

## 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**

