

Has tax followed GDP? Kerala among southern states

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The pandemic and the subsequent prolonged lockdown of the economy affected the state finances badly. State finances felt the pressure of 'scissor effects'- expenditures surging and revenues collapsing. While states saw a decline in revenue receipts of 21 per cent in the April - June period of 2020-21, revenue expenditure witnessed a growth of 11.7 per cent during the same period (RBI, 2020). As we move towards the second quarter of the current fiscal, GDP showed signs of revival with a marked decline in the negative growth (7.5%). V-shaped recovery is the focal point at present. To the extent that the tax collection is contingent on the GDP, this article explores the response of tax collection to GDP growth in Kerala during the first half of the current fiscal in comparison with other southern states.¹

Such an inquiry assumes importance because the southern states, on average, witnessed the tax revenue fall of about 25 per cent in the first half of 2020-21. During the same period, Kerala being the worst hit among them had contributed 33 per cent lesser revenue to its exchequer.

The Comptroller & Auditor General of India (C&AG) figures during the April - September 2019 period show that revenue from taxes constitutes around 80 per cent of the total revenue receipts of the southern states with an exceptionally higher share for Telangana (85%). The remaining share come from non-tax revenue, and grant-in-aid and contributions.

¹ The data in this study are taken from *Monthly Key Indicators* of C&AG website www.cag.gov.in/en/state-accounts-report. The monthly data for the period from April to September 2019 and 2020 of southern states are taken. We have not considered the state of Andhra Pradesh since the data show aberrated values for almost all the components of tax revenue. Hence for the purpose of analysis only four southern states are taken, namely, Karnataka, Kerala, Tamil Nadu, and Telangana.

At the national level, while tax revenue collection in the first half of 2020-21 declined by 25 per cent, GDP growth fell by 15.7 per cent. While this suggests that recovery of tax revenue collection is still lagging behind GDP growth, analysis of quarterly data indicates that tax revenue collection is on the recovery path. During the first quarter, tax revenue registered a negative growth of 42.2 per cent, which is almost double the rate of contraction of GDP (23.9%). Furthermore, it is found that all tax components had declined by two-fold compared to the fall in GDP growth. In Q2:2020-21 the four southern states lost tax revenue by 9 per cent which is almost at par with the GDP growth of -7.5 per cent. In the first quarter, as the worst among the four states, Kerala lost more than half (54.7%) of its tax revenue compared to the same period in the last year. But in the second quarter, Kerala's tax revenue collection fell by 14.8 per cent. Though still worst among other states, Kerala has been able to reduce its loss in tax revenue.

Next, we analyze revenue collections of various tax revenue components for the four southern states during April - September 2020 (H1:2020-21).

Goods and services tax: As per the C&AG's data, this component consists of States' receipt of State Goods and Services Tax (SGST) and Integrated Goods and Services Tax (IGST). The Finance Commission's share of net proceeds assigned to states on Central GST and Central IGST is also included under this head. GST contributes to approximately 35 per cent of tax revenue of southern states (Kerala: 38.6%) in H1:2020-21. The revenue from GST showed a decline of 26 per cent during the six months period for the southern states, compared to the loss of GDP revenue by 15.7 per cent. Among the four states, Kerala suffered the worst revenue loss to the tune of 33.1 per cent compared to the previous year's collection during the same period (Table 3). Similarly, the inter-quarter comparison of GST collection tells that, on average, the four states have recovered their loss from -44.3 per cent in Q1:2020-21 to -9.0 per cent in Q2:2020-21, suggesting recovery in GST collection is in sync with GDP growth recovery. Although Kerala suffered the worst among the four southern states in both quarters, it has managed to reduce its GST revenue collection the most among them: from -54.7 in Q1:2020-21 to -14.8 per cent in Q2:2020-21. The recovery captures the increase in economic activity after the gradual opening up of the economy.

Taxes on sales trade etc.: This is the second most contributor to tax revenue of states, the average being 25.4 per cent in H1:2020-21 (Kerala: 28.3%). This head consists of receipt under Central Sales Tax Act, Kerala General Sales Tax Act (Petrol, Diesel, ATF, Crude oil,

Natural Gas, liquor for human consumption) and Kerala state Value Added Tax. Kerala's share on total taxes with regard to Taxes on Sales, Trade etc. is 28 per cent in H1:2020-21. The average loss from Sales Tax for all four states is 22.3 per cent during H1:2020-21 compared to H1:2019-20. Among them, Kerala stands first in terms of its suffering (-32.5%). The trend of quarterly collection reveals that while the southern states suffered a loss of revenue by 48.9 per cent in Q1:2020-21, they have recorded a positive growth of 1.5 per cent in Q2:2020-21. However, when compared to the first quarter loss, Kerala recovered from -61.3 per cent in Q1:2020-21 to -8.1 per cent in Q2:2020-21. Telangana which suffered a decline of 46.6 per cent in Q1 has bounced back to register positive growth (17.6%) in Q2.

State's share of union taxes: Nearly about 15 per cent of tax revenue comes from the state's share of union taxes (Kerala: 15.9%) in H1:2020-21. This component consists of the state's share of union taxes and duties such as corporation tax, taxes on income other than corporation tax, wealth tax, customs duty, union excise duty, and service tax (but does not include the state's share of GST which is included in the GST revenue). The growth rate shows that Kerala and Karnataka are the maximum losers (approximately 38%) on availing the states' share of union taxes during the first half-yearly period of 2020-21. This loss for Kerala and Karnataka is more evidently revealed while comparing the Q2 figures with Q1 figures. The loss from the share of union taxes for Kerala increased to -45.9 per cent in Q2 from -27.6 per cent in Q1 and because of this, Kerala 'bore the brunt' during the pandemic period. The average loss for the four states hovers around 32 per cent in H1:2020-21, 14.6 per cent in Q1:2020-21, and 40.6 per cent in Q2:2020-21.

State excise duties: Duty from country spirits, and foreign liquors and spirits are the major sub-components under state excise. State excise contributes around 12.8 per cent to the total tax revenue of southern states in H1:2020-21. Although its share in total tax revenue of Kerala is small (4.6%), during the six months pandemic period, Kerala suffered a heavy loss among the four states (13.1%). The state excise collection of southern states on average has contracted by 25.6 per cent in 2020-21Q1. However, contributed mainly by Telangana, it registered a positive growth of 28.6 per cent in Q2:2020-21. For Kerala, the quarter-to-quarter growth rate reveals that for Kerala revenue from state excise has grown to 8.5 per cent in the second quarter from the huge slump of -34.2 per cent in the first quarter of 2020-21, indicating a sign of economic recovery.

Stamps and registration fees: Revenue from stamps (both judicial and non-judicial) and registration fees are the major elements under this head. Stamps and Registration Fees (SRF) contributes to 6.4 per cent of tax revenue in H1:2020-21 (Kerala: 5.5%). The collection of SRF witnessed a downfall of 32.8 per cent during H1:2020-21 for Kerala, though the average of four southern states stood at a higher loss of 36.7 per cent. While the SRF collection of southern states contracted by 58 per cent in the first quarter, it moderated to 15 per cent in the second quarter, showing a stronger recovery. This perhaps reflects that real estate sector has started recovering from the onslaught of the pandemic. For the state of Kerala, the trend of revenue loss from the first quarter to second quarter reveals a strong recovery. Among the four states, Telangana suffered the most in both quarters.

Other taxes and duties: It includes taxes on agricultural income, taxes on immovable property other than agricultural income tax, taxes on vehicles, taxes on goods and passengers, and taxes and duties on electricity. Tax on vehicles is one of the major components of other taxes and duties. The share of this tax in total tax revenue collection stands at 4.9 per cent in H1:2020-21 (Kerala: 6.2%). Tax collection under this head suggests that the southern states suffered a loss of 40.9 per cent in the first half of 2020-21, reducing from -60.8 per cent in Q1 to -17.6 per cent in Q2. It is observed that the worst-hit state is Tamil Nadu. Kerala's loss during H1:2020-21 is -32.3 per cent. From -64.5 per cent decline of taxes during Q1, Kerala recorded only -1.0 per cent fall during Q2, suggesting good recovery of tax collection of Other Taxes and Duties.

Table 1: Tax revenue - April to June (Quarter 1)

No.	Components	2019-20Q1 (Rs. in crores)					2020-21Q1 (Rs. in crores)					Growth Rate (%)					Avg**
		AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	
1	Tax Revenue	11102	31732	15542	31062	17691	12531	19540	7533	16693	11893	12.9	-38.4	-51.5	-46.3	-32.8	-42.2
2	Goods and Service Tax	2413	12663	6597	9051	6326	4382	7625	2990	4959	3957	81.6	-39.8	-54.7	-45.2	-37.5	-44.3
3	Stamps and Registration Fees	1301	2688	840	2615	1814	534	1178	418	1005	655	-59	-56.2	-50.2	-61.6	-63.9	-58
4	Land Revenue	7	34	79	16	1	13	22	102	19	0	76.1	-34.8	28.3	22.9	-76	-14.9
5	Taxes on Sales Trade etc	5151	4236	4131	9649	4438	2603	2675	1600	4737	2371	-49.5	-36.9	-61.3	-50.9	-46.6	-48.9
6	State Excise Duties	1365	5760	569	1669	2453	1043	3831	374	1035	2531	-23.6	-33.5	-34.2	-38	3.2	-25.6
7	State's Share of Union Taxes	-72	4423	2350	5979	1525	3602	3194	1702	4446	1869	-5129.8	-27.8	-27.6	-25.6	22.6	-14.6
8	Other Taxes and Duties	936	1928	975	2082	1135	355	1014	346	492	510	-62.1	-47.4	-64.5	-76.4	-55	-60.8

Notes: * Data for the Andhra Pradesh is not taken for analysis; ** Average for four states; AP: Andhra Pradesh, KA: Karnataka, KL: Kerala, TN: Tamil Nadu, TS: Telangana,

Source: Author's computation from *Monthly Key Indicators*, C&AG.

Table 2: Tax revenue - July to September (Quarter 2)

No.	Components	2019-20Q1 (Rs. in crores)					2020-21Q1 (Rs. in crores)					Growth Rate (%)					Avg**
		AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	
1	Tax Revenue	30802	33165	16404	33886	19904	17405	28614	13973	31453	19865	-43.5	-13.7	-14.8	-7.2	-0.2	-9
2	Goods and Service Tax	11603	12455	5805	10109	6499	5035	11511	5304	8741	6481	-56.6	-7.6	-8.6	-13.5	-0.3	-7.5
3	Stamps and Registration Fees	1434	2794	913	2778	1355	1353	2504	761	2582	1002	-5.7	-10.4	-16.7	-7.1	-26.1	-15.1
4	Land Revenue	8	62	77	40	0	93	40	110	44	0	1119.2	-34.9	42.9	10.4	-16.7	0.4
5	Taxes on Sales Trade etc	5948	4059	4876	11361	4911	4035	3819	4482	11630	5778	-32.2	-5.9	-8.1	2.4	17.6	1.5
6	State Excise Duties	1450	5121	557	1781	2221	3648	5934	604	2155	3755	151.6	15.9	8.5	21	69.1	28.6
7	State's Share of Union Taxes	9580	5986	3171	6541	3858	2421	3221	1717	5274	1884	-74.7	-46.2	-45.9	-19.4	-51.2	-40.6
8	Other Taxes and Duties	780	2688	1005	1276	1059	820	1584	994	1027	966	5.1	-41.1	-1	-19.5	-8.9	-17.6

Notes: Same as Table 1

Source: Same as Table 1

Table 3: Tax revenue - - April to September (Half Yearly 1)

No.	Components	2019-20Q1 (Rs. in crores)					2020-21Q1 (Rs. in crores)					Growth Rate (%)					
		AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	AP*	KA	KL	TN	TS	Avg**
1	Tax Revenue	41904	64898	31946	64948	37594	29936	48153	21506	48147	31759	-28.6	-25.8	-32.7	-25.9	-15.5	-25
2	Goods and Service Tax	14016	25118	12401	19159.36	12825	9417	19137	8294	13700	10438	-32.8	-23.8	-33.1	-28.5	-18.6	-26
3	Stamps and Registration Fees	2735	5482	1754	5393	3169	1887	3681	1179	3587	1657	-31	-32.8	-32.7	-33.5	-47.7	-36.7
4	Land Revenue	15	96	157	56	1	105	62	212	64	0	609.2	-34.9	35.5	14	-64.5	-12.5
5	Taxes on Sales Trade etc	11099	8295	9007	21010	9349	6638	6493	6082	16367	8148	-40.2	-21.7	-32.5	-22.1	-12.8	-22.3
6	State Excise Duties	2815	10881	1126	3451	4674	4692	9766	979	3190	6286	66.7	-10.2	-13.1	-7.6	34.5	0.9
7	State's Share of Union Taxes	9508	10409	5522	12520	5383	6023	6415	3419	9720	3753	-36.7	-38.4	-38.1	-22.4	-30.3	-32.3
8	Other Taxes and Duties	1716	4616	1980	3358	2194	1174	2599	1341	1519	1476	-31.6	-43.7	-32.3	-54.8	-32.7	-40.9

Land revenue: Revenue from land consists of land tax and taxes on plantations etc. Though the share of total tax revenue is meager (0.3%), Kerala's collection from this head is highest among the four states (1%). Though the six months period in 2020-21 showed an average loss of 12.5 per cent, Kerala made an unusual revenue jump of 35.5 per cent even in the turbulent period. The quarterly data also reveals the same picture as the revenue in the second quarter increased to 42.9 per cent in Q2:2020-21 from 28.3 per cent in Q1:2020-21. Similar revenue gain is also reflected for Tamil Nadu. Like Stamp and Registration Fees, Telangana also suffered worst in its revenue collection from land.

The first quarter of the current fiscal year of India witnessed an unprecedented economic recession which was followed by a better-than-expected economic recovery in the second quarter. This raises the eyebrows of the sub-national policymakers to expect for a better third quarter and subsequently a positive growth during 2021-22.

The analysis of seven components of tax revenue collections of four southern states depicts that Kerala recovered in the second-quarter (July - September 2020) on other taxes and duties, taxes on sales trade, Goods and Services Tax and State Excise. Though Kerala has significantly recovered in Q2:2020-21, the half-year period figures call for improving tax governance in areas of Goods and service taxes, Stamp duty and registration, Excise duty, and Taxes on sales, trade for the better performance in the second-half of the current fiscal and positive growth during 2021-22.

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