SBI

ECOWRAP

भारतीय स्टेट बैंक
STATE BANK OF INDIA

MARCH 5, 2018
ISSUE NO: 72, FY18

THE ARITHMETIC OF GST COLLECTIONS

India’s gross tax revenue is expected to grow by 16.7% in FY19 to Rs 19.1 lakh crore. This revenue target from taxation is supported by 10.2% growth in corporation tax and 20.4% rise in personal income tax from direct taxes.

There have been several speculations in public domain that the GST collections in current fiscal and budget estimates for FY19 are overtly aggressive, but these are flawed.

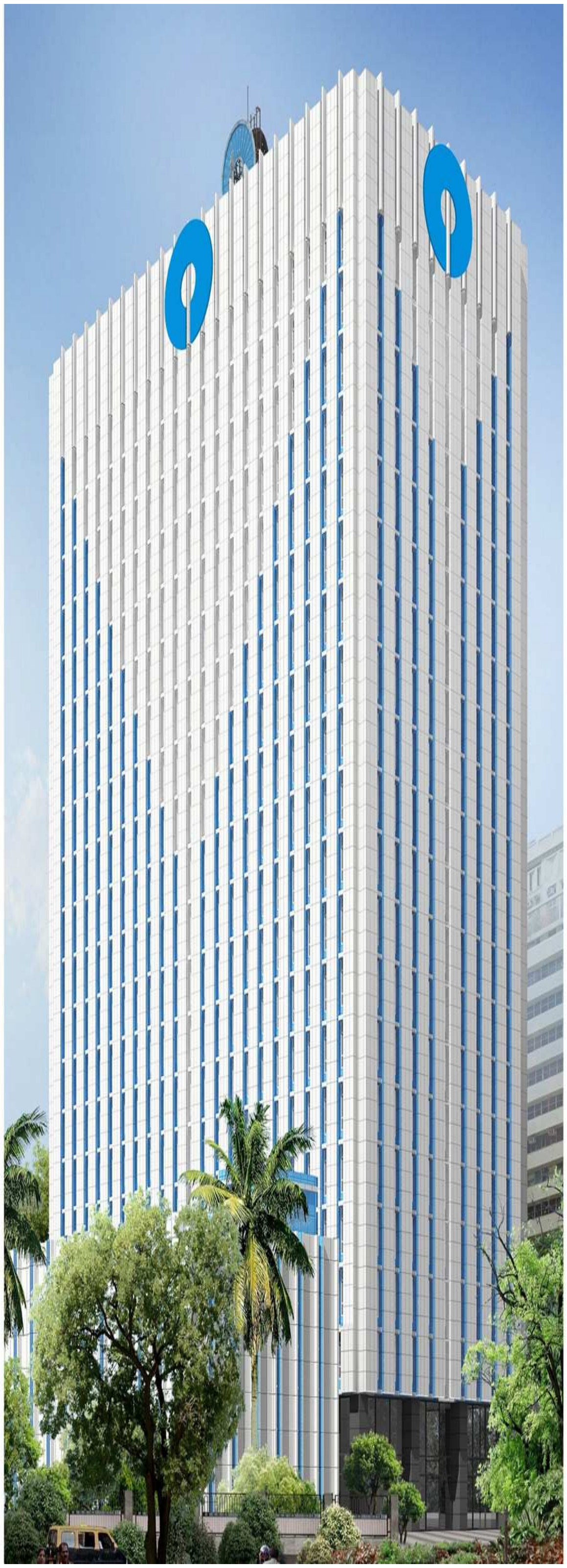
First, the target for GST is pegged at Rs 7.4 lakh crore that is 67% higher than FY18 RE. However, under the new GST regime, the last date for filing of GST returns is 20th of the succeeding month, even on the last day of the financial year. This means that the GST receipts during the current year will only be for 9 months as GST was implemented in July. Hence any analysis needs to take this into account when considering this growth.

Second, there has been some wild speculation in public domain that the IGST figures (Revised Estimates for FY18) are taken in their entirety without separating the states’ share. This is wrong, as the data of GST collections show that gross IGST collections are going to touch around Rs 4.01 lakh crores in FY18 of which 60% has been transferred to states and rest Rs 1.61 lakh crores are shown in FY18 revised estimates. However, IGST collections of Rs 4.01 lakh crores should be equally split between the Centre and states. If that happens then extra 10% will get transferred to Centre, leading to upward revision of FY18 estimates.

Taking all these assumptions together, GST FY19 (9 months’ estimates) thus comes to 15.8%. If we take 8 months estimate, the growth rate further reduces to 13.5%. Thus, the GST collections growth rate for FY19 comes to around 14%-16%, that is similar to the decadal gross tax revenue growth rate at 13.9%.

Also stripping out the additional revenue from new capital gains tax, the BE of income tax in FY19 is 14% (5 year CAGR at 17.1%).

Thus it seems that the revenue targets of the Government for FY19 are reasonable. Furthermore, cross country comparison shows that with the current global slowdown, most of the countries have been witnessing increase in fiscal deficit. There are some minor exceptions including India, France, Germany, etc. which are on the path of fiscal consolidation.



TAX COLLECTIONS

- For FY19 the Government is expecting more compliance and hence better GST collection. The target for GST is pegged at Rs 7.4 lakh crore that is 67% higher than FY18 RE. Under the new GST regime, the last date for filing of GST returns is 20th of the succeeding month, even on the last day of the financial year. This means that the GST receipts during the current year will only be for 9 months as GST was implemented in July. For FY19, the nine months' GST revenue comes at Rs 5.58 lakh crore, which is 25% more than FY18 nine months' figure.
- However, Centre's GST revenue as given in budget incorporates GST Compensation Cess which should not be considered as according to the GST cess (Compensation to State) Act, 2017, a compensation cess levied on specific items and services should be used for compensation to the States for the loss of revenue on account of implementation of the goods and services tax in pursuance of the provisions of the Constitution (One Hundred and First Amendment) Act, 2016. Thus for our estimation purposes, only CGST and IGST are considered.
- Taking the next two months' GST figure same as January on a purely conservative basis, the Centre's GST collection for FY18 has been re-estimated after summing up CGST and IGST collections (net of states share).
- Furthermore, there has been some wild speculation (https://scroll.in/article/868674/how-choppy-gst-implementation-helped-jaitley-brighten-revenue-estimates-by-rs-1-07-lakh-crore) that the IGST figures (RE FY18) are taken in their entirety in the budget without separating the states' share. This is entirely wrong as the data of GST collections show that IGST collections for current fiscal are going to touch around Rs 4.01 lakh crores, of which 60% has been transferred to states and rest Rs 1.61 lakh crores is shown in FY18 revised estimates (*that has been wrongly split into half by the aforesaid article*). However, IGST collections of Rs 4.01 lakh crores should be equally split between the Centre and the states. If that happens then the extra 10% (Rs 40,147 crores) will get transferred to Centre, leading to upward revision of FY18 CGST estimates.

Arithmetic of GST collections (Rs crore)	
CGST for FY18 RE	221400
IGST for FY18 RE	161900
IGST collections (E)*	401471
Average share of IGST allotted to states so far	60%
Shortfall of IGST reveneue to Centre	40147
Revised CGST for FY18	261547
Total revenue to Centre (CGST+SGST) for FY18	423447
FY19 9 months revenue to Centre (CGST+SGST)	490425
Growth rate (%)	15.8
Source: Government Press Release, Union Budget, SBI Research,*SBI estimate, CGA figures are different	

- This gives us the figure of Rs 4.23 lakh crore, which then needs to be compared with 9 months' collection of BE for FY19 of Rs 4.90 lakh crore. The rate of growth in FY19 (9 months' estimates) thus comes to 15.8%. If we further assume that the Government has taken only 8 months of revenue collection in the RE FY18 growth of FY19 estimate comes to 13.5%.
- Also if we do not consider the additional revenue from new capital gains tax, the BE of income tax in FY19 is 14% higher than the RE of income tax revenue for FY18 (5 year CAGR at 17.1%).
- Regarding customs, the Government has lowered the BE for FY19 to Rs 1.1 lakh crores from Rs 1.3 lakh crores in FY18, even after increasing duties on certain sectors.

Income Tax excluding new capital gains (Rs Crore)	
Income Tax for FY18 (RE)	441255
Income Tax for FY19 (BE)	529000
% Growth rate (FY19 over FY18)	20
Revenue from LTCG tax on Equities	20000
Revenue from tax on dividend distribution on MF	7500
Income Tax excluding the new Capital Gains Taxes	501500
New % Growth rate (FY19 over FY18)	14
Source: Government Press Release, Union Budget, SBI Research	

DISINVESTMENT TARGET: ON LOWER SIDE

- For FY19, Government has set the disinvestment target of Rs 80,000 crores, which we believe is on the lower side given the fact that Government has approved listing of 14 CPSEs, including the listing of three general insurance companies on the stock exchange after merging them into one. The Government has also initiated the process of strategic disinvestment in 24 CPSEs. This includes strategic privatization of Air India.

Disinvestment – Target vs. Actual (in Rs crore)			
Year	**Budget Estimate**	**Revised Estimate**	**Actual**
FY15	63,425	31,350	37,737
FY16	69,500	25,312	42,132
FY17	56,500	45,500	34,939
FY18	72,500	1,00,000	-
FY19	80,000	-	-

Source: Union Budget, SBI Research

FISCAL DEFICIT: INDIA ON THE RIGHT PATH

- Thus it seems that the revenue targets of the Government for FY19 are conservative and thus the situation is not worrisome. Furthermore, cross country comparison shows that with the current global slowdown, most of the countries have been witnessing increase in fiscal deficit. There are some minor exceptions including India, France, Germany, etc. which are on the path of fiscal consolidation.

- According to the Union Budget FY19, the Revised fiscal deficit estimate for FY18 is 3.5% of GDP as against the BE of 3.2%. Fiscal discipline is important, but we should always distinguish between austerity and consolidation. For us, staying on the path of consolidation is a must, but not on the path of a strict fiscal austerity when growth is just recovering. As Joseph Stiglitz says, "*with austerity, there cannot be any prosperity*". By assuming nominal GDP grow of 11.5% in FY19, Government is targeting fiscal deficit of 3.3% and will thus stay on the path of fiscal consolidation and there will be more fiscal space for the Government to spend in the election year ahead if growth picks up materially (ultimately fiscal deficit is expressed as a % of GDP). This is expected to augur well for the market.

Fiscal Deficit (as a % of GDP)							
Country	**Direction**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
China	↑	-1.7	-1.5	-2.0	-2.1	-2.4	-2.9
Indonesia	↑	-1.1	-1.8	-2.2	-2.1	-2.6	-2.5
Korea	↑	1.4	1.3	1.0	0.6	0.0	1.0
Malaysia	↑	-3.3	-4.8	-4.6	-6.0	-7.8	-5.4
Thailand	↑	-0.4	0.0	0.5	-1.1	1.5	-2.2
France	↓	-0.3	0.1	0.8	0.7	0.6	0.8
Germany	↓	-1.0	0.0	-0.1	0.3	0.6	0.8
Russian Federation	↑	1.4	0.4	-1.2	-1.1	-3.4	-3.7
United Kingdom	↓	-7.5	-8.2	-5.4	-5.5	-4.3	-2.9
Saudi Arabia	↑	11.6	13.6	6.4	-2.3	-15.0	-12.8
South Africa	↑	-4.0	-5.2	-4.8	-4.7	-4.2	-4.2
United Arab Emirates	↑	-5.6	-4.8	-5.0	-2.4	-6.4	-7.8
Brazil	↑	-2.4	-1.8	-2.6	-5.0	-9.1	-7.7
India	↓	-5.9	-4.9	-4.5	-4.1	-3.9	-3.5
Japan	↓	-8.7	-9.6	-9.5	-7.4	-6.9	-7.3
Singapore	↑	7.8	6.9	6.6	5.7	2.7	3.3
Canada	↓	-1.5	-1.0	-0.3	0.1	0.0	-0.9

Source: CEIC, SBI Research

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

DISCLAIMER

CONTACT DETAILS

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India
Corporate Centre
Madam Cama Road
Nariman Point

Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone: 022-22742440

: @kantisoumya