

GIFT INPUT FOR KERALA STATE BUDGET

FY 2025-26

Part 1

Section – I.

Towards a Perspective for the Kerala Budget 2025-26

The context

Kerala has historically been more outward-oriented than other States in the country. Hence the headwinds in the global economy have their bearing on our development prospects. Being a subnational entity, Kerala's development is also contingent on the country's prevailing fiscal federal relations. Therefore, let me begin my 4th budget with a brief overview of the evolving global economic and political landscape and the Centre-State financial relations confronted by the LDF government led by Shri Pinarayi Vijayan during the past nine years.

The global context

Over the past four decades, the implementation of the neo-liberal reforms by the countries of global South have had the effect significant transformation across their economic, political, ecological, social, and technological landscapes. These changes, mostly driven by the changing international context, have raised serious concerns about their future growth trajectory and its underlying paradigm.

Although market led reforms in the realm of trade, investment, and innovation are often credited with boosting GDP growth in the Global South, the trend, excluding China and a few other countries remains less promising. There has been a conspicuous increase in the inter and intra-country variation in the levels of development, giving rise to multiple spaces of exclusion. Excessive exploitation of exhaustible resources resulted in an unprecedented rise in global warming and climate change-led catastrophes.

The constellation of innovations in digital technologies, termed Industry 4.0, has given rise to digital monopolies with their tentacles crossing national boundaries with significant impact on the lives of people across the world especially in the global South. They decide the position of different countries in the global production network to facilitate the appropriation of value to an extent unimaginable for their counterparts in the previous century. As the multilateral institutions became redundant, employment and labour conditions in the digitally driven platform-based economies have become highly exploitative, exacerbating inequalities and exclusion.

The United Nations responded with the Agenda 2030 that transpired the global commitment towards the pursuit of Sustainable Development Goals (SDGs). But, the once in a century pandemic that hit the world turned out to be a spoilsport. The developing economies that failed to globalize at their terms and their pace were the most affected. While recovering from the severe setback inflicted by the pandemic, new challenges emerged. As the Multilateral institutions remained as mute spectators, conflicts and geopolitical tensions escalated. Instability got institutionalised with rising protectionism, trade wars rising inflation and climate change induced calamities. Thus the unequal and unsustainable world inherited from neoliberal reform-based globalization has become more unstable, unpredictable, and unsustainable, limiting future growth prospects for countries in the Global South. Even the

World Bank in highlighted the falling graduation prospects for the less developed countries in the global South in its World Economic output published in January 2025. **Given the new US legislations by the Trump administration the situation is all set to turn from bad to worse**

To speak empirically, there has been the deceleration in the rate of global GDP growth with an observed decline from 3.1% during 2004-2014 to 2.8% during 2015-2024. The adverse impact was most intense for Low-Income Countries (LICs), home to over 40 percent of people struggling on less than \$2.15 a day. Although these economies were at the centre stage of global efforts to end extreme poverty, their GDP growth rate almost halved from 4.3% during 2004-14 to 2.3% during 2015-2024. Even the Middle-income countries were not left unaffected as their GDP growth declined from 6.7% during the first period to 4.3% during the second period. Not surprisingly, the developed world managed to improve its growth prospects with an increase in its GDP growth from 1.8% to 1.9%.

Although India is dreaming of becoming a developed economy by 2047, the growth record as well as the prospects are not highly encouraging. India's growth record shows a marked deceleration during the second period more in sync with the LICs. India's growth decelerated from 6.87 percent during 2004-14 to 5.83 percent during 2015-24. Although some LICs managed to attain middle-income status during the first decade of the twenty-first century, the rate at which LICs are graduating to middle-income status has slowed markedly since then. The prospects for today's LICs, going by the evidence presented above, appear much more challenging. The emerging trend for India aligns with the broader pattern, with GDP growth predicted to be only 6.5% in 2024-25 compared to 8.2% in 2022-23. More importantly, it was the manufacturing sector despite the flagship programs like make-in-India suffered the highest setback with the manufacturing growth rate plummeting from 9.9% in 2023-24 to 5.3% in 2024-25.

The Fiscal Federal Context

While an outward oriented state like Kerala has been the most adversely affected by the emerging global context, the Center-state financial relations unfortunately have become more or less precarious.

At the root of Kerala's Fiscal crisis - rising revenue deficit and dependence on borrowing- is our historically evolved development strategy. Unlike other states, we focussed on the production of human capital, which is non-tradable and non-taxable as compared to other states which specialised mainly in the production of goods that are tradable and taxable. Since the human capital is mobile and migrated to other states and other parts of the world, it contributed much to the union and the people of Kerala through remittances. While Kerala's non-taxable human capital, embodying knowledge, contributed to the development of other states, our revenue deficit and borrowing have increased. As a result, the state is facing a stressful fiscal situation.

Unfortunately, the Union was neither considerate of our contribution to national development nor the stressful state of state finances sustained over time. Our share in the divisible pool decreased significantly, from 3.8% during the X Finance Commission (1995-2000) to 1.9%

during the XV Finance Commission (2021-2026). This decline fuelled the fiscal challenges faced by the state. The deterioration in the fiscal health of the state has also been due to the growing vertical fiscal imbalance, which worsened after the introduction of GST. Furthermore, the unscientific criteria used in horizontal devolution, particularly the population factor, disadvantaged Kerala, due to our outstanding performance in controlling the population as per the national population policy. Above all the tax base of the state also deteriorated on account of the growing share of services much of which (like Education, Health) were non-taxable by the state, while the union benefitted from the income tax received from those engaged in these sectors. Till the introduction of GST, the Union retained the right to tax service sector like banking and telecommunication etc.

Nonetheless, Kerala has recorded a significant increase in its own tax revenue in the total revenue receipts, which today stands at 61.22 percent compared to the all-India average of 50 percent. Similarly, Kerala's own revenue share in revenue receipts is as high as 74.5 percent, compared to 58.40 percent during 2024-25 (BE). Despite numerous challenges and constraints imposed by the Union government, the budget size has not been compromised. This is evidenced by the increase in the average budget size from Rs. 66,992 crore during the former UDF government (2011-12 to 2015-16) to Rs. 1,15,435 crore during the first LDF government. It has further increased to Rs. 1,66,075 crore over the last four years.

The development paradigm of the LDF Governments

I take pride that the LDF governments led by Shri Pinarayi Vijayan, have displayed an remarkable performance despite the challenging global context and the severe constraints set by the centre-state relations. This has been made possible through commitment to create the broad contours of another possible world through the people centric collective active action despite being in the midst of unprecedented challenges.

This was manifested in Kerala's new development paradigm based on a strategy of "knowledge, investment and compassion driven development". During the LDF rule, Kerala became the pioneer in expounding a strategy of transforming the state to a knowledge economy. Our response to the liberalism-driven conservative fiscal policy was the formation of KIIFB for enhancing capex. Our concern for those left behind led us to increase the social security pension by 2.5 times to reach Rs 1600 per month.

This government pursued the above strategy with greater vitality with a vision to move forward from a knowledge-driven economy to an innovation-driven economy at the instance of K-DISC and other stakeholders. The establishment of Space Park, Science Park, Fab Lab, Innovation Centre Graphene, Digital University, and Blockchain Academy, among others, are some of the notable and pioneering attempts by the government of Kerala towards creating a vibrant regional and sectoral innovation system. More importantly, while Kerala was the first to establish a Software Technology Park in the country, we have by now created the all the necessary background for enabling the state to emerge as a pioneering hub of Industry 4.0 which is a constellation of innovations in the digital technology like AI, Internet of things, Blockchain, Robotics etc. In my previous budgets substantial investment was

allocated facilitate the transition of our knowledge economy to its natural trajectory of knowledge driven innovation for development.

At the same time infrastructure development has always been high on our agenda. Kerala saw unprecedented growth in Capital expenditure during the LDF government. This has led to total transformation of our health and education sector. With the completion of National highway, Hill highway, National Waterways, Vizhinjam Port and other ongoing physical infrastructure Kerala is all set to be at the cusp of a great leap forward.

Going by the experience of many other countries like China, Singapore, Malaysia and others the future growth engine of Kerala will be the Vizhinjam Port. With enormous linkage potential with all the productive sectors of the economy, the port could play an important role in stimulating the economy both directly and indirectly. Recognizing this potential I have announced and initiated a series of schemes towards the development of Vizhinjam port and the associated services and infrastructure. Especially notable was the announcement of a Special Economic Zone which is under progress at a faster pace. The Port is now operational and the targets are being met ahead of schedule.

Having laid the foundation of a vibrant knowledge-based innovation system and all the infrastructure especially the Vizhinjam Port that has huge potential for creating development linkages in the economy, the imperative is to act upon to bring about needed changes in our approach to various productive sectors of the economy. Our objective shall be to harness all the linkage potential of Vizhinjam Port and the innovation system for stimulating our productive sectors of the economy. This is expected to ensure that our vibrant economy will provide us with a brimming treasury such that we are fiscally more self-reliant and our dependence on the Union is minimised.

Presently a sector that lags behind most is the agricultural sector, led by commercial crops, where the fortunes of the farmers are contingent on the pricing decisions of a few monopolies. Hence, there is a pressing need to transform Kerala's agricultural sector by changing the crop structure to focus on high-value horticulture crops and value addition to meet the growing global consumer demand. We need to enable our farmers to be the makers and takers of value. Our vibrant innovation system, which is intrinsic to the strategic approach of our agriculture department at this juncture, along with the linkage potential of the Port and other infrastructure should be the key enabling factors in this transformation

Our manufacturing sector which is yet to reap its full potential has been provided with all the needed initial conditions for a take-off. Apart from the vibrant regional innovation system that spans across various sectors, our start-up ecosystem has received global acclaim and Kerala has become one of the most attractive locations for investors. In this direction, the contribution of Industrial department by coordinating various industry associations and NRKs at the instance of Loka Kerala Sabha deserves special mention. Building on to these initial conditions the exploitation of the linkage potential of the port through the Special Economic Zone will be a game changer in the years to come.

New Deal for a Resurgent Kerala - Innovation-driven Port-based Development Paradigm (IPDP).

Along with knowledge-driven innovation, exploiting the growth potential depends on the extent to which sectoral linkages- both backward and forward, within and across countries are exploited. As already stated, here comes the need to reap the potential of our vibrant infrastructure especially the newly created growth engine- the Vizhinjam Port - which has attracted much public policy attention and public investment.

Consolidating the potential of the innovation system and the linkages of the of infrastructure led by the Vizhinjam port I envisage a new development strategy for Kerala, built on the firm foundation of the “Knowledge, Investment and Compassion” driven development strategy initiated during the first LDF Government. This will be a **new deal for a resurgent Kerala** by consolidating all the new initiatives undertaken during the past four years of the LDF Government. The strategy would be termed as **Innovation-driven Port-based Development Paradigm (IPDP)**. This quintessentially involves furthering our development frontier by effectively harnessing the innovation system on the one hand and port-led linkages on the other.

The strategic vision would be to evolve a more vibrant productive sector in the economy. It will be built on the following six pillars;

1. Innovation driven port led Agricultural transformation (IPDP4Agriculture).
2. Innovation driven Port led Manufacturing Sector growth operating at the higher end of the value chain (IPDP4Manufacturing)
3. Innovation driven Port led Infrastructure Development including the SPEZ (IPDP4 Infrastructure)
4. Innovation driven Port led Service Sector (IPDP4Services)
5. Innovation driven Port led Blue Economy with shared prosperity being the guiding principle, for the benefit of the coastal community to ensure that they are no more the outliers of Kerala Model (IPDP4Blue Economy)
6. Innovation driven port led low carbon economy, which involves exploiting the prospects of emerging as a major producer of methanol which would effectively address our waste management problem when methanol is a promising alternative fuel for ships that could help the shipping industry reach its net-zero goals. (IPDP4low carbon Economy)

The reliance of the shipping industry on methanol as a source of fuel and is expected to increase from one million metric tons in 2024 to 12 million metric tons in 2040. Bloomberg New Energy Finance's (BNEF) database on upcoming green methanol projects forecasts an annual capacity of 5.5 million metric tons by 2027. The green methanol ships market is estimated to reach USD 30.98 billion in 2035.

I am confident that with the innovation system in place, Kerala need not operate at the low end of the value chain and compete solely on cost advantage. Instead, our firms and farms could enter into the production of products where they are price makers rather than price takers. Despite unprecedented challenges over the past nine years, the economy and people of Kerala have endured significant hardships. These challenges included but were not limited to, demonetization, often described as the blunder of the millennium, an outbreak of a virus followed by two consecutive years of floods, and a once-in-a-century pandemic. Besides, the devastating landslide that resulted in heavy loss of life and livelihoods of the people of Wayanad

In the case of Wayanad, the government has acted swiftly, implementing a comprehensive package and immediate actions for the resettlement of the people and the development of the township. In all these episodes, the government of Kerala has spared no effort in actively responding to the context and building upon the resilient Malayalee spirit, known for its spirit of cooperation across the world.

The outcome is not far to seek. Indian economy, after growing at a rate of 8.2 percent during 2023-24, was predicted to grow at 6.6 percent which as per the advance estimate of national accounts is unlikely to go beyond 6.4 percent.

Global growth is expected to hold steady at 2.7 percent in 2025-26. However, the global economy appears to be settling at a low growth rate that will be insufficient to foster sustained economic development. This could be further challenged by heightened policy uncertainty, adverse trade policy shifts, geopolitical tensions, persistent inflation, and climate-related natural disasters.

Without course corrections, most low-income countries are unlikely to graduate to middle-income status by the middle of the century. Policy action at both global and national levels is needed to foster a more favorable external environment, enhance macroeconomic stability, reduce structural constraints, address the effects of climate change, and thus accelerate long-term growth and development.

Nava Kerala Mega Malls

As an integral part of the **Innovation-driven Port-based Development Paradigm (IPDP)**, we propose the establishment of Nava Kerala Mega Malls (NKMM) for displaying and marketing all the products and services under the single roof– both online and offline. NKMM to be established at the instance of Loka Kerala Sabha in all the major cities in India and abroad would be designated to showcase "everything Kerala" or “exclusive Kerala” to serve as critical nodes in the state’s supply chain development while fostering price stability and domestic market growth.

Key Highlights of Nava Kerala Mega Malls

- **Showcasing Kerala’s Heritage**

- ✓ **Culture and Crafts:** Each mall would highlight Kerala's rich cultural legacy, featuring traditional art forms like Kathakali, Mohiniyattam, Koodiyattam, Padayani, Theyyam, Thullal, mural paintings, and coir products. District wise art forms need to be promoted for this purpose. Mall may also facilitate learning the typical art forms of Kerala for the domestic and foreign tourist crowd. Traditional attire of the state of Kerala (Kasavu Pudava) needs to be marketed well before the tourists.
- ✓ **Ayurveda:** Exclusive sections could promote Kerala's globally recognized Ayurveda sector. One of the important objectives of the mall is to promote medical tourism offering authentic wellness products, Ayurvedic massages and other treatments.
 - **Kerala Specific products**
 - ✓ Agriculture Related: Fruits, Vegetables, Spices, Tea, Coffee among others; NKMM shall be exclusive spaces for displaying high quality organic products from our agricultural sector
- ✓ **Kerala Cuisine:** Food courts with traditional Kerala cuisine—Sadhya; Kappa and fish curry; Appam, Puttu, Idiyappam along with other wide varieties of seafood items, and snacks like banana chips, banana fry, etc—can create a vibrant experience for visitors. Seasonal fruits like mango and jackfruit and its value added commodities needs to be a main source of attraction of the mall. KMM Shall also take initiatives for conducting seasonal food festivals to portray value added commodities of those fruits.
- ✓ **Processed Food products;** KMM shall also have processed food products both agriculture based and animal based
- ✓ **Marine products.**
- ✓ **Handicrafts:** drawing lessons from our craft village experiment, KMM shall be the space for accessing all the handicraft products and also textiles
- ✓ **Forest products** including those to be procured from the forest dwellers and tribal communities
- ✓ **Tourist spots:** The mega mall needs to have a bifurcation based on the preferences of the potential tourists such as hilly area (terrain), backwaters, adventure spots, beaches and other preferred greenery. Videos or documentaries showcasing the tourist potentials, especially spots in the interior villages needs to be played in the mega mall for promoting awareness. **'One Ward- One Spot'** must be the slogan of every potential tourist village to attract more tourists to the place. Tapping the potential support of local bodies may be essential for the mission.

- **Integrated Supply Chain Development**
 - ✓ **Backward Linkage:** These malls would source products directly from farmers, artisans, and MSMEs, ensuring a steady supply of authentic Kerala goods.
 - ✓ **Price Control:** Centralized procurement can regulate prices, benefiting both producers and consumers. It will help to eliminate commissions to intermediaries like Amazon, Flipkart, etc.
 - ✓ **Efficient Logistics:** With Vizhinjam Port as a hub, streamlined logistics can reduce costs and ensure consistent quality and availability of goods.

➤ **Collaboration with Loka Kerala Sabha**

The involvement of the Loka Kerala Sabha established by the LDF government as a platform connecting the global Malayali diaspora can boost marketing and branding efforts. Malayali entrepreneurs abroad could help expanding Kerala's global market reach.

➤ **Boosting Market Access**

By offering a curated selection of Kerala products in one place, these mega malls would attract tourists, NRKs, and foreign consumers, thus increasing the global demand for our products. Direct procurement from rural producers including kudumshree units will ensure better incomes for farmers, weavers, and artisans. Promotion of agro-based products and handicrafts can revitalize traditional industries. Special incentives could be offered to women's cooperatives, tribal communities, and small-scale entrepreneurs to participate in the supply chain. The malls could include spaces for live demonstrations and workshops, providing a platform for marginalized groups to showcase their skills. The user producer interaction will result in quality upgradation, advanced manufacturing process and packaging.

➤ **Strengthening the Brand "Kerala":**

Kerala Mega Malls would reinforce Kerala's image as a cultural and wellness destination. They would serve as experiential centres for tourists, enhancing Kerala's appeal globally.

Nava Kerala Mega mall & Port-led development

The synergy between Vizhinjam Port and Kerala Nava Mega Malls is an important way of harnessing the full potential to the economy by way of:

- ✓ **Export Gateway:** Products showcased in the malls can be marketed globally through Vizhinjam, boosting exports.
- ✓ **Import Substitution:** The malls can reduce dependency on imported goods by promoting Kerala-made alternatives.
- ✓ **Tourism Magnet:** Located near tourist hubs, these malls could complement the port's cruise tourism initiatives, offering an immersive cultural experience to visitors.

By integrating Kerala Mega Malls into the port-led development narrative, the state can achieve a unique blend of economic growth, cultural promotion, and supply chain resilience, marking Kerala as a model for inclusive and sustainable development.

Kerala Budget 2025-26

Tax and Non-Tax Proposals

State of State Revenue

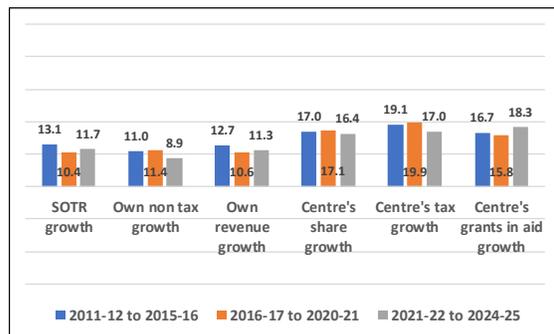
The state Government of Kerala has always been at the forefront of adopting progressive policies to forward economic growth and social equity. The calibrated revenue generation measures during the two consecutive terms of the incumbent government yielded commendable results. Figure 1 presents the growth in revenue receipts during the three phases under consideration. The three phases are delineated are:

- Phase 1: 2011-12 to 2015-16,
- Phase 2 2016-17 to 2020-21, and
- Phase 3: 2021-22 to 2024-25.

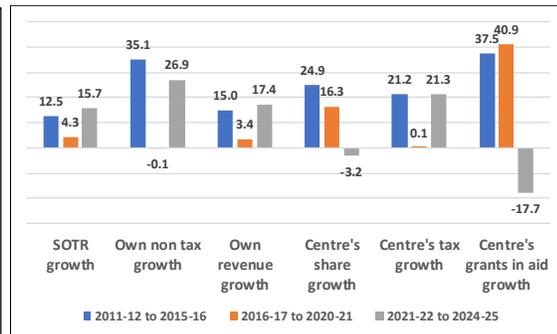
Notably, the second phase, spanning from 2016-17 to 2020-21, was marked by significant turbulence such as demonetization, implementation of Goods and Service Tax (GST), deluge during the two years, and the unprecedented Covid-19 pandemic. The spill-overs of the economic challenges emanating from the global and domestic macroeconomic landscape have also affected Kerala’s growth prospects. This coupled with unprecedented challenges from the climate-induced uncertainties and disasters added to the woes. Specifically, Kerala floods in 2018 as well as 2019 and the recent Wayanad disaster have seriously hamstrung Kerala’s growth pursuits. It has had implications on the revenue mobilization efforts of the government.

Table 1: Growth in revenue receipts (In Percentage)

(a) All States’ position



(b) Kerala’s position



The performance of the State Own Tax Revenue (SOTR) witnessed commendable growth throughout the period, except for a dip during the second phase. Notably, in the recent phase the observed growth in SOTR of the state (15.7%) surpassed all states' performance (11.7%). Similarly, Own Revenue Growth was also stronger (17.4%) during the third phase and it outperformed the all states' performance (11.3%). Own Non-Tax Revenue component also portrayed robust growth (26.9%) surpassing the overall states' performance (8.9%). Notably, the federal transfers took a back seat except during the second (turbulent phase of 2016-17 to 2020-21).

More importantly, the share of central taxes and grants in aid contributions by the Centre has drastically declined in the state of Kerala, especially in recent years. A drastic fall in grants – in –aid recording a growth of -17.7 percent has to be compared with the robust growth of 18.3 percent across all states (see figure 1). In general, during the third phase, the growth in federal support by way of transfer for the state (-3.4%) is way below all states' average (16.4%), leading to severe financial stress for the state. Along with this, the borrowing restrictions by the central government squeezed the fiscal space by including off-budget borrowing to the eligible annual borrowing.

As we approach the fiscal year 2025-26, it is imperative to introduce a set of tax proposals that not only boost state revenue but also go in tandem with the broader goals of promoting a knowledge economy, fostering investments, and an impetus to compassion-driven economic growth.

Tax and Non-Tax Revenue Augmenting Proposals

1. Specific proposals for revenue mobilization measures

Sales Tax and VAT

Sales Tax and VAT, the second-largest contributor to SOTR after GST, account for around 36% of Kerala's own tax revenue. In 2021-22, collections stood at ₹22,487.43 crore, which increased significantly to ₹26,875.78 crore in 2022-23. However, the Revised Estimate (RE) for 2023-24 shows only a minor increase to ₹27,888.90 crore. This reflects a marginal rise in absolute terms but a slight decline in the overall share of SOTR, projected to further drop to 35.66% in the 2024-25 Budget Estimate (BE). This marginal decline indicates a possible stagnation in collections, which could be due to a combination of factors. The fall in share of sales tax from petrol and diesel in SOTR could be due to the following factors.

1. Market diversion to the neighbouring states such as Tamil Nadu, especially Diesel, with lower tax rates in the event of Kerala's imposition of additional cess.

2. Switch over to Electric Vehicles

3. Plausible reflection from decelerated economic activities owing to domestic and global factors

Proposal

Measures needs to be in place to check possible diversions of cross boarder sales to improve tax mop up in this segment.

State Excise Duties

State excise duties is the fifth-largest source of Kerala's SOTR. In 2021-22, excise revenue amounted to ₹2,032.23 crore, which increased to ₹2,875.95 crore in 2023-24 (RE), and is projected to reach ₹3,107.46 crore for 2024-25 (BE). Although the excise duty on Indian-made foreign liquor (IMFL) has been raised by ₹10 per litre in the last budget, indicating growth, there remains a scope to further increase excise collections.

Suggested measures

- Improve monitoring of illegal alcohol production and smuggling, which erodes legitimate excise revenue.
- Digitize the supply chain for alcohol distribution to reduce leakages and improve tracking of sales and revenue collection.
- As a long run measure, we recommend the establishment of a Beverages Park utilising the 175 acres of land held by the Chittoor Sugar Mills. The idea is to increase the domestic production of all kinds of beverages and promote the production of low-alcohol content beverages like different types of Wine. This will provide significant backward linkage to Kerala's Agricultural sector. This is a recommendation made by a Committee appointed by the former LDF government led by Shri V S Achuthanandan.

Stamps and Registration Duties

Stamps and registration fees are the fourth-largest source of tax revenue in Kerala, showing a consistent upward trend. In 2021-22, the revenue from this segment was ₹4,857.33 crore, which increased to ₹6,216.71 crore in 2022-23. However, there was a slight decline in 2023-24 (RE) to ₹6,111.78 crore, though the Budget Estimate (BE) for 2024-25 anticipates an increase to ₹6,661.84 crore. Despite this dip, there is potential for further growth in this revenue source.

Suggested measures

- Unscientific fair value fixation should be replaced, and a proper revision of fair value should be done under Section 28A(1A) of the Kerala Stamp Act and Rule 6 of the Kerala Stamp (Fixation of Fair Value of Land) Rules.

- Fair Value Revision: It is suggested that the fair value of the land may be fixed scientifically, through the coordinated action of the Revenue and Registrations Department with the active involvement of people - Local Governments and resident associations. The Registration Department may be the nodal agency and a committee may be appointed to prepare the detailed action plan. The committee may look into issues related to the Classification of land types, discrepancies in resurvey, and lease agreements.
- Clear guidelines need to be issued for fixing fair value based on 15 specific criteria.
- Specific guidelines should be established to determine the proper way and procedure to fix the fair value of land according to the 15 criteria¹.
- Co-ordination between Revenue and Registration Departments are crucial for scientifically fixing the fair value of land.
- Sharing stamp duty between sellers and buyers of property: Undervaluation often occurs because the burden of stamp duty falls solely on the purchaser of land. Given the high land prices in Kerala, this places a substantial burden on the buyer. As the benefits of increased land prices exclusively benefit the seller, there's an argument for sharing the stamp duty between both the seller and the buyer. The association of document writers in Kerala also endorses this proposal.
- Conduct property revaluation in urban and high-demand areas to ensure that registration fees are aligned with current market values.
- Implement e-stamping services to streamline the registration process and reduce under-reporting or evasion.
- States like Andhra Pradesh consider the market value instead of fair value. States like Karnataka, Tamil Nadu has considerably reduced the gap between market value and guidance value.
- 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.

Required legal measures

- Challenges with fair value fixation by the Revenue Department.
- The Registration Department should be involved in fair value fixation.
- There is a need for specific guidelines for fair value fixation.
- Sections 33 and 34 of the Kerala Stamp Act² should be properly implemented.

¹ The fifteen land categories are Commercially important plot, Residential Plot with NH/PWD road access, Residential Plot with corporation/municipal/panchayath/road access, Residential Plot with private road access, Residential plot without vehicular access, Garden land with road access, Garden land without road access, Coastal belt, Waterlogged land Rocky land Wasteland Wetland, Hill tract with road access Hill tract without road access and Government property.

² Section 33 of the Act says that any government official or authority who has power to receive evidence or who are dealing with instruments, have the ability to check such instruments including which is duly stamped or not. They can send the instruments before the District Registrar for checking such authenticity. As per the Section 34, the public officer can deny an evidence only on the ground if it is not properly stamped.

- Government lease agreements are currently not mandatorily registered under the Kerala Stamp Act, 1959, which results in non-registration of rent agreements for government offices such as KSFE, BEVCO, etc., implying a loss of revenue.

Land Revenue

Land revenue currently contributes only a small portion of the SOTR. Although there has been an increase in real estate transactions, land revenue has not kept pace due to inefficiencies in valuation and collection.

Suggested measures

- **Reassess Land Values:** Conduct a comprehensive reassessment of land values across the state, especially in urbanized and high-growth areas, to adjust land revenue rates accordingly.
- **Streamline Land Titling:** Improve land titling processes to reduce disputes, increase registered transactions, and ensure that all land changes (e.g., usage or ownership) are properly updated in revenue records.
- **Notices to Landowners:** Ensure that village officers' issue timely notices to all landowners regarding tax dues (basic tax, building tax, property tax).
- **Update Land Use Changes:** Implement mechanisms to track and update land use changes in real time, ensuring that such changes are accurately reflected in tax assessments and collections.
- West Bengal collects 6 times more revenue than Kerala although their total land area is about twice that of Kerala where land tax is fixed based on the purpose for which the land is used. In West Bengal land tax accounts for more than 5% of total SOTR as compared to 0.41% of Kerala. If Kerala adopts use-based fixation of land tax, as is adopted by West Bengal there could be at least a threefold increase in our land revenue.
- States like Tamil Nadu, Gujarat, etc also levy vacant land tax. Steps are to be initiated to estimate of vacant land area and levy appropriate extra levy on vacant land.

Legal measures for mopping up Land Revenue

- **Kerala Land Tax (KLT) Act, 1961:** As per Section 5, basic tax is levied on land not exempted under Section 2. Section 6 prescribes the tax rate. Audit reports highlight that village officers do not issue proper notices to landowners regarding tax dues. Consequently, taxpayers pay on their own volition, and the demand is recorded retroactively. This causes inefficiencies and revenue losses.

Additional suggestions for raising land revenue

- **Exploring the option of Transfer of Development Rights (TDR) and Floor Space Index (FSI) for mopping up of land revenue**

Kerala has experienced rapid urbanization in recent years. Studies (SBI 2024) indicate that the proportion of urban dwellers will be the highest in Kerala with about 75% in 2024. Urbanization raises significant challenges regarding land use and acquisition. Land acquisition in Kerala is a challenging one, considering the highly fragmented nature of land holdings, highly priced land and the legal complications it is associated with. It has to be noted that Kerala government has borne about 25% cost of land acquisition amounting to Rs. 5581Cr for 16 ongoing projects on NH-66 until now. This kind of public expenditure may not be the feasible option for an rapidly urbanising state like Kerala, when there are other tried and tested methods available from global as well as Indian experiences.

In this context, it is essential to visit some of these tried and tested methods that have been used globally for urban development by ensuring efficient, equitable, and sustainable use of land. Transferable Development Rights (TDR) and Floor Space Index (FSI) are two such Land Value capture (LVA) tools used by city governments for a variety of reasons. Transferable Development Rights (TDR), a planning tool used by governments to regulate land use and urban development allows landowners to transfer or sell their development rights (not land) from one place to another, facilitating land acquisition and urban planning. TDR allows governments to acquire land for public purposes without direct monetary compensation. While FSI is the ratio of a building's total floor area to the size of the plot it is built on, it is essentially a regulation to control building density and manage infrastructure capacity. TDR creates a market where additional FSI can be bought and sold and thus allows developers, allowing them to build beyond the standard FSI limit by purchasing additional FSI.

The important benefits of these tools connected to public finance are listed below.

TDR

(1) acquire land without incurring public expenditure, (2) accelerate Public Infrastructure Projects, (3) Encourage Private Sector Participation, (4) Preserve notified areas, (5) Market-Driven Urban Growth.

FSI

(1) Revenue Generation by regulating FSI, (2) Control Over Urban Density, (3) Incentivizes Vertical Growth, (4) Infrastructure Planning and (5) Optimal Land Use

However, Master plans are foundational to the successful operationalization of both TDR and FSI in urban development. They provide a comprehensive framework that ensures land use policies align with infrastructure development and public money optimisation. Therefore, it is essential for the state to move into a planned urban development at the earliest.

Tax on Vehicles

The tax on vehicles is the third-largest contributor to Kerala's SOTR. With increasing vehicle registrations, particularly in urban areas, this segment has strong potential for further revenue generation. However, the current vehicle tax structure does not fully reflect modern trends, such as the growing use of Electric Vehicles (EVs) and hybrid models, which may not contribute as much to traditional road and vehicle taxes due to existing tax incentives.

Key areas required due attention for revenue mobilization

- Improve compliance through audits and digital payments in cash-heavy sectors like tourism and retail.
- Enhance tax audits in key sectors like petroleum and luxury goods, and increase field inspections.
- Raise duties on premium alcoholic beverages and improve monitoring for illegal production.
- Increase fees for luxury real estate transactions and conduct property revaluations.
- Update the tax structure to reflect the growing use of electric vehicles.
- Focus on education and skill development to align with emerging sectors like AI and IT. This will help curb brain drain and promote local entrepreneurship, contributing to long-term revenue growth.
- The budget must prioritize administrative efficiency, digitalization, and leveraging untapped sectors for sustainable growth.

Goods and Service Tax (GST) Proposals

- Timely filing of GST returns is one of the indicators of GST compliance and reflects the GST system. Kerala ranks 3rd from the bottom among the 18 central states in the timely filing of returns.
- Conduct a sector-wise compliance analysis across firms of different sizes to understand where the compliance is poor and analyse the challenges in compliance. Further, the filing ratio among small traders will be compared, and districts with low compliance will be identified.
- The state, through the GST department, may introduce targeted education campaigns on filing returns. This may call for setting up district-level GST clinics to help small businesses file accurate returns.
- Introduce GST registration camps for sectors like small artisans, cooperative societies, and local transport operators.
- Conduct awareness and campaigns regarding filing GST returns through apps.
- Create a feedback loop with traders and taxpayers to identify practical challenges in compliance.

- A strong treasury is the progeny of a strong Tax Department. In a state like Kerala where “ a few whales and numerous minnows”, the department has to be capacitated with needed manpower and equipment for collecting the tax effectively.

For

Performance monitoring

- Identify sectors with frequent ITC mismatches, leading to disputes and refund delays. Review cases where taxpayers are over-claiming ITC and propose stricter reconciliation mechanisms
- Leverage GSTN analytics for real-time tracking of large discrepancies in tax returns.
- The state GST department may build a State GST Revenue Dashboard to track daily, weekly, and monthly collections across various sectors and districts.
- The trends in revenue can be compared with other economic variables like consumption and high-frequency data to assess the leakages in the system. One of the best ways is to integrate GSTN data with state databases, such as land registration and vehicle purchase records, to detect undeclared transactions.
- An informed revenue targeting across states will help understand the underlying factors that deviate from projections.
- The commission may monitor closely select sectors like real estate, hospitality, and large retail chains, which are cash-intensive and prone to underreporting.

GST simplification proposal

- At present, there is an enormous delay in settling the IGST amount due to the state concerned. The IGST settlement portion will be available to the states only after the dealers concerned file their monthly/quarterly returns. This has led to a huge unsettled amount in the IGST account. Neither it is available to the state nor the Centre. Whatever IGST is paid in the IGST account in the name of a state is settled only part by part on the submission of returns of the dealer concerned. This creates a heavy financial burden on the states.
- To address this issue, there is the need to provide for the transfer of SGST and CGST portion of the IGST amount instantaneously to the respective accounts of the Centre and States when the IGST is paid by the Taxpayer.
- Hence State needs to **take the initiative to place this proposal before the GST council to transfer the IGST portion (IGST settlement) of the state concerned from the IGST account in a month as and when it is remitted in the IGST account when** the supplier filing the return. This provides a financial cushion to the state. Through this process, the unsettled portion in the IGST account will be minimized which was envisaged in the initial implementation of GST.

Non-Tax Revenue

The historically evolved development strategy that focused on the production of human capital which is non-tradable and non-taxable. The human capital being mobile, migrated to other states and other parts of the world. The latter contributed much to the union and the people of Kerala through remittances while the former contributed to the development of other states. However, the government of Kerala did not receive any direct taxes and contributed towards sustained revenue deficit and borrowing. The Union was neither considerate of our contribution to national development nor to the stressful state of state finances sustained over time.

Given the above, there is an urgent need to consider user charges for education and health with due consideration to the ability to pay with the provision for periodic revision in sync with the rate of inflation.

1. Expenditure on various economic services have to be prioritized and monitored based on their revenue generation capacity (target outcome-based budgeting).
2. Reallocation of expenditure is necessary under the economic services to improve the efficiency of various departments.
3. Regular auditing has to be done in the agricultural departments and their activities have to be monitored regularly. There should be a proper account of money spent to the agricultural department and its outcomes.
4. There should be proper accounting and auditing of charges incurred for the tourism activities collected by the Kerala Tourism Development Corporation.

Other major suggestions for raising non-tax revenue

1. Auctioning sand deposits in rivers.
2. Introduction of special economic zones to create employment opportunities to females.
3. Explore and exploit mineral resources responsibly.
4. Promote waste recycling and generate revenue from the sale of recycled materials.
5. Promote Kerala as a film shooting destination to attract filmmakers.
6. Utilise the surplus land and other unused assets of Public Sector Undertakings for commercial development through leasing or joint ventures.
7. Explore the possibilities of farm tourism in the estates managed by State Farming Corporation
8. Introduce more premium services in public transport such as air-conditioned buses, water taxis etc.
9. Ensure timely collection of arrears from fees, royalties and fines etc through digitised systems.
10. Offer paid access to government data (with privacy safeguards) for academic and commercial research.

11. Diversification

Eg: Geology Department

- Promote geological sites and formations for tourism, generating revenue through entrance fees, guided tours, and educational programs.

12. Fee Optimization

Eg : Kerala Public Service Commission(KPSC)

- Introduce minimum amount as fees from the candidates appearing for various competitive examinations and interviews including a one-time fee for PSC registration (currently there is no fee charged for these services).

Eg. 2: Government hospitals

- Revise the existing charges for outpatient tickets and other medical tests.

13. Asset Monetization

Eg: Forest Department

- Design partnerships where private entities contribute to conservation efforts in exchange for access to forest resources or tourism concessions. Eco tourism in the safe forest areas should also be encouraged and appropriate charges are to be fixed.

14. Public Procurement Efficiency

Eg: Stationery and Printing Departments

- Expand stationery and printing services to the private sector, collaborate with educational institutions, partnerships with photographers.

Forest Department

- Encourage local entrepreneurs to establish units for processing forest products into essential oils, cosmetics, herbal medicines, etc., creating high-value products.

15. Creative Partnerships

Eg: Tourism Department

- New tourism projects can be introduced considering the new trends of tourism (for example health tourism, tribal tourism).

16. Data-Driven Decisions

Eg. Geology Department

- Provide Environment Impact Assessment services for mining projects to ensure compliance with environmental regulations.
- Sell geological and mining data, maps, and reports to interested parties, including researchers, companies, and government agencies.

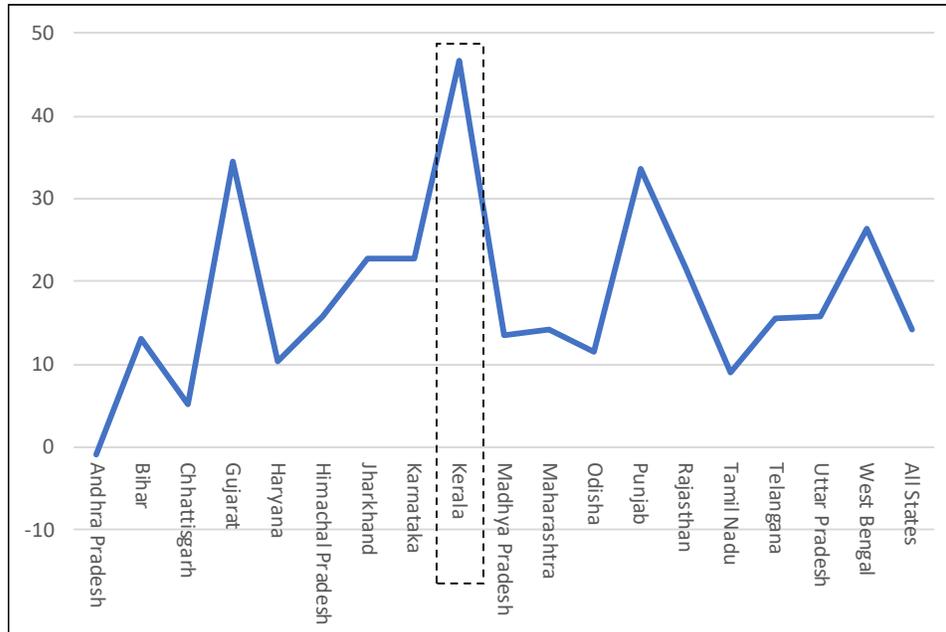
Expenditure Rationalisation Measures and Debt Streamlining

Compassion-led development policy of Kerala

Kerala's government is committed towards implementing effective and inclusive social safety nets. It is evident from its per capita social security spending which is highest among other Indian states. In terms of coverage, Kerala stands ahead of other states across India.

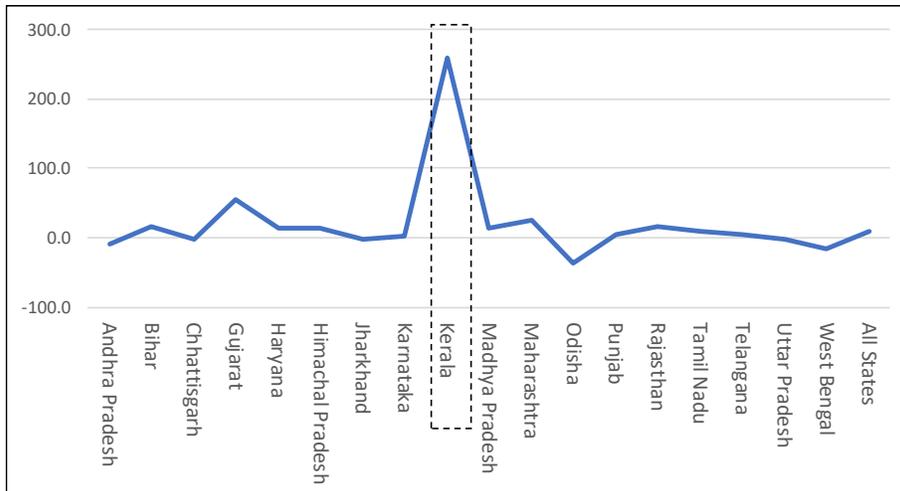
Notably, Kerala's average per capita social security expenditure for a period of five years (2018-19 to 2022-23) is the highest among major Indian states.

Average growth of per capita social security spending across major Indian States (2018-19 to 2022-23) (In percent)



Welfare-oriented development policies are reiterated with Kerala's pro-activeness in providing social safety net during once in a century pandemic time. The amount of per capita welfare expenditure during the pandemic stands as a testimony for protecting the lives and livelihood of its citizens.

Per capita welfare spending growth of states during pandemic (2020-21) (In Percent)



STREAMLINING WELFARE PENSION

Kerala's pension provisions are categorized into four distinct groups, each serving specific segments of the populations:

- (i) Service Pensioners including family and others,
- (ii) Pensioners under Welfare Pension Schemes like Agriculture Labour Pensioners (ALP), Indira Gandhi National Old Age Pensioners (IGNOAP), Indira Gandhi National Disabled Pensioners (IGNDP), Unmarried Women Pensioners (UWP), and Indira Gandhi National Widow Pensioners (IGNWP)
- (iii) Pensioners through 22 Welfare Fund Boards
- (iv) Other Pensioners such as Circus Artist's Pension, Vishwakarma Pension, Cancer Patients' Pension, TB Patients' Pension, and Leprosy Patient Pension.

1. As of March 31, 2022, Kerala reported remarkable numbers under state-administered pension schemes: (i) 52.21 lakh social security pensioners (ii) 4.39 lakh state service pensioners (iii) 8.29 lakh welfare board pensioners (iv) 0.82 lakh other pensions. **In total, the Pension Coverage from all sources in the state reaches a substantial 66.4 lakh individuals (19% of Kerala's population). Of these, around 49.36 lakh beneficiaries belong to the 60+ population. This implies that 84.33% of Kerala's elderly population is covered under various pension schemes.**
2. Comparing the number of social security pension schemes among the major 18 states (including 100% state-funded welfare boards), Kerala stands at the forefront with 17 schemes. **The state holds the top spot in total welfare pension coverage, reaching 17.15% (61.09 lakh beneficiaries out of 3.56 crore population).** However, Kerala secures the 4th position in per capita amount, amounting to ₹1600, trailing Telangana (₹3016), Andhra Pradesh (₹3000), and Haryana (₹2750). In terms of total social security pension expenditure by a state, Kerala holds the 4th position with ₹8745 crores, following Andhra Pradesh (₹19074 crores), Telangana (₹11728 crore), and Karnataka (₹9484 crore).

3. Considering the old age population in India, Kerala has the highest percentage at 16.5% of the total population, followed by Tamil Nadu (13.6%) and Punjab (12.6%). In terms of old age welfare pension coverage, Kerala, with 76.59%, holds the 2nd position after Rajasthan (80.38%). In the allocation of the state budget for the old age pension, Kerala ranks 3rd with ₹4929.8 crores, following Andhra Pradesh (₹7490 crores), Telangana (₹6167 crore), Haryana (₹5160 crore), and Tamil Nadu (₹4915).
4. The total pension liabilities of the state (both civil and welfare) are Rs. 35644 crores (₹26,899 crore civil + ₹8,745 crore welfare) i.e., 17.9% of the total state expenditure, of which expenses on welfare pensions (including 100% funded welfare boards) account for 4.39%.
5. The study offers a glimpse into the fiscal challenges Kerala faces. The state is projected to have the least financial burden by 2026-27 if there's a 5% increase by that time while no increase in the number of beneficiaries occurs. However, given the fiscal stress that Kerala currently grapples with, it is less prudent to consider a substantial increase in welfare pensions.
6. **The total expenditure for welfare pension accounts for only 24.5% of the total pension-related expenditure whereas this amount is spent on 90.8% of the elderly population.** On the other hand, the state service pension expenditure accounts to 76.5% percent of the total pension expenditure, spent on 9.19% of the elderly population. This skewed distribution on welfare-related expenditure is a matter of concern.

Suggestions

1. **Judicious Mustering:** A more judicious process for identifying pension recipients, along with ensuring that all welfare pension accounts are fully seeded to Aadhar and software linked so as to avoid duplications strictly
2. **Local Governance Involvement:** Leveraging Local Self-Government (LSG) bodies to identify beneficiaries who may be unduly benefiting from welfare pension schemes.
3. **Consolidation of Welfare Boards:** To enhance operational efficiency and reduce costs, welfare boards where 100% grants are provided by the Government could be merged into a single entity.
4. **Hike in Welfare Pension:** A yearly hike of 10% in the monthly pension amount, taking into consideration the escalating old-age dependency in the state, the impact of inflation, and adherence to the fundamental principles of a welfare state.

Statutory Pension Reforms

Statutory Pension fixation minimum will be reduced from 50 per cent of last drawn salary to 40 per cent

At present, an employee's pension fixation is based on 50 percent of the last drawn salary. Considering the state's financial strain, this has to be reduced to 40 % of the last drawn salary.

An upper cap in monthly pension amount (Rs 50000) will be fixed for the existing pensioners. Necessary changes will be made in the Act and Rules.

Pension commutation amount has to be capped

At present, an employee is entitled to commute 40 per cent of 12 years of estimated pension at retirement. For eg, if an employee is having 1.5 lakhs salary at the retirement month, he is eligible to commute 40% of his 12 years' pension (Rs 108 lakhs), hence commutation amount comes to 40 lakhs. This is in addition to the terminal surrender of 10 months' salary and eligible gratuity amount (maximum 17 lakhs). In this context, the percentage of commutation has to be reduced to 30 per cent of 12 years' pension. The estimated revenue gain in a single case like this is Rs 11 lakh. If the period allowable for pension commutation reduced to 5 years instead of 12 years, then the revenue gain would come to Rs 25 lakhs from a person. On the other hand, if the commutation percent reduces to 30 percent with a restriction of years to 5 years, then the gain comes to Rs 30 lakhs in a single case.

Present and proposed Pension Commutation

Items	Present (Rs in lakhs) Commutation is 40% of 12 years pension	If commutation is for 30 % of 12 years	If commutation is for 40 % of 5 years	If commutation is for 30% of 5 years
Monthly Salary Last Drawn salary	1.5	1.5	1.5	1.5
Monthly Pension	0.75	0.75	0.75	0.75
Annual pension	9	9	9	9
Pension for 12years	108	108	45	45
Commutation amount	43.2	32.4	18	13.5
Difference		10.8	25.2	29.7

In order to meet the present financial difficulty of the state, strong steps will be taken to address to protect the livelihood of all as it is the prime responsibility of a state. The amount realized through this reforms can be utilized for giving social welfare pension to the people.

An expert committee will be appointed to study the pension reforms of Kerala.

Extension of pay revision to 7 years

The eleventh pay revision report of Kerala stated that the next pay revision should be considered after 7 years, i.e during the year 2026 instead of 2024. Thereafter, the period of pay revision implementation will be made after 10 years on par with the Central pay revision. This will generate substantial revenue gain to state of Kerala.

Extension of the age of retirement

To ease the fiscal stress of the state, a decision may be taken to increase the retirement age by two years. An increase in the retirement age by one year will provide a saving of around Rs 4000 crore. **A two-year extension of the retirement age will save Rs 8000 crore. (Report, 2020, Finance Department).** For mobilizing additional funds to address the present financial crisis, it would be appropriate to consider the extension of the retirement age.

Policy Suggestions for Sustainable Improvement in Kerala's Debt and Deficit Positions

- GIFT (2023) highlighted that increased borrowings have significantly boosted development expenditure in states. Kerala's capital spending is known to promote growth and development, but over the past 2-3 years, the state's development model has been adversely affected by the borrowing restrictions. Therefore, the proposed 3.5% borrowing ceiling should remain in place in the upcoming budget, and the government must ensure that borrowed funds are directed primarily toward capital investments, without targeting the elimination of revenue deficit. **Hence, the forthcoming budget should fully utilize the available borrowing space and explore the possibility of additional borrowing by considering amendments to the act to incorporate an escape clause (see Section III).**
- Based on Domar's sustainability analysis, Kerala's current debt trajectory is aligned with long-term debt sustainability.
- The existing FRBM should be reoriented as The Fiscal Responsibility and Borrowing Management Act wherein borrowed money is invested assuring a rate of return higher than the rate of interest.
- **The legislative/legal measures: KFR (Amendment Act) 2022 & Article 293**
- **Fiscal Target as per Kerala FRA (Latest amendment 2022)**
 - ✚ The 2022 amendment aims to eliminate the revenue deficit from 2021-2022 to 2025-2026, targeting a progressive revenue surplus of up to 2.5% of the Gross State Domestic Product and reducing the fiscal deficit to 3% of GSDP by maintaining declining thresholds from 4.5% in 2021-2022 by 2025-2026. However, rigid adherence to these targets, without considering states' revenue capacities, fiscal needs, and constraints, risks undermining essential public services, socioeconomic development, and long-term economic growth by limiting both revenue and capital expenditures.
 - ✚ **The FRBM Act was amended by the Finance Act of 2004, the Finance Act of 2012, the Finance Act of 2015, and the Finance Act of 2018. Likewise, the Kerala Fiscal Responsibility Act of 2003 can be amended to include the escape clause.** This would provide the State Government with the necessary flexibility to manage unforeseen financial demands arising from extraordinary circumstances, similar to the fiscal responsibilities borne by the Central Government.
 - ✚ The escape clause in the FRBM Act allows the government to exceed the fiscal deficit target under extraordinary circumstances. Subsection 4(2) of the Act

specifies grounds for such exemptions, including: (i) National security or act of war; (ii) National calamity (iii) Collapse of agriculture, severely impacting farm output and incomes, (iv) Structural reforms with unexpected fiscal implications (v) Significant economic slowdown, marked by a quarterly real output growth decline of at least 3 percentage points below the average of the previous four quarters.

4(3) Any deviation from fiscal deficit target under sub-section (2) shall not exceed one-half per cent. of the gross domestic product in a year.

- ✚ **In the light of the natural calamities, it is advisable to incorporate an escape clause, akin to the one in the FRBM Act, into the Kerala Fiscal Responsibility Act (FRA). This would provide the State Government with the necessary flexibility to manage unforeseen financial demands arising from extraordinary circumstances, similar to the fiscal responsibilities borne by the Central Government.**
- ✚ States like Punjab, Karnataka, Tamil Nadu, Arunachal Pradesh, etc have already made use of such provisions that allow deviations from fiscal targets under extraordinary conditions like natural calamities or national security concerns. These clauses ensure that states can address urgent fiscal demands while maintaining their overall commitment to fiscal responsibility.