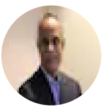
November GST revenue: Steady improvement in performance, but economy yet to surpass pre-pandemic levels



By **Najib Shah** | Dec 02, 2021, 10:57 PM IST (Updated)

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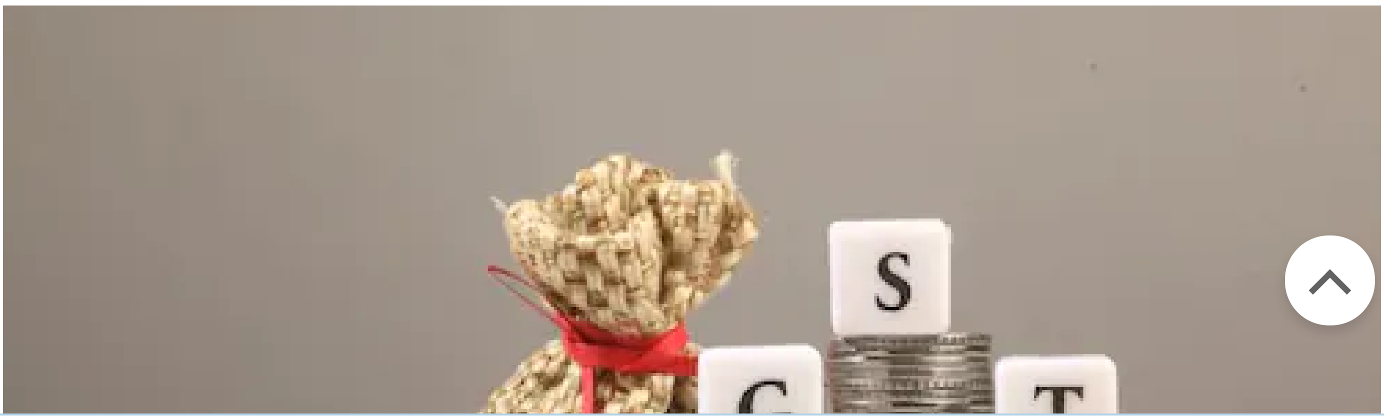
This is the second consecutive month that the GST revenue has crossed the Rs.1.30 lakh crore mark. Impressive statistics in any which way you look at it.



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The gross Goods and Services Tax (GST) revenue collection figures for the month of November 2021 have been announced. And no surprise, at Rs 1,31,5126 crore, the revenue continues to show an upward trend. The number of e-way bills generated in October 2021 were in excess of 73.5 million and a sure indication of good things to come.

The GST revenue for November was the second-highest for the fiscal year after April 2021. It was up in absolute terms by Rs 1,399 crore over the previous month. This is nearly 71 percent of the target. The total net revenues have crossed Rs 11 lakh crore or nearly 70 percent of the budget estimate. Corporate earnings have significantly grown in the second quarter as have trade figures. Consequently, corporate taxes and customs duties have also done well. This is also reflected in the fact that the growth in IGST has been driven by significant contributions from import of goods. (It is a different matter that this has also resulted in the trade deficit reaching a record $23.27 billion.)

The robust revenue performance has also meant that fiscal deficit during April-October is at 36.3 percent of the budgeted amount of Rs 5.5 lakh crore. This is significantly lower, both in absolute terms and as a proportion of the budget estimate, when compared to the corresponding period of FY20.

The revenue is also indicative of the performance of the eight core sectors. The growth in October was an impressive 7.5 percent compared to 4.5 percent in the previous month. This was undoubtedly helped by a low negative base of the previous year. This growth has been driven by coal, cement, natural gas and refinery products.

Does this trend indicate that GST has stabilised? And since revenue is also an indication of the economy doing well, does this mean that the economy is on the growth trajectory? The CEA has in The Economic Times suggested that the growth of the economy by 8.4 percent in Q2 (July-Sept) would mean that 'India is likely to record a double-digit growth this fiscal'.

The elevated growth rate is an indication of the sharp contraction the economy experienced last year. It should not be forgotten that though the economy is indeed growing, it has yet to surpass the pre-pandemic levels in any meaningful way. When compared to the pre-pandemic period — Q2 of FY 20 — the GDP in Q2 FY22 has grown only marginally by 0.3 percent.

Gross Value Addition (GVA) has grown by 7.9 percent — but this is on a contraction of 13 percent in the preceding quarter. However private consumption and investment continued to be subdued. At 57.3 percent of GDP, private consumption was the lowest in five quarters. Investments measured by gross fixed capital formation (GFCF) continued to be below 30 percent. Inflation has been growing.

And there is that known unknown — Omicron. At last count, it has spread to 25

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this backdrop, it would appear that a double-figure growth this fiscal will be challenging. The World Bank has projected an 8.3 percent growth this fiscal; CARE Ratings has forecast 9.1 percent.

Be that as it may, the larger question is whether this is the time for tinkering with GST rates. It is reported that the fitment committee of officers have suggested raising the 5 percent slab to 7 percent and merging the 12 percent and 18 percent slabs to a single slab of 17 percent. They have also suggested hiking the GST rate on precious metals to 5 percent. While convergence of rates is the desired goal, is this is the right time to do so? The GoM on rate rationalisation has yet to deliberate on these issues.

Any rationalisation will, as has been pointed out by my colleague V.S. Krishnan, aim to balance the twin objectives of revenue neutrality and maintaining competitiveness. However, as the Fifth Finance Commission has pointed out, revenue neutrality has long been lost. We started off with a less than revenue neutral rate — the weighted average rates were about 14 percent, which has steadily come down to 11.6-11.8 percent. To achieve revenue neutrality now will mean a sharp increase in rates.

Which brings us to the other modes of rationalisation. Cutting down exemptions and correcting the inverted duty structure are essential first steps and will have a huge cascading positive impact on revenue. Increasing the tax base is another essential step. We currently have 1.33 lakh crore registrants as per GSTN. The GSTN Annual Report suggests that only about 35 lakh registrants actually pay cash to the exchequer. We would need to carry out intense surveys, both of the existing registrants and the eco-system to ensure all who are to be within the net are indeed in the net.

We cannot keep addressing the elephant in the room — petroleum products have to be brought within the GST fold. These will be more effective steps than any merger of rates. All changes, be they cutting down exemptions, rate rationalisation, or bringing in petroleum products, have to be carried out after involving trade, industry and the States closely.

The Press Notes regarding GST revenue have also been highlighting the efforts of the enforcement agencies in improving compliance. This should continue unabated. Systems-data analytics of returns, e-way bill data, and industry trends, which should include close coordination with CBDT, should be in place. The aim should be to make

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There is an urgent need for a tax-gap analysis — of how much revenue we ought to be getting and how much we actually are. This will be of immense help going forward.

— Najib Shah is the former chairman of the Central Board of Indirect Taxes & Customs. The views expressed are personal.

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