

Major tax revenue heads nosedive with Covid-19

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Tax revenue contributes around two third of the total revenue receipts of Kerala. It constitutes states' own tax revenue and union's share of taxes by finance commission devolutions. As per the accounts of 2018-19, state's own tax revenue figured 72.7 per cent of the total tax revenue. The major revenue turners of the State's Own Tax Revenue (SOTR) are Goods and Services Tax (GST), sales tax from petrol, diesel and alcohol and back log remittances from Value Added Tax (VAT). The other SOTR are state excise duties, tax on vehicles, stamps and registration, land revenue and taxes and duties on electricity. The comparison of percentage of tax revenue on Gross State Domestic Product (GSDP) at current prices for the year 2020-21 with the past two years discloses realistic budgeted expectations for the state (Table 1). But the COVID-19 crisis has lopsided the revenue flow for the first quarter (Table 2).

Table 1. Components of tax revenue and their share in GSDP

Sl. No.	Particulars	Rs. Crore			Percentage share on GSDP		
		2020-21 (BE)	2019-20 (RE)	2018-19 (Accounts)	2020-21 (BE)	2019-20 (RE)	2018-19 (Accounts)
1	Revenue Receipts	114636	99043	92854	11.72	11.36	11.88
2	Tax Revenue	88355	74671	69682	9.03	8.57	8.91
3	Own Tax Revenues	67420	55671	50644	6.89	6.39	6.48
4	GST	32388	23690	21015	3.31	2.72	2.69
5	Sales Tax and VAT	23623	21148	19226	2.42	2.43	2.46

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		2020-21 (BE)	2019-20 (RE)	2018-19 (Accounts)	2020-21 (BE)	2019-20 (RE)	2018-19 (Accounts)
6	Land Revenue	376	305	203	0.04	0.03	0.03
7	Excise Duty	2801	2610	2521	0.29	0.3	0.32
8	Stamp and Registration	4306	3915	3693	0.44	0.45	0.47
9	Motor Vehicle Tax	3968	3709	3709	0.41	0.43	0.47
10	Other Taxes	694	295	278	0.07	0.03	0.04
11	Share in Taxes	20935	19000	19038	2.14	2.18	2.44
12	GST Compensation		4721	2884			
13	GSDP	978064	871534	781653			

Table 2. Tax revenue 2020 - Quarter -1 (Rs.Crores)

Sl. No.	Particulars	April to June 2020	April to June 2019	Revenue difference (+/-) 2020 over 2019	Growth Rate 2020 over 2019
1	GST	2990.29(39.70)	6596.62(42.44)	-3606.3	-54.7
2	Taxes on sales, Trade*	1600.18(21.24)	4131.25(26.58)	-2531.1	-61.3
3	Stamp duty and registration	418.24(5.55)	840.19(5.41)	-422	-50.2
4	Land Revenue	101.84(1.35)	79.38(0.51)	22.5	28.3
5	State Excise duties	374.29(4.97)	568.8(3.66)	-194.5	-34.2
6	Other Taxes and Duties**	346.47(4.60)	975.12(6.27)	-628.7	-64.5
7	States share of Union Taxes	1701.8(22.59)	2350.35 (15.12)	-648.6	-27.6
8	Total Tax Revenue (Quarter1)	7533.11 (100)	15541.71 (100)	-8008.6	-51.5

* Includes tax on vehicles, electricity duty and other taxes

** Figures in the parenthesis shows percentage share

Source: Computed from C&AG Data

Components of State's own tax revenue

1. *Goods and Services Tax [GST]:* During the first year of the introduction GST, the collection was Rs 14,302 crore (SGST plus IGST settlement) and Rs. 2102 crore due to GST compensation. (Period 1-7-2017 to 31-3-2018). During the second year (2018-19) the revenue was Rs. 24,651 crore and compensation was to the tune of Rs.3532 crore. A marginal upward trend felt during the third year (2019-20), Rs.25,864.9 crore with a compensation amount of Rs.3743 crore. The current year (2020-21) budgeted estimate pegged it to Rs.32,388 crore.

2. *Sales Tax and VAT:* The remittances from non-GST components like petrol, diesel, alcohol and VAT arrears was Rs.19,225.8 crore during the year 2018-19 which comes to 37.9 percent of the state's own tax revenue.

3. *Excise Duty:* Excise duty is levied by State on the manufacturing point of liquor in Kerala. During 2018-19, excise duty collected was Rs.2541.4 crore.

4. *Stamp Duty and Registration:* The amount collected as Stamp duty and registration fee was Rs.3693.2crore in 2018-19.

5. *Land Revenue:* The land revenue collection during the year 2018-19 was Rs. 202.78 crore accounting for 0.40 per cent of state's own tax revenue.

6. *Taxes on Vehicles:* Motor vehicle tax collection during the year 2018-19 was Rs. 3708.6crore.

7. *Other Taxes:* Taxes and duties on electricity, tax on goods and passengers and others contribute Rs.277.7crore during 2018-19.

GST Compensation

GST (Compensation to States) Act 2017 guarantees 100 per cent compensation for revenue loss for a period of five years since the introduction of GST. The GST revenue loss to a State is the difference between the actual revenue collected from GST and the projected revenue by considering 14 percent yearly increase, base year being 2015-16. The compensation amount is being met through the 'GST Compensation Cess' levied on items such as luxury cars, tobacco products, cigarettes, pan masala, aerated drinks etc

Tax revenue: The first quarter picture

The data of the Comptroller and Auditor General of India (C&AG) published as unaudited provisional figures on the tax revenue of states as monthly key indicators are taken for analysis. (Refer Box 1 for brief explanation of the taxes as perceived by C&AG).

Box - 1

- A. Goods and Services Tax: The figure consists of State's receipts under the heads - State Goods and Services Tax (SGST) and Integrated Goods and Services Tax (IGST). Finance Commission's Share of net proceeds assigned to State on Central Goods and Services Tax (CGST) and Share of net proceeds assigned to State on Integrated Goods and Services Tax are also included in this head.
- B. Taxes on Sales, Trade etc.: This consists of receipt under Central Sales Tax Act, Kerala General Sales Tax Act (Petrol, Diesel, ATF, Crude Oil, Natural Gas, Liquor for human consumption etc.) and Kerala

It is evident from Table - 2 that, except land revenue, all the items of tax revenue recorded negative growth during the first quarter of 2020-21 as compared the first quarter of the previous year. GST remittance declined by 54.7 per cent while that from taxes on sales and trade being as high as 61 per cent. Similarly, around 50 per cent decline is registered in remittances from taxes on sales, trade, stamp duty and registration and other taxes. Altogether during the first quarter of 2020-21 a tax revenue short-fall of Rs 8008 crore has been recorded that is estimated at a 51.5 per cent decline as compared to the first quarter of 2019-20.

The GST revenue has been short by 78.5 per cent (Rs.1890.3 crore) during the month of April, followed by 51.4 per cent (Rs.1038.9 crore) short during May and 31.2 per cent (Rs.677.1crore) short by June 2020 with a predictable expectation of a gradual recovery sign during the coming months. Similar reduction in revenue is witnessed by the state for other components of tax revenue like taxes like sales tax (petrol, diesel and alcohol), stamp duty and registration, other taxes and duties. State excise registered a positive sign in the month of June 2020 when compared to June 2019. Month on month land revenue remittance registered a positive sign for May and June 2020. With the Central Government shying away from paying the legitimate GST compensation to the states and given the massive decline in the own tax revenue of the state, the finance of Kerala will be in trouble. The economic slowdown and the pandemic outbreak put the state's finance in the doldrums as dependence

on central disbursements becoming more. This simply opens an obvious threat to the fiscal federalism of our country.