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GST Collections in India:
Beyond the Government's Projection

The Goods and Services Tax (GST) was on the anvil for many years in India. However, the present Central Government, headed by Prime Minister Narendra Modi, finally persuaded all the constituent State governments in India to accept the introduction of the tax with effect from 1 July 2017. It must also be recognised, much to the credit of the Central Government, that the conceptualisation and the implementation of a very complicated tax structure have been smooth, without any glitches so far. It is now becoming clear that the initial fears of a decline in tax revenue mobilisation, especially for the States, are being set to rest. The first release of the early data pertaining to the GST collections appears to be very encouraging, indeed better than the expectations of the Central Government.

Vinod Rai[1]

The Government of India introduced the Goods and Services Tax (GST) on 1 July 2017. The tax was introduced after many years of discussion and was hailed as a landmark decision, ushered in at a midnight session of Parliament which was attended by distinguished invitees. This was in contrast to the element of uncertainty prior to the introduction of the GST, largely

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around the fact whether the State governments would, as a result, lose revenue. The greatest fear was articulated by the States which have manufacturing plants located in them. Tamil Nadu was one of the most vociferous opponents and agreed to the measure only after receiving concessions in terms of tax rates and assurances regarding compensation if the GST were to produce a shortfall in revenue for the State.

After assessing the collections for about 30 days, the Central Government has released the early data about the revenue mobilised under the new regime. The data released[2] seems to support and bolster the confidence of the Centre in its projection of tax revenues expected to be mobilised. The figures released by official sources indicate that the GST yielded ₹922.83 billion (S$19.56 billion) till 29 July 2017. Union Finance Minister Arun Jaitley claims that the data pertains only to 64 per cent of the July taxpayer base.

This actual figure is to be weighed against the estimated revenue-neutral collection of ₹910 billion (S$19.29 billion). Of this collection, ₹480 billion (S$10.18 billion) was to accrue to the Centre, with ₹430 billion ($9.17 billion) earmarked for devolution to the States for that month. The breakdown of the July 2017 collections are as follows: Central GST ₹148.94 billion (S$3.16 billion), State GST ₹227.22 billion (S$4.82 billion), Integrated GST (IGST) ₹474.69 billion (S$10.06 billion) and compensation cesses totalling ₹71.98 billion (S$1.53 billion). As such, in the GST pool, the Central kitty before devolution to the States, would be broadly ₹491.11 billion (S$10.41 billion), based on ₹148.94 billion (S$3.16 billion), ₹209.64 billion (S$4.44 billion) and half of the remaining IGST, ₹132.53 billion (S$2.81 billion), with minor additions/deletions.

However, the Central Government recognises that the division of the IGST is a complicated exercise and the devolution to the States would be based on the cross-utilisation report to be received from the GST Network. The official release maintains that the exact revenue figures for the Central and the State governments will be known after this exercise is completed by the end of August 2017.

Analysts have separately hailed the trend of collection under the new tax regime as an encouraging development. The aggregate figure now released is in respect of the tax paid by

2 *Economic Times*, 30 August 2017.

only 3.84 million businesses registered on the GST Network portal. This is against the total registrants who number 9.12 million, comprising 7.24 million firms that migrated from the previous regime, along with 1.88 million new taxpayers. In fact, out of the total registrants, only 5.99 million were eligible to pay the GST in July 2017 as the others may have registered after the month or may have opted for the composition scheme.[3]

If this trend continues and we extrapolate the collection figures for all taxpayers who were required to pay the tax in July 2017, the actual collection for that month could be of the order of ₹1.43 trillion ($30.38 billion). This figure is much larger than the revenue-neutral threshold. In fact, there are a large number of taxpayers who have not paid before the last date. The authorities expect that these taxpayers will come forward to pay the tax along with the penalty fee. This would signal a spill-over in compliance.

It is yet to be ascertained whether any individual State had indeed faced a revenue shortfall in July 2017. Recourse to the provisions of the GST (Compensation to States) Act 2017 will be possible only in the event of revenue shortfall in one or more States. Under this Act, the States are to be fully compensated by the Centre in case of a shortfall of tax revenues in the first five years of the GST regime.

The shortfall is to be calculated by taking into account the 2016-17 tax bases of the GST equivalent taxes, topped up by a normative 14 per cent annual growth. It is also to be noted that, in the computation of the revenue-neutral GST tax, as presently undertaken by the Centre, petroleum taxes have been deducted as these are outside the GST purview, besides the proceeds of the Centre's basic customs duties that are not subsumed in the GST.

Commenting on the details put out in the public domain by the authorities, M S Mani of Deloitte[4] has observed, "The aggregate figures of GST collection could not be compared to any other figures since it was difficult to project figures for state-level value-added tax, entertainment tax, etc. However, at an aggregate level, the GST would give taxes of ₹11 trillion [S$233.21 billion] in a year." He added that, "Now, the Union Budget Estimates for 2017-18

[3] The GST Composition Scheme is an option available to a registered taxpayer who needs to inform the tax authorities of his intention to be registered under the scheme. In case the registered taxpayer fails to comply with the same, he would be treated as a normal taxpayer and administered accordingly. Such option needs to be for all businesses of the taxpayers, that is, both for goods as well as services.

[4] *Business Standard*, 30 August 2017.

project indirect tax collections of ₹9.26 trillion [S$196.32 billion], including those from non-GST taxes of basic customs, excise duty on petroleum, etc. Compared to that and state revenues, the first-month GST collections gives an excellent sign, particularly when July is a flat month for businesses before the festival season begins."

Such an encouraging beginning and the positive comments will give the Central Government some flexibility to reconsider the tax rates. There will also be a scope to reduce the number of slabs or consider a re-look at the main rate of 18 per cent that covers most of the goods and services. There could be a case for reducing this to 15 per cent or even shifting some items currently covered under this rate to a lower slab. At the next stage, when the State governments become comfortable with the revenues being mobilised and when their fears of a revenue shortfall are overcome, products such as petroleum, alcohol and, maybe electricity as well could be considered for inclusion under the overall GST purview.

As of now, the trends have been very positive, and the Centre as well as the GST collection machinery can take credit for a very smooth transition to a new tax era in India.

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