

GST Revenue Shortfall

Why in news?

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According to official sources there is a revenue shortfall in GST collections.

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What are the projections on GST revenues?

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- Assuming 10 per cent growth in revenues on a Quarter on Quarter(QoQ) basis, the Centre's gross CGST collections work out to Rs 2,337 billion for 2018-19, while IGST collections are pegged at Rs 6,869 billion.

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- Taking into account the government's plan of retaining Rs 500 billion as unsettled IGST at the end of the year (as indicated in the Budget).

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- Assuming the remaining amount of Rs 6,369 billion is divided equally between the Centre and the states, the Centre will get another Rs 3,184.5 billion.

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- This puts the Centre's collections at Rs 5,522 billion at the end of 2018-19 excluding refunds, as compared to the target of Rs 6,039 billion.

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- The projected Rs 517 billion shortfall is based on the data for the gross CGST and IGST collections.

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What will the implications of the revenue shortfall?

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- A shortfall of this magnitude could impact the Centre's fiscal deficit target for 2018-19, which the Union government pegged at Rs 6,242 billion.

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- Given the current GST run rate, it will be difficult for the central government

to meet the 2018-19 Budget Estimates (BE).

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- It is also assumed that a relatively small amount of the IGST will remain unsettled as indicated in the Budget 2018-19.

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- Due to this there is a possibility of around 20-25 basis points of slippage in GFD/GDP from lower GST collections.

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- And using the net collections of Q1 to project for the entire year is problematic.

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- Union government will now have to ramp up collections for the next three quarters by a bit over 20 per cent QoQ.

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What are the positive signs with the projections?

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- It is expected that benefits of the e-way bill and formalisation, seasonal uptrend in consumption during the festive season would ensure that the gap between the BE and the actual collections would be limited.

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- Settlement of the IGST between the Centre and states which could be helpful in closing the GST revenue gap for the Centre.

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- The projected shortfall in tax revenues is despite some positive trends visible in the granular data on the GST.

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- At the end of March 2018, Rs 128 billion was refunded under the IGST, by comparison, at the end of Q1 of 2018-19, refunds stood at Rs 169 billion.

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- “If the ‘refunds’ of IGST are (largely) export credit, this indicates that export credit refunds are now being facilitated, unclogging exporters' working capital.

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Source: Business Standard

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