States with low tax mop-up in VAT regime get GST boost

New tax system benefitting consuming states more than manufacturing ones

ABHISHEK WAGHMARE
New Delhi, 3 March

Goods and services tax (GST) is rapidly becoming redistributive in nature, boosting the tax revenue of states that were low tax collectors in the erstwhile state value-added tax (VAT) regime. Though revenues of developed states dominate overall GST collection, their revenues are growing the slowest, according to data presented in Parliament.

Successive rate cuts and revenue shortfall have dominated the debate on GST. But as the GST system stabilises, it is showing signs of an outcome that was originally expected from it — benefitting consuming states such as Bihar and Jharkhand faster than manufacturing states such as Maharashtra and Tamil Nadu.

Experts and government officials said there are several reasons for this.

Firstly, the integrated GST (IGST), which is levied on imports and interstate transactions, is being distributed among states in a better manner than in the first year of implementation. Secondly, there is some limited evidence that services sector companies have started to concentrate their place of supply/compliance burden in one state, rather than having presence in many states.

And thirdly, there has been an improvement in reporting of business activity - better filing of returns - in consuming states in 2018-19.

Due to this, the overall share of IGST in the GST taxes pool has increased, and businesses in consuming states have started utilising the IGST credit to pay off state GST (SGST) more frequently, finance ministry officials said.

"Apart from a significant reduction in GST rates, the year-on-year comparison of states' GST revenues needs to consider the fact that the production/consumption patterns vary across states. And over a period of time, a broad pattern of incremental revenues for net consuming states is emerging," said M S Mani, partner, Deloitte.

GST revenue of Bihar, Jharkhand, and Assam has grown by 68 per cent, 47 per cent and 45 per cent, respectively, in 2018-19. However, Maharashtra, Tamil Nadu, and Gujarat have seen modest growth of 14 per cent, 15 per cent and 19 per cent, respectively, over the previous financial year. These pertain to August-January collections in both financial years, and include settled IGST revenue in addition to SGST collection in that state.

There have been outliers as well: Andhra Pradesh and Telangana have shown a growth of more than 30 per cent, despite being net producing states. Kerala, despite being a net consuming state, has shown only 20 per cent growth.

The overall share of IGST in the GST taxes pool has increased, and businesses in consuming states have started using the IGST credit to pay off SGST frequently, officials say

The reasons for this are multifarious, experts and tax officials from multiple states told *Business Standard*.

"As consumption improves in weaker states, it was expected that they get more incremental revenue under GST. After all, it's not the nature of being a consuming state, but the reporting of consumption that matters when it comes to state GST collection. A business transaction in 2018-19, which is similar to that in 2017-18 but with better reporting, has started benefitting states like ours," said a senior tax officer in Bihar.

Pratik Jain, partner (indirect tax) at PwC India, said one reason for reduction in SGST could be the centralisation of compliances — payment of IGST from one place — by services companies in banking, telecom, and transport sectors.

Looking at SGST collection in isolation, the contrast is even wider. SGST collection in Maharashtra, Tamil Nadu, Kerala, Punjab, and Delhi has actually contracted in 2018-19. The reasons vary for states. The relative losers are sounding a note of concern, while states that are benefitting incrementally are well aware of the gains.

"Some services dealers in banking, insurance, and telecom have shown a bump in IGST payment but short-payment in SGST. The shortfall is linked with low-value high-volume consumption in the net consuming states, while high value consumption of services in the state," said a senior tax official from Maharashtra.

Officials from Kerala, an outlier in the trend, said low return filing in the state is hurting their revenues. But more so, they pinpointed the reason for their pains to "gross under-valuation" and under-reporting happening under GST.

"No one would pay tax if no one is watching. Extension of deadlines is giving an impression of no action would be taken. Compliance culture under GST is falling and visibly in Kerala," said a state tax official on the condition of anonymity.

He also said the distribution of IGST among states under the provisional settlement is penalising some states, while giving undue revenue benefit to some others. But there is not data to prove this, he said.

SGST revenue of Delhi is contracted by a staggering 15 per cent in August - January 2018-19. Some officials said setting up inter-state trading business in Delhi is no more lucrative as it was in the erstwhile Central Sales Tax regime. Most businesses are leaving the state jurisdiction and are moving to Gurugram and Noida, which fall in Haryana and Uttar Pradesh, respectively.

As for the net producing states such as Maharashtra, they are looking at poor revenue growth in the medium term. But over time, the GST system will benefit all states, they believe.

REDISTRIBUTIVE NATURE OF GST

State	Growth in only SGST (in%)	Growth in overall SGST revenue*(in%)
Delhi	-15.0	-8
Tamil Nadu	-1.3	15
Maharashtra	-0.5	14
Gujarat	8.1	19
Andhra Pradesh	12.3	36
Telangana	12.7	30
Jharkhand	24.7	47
Bihar	33.2	68

Note: * includes IGST transfers; growth in revenues in August-January 2018-19 over the same period of 2017-18;
Source: Data tabled in Parliament

Govt to sell almost all SUUTI stake in L&T to meet divestment target

ARUP ROYCHOUDHURY
New Delhi, 3 March

The government is ready to offload nearly the entire stake it holds in Larsen & Toubro (L&T) through Specified Undertaking of the Unit Trust of India (SUUTI) in the coming weeks as it looks to meet the ₹80,000-crore disinvestment target for 2018-19.

The Centre holds a 1.8 per cent stake in the construction and engineering behemoth through SUUTI, valued at a little over ₹3,300 crore as of Friday's closing price of L&T shares. The department of investment and public asset management (DIPAM) plans to sell shares worth around ₹2,000 crore before March 31, *Business Standard* has learnt from senior government sources.

This will be the second sale of SUUTI stake this fiscal year after a 3 per cent sale of Axis Bank last month.

As of end-February, DIPAM has garnered ₹56,473.32 crore in divestment proceeds. To meet the target, a number of transactions are expected to be finalised over the coming few weeks.

These include share buybacks by Coal India, NMDC, and Oil India, which could get the exchequer around ₹3,000 crore and the planned sale the Centre's 73.4 per cent in Dredging Corp to a consortium of four ports, which will fetch around ₹1,000 crore.

PFC's acquisition of the Centre's stake in REC, which is in the final stages of completion, is expected to garner ₹15,000 crore, while there will likely be two more initial public offerings (IPOs) this year, of Mazagon Dockyards and MSTC, which could fetch around ₹1,200 crore combined.

The sale of 'enemy shares', currently with the Custodian of Enemy Property for India, in 996 companies, and cleared by the Union Cabinet in November, may fetch around ₹2,000 crore, while DIPAM is still optimistic about completing the strategic sale of at least two out of three companies, which could fetch ₹1,000-1,500 crore. These companies are Pawan Hans, Scooters India, and Central Electronics. There is also the acquisition of construction consultancy company NPCC by another state-owned peer WAPCOS, a relatively small deal that could fetch around ₹100 crore.

Officials say this is where the disinvestment activity for this year will stop. A number of other companies, which were supposed to be offered for an IPO or an OFS, will now be carried over to the next year as DIPAM wants to maintain a healthy pipeline for the 2019-20 disinvestment target of ₹90,000 crore.

The bulk of proceeds for 2018-19 so far has come from the Centre's two exchange-traded funds, the Bharat 22 ETF and the CPSE ETF.

LIKELY PROCEEDS

- SUUTI to sell stake in L&T for around ₹2,000 cr
- PFC-REC deal to rake in around ₹15,000 cr
- Sale of govt stake in Dredging Corp to garner ₹1,000 cr
- ₹3,000 cr expected from buybacks of Coal India, Oil India and NMDC
- IPOs of MazagonDocks, MSTC may fetch ₹1,200 cr
- Two strategic sales to be completed, may fetch ₹1,000-1,500 cr
- Sale of enemy shares could bag ₹2,000 cr

Court orders halt to arbitrary govt

EXIM MATTERS

T N C RAJAGOPALAN

In a telling judgment, the Gujarat high court has, in the case of Maxim Tubes Company and Others vs Union of India, struck down the pre-import condition under the Advance Authorisation Scheme (AAS).

The verdict says the said condition in paragraph 4.14 of the Foreign Trade Policy (FTP) 2015-2020, inserted by Notification 33/2015-2020 and via clause (xii) in Notification 18/2015-Cus vide Notification 79/2017-Cus, both dated October 10, 2017, are 'ultra vires' (the phrase for something done beyond one's power to so act or authorise) the AAS as contained in the FTP and in the provisions of the Handbook of Procedures. So, all proceedings initiated for violation of this pre-import condition "would no longer survive".

When the Goods and Services Tax (GST) was introduced in July 2017, the central government summarily dismissed the representations of exporters and imposed Integrated GST (IGST) on all goods imported under advance authorisation. This resulted in blockage of working capital, a problem that worsened with the system glitches that delayed refund of the IGST paid on export goods.

So, in October 2017, the government granted IGST exemption for import under advance authorisation but tagged this with a wholly unrealistic and irrational 'pre-import' condition. It meant those who had already shipped goods in discharge of their export obligation by using duty-paid inputs were also required to pay IGST on import made in replenishment of such inputs. For 15 months, the government turned a deaf year to representations from exporters, before removing the pre-import condition in early January 2019.

Meanwhile, the department of revenue intelligence (DRI) had issued notices to many exporter,s placing wholly unsustainable and cavalier interpretations to the exemption notification and demanding payment of IGST on their import, along with interest. DRI also issued summons as a first resort, asking exporters to appear before it in Kolkata, and used high-handed methods to pressurise them to pay IGST and interest.

It also recorded statements from exporters to suit its own convenience, with a view to initiate proceedings for recovering IGST and interest on their import. Many exporters succumbed to the demands, incurring heavy cost in the process of falling in line. The GST laws do not specifically allow input tax credit against payment made through challans. So, exporters got their bills of entry reassessed, a process involving the discretion of officers and consequent cost. Many who paid up have taken input tax credit of the IGST, adding to the unutilised credit in their books. Smaller exporters suffered more, some even deciding to cut their export.

Some exporters, however, approached the courts for relief and obtained stay orders, restraining coercive recovery by DRI. In the case of Vedanta Ltd, the decision of the Madras High Court went against the exporter. On appeal, that decision has been stayed. The Gujarat HC has, after taking that judgment into account, come to a different conclusion.

Now that the government has admitted its mistake by removing the pre-import condition, it should not hesitate to accept this reasoned and detailed judgment which stroke down the pre-import condition from the time it was imposed. It should also prescribe a procedure to refund the interest collected wrongfully. It should consider refund of IGST against suitable evidence that the exporter has not taken input tax credit of the same.

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Banks need to lend ₹1 trn to meet FY19 MUDRA target

PRESS TRUST OF INDIA
New Delhi, 3 March

With less than one month left in the current fiscal year, banks will have to work overtime to meet the MUDRA loan lending target of ₹3 trillion, as only about ₹2 trillion have been disbursed till February 22.

As on February 22, the total loan disbursed under the Micro Units Development and Refinance Agency (MUDRA) scheme stood at ₹2,02,668.9 crore as against sanctioned amount of ₹2,10,759.51 crore, said a government data.

The latest data of the finance ministry said over 3.89 crore MUDRA loans have been sanctioned this fiscal year so far.

As per the Budget 2018-19, the government intends to disburse loans of up to ₹3 trillion in the current fiscal year ending March 31.

In 2017-18, the lending at ₹2,46,437.40 crore had exceeded the target. In fact, lending under the scheme has exceeded the targets in all previous fiscal year.

The scheme was launched on April 8, 2015, for providing loans up to ₹10 lakh to the non-corporate, non-farm small/micro enterprises.

While presenting the Union Budget 2019-20, the Finance Minister said the government has sanctioned 15.56 crore loans amounting ₹7.23 trillion under the MUDRA scheme, of which an overwhelming majority were woman beneficiaries.

STATSGURU

Economy slows down in Q3FY19

INDIA'S ECONOMIC growth slowed down to a six-quarter low of 6.6 per cent in the third quarter of the current financial year, showed data released by the Central Statistics Office (CSO). As shown in Chart 1, growth is expected to be marginally lower at 6.5 per cent in Q4FY19.

The CSO also lowered its growth estimate for the full year to 7 per cent, down from 7.2 per cent earlier. This implies that over the past five years, the economy has grown at the slowest pace in FY19 (Chart 2).

Sector-wise data shows that growth in Q3FY19 was pulled down largely by agriculture and public administration. As seen in Chart 3, agricultural growth slumped to 2.7 per cent in Q3FY19, from 4.2 per cent in Q2FY19.

Similarly, public administration, which connotes government spending, grew by 7.6 per cent in Q3, down from 8.7 per cent the previous quarter.

On the other hand, construction continued to grow at a robust pace. As seen in Chart 4, the sector is expected to grow at a robust 9.2 per cent in FY19, up from 5.2 per cent in FY18.

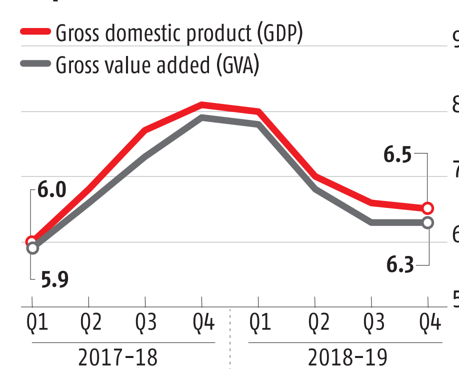
And while growth in manufacturing value added slowed down to 6.7 per cent in Q3FY19, from 12.4 per cent in Q1FY19, the sector is expected to grow at a higher 8.6 per cent in FY19, up from 4.6 per cent the year before.

On the expenditure side, CSO data shows that both private (Chart 5) as well as government consumption expenditure (Chart 6) slowed down in the third quarter of the current financial year. However, gross fixed capita formation, which connotes investments, continued to grow at a robust pace (Chart 3).

ISHAN BAKSHI

1: GDP GROWTH SLUMPS TO 6.6% IN Q3FY19

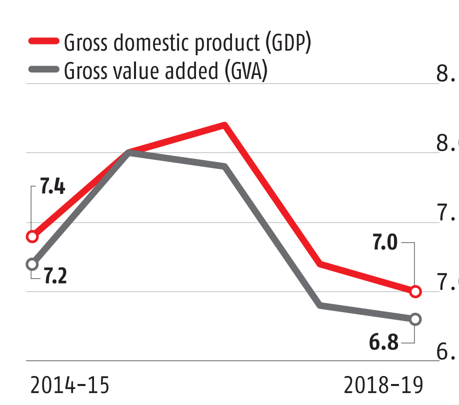
(%, y-o-y)



Note: Growth estimates for Q4FY19 are projections based on CSO data

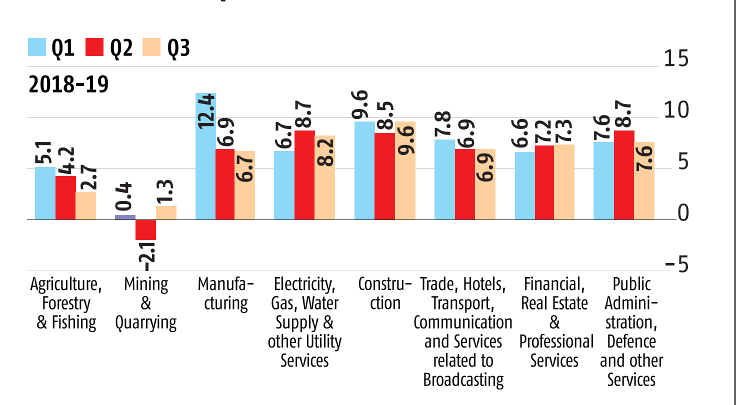
2: FY19 GDP GROWTH LOWEST IN LAST FIVE YEARS

(%, y-o-y)



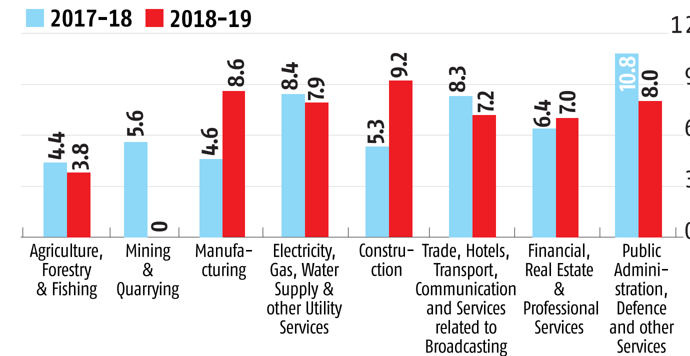
3: AGRI, MANUFACTURING, PUBLIC SERVICES SLOW DOWN CONSIDERABLY IN Q3FY19 (Sector-wise gross value added)

(%, y-o-y)



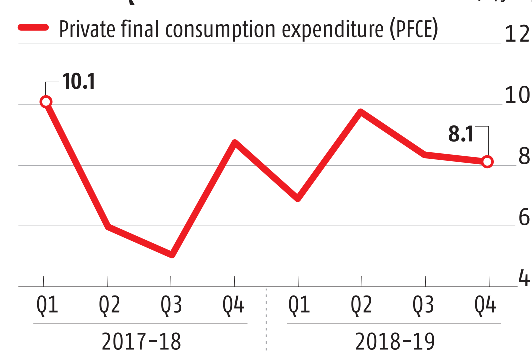
4: BUT MANUFACTURING POSTS HIGHER GROWTH IN FY19 AS COMPARED TO FY18 (Sector-wise gross value added)

(%, y-o-y)



5: PRIVATE CONSUMPTION EXPENDITURE SLOWS DOWN IN Q3FY19

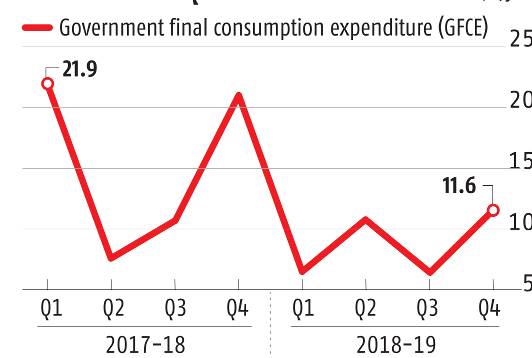
(%, y-o-y)



Growth estimates for Q4FY19 are projections based on CSO data

6: GOVERNMENT EXPENDITURE ALSO MODERATES IN Q3FY19

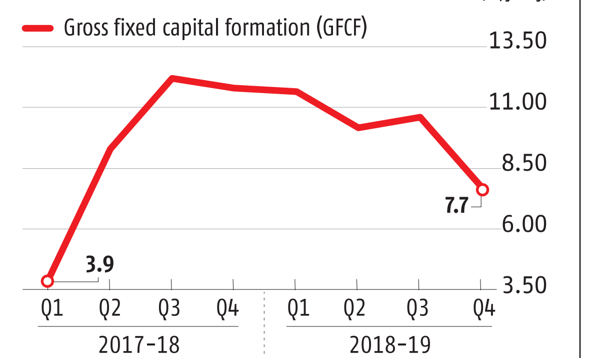
(%, y-o-y)



Growth estimates for Q4FY19 are projections based on CSO data

7: INVESTMENT ACTIVITY THOUGH MAINTAINS GROWTH MOMENTUM

(%, y-o-y)



Growth estimates for Q4FY19 are projections based on CSO data

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Source: CSO, MOSPI; Compiled by BS Research Bureau