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Opening the IGST blackbox for higher tax revenue of consuming states including Kerala

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Goods and Services Tax revenue accumulates towards consumption more than production due to the 'destination principle' followed in most of the 'place of supply' provisions of GST Law. 'Place of supply' determines the accrual of taxes on goods and services to the States in the inter-state supply inwards. But the amount of actual revenue collection of four years of GST experience portrays the other way round to the consumption inclined states specially Kerala.

Why Kerala is not collecting comfortable revenue from GST despite ranked first in per-capita consumption of goods and services among all States as depicted by NSSO data?

Why, even after four years, the concepts and the spirit of the GST law is not satisfactorily working in Kerala in terms of revenue expansion even as more than 80% of the goods and services consumed in Kerala are originally brought from other states as 'inter-state supply inwards?

All states/union territories in India are consuming but only few states are producing either equally or more than that of their domestic consumption of goods and services. The word 'consumer state' means a State where the quantum of consumption within the state is more than that they produce domestically and majority of their final consumed goods and services are coming from other states as inter-state supply inwards and from other countries as imports.

This paper attempts to explore the revenue from inter-state supply inwards of goods/services by demystifying Integrated Goods and Service Tax (IGST) revenue settlement provisions treasured in the sections 17 and 18 of IGST Act 2017.

1. Components of States' Revenue from GST

State Revenue from GST comprises the following three components

(a) **State Goods and Services Tax (SGST)** - SGST (State GST) output tax on all the intra-state supply outward (goods/services or both) paid by the registered person after utilising the eligible input tax credits of SGST on intra-state inward supply (Section 49 of Kerala GST Act 2017) (*if any*) and the balance (*if any*) paid in Cash.

(b) **(i)Integrated Goods and Services Tax (IGST) through the settlement from Central Government on B2B (*registered person to registered person*) inter-state supply inwards** - SGST (State GST) output tax on all the intra-state supply outward (goods/services or both) paid by the registered person after utilising the eligible input tax credits of IGST on inter-state inward supply or from IGST of imports made by him/her. *(Section 18 of the IGST Act 2017).* The IGST input tax credits so utilised will be transferred to State Government from Government of India

(ii) Integrated Goods and Services Tax (IGST) through the settlement from Central Government on other than B2B intra-state supply inwards - Share (50%) of the IGST on all Inter-state supply inward of goods/services or both in eight different situations mentioned in section 17 of the IGST Act 2017 (*initially settled by ad hoc basis and subsequently settled based on apportionment procedure as per the section).*

(c) Compensation Cess – If the revenue from (a) +(b) mentioned above of a State does not achieve the yearly protected growth rate of 14 per cent, then the revenue gap will be compensated from Government of India as per the Goods and Services Tax (Compensation to States) Act 2017 for five years i.e., till June 2022. This amount is transferred to states under the head Grants-in-aid from Government of India.

2. The flow of Revenue under Inter-state supply (IGST)

How GST system is working in inter-state supply system is narrated with the example of Tamil Nadu and Kerala in the following three tables below:

Table 1 - Tamil Nadu		
1. Raw Material Supplier OR First Registered Person)		
No.	**Particulars**	**Rs.**
1	Raw materials	500
2	Expenses & Profits / losses	300
3	Total	800
4	Central GST (2.5 %)*(Output Tax)*	20
5	State GST (2.5 %) *(Output Tax)*	20
6	Sale Value [3+4+5]	840
7	Remittance to Central Govt. –CGST (cash)	20
8	Remittance to TN Govt. SGST (Cash)	20

Table 2 - Tamil Nadu		
2. Manufacturer (Second Registered Person)		
No.	**Particulars**	**Rs.**
1	Purchases (Basic Price)	800
2	Central GST (2.5%) *(Input Tax)*	20
3	State GST (2.5 %) *(Input Tax)*	20
4	Purchase Value *(without tax)*	800
5	Expenses & Profits / losses	500
6	Total [4+5]	1300
7	IGST 18 % *(output tax)*	234
8	**Sale Value [6+7] to Kerala**	1534
9	Remittance to IGST A/C (cash)	194
10	Remittance to IGST A/c (Credit) from CGST A/C and TN GST A/C	20+20

Table 3 -Kerala		
3. Registered Person		
No.	**Particulars**	**Rs.**
1	Purchases (Basic Price)	1300
2	IGST 18 % *(Input Tax)*	234
4	Purchase value	1300
5	Expenses & Profits / losses	200
6	Total	1500
7	Central GST (9 %)*(Output Tax)*	135
8	State GST (9%) *(Output Tax)*	135
9	Sale Value [6+7+ 8]	1770
	Remittance to Central Govt.	0
10	Remittance to Kerala GST A/C (cash)	36
11	Remittance to State GST A/C (Credit) from IGST A/C	99
12	Remittance to Central GST A/C (Credit) from IGST A/C	135

The three tables (Table 1, 2 &3) reveal that the entire GST revenue for the sale of raw materials, goods manufactured at Tamil Nadu and subsequently sold to Kerala will finally accrue to Kerala. It means the Tamil Nadu Government should remit to the IGST Account the entire collected SGST of the goods/services or both supplied to Kerala for the settlement of IGST amount to Kerala.

3. Inter-State taxing system: Pre-GST vis-à-vis GST System

During pre-GST period the Central Sales Tax (CST) is levied and collected by the selling state (Tamil Nadu) from the registered person of the purchasing state (Kerala) at the concessional rate of 2% as per the provisions of Central Sales Tax Act 1956. The purchasing state's (Kerala) landing cost is the purchase value including all transport charges plus CST which is not recoverable like GST. In the example **(Table 4)** the goods brought through inter-state purchase after adding the profit margin will be sold within the state and State VAT is levied on the selling price and the entire amount is remitted to Kerala

Considering the same figures for the GST period the recipient of the purchasing state will have to pay the full IGST (*here no concessional rate is applicable as in the case of Pre-GST period)* to the Supplier of the selling state. The recipient of Kerala will subsequently utilise the credit of IGST after selling the goods/service within Kerala and the net amount of CGST/ SGST are remitted. The IGST input tax availed for paying SGST amount will be transferred to the appropriate state from the IGST account maintained by the central Government as per the credit utilisation provisions of the GST law. The IGST utilisation can be availed in two different ways. Under the method 1, the registered person in Kerala fully utilises the IGST credit for remitting the CGST and the balance for remitting SGST. In the second method the IGST credit is utilised equally for remitting the CGST and SGST amount (**Table 5)**

Table 4		
Pre-GST Period up to 30 June 2017		
Inter- State Purchase from Tamil Nadu		
Purchase from TN		1,00,000
CST Paid to TN RP	**2%**	2,000
Total Purchase Value		1,02,000
Sale in Kerala		
Purchase Value (incl. CST)		1,02,000
Profit Margin		28,000
Sale Value in Kerala		1,30,000
Kerala VAT	**14.5%**	18,850
Total Sale Value in Kerala		1,48,850
Tax remitted to Government of Kerala		
KVAT	**14.5%**	18850

Table 5		
GST Period - From 1-7-2017		
Inter- State Purchase from Tamil Nadu		
Purchase from TN		1,00,000
IGST paid to TN RP	**18%**	18,000
Total Purchase Value		1,18,000
Sale in Kerala		
Purchase Value (excl. GST)		1,00,000
Profit Margin		28,000
Sale Value in Kerala		1,25,000
Central GST	**9%**	11,250
State GST	**9%**	11,250
Total Sale Price		1,47,500
Tax remitted to Govt. of India & Kerala		
Method 1		
CGST Rs.11250 paid fully as credit by utilising IGST input tax (i.e. from Rs.18000)		
SGST Rs.11250 paid partially by credit Rs 6750 by utilising the balance amount available in IGST input tax credit (*Rs. 18000 - Rs.11250 used as credit for CGST)* and partially by Cash Rs. 4500		
Method 2		
CGST Rs.11250 paid partially by credit Rs 9000 by utilising the 50% amount of IGST input tax credit (ie., 50% of *Rs. 18000)* and partially by Cash Rs. 2250		
CGST Rs.11250 paid partially by credit Rs 9000 by utilising the 50% amount of IGST input tax credit (ie., 50% of *Rs. 18000)* and partially by Cash Rs. 2250		

4. Ratio of tax revenue of Kerala - State GST vis-à-vis Integrated GST

Unlike other States in India, Kerala is distinctively characterised by the following:

a) Top consumption of goods and services among the states in India (as per NSSO sample survey data)
b) Not less than **80%** of the domestic consumption of goods/services are brought from other States (Inter- State Supply inwards) or imports
c) Not more than 25**%** of the value addition of those goods and services brought through Inter-state supply inward/import are subsequently accrues as SGST within Kerala. It means the 75**%** of the final value of goods/service brought through inter-state supply inwards are loaded with the value of inter-state supply inwards and carrying IGST when it arrives Kerala. Through input credit mechanism and settlement provisions state's share of those IGST amounts are transferred to appropriate State from Government of India.

Recognising this uniqueness of Kerala, a very conservative ratio of SGST vis-à-vis IGST revenue is estimated in the context of minimum occurrence of evasion. The ratio of SGST: IGST is calculated as **2:3** (Table 6)

Particulars	(%)	Value (Rs.) (for example	CGST (9%) (Rs)	SGST (9%) (Rs)	IGST share to Central Govt (9%) (Rs)	IGST share to State Govt (9%) (Rs)
1. Final Value of Goods & Services consumed in a State. Eg. Kerala	100	1,00,000				
1A. Out of which, the Goods & Services having exclusive Intra-State Supply	20	20,000	1,800	1,800		
1B. Out of which, the Goods & Services having Inter-State and subsequent Intra-State Supply	80	80,000				
1Ba. Out of which, value component of Inter-State inward supply	75	60,000			5,400	5,400
1Bb. Out of which, subsequent value component of Intra-State inward supply	25	20,000	1,800	1,800		
Tax Amount (Rs.)			3,600	3,600	5,400	5,400
Share – State/Central GST revenue: IGST revenue from Kerala= 2:3			**2**	**2**	**3**	**3**

5. The IGST Revenue gap of Kerala

The total revenue from GST – both SGST and IGST for the four years period of Kerala is depicted in Table 7. The total SGST collection and IGST settlement for the four years period ending 31-3-2021 are Rs. 31459.3 crore and Rs.38903.8 crore respectively. By applying the ratio of SGST: ISGT = 2:3 on the SGST actual collection the expected IGST settlement amount is estimated as Rs. 47189 crore which draws a gap of Rs. 8285 crore in IGST Revenue (Rs.47189 crore -Rs. 38903.8) (Table 7)

Table 7							
Kerala - GST Collections for four years (Rupees in Crore) (period 1-7-2017 to 31-3-2021)							
Year	**SGST**	**IGST**	**Adhoc settlement**	**IGST settlement Total**	**Total SGST plus IGST Settlement**	**Compensation**	**Total**
2017-18	5399.1	6065.0	736	6801.0	12200.11	2102	14302.1
2018-19	8269.6	10115.0	2734.37	12849.3	21118.91	3532	24650.9
2019-20	9453.2	9926.2	-15.83	9910.4	19363.57	8111	27474.6
2020-21	8337.4	9343.1		9343.1	17680.42	914.63	18595.1
Total	**31459.3**	**35449.2**	**3454.54**	**38903.8**	**70363.01**	**14659.63**	**85022.6**
Source: Compiled from the date of keralataxes.gov.in							

Table 8		
IGST Revenue Gap		
Details	**SGST Collection**	**IGST Settlement**
Revenue	31459	38904
Ratio - SGST:IGST	2	3
If SGST is 2 what is IGST?	31459	47189
IGST Gap		8285

6. Digging the IGST revenue settlement component and the way forward

The IGST revenue settlement consist of 12 components as per the section 17 and section 18 of the IGST Act 2017. They are listed in the tabulated format in Table 9.

Table 9		
Different categories of Inter- State Supply inwards of Goods and Services to States for IGST Revenue transfer to appropriate States as Apportionment, Transfer and Settlement		
Sl. No.	**Category**	**Type of Apportionment, Transfer and Settlement to States**
1	**IGST Input Tax (eligible only) utilised to pay the SGST Output Tax due on intra State supply outwards by**	the Registered Person for the IGST paid on Inter-State Supply inward ***[Section 18(c) of IGST Act 2017]***
2		the Registered Person for the IGST paid on Import ***[Section 18(c) of IGST Act 2017]***
3	**Inter- State Supply Inwards of Goods and Services to Kerala made by**	the Unregistered Person **[Section 17 (1)(a) of IGST Act 2017]**
4		the Registered Person under Section 10 of CGST/SGST Act 2017 (Composition Scheme) ***[Section 17 (1)(a) of IGST Act 2017]***
5		the Registered Person not eligible for Input Tax Credit ***[Section 17(1)(b) of IGST Act 2017]***
6		the Registered Person who does not avail the eligible Input Tax Credit within a Specified Period and expires after it the prescribed time limit ***[Section 17(1)(c) of IGST Act 2017]***
7	**Import of Goods or Services or both made by**	the Unregistered Person ***[Section 17(1)(d) of IGST Act 2017]***
8		the Registered Person under Section 10 of CGST/SGST Act 2017 (Composition Scheme) ***[Section 17(1)(d) of IGST Act 2017]***
9		the Registered Person not eligible for Input Tax Credit ***[Section 17(1)(e) of IGST Act 2017]***
10		the Registered Person who does not avail the eligible Input Tax Credit within a Specified Period and expires after it the prescribed time limit ***[Section 17(1)(f) of IGST Act 2017]***
11	**Supplier (Taxable person) (Origin State) are identifiable but Place of Supply (Destination state) are not identifiable**	State's IGST portion transferred to appropriate State/Union Territory based on proportion of the supply made by the supplier of the origin state to the appropriate destination state (s) in a financial year ***[First Proviso of Section 17(2) of IGST Act 2017]***
12	**Supplier (Taxable person) (Origin State) are are not identifiable**	State's IGST portion transferred to all based on proportion taxes collected by the States as SGST during the immediately preceeding financial year ***[Second Proviso of Section 17(2) of IGST Act 2017]***

The reason for the sluggish growth of IGST revenue are many. Some of them are

1. Unaccounted purchase/underbilling of inter-state supply inwards of goods and subsequent parallel supply within the state due the hasty withdrawal of all check post after GST regime. Check post system was our inherent strength of revenue protector during the sales tax/value added tax regime
2. Large amount B2C/Composition scheme based on inter-state supply inwards are partially or totally under reported.
3. Bulk purchase of goods/directly to the final consumers from other states are done without tax invoice or fake invoices.

The disaggregated data for the above 12 components are not available in the public domain. It is learned that the component wise IGST data are not even available to the States for analytics and investigation of inward supply. Further it is learned that the MIS data can easily be salvaged from the returns and e.way bill data.

In this context it is suggested that the GSTIN with the due approval of the GST council and Government of India may publish in the public domain both the inter-state supply inward of the 12 components (Table **9**) of IGST with Harmonised System of Nomenclature (HSN)/Service Account Code (SAC) wise goods and services classifications. An in-depth state-of-the-art analysis of the detailed data by each of the State GST Department in larger way can identify and fix the sluggish growth and pin point the real source of inter-state evasions especially in the context of dismantling all the broader check posts in the eve of GST implementation.