States' GST collections

What is the issue?

Data analysis shows that growth in GST revenue across states has been lower than expected collections.

What are the terms of reference in the data analysis?

- GST collection for 20 major States during 2017-18 to 2019-20 has been taken for analysis and 2020-21 was not included due to the Covid-19 pandemic.
- The GST collection to GSDP (Gross State Domestic Product) ratio of States has been compared to assess the level of revenue collection effort of a State.
- The tax-GSDP ratio is calculated as the ratio of the average of GST collection (2017-18 to 2019-20) to the average of GSDP for two years (2016-17 and 2017-18).
- Total GST (TGST) revenue is the aggregate value of the State GST and remittance of IGST to States for the value of inter-State inward supply goods &services and consumed in State boundaries.

What are the outcomes of this analysis?

- States with higher SGST-GSDP ratio are Maharashtra (2.3%), Goa (2%), Haryana (1.9%) and Gujarat (1.8%).
- States with the lowest SGST-GSDP ratio are Bihar, Andhra Pradesh, Madhya Pradesh (nearly 1%), and Punjab (1.1%).
- The IGST-GSDP ratio of States varies from 0.5 % (Gujarat) to 1.57% (Bihar), with the average being 0.99%.
- While Uttar Pradesh has the highest rank in average SGST collection, it ranks second in the IGST-GSDP ratio.
- While Maharashtra ranks second in IGST collection, it ranks 16th in IGST-GSDP ratio.
- On the other hand, Bihar stands eleventh in IGST collection but ranks first in IGST-GSDP ratio.
- Total GST-GSDP ratio ranges from 2.15 % (Madhya Pradesh and Andhra

Pradesh) to more than 3% (Goa and Maharashtra).
- While Maharashtra ranked first in average GST revenue collection, and second in TGST-GSDP ratio, Goa stands first in TGST-GSDP ratio but ranks twentieth in average TGST collection.

What can we infer from this data?

- Unlike in the VAT regime, GST share is more evenly distributed and no single State has benefited at the cost of others in the first three years of GST implementation.
- There was variation in the growth of total GST collection of States from -13.5 % (Delhi) to 42.5 % (Bihar).
- The poor states (Bihar, Assam, Jharkhand) recorded the highest growth of GST collection and the richer states (Maharashtra, Gujarat, Tamil Nadu, Kerala) had lower growth.
- This is because revenues of poor states is mainly driven by higher growth in IGST remittance revenue.
- Since GST is a destination-based tax system, consuming States were expected to benefit more than producing States.
- States with more than 50% share of IGST remittance in TGST are Bihar (62.3%), Kerala (52.9%), Uttar Pradesh and Andhra Pradesh (52 %each), Madhya Pradesh, and Assam (51.4%).
- States with a higher share of SGST in TGST are Haryana and Gujarat (about 78%), Maharashtra (75%), Chhattisgarh (71.6%), and Jharkhand (69.7%).

What can be done now?

- Since growth in GST revenue across States is lower than the expected, they will face large revenue shortfall in the next 2 financial years and after the expiry of compensation period in July 2022.
- So states need to step up their efforts in increasing both SGST and IGST collections.
- They need to adopt a roadmap for better GST governance in terms of scrutiny of GST returns, audit and enforcement activities during the next three years.
- Similarly, the full-fledged operationalisation of the e-invoicing system will be a big boon for States.
- If these interventions are implemented effectively, they could attain the protected revenue as envisaged in the GST (Compensation) Act and come

out smoothly from the compensation net by 2023-24.

Source: Business Line