GOING BY THE NUMBERS: SHORTFALL IN GST REVENUE COLLECTION

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A little over a year after the Goods and Services Tax (GST) rollout, the revenue collections from the new indirect regime are at the centre of a debate. A member of the GST Council estimates a “shortfall” in the April-June quarter of this year at 43,000 crore. The Union Finance Secretary reportedly shot off a missive to Central tax officials over the lower number of returns filed under the Central GST (CGST), compared to the number filed under the State GST (SGST).

The collection trends released evidently defy logic. The SGST and the CGST are applied at the same rate on the identical tax base. Logically, the two levies should yield equal revenue collections. But SGST collections over the past several months have been consistently exceeding CGST collections.

Then, in April, the beginning of this financial year, both CGST and SGST collections dropped and Integrated GST (IGST) collections took off sharply. In each of the months since then, IGST collections have overshot CGST and SGST collections.

Why is the Centre’s GST collection falling behind that of the States’ and why have the IGST collections shot up? The trends are a symptom of the problem, not the problem itself. First, let’s understand these distinct levies.

Insecure over loss of fiscal autonomy, the States succeeded in pressing a GST that is made of two types of levies, the CGST and the SGST. The Constitution empowers the Centre to tax sales anywhere nationally, but it allows a State to collect taxes only on sales within its territory. So, all 29 States and two Union Territories with legislatures have separately enacted their respective SGSTs. The SGSTs have almost identical features and rates — to prevent tax arbitrage across States — but in effect, they are distinct SGSTs. This complicates the collection and refunds processes and system.

The GST is being levied at the point of consumption, not the factory gate, unlike many of the levies it has subsumed. Given the territorially limited tax jurisdictions of States, the collection of the SGST poses a problem every time goods and services get sold outside the State they were produced in. The solution that has been worked out to overcome this problem is the IGST. It is imposed on inter-State sales.

Logically, the IGST ought to be imposed as a substitute for the SGST such that the GST equals the SGST plus CGST for intra-State sales and IGST plus the CGST for inter-State sales. In practice, needless complications have been introduced into the IGST.

On inter-State sales, the IGST, at a rate equal to the applicable CGST and SGST, is levied. This means, despite its national tax jurisdiction, the Centre has confined the levy of the CGST to intra-State sales.

A selling dealer in an exporting State collects the IGST from the buying dealer. The GSTN credits it to the IGST account. Of this, the part corresponding to the CGST is transferred immediately to the Centre. The balance is not all SGST revenue. It includes amounts to be refunded through a settlement process that can take months.

Some of the refunds are on account of input tax credits that the purchasing dealer in the importing State draws from this balance. (Tax paid on capital goods that go into making final products is supposed to be fully set off. This is to avoid cascading taxation.)

Because the IGST collection and refunds system is ungainly, estimating GST revenue cannot be a straightforward exercise. Although it is confused to be so, not all the IGST collected is GST revenue.

By design, the number of refunds required is more than necessary. Such as in case of exports. To avoid exporting taxes, no GST is to be levied on exports out of India. In practice, despite their GST-exempt status, exporters first pay the IGST and then it is refunded back to them. The excuse for this convoluted system is the need for a way to refund the input taxes exporters pay on components.

In effect, the GST system processes a whole set of IGST payments only to refund them — not an international best practice. Suppliers to exporters and SEZs are compulsorily required to register in the GST system even if they do not fall in the GST threshold. This has needlessly increased the working capital and compliance costs burden on exports. The systemic loss of export competitiveness is showing up in the country's trade balance.

Letters of undertaking or bonds can be submitted in lieu of IGST payments, but they increase exporters' vulnerability to bureaucratic rent-seeking.

The recommendation for introducing a GST had first come in 2004 from a task force formed by the Vajpayee government under economist Vijay Kelkar. The Modi government has consulted Mr. Kelkar on the GST, but has not accepted his recommendations on an alternative IGST system compliant with global norms. By these, the IGST would be simplified as a substitute for SGST in inter-State supplies, and exporters, while not subjected to the IGST, would be truly zero-rated. The NITI Aayog, it seems, concurs with this proposal.

The focus on GST collections is narrow. Collections are not necessarily proof of the success, or non-success, of an indirect tax. In truth, the complexity of the GST is complicating collections and diminishing the potential benefits. The economic impact of the GST ought to be the focus.

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