

Whither Kerala in GST collection?

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The need for shifting from erstwhile VAT to Goods and Service Tax (GST) regime was felt because VAT continued to be complicated, had low compliance, cascading, and found to be inefficient. Many have hailed this move as a game-changer and bold reform since GST has overhauled the indirect tax system of the country. It was expected that GST may increase the tax revenue of the states by improving compliance, widening the tax net, and adopting better technology such as e-invoicing matching. In this background, this piece looks at the trend in GST revenue collection and the GST-GSDP ratio of states since the implementation of GST.

This analysis covers 29 states for the period 2017-18 to 2019-20. Since the financial year 2020-21 was affected by the COVID-19 pandemic, this year is not included in the analysis. Hence, an analysis of GST revenues of Indian sub-nations is carried out for normal years only. Since GST was not exactly implemented at the beginning of a financial year, the data for 2017-18 has been annualized to get a full financial year GST revenue collection. This is done by dividing the eight months GST revenue collection by eight and then multiplied by twelve. Twenty-nine states are categorized into twenty general category states (GCS) and nine special category states (SCS). The erstwhile Jammu and Kashmir, a special category state, is dropped from the analysis since the former state was divided into two union territories, namely Jammu and Kashmir, and Ladakh in October 2019.

First, the trend in the growth rate of GST collection is compared among states. Then tax collection to GSDP ratio of states is compared. It is calculated as the ratio of GST collection as a share of gross state domestic product (GSDP) to assess the level of collection effort of a state. Gross state domestic product (GSDP) is the total value added of all the finished goods and services produced within the boundaries of the state in a specific time period whereas

GST is the tax on consumption of all such finished goods and services. Since GSDP at current prices data for the financial year 2018-19 was not available for all states, data is taken for two years, namely 2016-17 and 2017-18. The GST-GSDP ratio is calculated as the ratio of the average of GST collection during three years normal period to the average of GSDP for two years, 2016-17 and 2017-18. GST revenue for a state is the aggregate value of the State GST and remittance of Integrated GST to States for the value of inter-state inward supply goods and services and consumed in state boundaries.

Trends in revenue collection and growth

There are 20 states listed in the general category states. The average GST collection of states indicates that while Maharashtra, Uttar Pradesh, Karnataka, Tamil Nadu, and Gujarat are the top five states in terms of GST revenue collection, Odisha, Assam, Jharkhand, Chhattisgarh, and Goa are the bottom five states over the three years (See Table 1). Kerala with an average collection of Rs 18375 crores occupies 10th position in terms of GST collection. In terms of growth in GST revenue collection in 2018-19 and 2019-20, Bihar, Assam, Jharkhand, Odisha, and Madhya Pradesh have recorded the highest growth, while Maharashtra, Gujarat, Tamil Nadu, Kerala, and Delhi are positioned in the bottom of the table. Kerala's growth rate hovers around 6 percent. It can be observed that while the poor states recorded the highest growth, the richer states have lower GST revenue growth. The higher growth rate of these poor states is partly driven by higher growth in IGST remittance revenue. For example, the average growth in IGST remittance of Bihar, Assam, Jharkhand, Odisha, and Madhya Pradesh for the period 2018-19 and 2019-20 stand at 29.0%, 22.2%, 19.0%, 18.9%, and 17.1% respectively.

Among the nine special category states, Tripura, Himachal Pradesh, and Uttarakhand stand in the top three positions whereas states with the lowest collection are Nagaland, Mizoram, and Sikkim (See Table 1). In terms of the growth rate of the GST collection, while Arunachal Pradesh, Nagaland, and Mizoram registered highest growth, Tripura, Himachal Pradesh, and Uttarakhand have experienced lowest growth.

GST-GSDP ratio

General category states

As there is no ideal GST-GSDP ratio, a relative comparison will give a position of a state among other States. Table 1 shows divergence and an interesting picture. The GST-GSDP

ratio for 20 states ranges from 2.2% (Madhya Pradesh) to 3.1% (Goa) with an average of 2.5%. While Maharashtra ranked first in GST revenue collection, and second in GST-GSDP ratio, Goa stands first in GST-GSDP ratio but ranks 20 in average GST collection. Table 1 shows that eight States have depicted more or less equal ranks in both GST collection and GST-GSDP ratio (with a rank difference ranging from 1 to 3). They are Kerala, Uttar Pradesh, Punjab, Delhi, Haryana, Karnataka, Odisha, and Telangana.

Special category states

Among the nine Special Category States, the GST-GSDP ratio ranges from 1.4 percent (Sikkim) to 2.4 percent (Manipur and Arunachal Pradesh) with an average of 1.96 percent. Meghalaya and Nagaland show more or less the same ranks for their averages tax collection and ratios. Whereas Uttarakhand has the first rank in GST collection it ranks only 7th in the share of GST collection in GSDP.

Where does Kerala stand?

Kerala belongs to the general category states. Kerala's GST collection rank (10th rank) is similar to the GST-GSDP ratio (9th rank). Importantly, its GST-GSDP ratio exactly matches with the average of 20 states (2.48 percent). Though Kerala is first among all states in terms of per capita consumption (NSS 68th round), the average three-year collection Rs. 18374.8 crore is lower than 20 general category states average (Rs. 21881.2 crores). Kerala's GST collection was Rs. 17348.7 crore in 2017-18 (annualized), Rs. 18385.2 crore in 2018-19, and Rs. 19390.1 crore in 2019-20. A closer look at the components of total GST, namely SGST and IGST remittance reveals that 54 percent of total GST comes from IGST revenue. As a share of SGST revenue in total GST collection, Kerala stands 19th position among the 20 general category states, while its position is 2nd in terms of share of IGST remittance in total GST. In SGST as a percent of GSDP, Kerala's share is much lower (1.17 %) than the twenty-states average (1.49%). On the other hand, the share of IGST remittance in GSDP of Kerala is much higher (1.31 percent) than the twenty-states' average (0.99 percent). While Kerala ranks 16th among the 20 states in the SGST-GSDP ratio, it stands 3rd in the SGST-GSDP ratio among the 20 general category states.

The state needs to step up its effort in increasing both SGST and IGST revenue collection. The government of Kerala in its 'Medium-Term Fiscal Policy and Strategy' statement with medium terms fiscal Plan for Kerala 2021-22 to 2023-24 formulated a roadmap for better

GST governance in terms of scrutiny of GST returns, audit, enforcement activities such as vehicle checking, test purchase verification of evasion, E-way bill checking, shop inspection, and even arrest of major evaders during the next three years. Similarly, the full-fledged operationalization of the e-invoicing system will be a big boon for Kerala which depends substantially on IGST revenues that have to be collected from other states. With the firm pursuit of these initiatives, Kerala could attain the protected revenue as envisaged in the GST compensation to States Act 2017 and come out smoothly from the compensation net by 2023-24.

Table 1. Total GST revenue collection, growth, and GST-GSDP ratio

State	(Rs Crores)			Average	AR**	(Rs Crores)	GST / GSDP	Rank	(Percent Change)		
	2017-18*	2018-19	2019-20			GSDP			2018-19	2019-20	RD***
Bihar	9292	13240	15301	12611	14	499555	2.52	6	42.5	15.6	8
Assam	5724	7428	8521	7225	17	299523	2.41	12	29.8	14.7	5
Jharkhand	5766	7159	8153	7026	18	283510	2.48	8	24.2	13.9	10
Odisha	9220	10588	13008	10938	16	466373	2.35	14	14.8	22.9	2
Madhya Pradesh	13721	16965	18768	16484	13	767160	2.15	20	23.6	10.6	-7
Andhra Pradesh	15353	18559	19780	17898	11	828072	2.16	19	20.9	6.6	-8
Uttar Pradesh	35992	41183	46407	41194	2	1564336	2.63	3	14.4	12.7	-1
Rajasthan	17158	20552	21619	19777	8	888878	2.22	18	19.8	5.2	-10
Telangana	18553	21412	23411	21126	7	807079	2.62	4	15.4	9.3	3
West Bengal	21450	24104	26884	24146	6	1032299	2.34	15	12.4	11.5	-9
Chhattisgarh	6096	7023	7625	6914	19	289052	2.39	13	15.2	8.6	6
Karnataka	34099	37017	42175	37764	3	1450989	2.6	5	8.6	13.9	-2
Haryana	15274	16567	18855	16899	12	691877	2.44	10	8.5	13.8	2
Punjab	10902	11218	12699	11606	15	498605	2.33	16	2.9	13.2	-1
Goa	2053	2202	2393	2216	20	71261	3.11	1	7.3	8.7	19
Maharashtra	72357	76004	82966	77109	1	2507681	3.07	2	5	9.2	-1
Gujarat	30480	32030	34721	32410	5	1415997	2.29	17	5.1	8.4	-12
Tamil Nadu	35406	36925	40142	37491	4	1547629	2.42	11	4.3	8.7	-7
Kerala	17349	18385	19390	18375	10	741615	2.48	9	6	5.5	1
Delhi	19336	16718	19193	18416	9	730847	2.52	7	-13.5	14.8	2
Average				21881		869117	2.48		13.4	11.4	
Special category states											
Arunachal Pradesh	319	559	792	557	6	23518	2.37	2	74.9	41.8	4
Nagaland	265	428	603	432	7	25887	1.67	8	61.5	40.9	-1
Mizoram	243	424	524	397	8	19130	2.07	4	74.6	23.8	4
Manipur	430	638	839	636	5	26829	2.37	1	48.3	31.4	4
Sikkim	273	367	472	371	9	27347	1.36	9	34.6	28.4	0
Meghalaya	522	702	883	702	4	31494	2.23	3	34.5	25.9	1

State	(Rs Crores)			Average	AR**	(Rs Crores)	GST / GSDP	Rank	(Percent Change)		
	2017-18*	2018-19	2019-20			GSDP			2018-19	2019-20	RD***
Tripura	667	849	994	837	3	46781	1.79	6	27.3	17.1	-3
Himachal Pradesh	2511	2844	3483	2946	2	146098	2.02	5	13.2	22.5	-3
Uttarakhand	3591	4074	4795	4153	1	234365	1.77	7	13.4	17.7	-6
Average				1226		64606	1.96		42.5	27.7	4

Notes: *2017-18 is annualized. **AR: Average Rank. *** RD: Rank Difference: Difference between the rank of average GSDP and rank of GST-GSDP ratio.