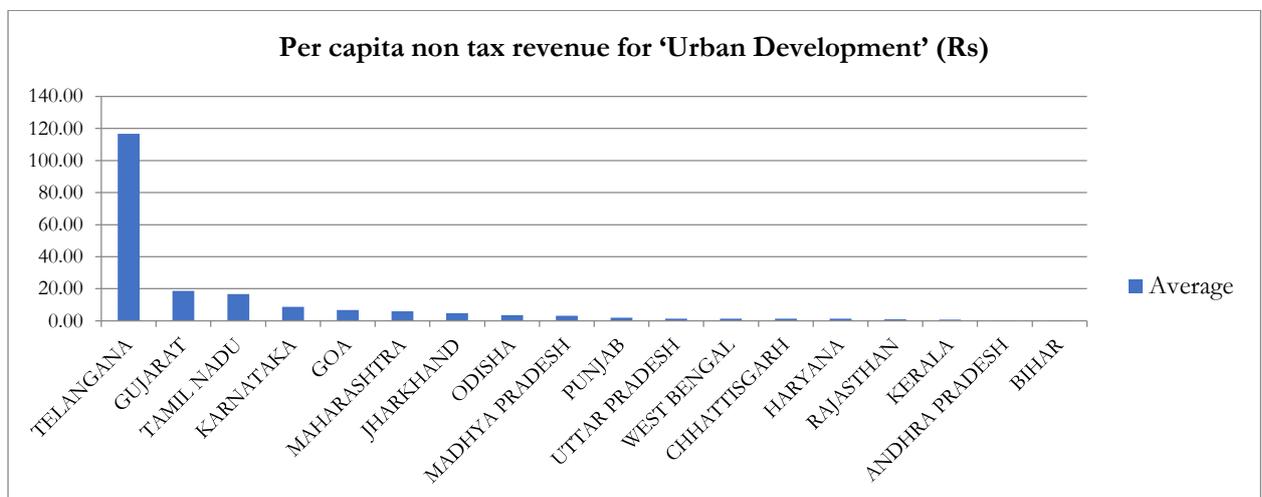
Source: RBI, State finances: A study of Budget

Figure 2



Source: RBI, State finances: A study of Budgets

Figure 3



Source: RBI, State finances: A study of Budgets

Table 1: Share of 'Urban Development' in own non tax revenue (A1)

state	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Haryana	22.003	21.207	22.211	18.665	8.880	9.668	31.395	29.037	29.600
Maharashtra	4.567	5.479	4.792	14.164	6.802	7.050	7.626	8.571	20.978
Tamil Nadu	10.345	12.695	10.414	7.281	6.997	6.536	4.775	7.155	7.644
Punjab	10.714	4.032	4.043	4.132	3.057	1.637	1.667	0.857	0.666
Jharkhand			0.240	0.854	4.579	2.691	1.555	3.209	5.097
Goa	1.644	1.364	2.828	1.935	2.303	2.950	1.418	2.958	2.768
Gujarat	1.497	1.595	1.254	0.314	2.060	3.349	0.272	2.094	1.882
West Bengal	1.343	1.356	1.137	1.782	2.470	1.254	1.091	0.601	0.597
Madhya Pradesh	0.200	0.600	0.467	0.973	0.327	0.385	0.199	0.113	0.047
Uttar Pradesh	0.453	0.216	0.602	0.426	0.112	0.456	0.147	0.113	0.159
Chhattisgarh	0.049	0.087		0.082	0.058	0.123	0.489	0.389	0.437
Karnataka	0.710	0.050	0.025	0.064	0.056	0.104	0.293	0.118	0.360
Bihar						0.042	0.200	0.024	0.166
Rajasthan	0.196	0.041	0.037	0.060	0.046	0.155	0.044	0.011	0.219
Telangana				0.016	0.007	0.010	0.358	0.090	0.008
Kerala	0.077	0.119	0.036	0.027	0.059	0.041	0.036	0.068	0.091
Odisha	0.062	0.074	0.060	0.074	0.034	0.025	0.036	0.014	0.021
Andhra Pradesh	0.428	0.063	0.006	0.009	0.041	17.350	-23.361	4.959	0.030

Source: RBI, State finances: A study of Budgets

Table 2: Share of 'Urban Development' in total revenue receipts

state	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Haryana	3.400	2.946	2.907	2.110	0.887	1.141	4.563	3.515	3.867
Goa	0.658	0.428	0.729	0.585	0.655	0.836	0.389	0.743	0.666
Tamil Nadu	0.690	0.842	0.901	0.497	0.484	0.462	0.351	0.585	0.566
Maharashtra	0.308	0.383	0.363	1.077	0.493	0.438	0.522	0.487	1.141
Jharkhand			0.034	0.117	0.659	0.306	0.231	0.472	0.824
Punjab	0.572	0.331	0.367	0.305	0.195	0.200	0.136	0.104	0.072
Gujarat	0.125	0.128	0.110	0.033	0.215	0.407	0.033	0.207	0.208
Madhya Pradesh	0.024	0.060	0.048	0.114	0.027	0.028	0.013	0.010	0.003
Andhra Pradesh	0.053	0.010	0.001	0.001	0.002	0.910	-0.848	0.190	0.001
West Bengal	0.031	0.038	0.032	0.034	0.042	0.031	0.026	0.015	0.015
Uttar Pradesh	0.035	0.019	0.059	0.044	0.011	0.051	0.010	0.010	0.014
Chhattisgarh	0.008	0.014		0.011	0.007	0.013	0.052	0.046	0.053
Rajasthan	0.032	0.007	0.007	0.009	0.005	0.017	0.005	0.001	0.027
Karnataka	0.042	0.003	0.001	0.003	0.003	0.005	0.013	0.005	0.015
Telangana				0.002	0.001	0.001	0.032	0.009	0.001
Kerala	0.005	0.011	0.004	0.003	0.007	0.005	0.005	0.009	0.012
Odisha	0.010	0.014	0.010	0.011	0.004	0.003	0.004	0.002	0.003
Bihar						0.001	0.006	0.001	0.005

Source: RBI, State finances: A study of Budgets

Table 3: Per capita non tax revenue for 'Urban Development'

state	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Haryana	406.49	382.30	420.31	322.93	156.07	218.43	1028.73	821.10	1048.73
Goa	259.39	169.49	316.50	301.00	372.09	527.70	281.60	553.39	581.77
Maharashtra	32.98	47.82	47.04	152.40	77.24	75.05	105.53	111.61	287.82
Tamil Nadu	81.17	114.07	132.50	82.24	83.84	86.58	68.36	134.48	142.95
Jharkhand			2.62	10.58	75.41	39.87	33.29	71.27	159.09
Punjab	53.66	37.43	44.96	40.94	27.51	32.18	23.82	21.23	17.09
Gujarat	12.97	15.56	14.07	4.73	32.71	68.72	6.15	42.08	46.11
Andhra Pradesh	10.15	2.02	0.20	0.20	0.40	177.56	174.57	42.46	0.19
Chhattisgarh	0.78	1.53		1.48	1.09	2.51	10.92	10.40	13.65
Madhya Pradesh	2.05	5.63	4.75	13.11	3.58	4.40	2.23	1.83	0.60
West Bengal	1.96	2.80	2.46	3.07	4.81	3.83	3.49	2.24	2.41
Uttar Pradesh	2.28	1.37	4.76	4.03	1.21	6.07	1.31	1.52	2.20
Telangana				0.27	0.27	0.27	7.39	2.35	0.26
Karnataka	4.72	0.32	0.16	0.47	0.47	0.92	2.92	1.22	4.08
Rajasthan	2.60	0.71	0.70	1.11	0.68	2.42	0.92	0.26	5.52
Kerala	0.60	1.49	0.59	0.59	1.46	1.17	1.16	2.31	3.44
Odisha	0.95	1.42	1.17	1.40	0.70	0.46	0.69	0.46	0.69
Bihar						0.09	0.60	0.08	0.66

Source: RBI, State finances: A study of Budgets

Table 4: Performance of Kerala in comparison with southern states

State	Share of 'Urban Development' in own non tax revenue (%)	Share of 'Urban Development' in total revenue receipts (%)	Per capita non tax revenue for 'Urban Development' (Rs.)
Kerala	0.062	0.007	1.42
Tamil Nadu	8.205	0.597	102.91
Karnataka	0.198	0.010	1.70
Andhra Pradesh	-0.053	0.036	6.51
Telangana	0.081	0.008	1.80

Source: RBI, State finances: A study of Budgets

Table 5						
Revenue Receipt under 'Urban Development' during 2011-12 to 2019-20 (Rs.lakh)						
State	01 - State Capital Development-	02 - National Capital Region -	03 Integrated Development of Small and Medium Towns	04 - Slum Area Improvement -	60 Other Urban Development Schemes	Total - 60
Kerala					3121.66	3121.66
Haryana					1204920.02	1204920
Tamil Nadu			4301.05		517602.22	521903.3
Maharashtra	34				900576.86	900610.9
Madhyapradesh		64.21	12894.13	3261.19	3491.56	19711.09
Gujarat			126898.62	256		127154.6
Karnataka					9591.72	9591.72

Source: Finance Accounts, various issues

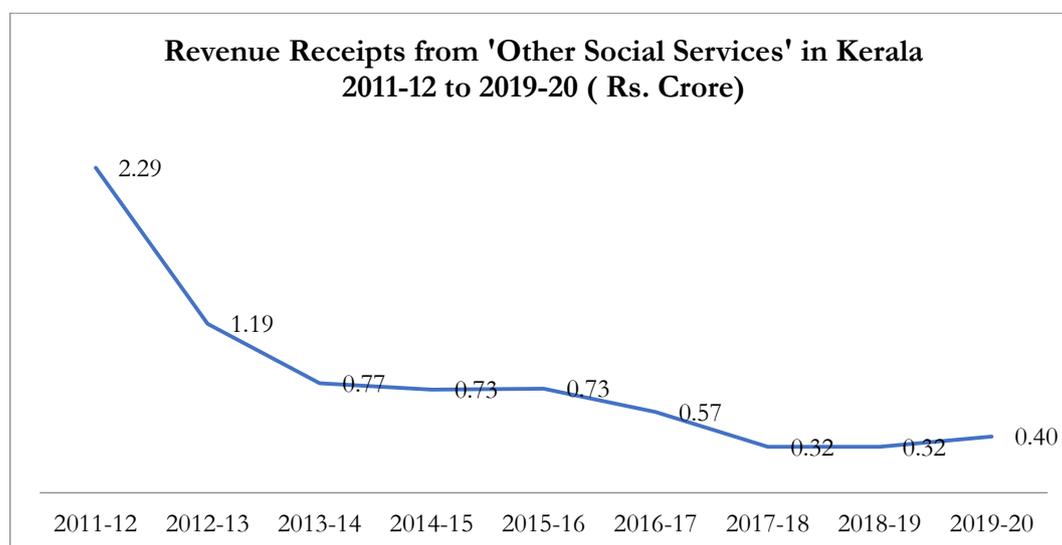
Social Services: Other Social Services

Other Social Services': Need to explore the untapped potential

Nutrition, Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes, and Minorities are among the sub-sectors that provide revenue for "Other Social Services." Governments do not expect a lot of money from this sector because it deals with issues that affect the most disadvantaged members of society. During the last 9 years (2011-12 to 2019-20), the annual average revenue collected from this sector was Rs. 0.81 crore. The revenue receipt in Kerala shows a gradual decrease from Rs.2.29 crore in 2011-12 to Rs. 0.40 crore in 2019-20. The Budget Estimate from this sector in 2021-22 is Rs. 0.57 crore.

Revenue receipts from Other Social Services in Kerala

Figure 1



Source: State Finance: A Study of Budget

Since RBI data does not include other social services as a separate head under social services, share of 'Other Social Services in own non tax revenue', 'total revenue receipts' and 'Per capita non tax revenue' cannot be calculated at this point. Hence analysis is based on Finance Accounts data of major states.

Performance of Kerala in comparison with other states

The relative performance of Kerala with other states in revenue receipts is given in Table 1

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Average
Kerala	2.29	1.19	0.77	0.73	0.73	0.57	0.32	0.32	0.87
Tamil Nadu	6.11	5.49	4.28	3.29	2.47	127.68	148.26	142.79	55.05
Karnataka	8.42	4.66	8.23	32.74	9.66	16.43	21.98	16.83	14.87
Andhra Pradesh	5.37	10.11	3.72	3.50	4.94	4.95	10.77	1.61	5.62
Telangana				6.05	3.02	12.21	3.21	8.89	6.67
Maharashtra	78.19	134.99	118.05	132.48	287.01	163.65	279.62	160.36	169.29
Haryana	2.47	2.90	2.60	0.90	1.54	0.81	0.46	0.47	1.52

Source: Finance Accounts, various years

- Maharashtra generated the most revenue in this sector between 2011 and 2019, followed by TamilNadu and Karnataka (Rs.14.87 crore), but Kerala getting only Rs.87 lakhs on average.
- In terms of total receipts, Maharashtra (Rs. 169.29 crore) and Tamil Nadu (55.05 crore) are the two best-performing states.

Where Kerala stands?

- When compared to other states, Kerala earns less revenue from this sector (0.87 crore).

Per Capita Receipts from ‘Other Social Services’

The per capita receipts from ‘Other Social Services’ is given in Table 2

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Average
Kerala	0.68	0.35	0.23	0.21	0.22	0.17	0.09	0.09	0.26
Tamil Nadu	0.84	0.75	0.58	0.44	0.33	17.06	19.72	18.90	7.33
Karnataka	1.37	0.75	1.31	5.15	1.51	2.53	3.38	2.57	2.32
Andhra	1.09	2.04	0.75	0.70	0.98	0.97	2.11	0.31	1.12

Pradesh									
Telengana				1.64	0.81	3.26	0.85	2.32	1.78
Maharashtra	10.66	18.10	15.57	17.19	36.66	20.59	34.69	19.61	21.63
Haryana	0.96	1.12	0.99	0.34	0.57	0.30	0.17	0.17	0.58

Source: Finance Accounts, various years

- Maharashtra stands top in the per capita revenue generated from this sector between 2011 and 2019, followed by TamilNadu and Karnataka (Rs.2.32 crore).
- In terms of per capita receipts, Maharashtra (Rs. 21.63 crore) and Tamil Nadu (Rs. 7.33 crore) are the two best-performing states.

Where Kerala stands?

- When compared to other states, Kerala's per capita receipt is seen less (Rs. 0.26)

Highlight

- Because it focuses on the welfare activities of poor and backward people, the 'Other Social Service' sector is not regarded a potential revenue-generating sector.
- Cost recovery, either from fees, service charge etc or via internal resource generation is currently absent in this sector.

Action Points

Short term

- Imposing any fee or service charges in this sector is not advisable at this point of time. But in the long run small fee/service charge may be introduced to get the benefits of the sector.
- It is possible to make some money by selling usufructs from the compounds of institutions/offices that serve the backward classes.

Long term

- Convert the departments entrusted for SC/ST/OBC/Minority welfare into social enterprises mode (A social enterprise is an organization that applies commercial strategies to maximize improvements in financial, social and environmental well-being of the people associated with it) and encourage internal resource mobilisation.
 - Convert Industrial Training Centres managed by SC/ST departments to Production cum sales point etc.
 - Make value-added products from minor forest products collected by Tribals and market it with an ethnic brand name through a society owned and operated by government.

- Transform traditional knowledge and traditional skill of SC/ST/OBC people into products and link them with the international market.
- Using the surplus land areas attached to the hostels/ITIs/Model Residential Schools etc for income generation.

Chapter 5

Recommendations on State Finances by Different Committees Appointed by the Government

During 2020, different committees appointed by the Government submitted their recommendations focusing on different aspects of government functioning. Almost all committees reflected on scope for improving Kerala's state finances. In what follow highlight their specific recommendations pertaining to revenue receipts and revenue expenditure of Government of Kerala's (GoK).

Recommendations regarding Revenue Receipts

Abraham committee (June 2020)

1. The Committee analysed the additional revenue from Stamp Duty and Registration fees. The committee suggests that a calibrated increase in fair value of land accompanied by a small reduction in the stamp duty rates, along with measures such as e-stamping for all documentation combined with the measures already announced in the budget will yield additional revenue of at least Rs 700 crore in the financial year 2020-21.
2. The Committee discussed on the additional revenue from liquor. Liquor is considered a non-merit good. States raise revenue from liquor by levying excise duty or/and sales tax on its manufacture and sale points. The ostensible reason for heavy duty and taxes is to demotivate the public from irresponsible liquor consumption. As the demand for liquor is inelastic in nature, increase in tax rates will raise almost assured revenue to the Government. However, the past two years data in Kerala signals to the policy makers that the consumption in terms of quantity (litres) is reducing on one year on year basis. The committee suggests that Rs.6452 crore can be collected as the most likely amount by Government of Kerala through a 50 per cent hike in the present rates of Excise Duty and Sales Tax and by the introduction of membership fees for home delivery of liquor on the basis of a five years membership systems to be opted for by the interested consumers.
3. The Committee looked at the additional non-tax revenue from lottery. Through the introduction of high value monthly lottery earmarked for welfare pension, creating an attractive prize structure for all the existing lotteries and other suggestions mentioned by the Committee, a 20 per cent increase in lottery sale is estimated during 2020-21. This will realize Rs.200 Crores as additional net surplus of from lottery to the State.

4. Kerala from its formation has been spending more on Education and Health sectors. The average percentage of Non-tax revenue to Revenue Expenditure for Education is 1.45 percent and that for Health it is 3.68 percent from 2016-17 to 2020-21. It shows that for every Rs 100 spent by Government on these sectors the user charges collected from these sectors is only Rs.1.45 from education and Rs.3.68 from the health sector. Non-Tax Revenue for the current fiscal year (2020-21) is expected as Rs.2000 crore apart from lottery receipts. By adopting a 5 percent annual increase in line with inflation, along with effective governance initiatives (including collection of arrears) additional revenue of at least Rs.300 crore can be collected.
5. The present system of collection of rent from leased lands were analysed by the Committee. A task force is suggested to function on a mission mode to collect the lease rent arrears along with re-assessment and resumption of land not being used as per lease terms. The Committee suggests fixing the lease rentals based on market rate determined by usage of land as per the master plan in the urban areas. Apart from the revenue generated from leased land, there is considerable scope for resumption of unutilized land with Public Sector Undertakings (PSUs) and other Government institutions. Due to problems in fixing the market value, the committee suggests that instead of market value the lease rent may be fixed on an interim measure based on fair value of the area, which is already notified. This can be followed till the market value of various user categories of land in urban areas is ascertained and notified.

Mani committee (June 2020)

1. Most Village offices accept online payments of basic tax, cess etc. But if a specific payment is not possible online, there is no help desk which can rectify the problem. Such a facility will save the manpower now employed for collection.
2. Incentivizing government employees to implement innovations in reducing revenue expenditure. Government employees best know how to reduce the non-salary component of revenue expenditure like purchase of consumables, TA and DA, repair and maintenance, reuse/repair of available equipment/ machinery etc.
3. Doing away with retired employees working on contract basis.
4. The government may rethink on earned leave provided to its employees, a practice that exists only in Kerala. They may be allowed to accumulate leave of up to 300 days only during their entire service period. Encashment of earned leave should ideally be allowed only at the time of retirement and not at the end of every year. Alternatively, government

may consider suspending this provision for one year under normalcy is restored. If the government were to accept this recommendation an amount equivalent to Rs 1000 crores can be saved per year.

5. Most of the offices are computerized and steps are being taken to speed up the process of 100% computerization. With computerization coming in, the posts of typists can be reduced.
6. Rationalization and integration exercises have to be done in respect of Government funded agencies like boards, authorities, societies, commissions, universities etc. There are different organizations for similar areas of activities and this is a drain on the exchequer.

Joseph Committee

1. Paid Service at Government Hospitals for the Affordable: It is also possible to explore the possibility of offering paid services for the affordable by the Government Hospitals after the general working time. A specified time can be allotted for paid services of Doctors. The revenue thus generated could be shared between the doctors and meeting the hospital's own expenditure

2. Revision of Lease Rent: The high price of land in the state means that the asset value of government land is also high. The lease rent levied on government land need to be revised in line with the market values.

3. Hike in Service Charges: Service charges and rates of saleable items in various departments have to be increased by 25 per cent and should be indexed with inflation rate.

Additional Chief Secretary's (Finance) Committee (January 2020)

This report comes up with recommendations for mobilizing additional financial resources from State's own tax and non-tax revenue sources. The report also looks into the potential means of revenue sources for local governments. We present here some relevant recommendation pertinent to sources of tax and non-tax revenue.

2. Stamp Duty and Registration

The revenue from stamp duty depends on the value of the property registered along with the stamp duty rate. Hence for mobilising more resources, the options are limited to raising either or both.

Recognising the undervaluation of property, the Government had initiated several steps towards preventing undervaluation. A notable initiative was the introduction of fair value system of land in 2010. However, undervaluation is widely prevalent.

The stamp duty rate at present, as per the last revision in 2014-15, is 8% irrespective of the location. In addition, there is a 2 per cent Registration fees. Kerala has the highest rate of Stamp duty and Registration fee compared to other states.

1. Considering the absence of a scientific fair value fixation and the existing fair value being much lower than the prevailing market value, an annual increase in fair value may be attempted along with a gradual reduction of stamp duty and registration fee.

An illustration with potential for additional revenue mobilization with a 20% annual increase in fair value along with a gradual reduction in stamp duty from 8% at present to 5% within five years is presented in the table below. It is evident that a 20% annual increase in fair value along with a gradual reduction in stamp duty and registration could lead to 8% increase in total revenue in 1920-21 with a 24% growth in 2023-24

Year	Fair value increased by 20% each year*	Rate of stamp duty (%)	Stamp duty	Rate of Registration Fee (%)	Registration fee	Total (Rs.)	Growth in revenue (%)
2019-20	100000	8.0	8000	2.0	2000	10000	
2020-21	120000	7.25	8700	1.75	2100	10800	8%
2021-22	144000	6.50	9360	1.50	2160	11520	15%
2022-23	172800	5.75	9936	1.25	2160	12096	21%
2023-24	207360	5.0	10368	1.0	2074	12442	24%
*Fair value increases by 20% each year.							
**Stamp duty declines by 0.75% each year.							
The registration fee decreases by 0.25% each year.							

Registration fee should be reduced only for property sale, while the rates for others should be kept at the present rate of 2 per cent in order to protect the current revenue.

Flat Registration

In the case of registration of residential Flats, large scale under valuation is reported. Valuation certificate is compulsory for flat registration.

2. Similar to the fair value for land, a system of fixing fair value for flats based on the location and plinth area following GO (Rt) 52/2017 of labour Department may be adopted

Other services of Registration Department

3. Fee for all the services rendered by the Registration Department may be indexed at least to the rate of inflation.

3. Land Revenue

The existing land tax in the Municipal areas is only Rs. 2.02 per a Cent or Rs. 5 per Are. The current rate is too low and therefore it could be raised to at least to Rs. 10 per Are. This in turn could lead to a doubling of land revenue.

It may be noted that even with a 4 fold increase, the tax amount would be Rs. 48.6 per annum for 2.43 Are (6 cents) (Option 1). The third option is to double the rate (Rs. 10 per Are). This will entail a payment of only of 24.3 for 2.43 Are (6 cents) that appears reasonable while resulting in an almost two fold increase in the land tax revenue.

Table below gives 3 options of land tax rate in Municipalities.

Existing and proposed rate of Land Tax and its revenue potential for Municipalities

Are 2.43 (6cent)	Existing rate per Are in Rs.	Upto 2.43 Are land revenue in an year in Rs.	Proposed rate per Are per year in Rs	Proposed Amount for 2.43 Are in an year	Revenue increase in the proposed rate for existing extent of land in Rs. For 2.43 Are	Revenue increase in the proposed land revenue for 100 cents of land in Rs.
Option 1	5	12.15	20	48.6	36.45	607.35
Option 2	5	12.15	15	36.45	24.3	404.9
Option 3	5	12.15	10	24.3	12.15	202.45

In the corporation area the existing land tax rate is only Rs. 10 per Are (or Rs. 4.04 per Cent). Hence a person having 4 Cents of land (1.62 Are) has to pay only Rs. 16.12 as land revenue in a year. It implies that the present rate is too low which could be increased by at least fivefold. Even with an increase of three fold increase (Rs.30 per Are), the tax to be paid land up to 1.62 Are (4 cents) is to be Rs. 48.6 in an year. Table below gives 3 options of land tax rate in Corporations

Existing and proposed land revenue rates and its revenue potential for Corporations

Are 1.62 (4 cent)	Existing rate per Are (in Rs)	Upto 1.62 Are in an year	Proposed rate per Are (in Rs)	Proposed Amount for 1.62 Are in an year	Revenue increase in the proposed rate for existing extent of land in Rs. For 1.62 Are	Revenue increase in the proposed rate for 100 cents of land in Rs.
Option 1	10	16.2	30	48.6	32.4	809.8
Option 2	10	16.2	25	40.5	24.3	607.35
Option 3	10	16.2	20	32.4	16.2	404.9

4. It is proposed to double the existing land tax rate in the Municipality, Corporation and Panchayat areas. It is justified considering higher administrative cost and the compliance cast involved in tax revenue.

Transfer of Registry Fee

The transfer of registry fee is Rs. 45 up to 5 Ares. The highest rate of transfer of Registry is Rs. 830. Considering the land value in Municipal and Corporation areas the rate of land registry can be increased.

5. The existing rate of transfer of registry fee of Rs. 45 up to 5 Ares may be enhanced to Rs.500 and the highest rate proposed is Rs.2500 for property above 2 hectare. An estimated amount of Rs.10 crores can be raised from this hike.

Thandapper Extract / Record of Right (RoR)

At present Thandapper extract/RoR is issued to every land holder free of cost. An average number of 4 lakh Thandapper extract is being issued by the Village officers every year.

6. A fee of Rs. 100 may be fixed as Thandapper extract which could mobilize an additional revenue of 4 crores
7. Fees for title deed, demand notice fees, collection charges, resurvey charges, demarcation fees, royalty fees, seignior age fees etc. may index with the rate of inflation
8. In the case of Royalty, fees on Quarry, which are making drastic environmental issues, more detailed study may be undertaken.

Collection of arrears and enhancing collection efficiency

9. Immediate steps may to be taken for the collection of the pending arrears of land revenue through proper awareness schemes, further strengthening and popularising the online tax collection, greater involvement of residential associations and other means

Recommendations on Rationalization of Expenditure

Abraham committee (June 2020)

1. Pension outflow of the state accounts around 20 per cent of the Revenue Receipts and 17 per cent of the Revenue Expenditure of the State. Increasing the age of retirement has been a point of contention in Kerala. There is a perception that it cuts massively into the employment opportunities of the youth. On the other hand, the number of jobs that Government offers is only in the range of 18000-20000 each year against annual retirements. So, the real loss in terms of employment may not be as substantial as one would expect. The net savings on account of extending the current retirement age from 56 to 60 are analysed by the committee.
2. Raising of pension age from 56 years is clearly a major benefit given to the employees. Though in the short run the Government will be able to defer the payment of retirement benefits but this will substantially increase the medium- and longer-term burden on the Government in two ways. Firstly, the eligible pension amount would rise for every employee with four increments getting added if it is increased to 60 years. Secondly, with additional 4 years in service, the quantum of pension payable to each employee will also go up.
3. Considering the above burden of the Government, an alternative proposal is suggested by committee. Instead of raising of pension age for all employees as a matter of right, allow only the privilege of re-employment, at the option of the employee, on same pay and allowances as existing on date of retirement of the employee i.e., at the age of 56 years with some conditionality.
4. The committee believed that the goals of expenditure rationalisation should also study in detail the salaries incurred by Government to aided educational institutions. The pros and cons of this should be subjected to detailed review and discussion in the public domain. The Committee recommends that the Government may appoint a **High-Level Expert Group comprising of recognized Experts in Education, Finance and Law to submit a report to *inter alia* examine the issues such as system of financing aided educational institutions**, the burden on the finances of the State and the benefits the society is getting out of it and framing of new legislative and administrative framework.
5. **Interest expenditure** accounts for nearly 18 per cent of the total revenue receipts of the State and 15 per cent of its total revenue expenditure. The Committee recommends: (a)

Government of Kerala may initiate steps to discuss with Government of India seeking concessional repayment facilities by way of write-offs/moratoriums/Debt swap accommodation/Debt consolidation and relief activities on its debt burden specifically the portion that the State owes the Centre.(b) Reserve Bank of India may be approached for facilitating a programme for switch/conversion of State Development Loans taken in the past in the manner that is available to Government of India currently and (c) Finance Department should engage Market Advisory Services of premier institutions to firm up arrangements for the programme and to liaise with RBI for the implementation of the same.

Mani committee (June 2020)

1. Posts in various Government departments which have become redundant and not filled up for a period of more than 1 year may be abolished. G.O. (P) No. 1208/2001/Fin dated. 22.10.2001 already exists providing for this, and the provisions of this G.O. may be implemented forthwith
2. No new posts should be created in Government/Aided organizations for the next 2 years.
3. At the entry cadre in Kerala State and Subordinate Services, during the probation period, the report suggests paying only 75% of the total emoluments before confirmation is declared. On an average, around 25000 new persons join State Govt. service every year. With a reduction of 25% in total emoluments during probation period, an estimated amount of Rs. 66 Crores will be saved per year
4. Technical departments are saddled with a large number of clerical staff who duplicates the work of technical staff. Most of them can be redeployed and the technical staff can take over most of their work, especially now that computerization is almost universal.
5. There are a large number of temporary posts in the Government that are created for various purposes and these continue perpetually.
6. No temporary posts need to be created hereafter and existing temporary posts need not be regularized or made permanent.
7. There are a large number of temporary posts in the Government that are created for various purposes and these continue perpetually.
8. No temporary posts need to be created hereafter and existing temporary posts need not be regularized or made permanent.

9. There are 34 welfare boards with overlapping functional areas catering to the same set of beneficiaries. These boards can be consolidated and merged based on functional areas and create a Kerala State General Welfare Fund Board.
10. There are number of ad-hoc non-statutory commissions of enquiry under the Commission of Enquiries Act which continue for years together. This practice has to be streamlined.
11. Purchase of new vehicles should be limited to enforcement departments such as Revenue, Police, Excise, Forest, Fire force etc. A complete database of all vehicles being used by government departments, both owned and hired, needs to be prepared so that the size of the problem can be understood and addressed.
12. TA claims and its settlement process should be streamlined using on-line systems wherein proof of travel must necessarily be uploaded.
13. There should be reprioritization of State Plan projects in consultation with State Planning Board and unviable projects may be dropped.
14. Release of funds to grant-in-aid institutions may be agreed only on consideration of the financial position of the institution and its performance. Institutions that have not become self-sustainable need not be given any grant-in-aid.
15. Many Centrally sponsored schemes even after their discontinuance of the Central aid are accommodating staff and their salaries are being met from the State exchequer. Such posts may not be permitted to continue.
16. Merging of corporation, PSUs with same objectives (e.g. Women's development corporation, Gender Park etc.). To examine clarity of different PSUs working under same dept.
17. Establishment of new grant-in-aid /PSUs/board/corporation/ autonomous institutions should be frozen for next 2 years.
18. Commissions and corporations having similar nature of work may be closed and a single entity may be retained as per necessity.
19. Consideration of proposals of the following may be suspended for a period of at least 1 year
 - a. Post creation & up gradation of posts;
 - b. New construction works
 - c. Modernization/Modification of Govt. buildings
 - d. Purchase of furniture
 - e. Purchase of vehicles.

- 20.** Following items comes under Plan/Non Plan allocation of Govt. Departments may not be permitted for the time being:
- a. Starting of new Divisions/Branches
 - b. Trainings, Workshops, Seminars, - these can be conducted through online means
 - c. Study tours
 - d. Printing of brochures, journals, catalogues etc.
 - e. Fairs, exhibitions
 - f. Foreign tours.
 - g. Hospitality expenses to be limited to the bare minimum.
- 21.** Government appoints several ad hoc non-statutory Commissions of Inquiry under the Commission of Inquiries Act with similar staffing. These Commissions tend to answer extremely routine questions due to some temporal significance over periods of three years or so. As they tend to recur during a five year period instead of appointing different superannuated Judges or Commissioners of Enquiry, maintain an establishment in the Home or Law Department, an office of Commissioners of Inquiry under a Deputy Secretary who shall be the Secretariat and have a panel of Judges who are willing to serve as Inquiry Commissioners. As far as possible, same Judge may be asked to enquire into, say, three-four unrelated matters.
- 22.** Judicial commissions functioning for more than 2 years should be asked to submit the final report within 2 months and be wound up thereafter.
- 23.** The requirement of “countersigning” of challans before making payments to Government can be dispensed with.
- 24.** All Village offices, Panchayat offices, Municipal and Municipal Corporation offices have been provided with Internet facilities. But in most of them, digital payment or net banking payments are not permitted. Permitting digital payments will help the public and reduce collection expenses.
- 25.** Even though all Treasuries and Government offices are computerized and are online, the departments insist that many payments should be made in Trivandrum only. This should be done away with
- 26.** Expenses in Kerala Jails are exorbitant. There are two items of expenditure that require closer attention. First is on food expenses and second is on the actual wages paid
- 27.** Measures may be taken to dispose the unserviceable articles including furniture, machinery, vehicles etc. through proper procedure and remit the sale proceeds to Govt. account.

28. The integration of PSU's of similar nature (e.g. Malabar Cements, Travancore Cements, SIDCO, KADCO etc.) needs to be considered.
29. Government have set up certain institutions and given financial assistance for a particular period for their sustenance. Such institutions have formed corpus fund from internal revenue collections and the same is getting accumulated.
30. Instead of reappointing Judges on salaries full-time, their services can be availed on specific enquiries on the basis of honoraria and each enquiry may be completed not exceeding a period of one financial year.
31. Non-plan expenditure, except salary and wages in state government offices, autonomous and grant-in-aid institutions should be limited to 75% of actual expenditure occurred during the previous financial year.
32. The scholarship and educational assistance to students should be limited to the norms of Central Government. Criteria for allowing scholarship/educational assistance should be reconsidered.
33. There is a need to scrutinize the functioning of government subsidized institutions like orphanage/old age home/private training institute and whether they are eligible for continuous financial aid.
34. The two departments or areas where employment and recruitment and management practices need a complete overhaul that will lead to substantial expenditure reductions are in (a) Education department; and (b) Kerala State Road Transport Corporation. These two are dealt with in some detail below:

Education

35. Cap admissions in a school taking into account its intake capacity, including infrastructure and recreational facilities
36. The uneconomic schools in a locality (covering a radius of 3 to 5 kilometres) shall be merged with one of the uneconomic schools and the rest of the schools land and facilities be used for other government/developmental purpose.
37. Student count shall be based on UID and measures to find out bogus strength shall also be worked out.
38. UGC Regulations for 2010 and 2018 have been adopted by the State Government in all government and aided colleges. According to these, workload of 16 hours per week is required for every Assistant Professor.

39. The consideration of one hour for teaching PG programme being equivalent to 1.5 hours of teaching UG programme, will no longer be applicable as it is not provided in the UGC Regulations.
40. The posts existing for less than 16 hours workload should be done away on retirement/resignation/relieving of the present teacher or occurrence of vacancy in any other manner.

KSRTC

41. A turnaround strategy to overcome the crisis in KSRTC was submitted to government on 27th February 2019 by a committee headed by Professor Sushil Kanna. Several recommendations in the report which are vital to the reorganization are yet to be implemented. KSRTC which has already been weak financially has been virtually on the verge of collapse with its operations completely halted for the last two months due to the lockdown in connection with the Corona pandemic. The study recommended for reconstituting the board of KSRTC with professionals, to replace the archaic government structure now which is inefficient. The board shall be reconstituted immediately so as to provide better governance and direction to the turnaround strategy.

Joseph Committee

1. Pension Deferment Scheme: The main three committed expenditure of the State are salary, pension and debt service (Interest). In the present-day crisis, like most of the states, Government of Kerala has also implemented the Salary deferment scheme. In sync with above, a pension deferment Scheme for those receiving pension above Rs.20000 is proposed. The monthly pension expenditure comes to Rs.1900 Crores for 5,38,313 pensioners.

2. Debt Swap Scheme: The annual interest payment comes to Rs.19850 Crores during 2020-21(BE). This commitment is being met with an average interest burden ranging from 8 - 9 per cent. But the present market rate hovers around 5-6 per cent only. As the part of long-term Public Expenditure Management (PEM) the Government of Kerala may think of a debt swapping scheme on a regular basis, with the help of professional experts, for reducing the yearly interest burden to a larger size. Government of India had already practiced such schemes during 2002-05. The Debt swapping Scheme capitalizes the current low interest market rates by swapping some

of the higher interest-bearing outstanding debts with lower interest debts and thereby reduces the interest burden of the State.

- 3. Streamlining welfare payments:** The state's firm commitment to the poor and vulnerable has resulted in an elaborate social protection scheme. However, the system as it exists today requires a detailed review and streamlining which could save the Government at least Rs.1,200 crore in a year.
- 4.Review of Post creation in Aided School:** Around 15000 posts in aided school are created. It is time to review the created posts with the actual work load and any excess post created need to be dispensed with. Necessary amendments need to be made in the Kerala Education Rules.
- 5.Review of Post creation in Higher Education Institutions:** Similar to aided school there is also room for reviewing the process of post creation in higher education institutions considering the work load.
- 6.Re-deployment of excess Staff:** There are many departments which are having excess staff that needs to be redeployed urgently to the Local Governments especially when the LGs are assuming ever increasing role at present.
- 7.Reviewing deputation/work arrangement:** There is the need for reviewing of deputation/work arrangement of various departments through appropriate mechanism.
- 8.Streamlining the capital expenditure:** Streamlining of all the capital expenditure like purchase of vehicles, building construction work for various departments, autonomous bodies, public sector undertakings is called for.
- 9.Reviewing the Non-Plan Expenditure:** Non-plan expenditure such as fuel, travel, foreign tours, hiring of buildings, telephone, mobile phones, internet and etc. are to be reviewed and at least 10 to 20 per cent cut need to be done overboard.
- 10. Universal short-term credit Scheme:** Creating provision for easy credit (on personal security) at low interest rate for self-employed, small business, micro enterprises and lower income groups through co-operative Banks with a provision of interest subsidy by the State.
- 11. Interest on pay revision arrear:** In the last pay revision implementation, arrears were distributed within a period of three years with interest rate of 8 per cent. This created additional financial burden to the state. Such practices are to be done away with.