ECOWRAP

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STATES SET TO GAIN RS 37,426 CRORES BECAUSE OF INCREASED REVENUE FROM OIL & POST GST IMPLEMENTATION

We analysed the structure of tax revenue of 24 States (excluding North Eastern States) from their budget documents of FY19 and our finding suggests that impact of GST on tax revenue was minimal except for a few States.

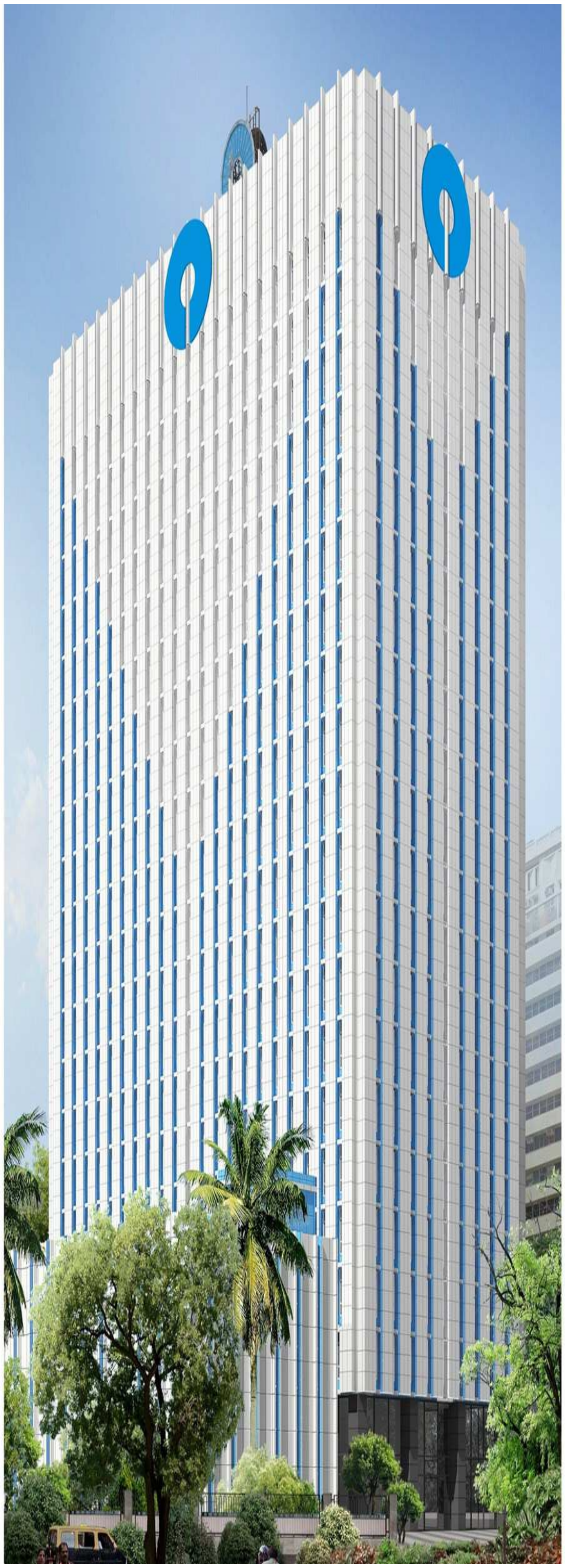
Our estimates suggest that out of 24 states, revenues of 16 States have increased over and above of 14% baseline/ mutually accepted minimum tax growth rate between Centre and States post GST implementation below which states have to be compensated. We found that on an aggregate, states have gained by Rs 18,698 crore in revenue in FY18.

States which have gained maximum due to GST are Gujarat, Haryana, Maharashtra, Chhattisgarh, Jharkhand and Punjab among others.

If we combine this figure with Rs 18,728 crore which States have gained due to increase in crude oil, the overall figure of Rs 37,426 crore will be sufficient to neutralize the revenue forgone of Rs 34,627 crore if States impose VAT only on base price. If this was so the states could still cut the diesel prices by Rs 3.75/ litre and petrol prices by Rs 5.75/litre without impacting fiscal health of the states.

We also reiterate that the current multi-layered GST tax system in India is optimal and perfectly justified. In fact, in countries that face severe compliance problems, the optimal solution is always markedly differentiated tax rates based on purely administrative purposes. In this context, it may be mentioned that Malaysia which recently scrapped GST had implemented an uniform rate that was destined to be a failure. Additionally, almost all empirical-computational studies published so far yield non-uniform optimal tax rates.

We expect that while there is a need to optimise tax revenues, for funding social security programmes, there is also a need to insulate consumers from adverse price shocks. From that perspective, the states could come forward and rationalise their VAT rates. After all, oil prices in FY19 declining much below $70 looks uncertain as of now.



GST COLLECTION IN FY18: STATES GET CLOSE TO RS 4 LAKH CRORE

- GST collection for FY18 (Effectively, July-Feb'18) was Rs 7.41 lakh crore, of which CGST component was Rs 1.19 lakh crore, SGST was Rs 1.72 lakh crore and IGST Rs 3.66 lakh crore. Of the remaining, Rs 0.62 lakh crore was collected as compensation cess.
- However, there is a certain amount of IGST, estimated at Rs 1.68 lakh crore which is still not divided between Center and States. Now assuming the States receive 40% of this, total GST amount received by States comes to Rs 3.99 lakh crore. Thus the Center's share is estimated at Rs 3.42 lakh crore for FY18, which is less than Rs 4.44 lakh crore RE FY18.
- The Union Budget FY19 budgeted Rs 7.43 lakh crore GST collections and 21 major states have budgeted around Rs 5.62 lakh crore (SGST+IGST). Hence, the combined GST revenues estimated for FY19 would be atleast Rs 13.05 lakh crore / average Rs 1.08 lakh crore per month. GST collections for May were Rs 0.94 lakh crore, after Rs 1.03 lakh crore in April (for March), with average collection of Rs 0.98 lakh crore.

GST collections (Rs lakh crore)	
Total GST collection for FY18 *of which*	7.41
CGST	1.19
SGST	1.72
IGST	3.66
Compensation Cess	0.62
IGST for July & Cess on imports	0.22
Amount actually received by States inclusive of IGST	2.91
Total Compensation received by States	0.41
Total states have received /allocated	3.32
IGST unallocated	1.68
State share in non allocated IGST amount	0.67
Total being received by states	3.99
Center's share	3.42
Source: SBI Research	

STATES SET TO GAIN AT LEAST RS 18,698 CRORES IN REVENUE IN FY19

- Post implementation of GST, the tax revenue of the States has gone up in FY18 due to increased tax compliance and broader tax base. However, certain States like Karnataka, West Bengal, Uttar Pradesh, Madhya Pradesh and Assam have reported a decline in tax collection due to the change in nature of taxation as GST has subsumed the indirect taxes like service tax, VAT, excise duty, entry tax, entertainment tax into one including the taxes under Centre and States which contributed on an aggregate more than 55% of tax revenue.
- The Government has already agreed that States will be compensated for any shortfall in revenue collection due to the implementation of GST in the next five years and the baseline is assumed to be a growth of 14% compounded from FY16.
- We analysed the structure of tax revenue of 24 States (excluding North Eastern States) from their budget documents of FY19 and our finding suggests that impact of GST on tax revenue was minimal except a few States.
- Thus early evidence suggests that states are set to gain post implementation of GST.
- In fact, in countries that face severe compliance problems, the optimal solution is always markedly differentiated tax rates based on purely administrative purposes. Additionally, almost all empirical-computational studies published so far yield non-uniform optimal tax rates. From such perspective, the multi-layered GST structure in India is perfectly justified.

State wise GST Collection IN FY18 and the Budgetary Estimate (BE) for FY19 (Rs Crore)

States	FY18				FY19			
	CGST	SGST	IGST	Total	CGST	SGST	IGST	Total
AP*	5003	4426	2927	12356	13769	7492	904	22165
Bihar	8987	0	6572	15559	24514	15000	2030	41544
Gujurat	2868	25000	2097	29965	7822	42750	648	51220
Haryana	-	12520	-	12520	-	23760	-	23760
Jharkhand	-	9000	-	9000	-	10600	-	10600
Karnataka	4383	24088	3205	31675	11954	41650	990	54594
Kerala	1	16200	-	16201	1	27000	-	27001
Odisha	4317	5950	3156	13423	11774	12000	975	24749
Tamil Nadu	3741	17393	10150	31283	10204	29748	13528	53480
Telangana*	3466	11714	1657	16837	7681	26040	512	34233
Chhatisgarh	4241	3213	-	7454	7144	5007	-	12151
MP	7019	9820	5132	21971	19145	20108	1585	40838
UP	-	28603	-	28603	43704	49422	3558	96684
Rajasthan	5110	11700	3736	20546	13937	21000	1154	36091
WB	-	8270	4592	12862	-	13094	9966	23060
Maharashtra	-	50977	8888	59865	-	90140	15163	105303
Assam	3079	2000	2251	7330	9051	4718	6507	20276
Delhi	-	14600	-	14600	-	23400	-	23400
Uttarakhand	978	6374	715	8067	2668	7390	2209	12267
Goa	351.5	1710	257	2318.5	1033	3124	79	4236
J&K	-	3682	-	3682	-	7061	-	7061
Punjab	1466	-	1072	2538	3999	21441	331	25771
Total (22 States)	55009	267238	56409	378656	188400	501945	60137	750483

Source:Budget Documents *Difference adjustment in Central Taxes+Compensation Cess Included

- Now coming to states, out of 24 States, 16 States have reported that their tax revenue increased by more than 14% in FY18 compared to last year's collection and the States which have gained maximum due to GST are Gujarat, Haryana, Maharashtra, Chhattisgarh, Jharkhand and Punjab among others.
- Our estimates suggest that out of 24 states, revenues of 16 States have increased over and above of 14% baseline / mutually accepted minimum tax growth rate between Centre and States post GST implementation below which states have to be compensated. We found that on an aggregate, states have gained by Rs 18,698 crore in revenue in FY18.
- Interestingly, in our earlier, Ecowrap titled ***"Cutting Petrol and Diesel Prices: up to how much and how?" (Click Here)*** we had reported that States have gained Rs 18,728 crore due to hike in crude oil prices and if VAT is imposed on base price and not on prices inclusive of Centre's tax, then diesel prices could further be reduced by Rs 3.75 /litre and petrol prices by Rs 5.75/ litre. Under such a situation, we had then estimated that the states will have to forego Rs 34,627 crores of tax revenue / 0.2% of consolidated fiscal deficit of States.
- As our estimate now suggests in FY18, due to implementation of GST, States have additionally gained Rs 18,698 crore and if we combine this figure with Rs 18,728 crore which States have gained due to increase in crude oil, the overall figure of Rs 37,426 crore will be sufficient to neutralize the revenue forgone of Rs 34,627 crore if States impose VAT on base price. If this was so, the states could still cut the diesel prices by Rs 3.75/litre and petrol prices by Rs 5.75/litre without impacting fiscal health of the states.

How states have gained in tax revenue post GST (Rs crores)

States	FY18/FY17 (%)	FY19/FY18 (%)	Gain/Loss in Revenue
Gujarat	19	14	4521
Karnataka	5	10	-10521
WB	10	10	-1940
Haryana	31	10	8818
Bihar	18	10	3401
Odisha	13	13	-617
UP	11	18	-7069
Tamil Nadu	14	15	-175
MP	8	17	-6141
Rajasthan	14	14	8
Telangana	23	20	6939
Kerala	14	19	318
Chhattisgarh	21	7	3243
Jharkhand	27	12	5233
AP	16	22	1635
Maharashtra	19	15	9501
Uttarakhand	19	13	954
J&K	27	10	2799
Goa	13	12	-98
Delhi	18	15	1295
HP	-21	-9	-3159
Sikkim	16	16	79
Punjab	23	16	4361
Assam	-1	36	-4687
Memoranda: Total gain to states			**18698**

Source: State Budget Documents, SBI Research

Transfering Revenue Gain to customers

	Amount (In Rs Crore)
Current revenue Gain due to increase in Crude Oil (Rs crore)	18728
Increase in Tax Revenue due to GST (Rs crore)	18698
If States impose VAT on Base price (Crude oil + Commission+Transport Cost), states tend to lose (Rs Crore)	34627
Maximum permissible average cut in prices across states to nuetralise the total revenue Gain of Rs 37426 crore	Rs 3.75 Diesel Rs 5.75 petrol

Source: 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!

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