Raking in at least ₹1.5 trillion every month is the new normal

Data exchange, reduced costs of business also help increase direct tax collection

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New Delhi, 30 June

The then President Pranab Mukherjee and PM Narendra Modi in the Central Hall of Parliament on July 1, 2017, when the GST was ushered in

Seen as a shining example of cooperative federalism aimed at taking the country towards a one-nation, one-tax, and one-market regime by replacing a bewildering array of local sales and entry levies, the goods and services tax (GST) six years on is pulling in a revenue of no less than ₹1.5 trillion every month to the exchequer. This seems to be the new normal, weighed up against a lower ₹1 trillion on average in the first 20 months of its inception (July 1, 2017).

This is regardless of key segments of the economy, such as petroleum, alcohol, a part of real estate, and electricity, still being outside the purview of India's biggest indirect tax reform.

The story of GST has not remained confined to this tax system alone. Data exchange with direct tax officials, as well as lower costs for businesses, has led to growth in income and corporation taxes.

The GST-to-gross domestic product (GDP) ratio, which is a better way to evaluate tax revenues over the years, has also risen, albeit at a sluggish pace. It has remained over 6 per cent since its introduction in 2017–18, except for Covid-stricken 2020–21.

The GST buoyancy has been above 1 per cent in recent years, implying that growth in GST collection has been greater than that of nominal GDP. The year 2018-19, the first full year after GST implementation, saw collection from the new tax regime at just ₹98,000 crore per month on average, slightly higher than ₹90,000 crore in the first eight months of its introduction in 2017-18.

It was in 2019–20 that GST collection breached ₹1 trillion in the face of a listless economy.

But it was short-lived.

Lockdowns to rein in Covid numbers resulted in a drop in GST collection, which led to the average monthly mop-up sliding to just ₹95,000 crore, less than in 2018-19. Since then, GST collection has remained above ₹1 trillion per month. GST collection held at ₹1.72 trillion per month on average for the first two months of the current financial year (2023–24). However, it was largely due to the ₹1.87 trillion collected in April — a record thus far. May gave ₹1.57 trillion.

ICRA Ratings Chief Economist Aditi Nayar believes that GST revenue is likely to hover in the range of ₹1.55 trillion to ₹1.65 trillion every month for the rest of the year. If this happens, the average monthly revenue will be higher in 2023–24 than in 2022–23.

While the economy on the mend after the Covid year of 2020–21 has contributed to a higher GST collection, rising compliance, too, has done its bit. Central Board of Indirect Tax and Customs (CBIC) Chairman Vivek Johri says the economy is looking up. This, he says, is the underlying factor and primary driver of high GST proceeds. "But I think what makes the GST collection story different this time is the uptick we have seen in the levels of compliance. Improved compliance is reflected in the data on returns filing, which has reached 80–95 per cent. In the pre-GST era (service tax), the compliance rate for filing returns was about 65–70 per cent," he says. When asked how the governments, both at the Centre and in states, achieved such a high rate of compliance, Johri attributes this to technology used chiefly to identify non-filers.

"We have laid out a standard operating procedure, which both the Centre and states follow. If the 20th is the due date for filing returns, we have the data on non-filers readily available subsequent to that date. For the remainder of the month, we persuade and cajole taxpayers. We call them up. We remind them that the returns have not been filed yet," he adds.

The use of data analytics on GST by the CBIC has not only helped increase collection from this indirect tax, but from direct taxes as well.

After tailing off for two consecutive years — 2019–20 and 2020–21 — direct taxes grew 49.12 per cent in 2021–22, albeit on a very low base. Direct tax collection grew again in 2022–23, but at a lower rate of 15.69 per cent due to a higher base.

The direct tax-to-GDP ratio rose to 5.77 per cent in 2021–22 and further up to 5.99 per cent in 2022–23, from 4.78 per cent in 2020–21 and 5.23 per cent in 2019–20. However, it was less than 6.02 per cent in 2018–19.

Direct tax buoyancy was at a 17-year high of 2.52 per cent in 2021–22 but atrophied to 0.97 per cent in 2022–23. This meant that direct tax growth was somewhat lower than nominal GDP growth in 2022–23.

While it is difficult to gauge the impact of the sharing of data analytics between GST officials and their direct tax counterparts on direct tax growth, a part of it was unquestionably due to this data exchange.

Johri says the department used data analytics to weed out taxpayers who were gaming the system by issuing fake invoices and raising bogus firms. Data analytics has also helped the department in cleaning up the database, he says, adding that this has helped alter the behaviour of offenders, who would lie dormant for a few months only to become active and raise high levels of invoices in the first three-four months, then go dormant again. "We have made it difficult for them by introducing sequential returns filing. If you have not filed a GSTR 3B (summary input-output returns) for a particular month, the following month, you're prevented from filing a GSTR 1 (outward supply returns)," he says. Johri says every time GST officials come across a big case of evasion, the information is shared with the income-tax (I-T) department through mechanisms available across departments.

"It is apparent that if there is GST evasion, there is likely to be visual I-T evasion as well. At times, there are other violations, too. In such cases, we share the information with other law enforcement agencies for further investigation. The standard mechanism is that case-by-case details are shared for major cases booked for evasion," says Johri.

Sandeep Sehgal, partner-tax, AKM Global, says a better alignment with income and expenditure details is happening now due to the digitalisation of tax-related processes under the GST regime and increased data availability to tax authorities.

GST has also led to higher direct tax collection by enlarging the formal economy. Mahesh Jaising, partner and leader of indirect tax at Deloitte India, says GST has been instrumental in the expansion of the formal economy, leading to growth in direct tax revenue. GST has also resulted in a reduction in the cost of doing business, giving rise to higher corporate taxes.

He cites a Deloitte survey on six years of GST revealing 77 per cent of industry leaders acknowledging that the cost of goods and services has come down due to enhanced supply-chain efficiencies and the removal of the cascading effect of multiple taxes that led to increased business profits reflecting a higher direct tax collection. Sehgal says GST aims at removing cascading effects on taxes and enabling seamless input tax credit, which reduces the overall tax burden on businesses. This increases the profitability of businesses, he observes.

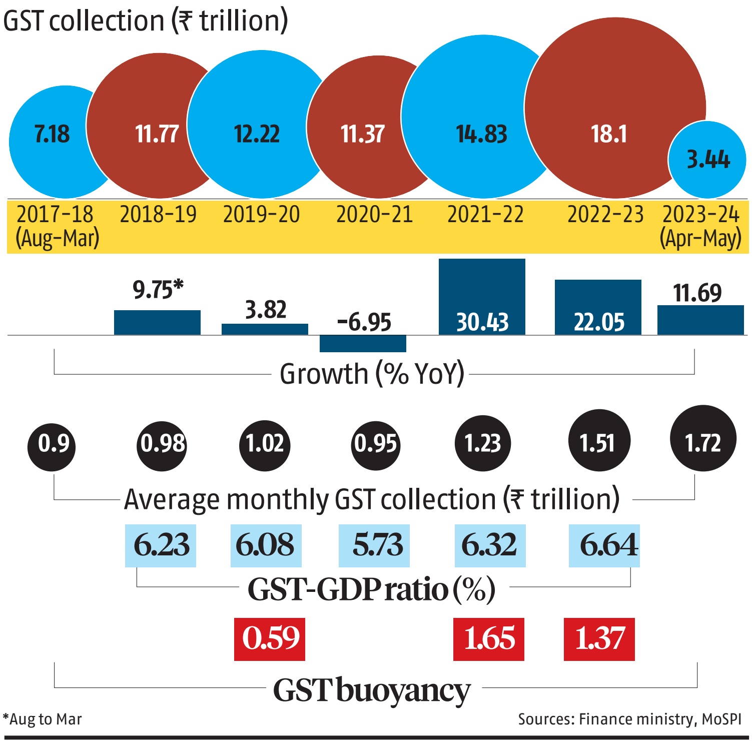
"The consequent increase in business profits also becomes one of the reasons for the rise in I-T accretion," says Sehgal.

With the GST system having stabilised, there is now a need to bring clarity to the imposition of this tax on emerging segments such as cryptocurrencies and online games, rationalise tax rates, and widen its ambit to include petroleum, parts of real estate, and electricity.

Petroleum will not even require a constitutional amendment as it was already part of the changes made before the introduction of GST, but states have not agreed to include it under this indirect taxation.

Pratik Jain, partner and leader, indirect tax at PwC India, says, "This is the right time for the GST Council to engage with all stakeholders and undertake a comprehensive legislative and administrative review to reduce disputes and further simplify the laws. Sectoral committees can be formed to discuss and address sector-specific concerns, specifically the new-age segments such as e-commerce, cryptocurrencies, etc."

THE GST JOURNEY IN NUMBERS



GST helped households save on monthly bills, says FinMin

The Goods and Services Tax (GST) has acted as an engine for driving domestic consumption and helped households save on monthly bills since its implementation six years ago, the government said on Friday. Giving a comparison of the tax rates of various goods before and after GST rollout, the government said from streamlining processes to boosting investments, GST has been a catalyst for progress.

"The implementation of GST has made it easier for taxpayers to comply with tax law and this can be seen in the fact that the number of registered taxpayers has increased from 1.03 crore that enrolled into GST by April 1, 2018 to 1.36 crore by April 1, 2023," the office of Finance Minister Nirmala Sitharaman tweeted.

"GST, which was introduced six years ago by subsuming 17 taxes and 13 cesses levied by the central and state governments, has not only helped in reducing tax burden on the citizens but has also proven to be the engine for driving consumption in the country," Nirmala Sitharaman's office tweeted. In the pre-GST era, the total of VAT, excise, CST and their cascading effect led to 31 per cent as tax payable on an average, for a consumer. "With reduced taxes, #GST brings happiness to every home: Relief through #GST on various consumer goods of daily use," another tweeted said. PTI