Ratio of GST collection to GDP increasing gradually

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Much has been reported about the robust goods and services tax (GST) collection. But its proportion to the size of the economy is only crawling up.

Gross GST collection (before refunds) grew 11.5 per cent to hit the second-highest numbers at ₹1.78 trillion in March of the last financial year. The highest amount at ₹1.87 trillion was collected in April 2023. Gross GST collection touched ₹20.18 trillion during the entire 2023-24, a growth of 11.7 per cent over ₹18.07 crore during the previous financial year.

While the gross amount seems significant, it was just 6.86 per cent of the GDP at current prices for 2023-24, if Second Advance Estimates of national accounts are considered. It was higher than 6.72 per cent in the previous year, but only moderately. Six years ago in 2018-19, the GST-GDP ratio was 6.23 per cent. As such, the GST receipts in proportion to the size of the economy have only moderately been rising over the years.

In between it had fallen below six per cent — 5.7 per cent — during the Covid-hit year of 2020-21. It also stood at just 6.07 per cent when the economy started slowing down during 2019-20.

For the government, net GST collections (after refunds) are more important than gross GST receipts. However, the data for net GST collections are available only for 2023-24 and could be derived for 2022-23. Taking that into account, net GST to GDP ratio rose from 5.89 per cent during 2022-23 to 6.13 per cent in 2023-24. The GST buoyancy, which reflects change in receipts under this head to change in the size of the economy, remained less than one — 0.62 —in only 2019-20. For the past three years —2021-22, 2022-23 and 2023-24 — it remained over one. This meant that GST receipts rose more than GDP growth in nominal terms during the past three years. However, buoyancy has been coming down from 1.6 in 2021-22 to 1.5 in 2022-23 and further to 1.3 in 2023-24.

SLOW AND STEADY

	Gross GST collections in ₹trillion	GDP at current prices in ₹trillion	GST-GDP ratio in %	GST buoyancy
FY19	11.77	189	6.23	
FY20	12.22	201.03	6.07	0.62
FY21	11.37	198.54	5.70	*
FY22	14.83	235.97	6.28	1.6
FY23	18.1	269.5	6.72	1.5
FY24	20.18	293.9#	6.86	1.3

Note: * can't be counted since both -- GDP and GST collections declined Y-o-Y
Second Advance Estimates
Source: Derived from finmin and MoSPI data

So far as net GST collections are concerned, their buoyancy stood at 1.5 during 2003-24. Ranen Banerjee, partner and leader, economic advisory services at PwC India, said with the majority of items taxed at 8 per cent and with a significant proportion of the economy being exempt or not covered under the regime, an increase in the GST to GDP ratio of 63 basis points in six years is significant. The main reason for higher collections is attributable to digitisation and progressive formalisation of the economy, he said.

"These have not only brought business in the tax base but also has generated data analytics towards better enforcement and compliance," he said.

Sandeep Sehgal, partner tax at AKM Global, said the gross GST buoyancy of over one suggests that more money is being collected under this head compared to the growth in the overall size of the economy.

"This could be due to factors like increased economic activity, changes in tax policies and better tax enforcement," he said.

Looking ahead, while it is hard to predict exact outcomes, factors like economic recovery and government actions will play a key role in shaping future trends, he said.

Ranen said the buoyancy will continue to be strong, driven by the penetration of smartphones, innovation in fintech and growth in e-commerce, ease of digital payments over UPI and even local kirana stores also moving to 'phygital' mode.