

## **Two years into COVID: What's the state of GST recovery?**

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### **Introduction**

By eliminating various indirect taxes, improving the flow of goods and services, and reducing entry barriers at the state level, the GST implementation in India was an attempt at economic integration of the nation with the goal of enhancing trade and assisting the economy. The implementation of GST, thus, though not directly, was expected to accelerate the tax revenue of both the Union and State governments. This anticipation can be attributed to a simplified tax system and a reduction in the cost of compliance which would improve compliance and ease of doing business, thereby generating a huge thrust in the country's economic activities. But the Indian economy was already in a plaintive state due to the demonetization of 2016, and GST was implemented before the economy could regain its pre-demonetization growth momentum. It was like jumping out of the frying pan into the fire when COVID -19 struck the country in the early months of 2020. The pandemic emaciated the economy more than any other issue. The consumption of people shrunk during the pandemic, adversely affecting the GST collection of states.

But recent GST collection figures are encouraging and display some confidence in the stability and recovery of collections. The gross GST collections in the month of August touched Rs 1.43 lakh crore, 28 percent higher than the corresponding month of 2021. This was the sixth month in a row where the monthly collections have been more than Rs 1.4 lakh crores, indicating the strong recovery of GST from its low points during the pandemic.

Though the collections at the aggregate level have been satisfactory, analyzing at the state level may tell a different story about the pace and robustness of recovery.

This paper analyses the magnitude of the fall in GST revenue of states during the pandemic and assess the recovery in the collection of states in the post-pandemic phase. To this end, we compare the recovery of GST revenue in 2021-22 with the previous year (2020-21) and the pre-pandemic year (2019-20). While a comparison of GST in collections between 2021-22 with 2020-21 tells us to what extent the states have recovered, comparing collections in 2021-22 with 2019-20 would indicate whether the states have surpassed the collection recorded in the pre-pandemic year.

### **Data sources and variables**

This study considers two aspects, namely State GST (SGST) and Total GST (TGST) collection, to assess the revenue performance of the states. SGST refers to the State Goods and Services Tax collected by the states on intra-state transactions of goods and services. TGST refers to the total collection of the states. It is the sum of SGST collection and IGST settlement revenue. The IGST collected by the Centre is shared with the state where the goods or services are sold and not the state where the production happens. TGST is the actual revenue of the states.

Eighteen major states are considered in this study. Monthly data sourced from the GST portal (<https://www.gst.gov.in/download/gststatistics>) is added to get the yearly numbers. The study period is from 2019-20 to 2021-22. 2019-20 is the pre-pandemic year, 2020-21 is the pandemic year, and 2021-22 is the recovery or post-pandemic year. The collections of the three financial years have been compared to analyze the revenue performance of the states during these years.

### **The pandemic year: Revenues plummeted**

Table 1 exhibits the annual revenue collection of states for the years 2019-20, 2020-21, and 2021-22 (Columns 1-3), along with their growth rates (Columns 4-6). Column 4 reports the percentage change in 2020-21 (pandemic year) over 2019-20 (normal year); Column 5 presents the percentage change in 2021-22 (recovery year) over 2020-21 (pandemic year),

and Column 6 shows the percentage change in 2021-22 (recovery year) over 2019-20 (normal year or pandemic year).

**Table 1:** SGST revenue collection of states

State	st_code	Rs Crore			Percent change in		
		2019-20	2020-21	2021-22	FY21/ FY20	FY22/ FY21	FY22/ FY20
		(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	AP	9265	8562	10567	-7.6	23.4	14.1
Assam	AS	4212	3885	4638	-7.8	19.4	10.1
Bihar	BR	5842	5367	6083	-8.1	13.4	4.1
Chhattisgarh	CT	5581	5439	6818	-2.5	25.3	22.2
Gujarat	GJ	27271	24667	32724	-9.5	32.7	20.0
Haryana	HR	13922	11952	15116	-14.2	26.5	8.6
Jharkhand	JH	5490	4863	6328	-11.4	30.1	15.3
Karnataka	KA	26472	23209	28660	-12.3	23.5	8.3
Kerala	KL	9457	8326	9887	-12.0	18.7	4.6
Maharashtra	MH	62275	53300	70516	-14.4	32.3	13.2
Madhya Pradesh	MP	8841	8218	9433	-7.0	14.8	6.7
Odisha	OD	8713	8288	12743	-4.9	53.7	46.3
Punjab	PB	6133	5520	6896	-10.0	24.9	12.4
Rajasthan	RJ	12197	11103	13443	-9.0	21.1	10.2
Tamil Nadu	TN	27142	23819	29441	-12.2	23.6	8.5
Telangana	TS	12977	11788	14603	-9.2	23.9	12.5
Uttar Pradesh	UP	22043	19711	23766	-10.6	20.6	7.8
West Bengal	WB	16815	14915	18164	-11.3	21.8	8.0

*Note:* Authors' own calculation using data from the GST Portal.

FY20: 2019-20, FY21: 2020-21, FY22: 2021-22.

### SGST revenue in the pandemic year

A cursory look at Table 1 reveals that SGST revenue collection of states precipitated in absolute numbers in the aftermath of the pandemic. The total SGST collection of 18 states declined from Rs 2,84,649 crores in 2019-20 to Rs 2,52,932 crores (-11.1%) in 2020-21. Compared to the normal year 2019-20, the SGST collection of 18 major states, on average, saw a dip of 9.67% in 2020-21. This is higher than the decline in GDP which fell 7.7%. The states with the highest fall are Maharashtra (-14.41%) and Haryana (-14.15%). On the other hand, Chhattisgarh (-2.54%) and Odisha (-4.87%) suffered the least.

The degree of revenue fall of developed states has been higher than that of less developed states like Odisha, Bihar, Chhattisgarh, and Madhya Pradesh. Dash and Kakarlapudi (2022) argued that while factors such as the stringency and duration of the lockdown could have contributed to this, the extent of urbanization could be a plausible candidate to explain this. The COVID-19 pandemic affected urban areas more severely than rural areas in the first wave of the pandemic. As a result, consumption in rich states declined sharply while the poor

states experienced more or less stable consumption, thus explaining the relative stability in the GST revenue growth rate.

### TGST revenue in the pandemic year

Total GST revenue is the sum of State GST and IGST remitted to states. Data on the collection of TGST (Columns 1-3) and percentage change (Columns 4-6) of states is reported in Table 2. The states' revenue during the pandemic year fell sharply compared to the normal year. The combined TGST of the states declined by 9.8%, from Rs 4,60,426 crores in 2019-20 to Rs 4,15,279 crores in 2020-21. To put it into perspective, the loss of GST revenue was two percentage points higher than the decline in India's GDP (7.7%) in the same year.

The pandemic capsized all major states, which was manifested through a deceleration of TGST growth by 8.1 per cent, on average, between 2019-20 and 2020-21. Maharashtra (-14.6%), Tamil Nadu (-12.7%), Gujarat (-11.7%), Punjab (-11.5%), and Uttar Pradesh (-11%) are states with the highest decline in the TGST revenue. On the other hand, states with minimal decline are Odisha (-1.8%), Bihar (-2.2%), Chhattisgarh (-3.4%), and Haryana (-4.2%).

**Table 2:** TGST revenue collection of states

st_code	Rs Crore			Per cent change in		
	2019-20	2020-21	2021-22	FY21/FY20	FY22/FY21	FY22/FY20
	-1	-2	-3	-4	-5	-6
AP	19780	17847	23234	-9.8	30.2	17.5
AS	8521	8038	10152	-5.7	26.3	19.1
BR	15301	14970	18389	-2.2	22.8	20.2
CT	7625	7362	8931	-3.4	21.3	17.1
GJ	34721	30664	45769	-11.7	49.3	31.8
HR	18855	18069	23812	-4.2	31.8	26.3
JH	8153	7383	9146	-9.4	23.9	12.2
KA	42175	38205	51094	-9.4	33.7	21.1
KL	19390	17669	22578	-8.9	27.8	16.4
MH	82966	70870	100475	-14.6	41.8	21.1
MP	18768	17301	21516	-7.8	24.4	14.6
OD	13008	12768	16291	-1.8	27.6	25.2
PB	12699	11241	15542	-11.5	38.3	22.4
RJ	21619	20010	27117	-7.4	35.5	25.4
TN	40142	35032	46329	-12.7	32.2	15.4
TS	23411	22300	29230	-4.7	31.1	24.9
UP	46407	41291	53642	-11	29.9	15.6
WB	26884	24258	30487	-9.8	25.7	13.4

Note: Same as Table 1.

Comparing SGST growth with TGST growth between 2019-20 and 2020-21 reveals that loss of TGST is less than SGST revenue. Whereas states on average lost 9.67% of SGST revenue, TGST revenue declined by 8.1%. The total collection of 18 states declined by 11.1% for SGST revenue and 9.8% for TSGT revenue. The less decline in TSGT compared to SGST collection can be attributed to higher IGST collections, mainly IGST revenue from imports.

### **2021-22: The story of GST recovery**

The second wave of the pandemic began in March 2021 and continued till the end of May. It is worth remembering that the second wave was much more devastating than the first wave, with shortages of vaccines, hospital beds, oxygen cylinders, and other medical supplies in many parts of the country. Although a nationwide lockdown was not imposed in India, 35 of 36 of India's states and union territories had some form of state-wide and localised restrictions. As a result, the severity of the pandemic reduced thereafter and accordingly, phased unlocking was announced starting in June in Delhi, Tamil Nadu, Maharashtra, Uttar Pradesh and a number of other states. Things started getting better for the states.

Two major events took place simultaneously in 2021-22. First, as the economy opened up slowly, travel and mobility resumed, and thus, aggregate demand started rebounding. After the easing of Omicron-related curbs by various states, people started going out to relieve their pent-up emotional demands and engaged in 'Revenge shopping'<sup>1</sup>. Second, the mass vaccination program started in all states in May 2021. India had administered about 1.4 billion doses of vaccine to its population by December 2021. According to Health ministry data, 95% of India's adult population was given the first dose of the Covid vaccine, and 74% were fully inoculated by January 2022.

These two measures aided the Indian economy in its revival. A press release by the Ministry of Finance stated that because of the receding of the COVID second wave, fast-paced vaccinations, and enhanced mobility, India's economic recovery gained impulse in September. And this was reflected in better GST collection, which started picking up in August 2021.

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<sup>1</sup> Revenge shopping implies consumers making up for lost time with an increase in spending.

### **SGST revenue in the post-pandemic year**

A glance at Table 1 indicates that 2021-22 was a year of recovery for the states in terms of SGST revenue. The aggregate SGST collection of 18 major states increased from Rs 2,52,932 crores in 2020-21 to Rs 3,19,826 crores in 2021-22. i.e., a growth rate of 26.4 per cent. The state-wise average increase in the SGST collection was 25 per cent. No states exhibited a downward bend in the growth of revenue collection in 2020-21. Odisha was an outlier with a growth rate of 53.7 per cent. Other top states in terms of performance are Gujarat (32.66%) followed by Maharashtra (32.3%). Meanwhile, Madhya Pradesh (14.8%) and Kerala (18.7%) were the states with the lowest growth.

### **TGST revenue in the post-pandemic year**

Following the SGST collection, the TGST collection of states witnessed a strong recovery in 2021-22. The combined collection of major states increased from Rs 4,15,279 crores in 2020-21 to Rs 5,53,735 crores in 2021-22. This translates into a record increase of 33.3 percent from the previous year. Table 2 shows that, on average, the TSGT revenue of major states upsurged by 30.7 percent from the previous year. All the major states were able to increase their TGST by at least 21 percent. Gujarat (49.3%) and Maharashtra (41.8%) raised their TGST collection by more than 40 percent. This is because of a huge increase in IGST revenue remittance to these states. On the other hand, Chhattisgarh and Bihar recorded the lowest increase in TGST collection, 21.3% and 22.8%, respectively.

As discussed earlier, factors such as faster and mega vaccination drive, unlocking of the economy, and resumption of mobility coupled with economic recovery contributed to this revival of revenue collection. Besides this, higher compliance, along with the use of data analytics and assault on ITC frauds, has a positive impact on the GST revenue of states. Needless to say, these factors contributed to observed disparity among states' recovery.

### **Is the recovery complete?**

Comparing the revenue collection of 2021-22 with 2020-21 suggests that there was a revival in revenue collection. But was the growth in 2021-22 enough to compensate for the loss in 2020-21? Stated otherwise, were the states able to surpass the revenue collection of the pre-pandemic year collection? If yes, by how much? Did they make up the loss of revenue growth

in 2020-21? This section examines to what extent major states have exceeded pre-pandemic level collection. Accordingly, we compare revenue collection in 2021-22 (the recovery year/post-pandemic year) over 2019-20 (the normal year/pre-pandemic year).

With respect to State GST (SGST) revenue, all the states under study were able to outstrip the revenue collections of the pre-pandemic level (2019-20). Column 6 of Table 1 exhibits the percentage change in SGST revenue in 2021-22 compared to 2019-20. Between the two years, the combined SGST revenue of all states increased by 12.4 percent, from Rs 2,84,649 crores in 2019-20, the pre-pandemic year, compared to Rs 3,19,826 crores in 2021-22. States that have beaten the 2019-20 level with superior growth are Chhattisgarh (22.2%) and Gujarat (20.0). In contrast, Bihar, despite its spectacular growth in 2021-22, could better its pre-pandemic collection only by 4 percent. Other states with marginal increases are Kerala (4.6%) and Madhya Pradesh (6.7%).

States, on average, surpassed the pre-pandemic SGST collection by 13 percent in 2021-22. However, there exists a wide diversity in the revenue revival of states. Odisha was a distinct outlier with a record 46.3 percent growth in SGST collection.

While it is observed that the recovery of SGST of states has been uneven, it remains to see how the Total GST collection has recovered. The total collection of TSGT revenue grew 20.3 percent in 2021-22 compared to 2019-20, the pre-pandemic year, from Rs 4,60,426 crores to Rs 5,53,735 crores. The noteworthy point is that all states were able to increase their TGST collection significantly, i.e., at least by 12 percent between 2019-20 and 2021-22 (Table 2). Further, the average growth rate of states' TGST collection in 2021-22 over 2019-20 was 20 percent. This indicates that all states have regained the lost revenue in 2020-21 and improved their collection significantly over the pre-pandemic level.

States like Gujarat (31.8%), Haryana (26.3 %), Rajasthan (25.4%), Odisha (25.2%), and Telangana (24.9%) were able to increase their collection by around 25 percent. Among the underachievers, Jharkhand (12.2%), West Bengal (13.4), and Madhya Pradesh (14.6%) exceeded TGST revenue of 2019-20 comfortably in 2021-22.

It is noteworthy to mention here that there exists a wide disparity among states in the recovery of SGST revenue in 2021-22 compared to the pre-pandemic year (2019-20). Eight states have beaten the 2019-20 revenue by less than 10 percent. The standard deviation of

growth rates is 9.6 for SGST. But for the TGST revenue, such a wide variation in recovery is absent, with a standard deviation of 5.3. Instead, all states have exceeded the revenue of 2019-20 by at least 12 percent.

Comparing column 6 of Table 1 with Table 2 throws up an interesting fact. Excluding Odisha, the average growth of SGST revenue in 2021-22 over 2019-20 was around 11 percent. That is to say, SGST revenue outgrew the revenue of 2019-20 (the pre-pandemic year) by 11 percent. But the growth in TGST revenue was close to 20 percent. This extra growth of 9 percentage points in TGST revenue came from growth in the IGST remittance revenue. Recall that IGST is levied on the inter-state supply of goods and services and import of goods and services. This suggests that by 2021-22, the supply chain management has been restored across states, and inter-state transactions were at full pace.

Our analysis suggests that though the states have surpassed the pre-pandemic level of collections, it would be early to say whether the momentum in GST revenue recovery will continue and whether it reflects the accurate picture of State GST (SGST) revenue growth. It is because 2021-22 was a year of pent-up demand and revenge shopping, weddings and tourism revival. Thus, the correct picture of State GST revenue growth will begin once people exhaust pent-up demand and revenge tourism.

## **Conclusion**

Analysis of 18 major states clearly shows that each state, on average, suffered a loss of total GST revenue by 8.1 percent in 2020-21 over 2019-20 on account of the onslaught of the COVID-19 pandemic and subsequent nationwide lockdowns. However, following faster vaccination, easing lockdowns, and recovery of travel and mobility services, GST collections started to recoup in 2021-22. On average, each state registered a growth of 30.75 percent in 2021-22 compared to 2020-21. This suggests that most of the states have recovered from the pandemic shock.

Further, analysis of revenue collected in 2021-22 over 2019-20 (the pre-pandemic year) suggests that no states stand below the pre-pandemic level of revenue collection, either in the case of SGST collection or TGST collection. However, there is wide variation in the recovery of SGST collection across states but not in the case of TGST revenue. One major reason is the recovery of the economy and, thereby, an acceleration in the consumption of the people.



A recent SBI study quoted that 8 percent of the increase in GST revenue is attributed to inflation.

Besides the economic rejuvenation, better governance of GST also plays a dominant role here. E-invoicing has helped in reducing input tax credit abuses to an extent. Similarly, better reporting coupled with greater compliance and economic recovery had a positive impact on GST revenue.

As mentioned in the beginning, the recent monthly collections have been robustly growing and display high buoyancy. Although the statistics give a positive signal of recovery during 2021-22 for the states, the end of the GST compensation period is expected to hit the states' revenue collection. However, the only silver lining is that the monthly collections in this fiscal year have been growing at a robust pace and are expected to reduce the impact of the expiration of GST compensation. However, some big states continue to grow at a lesser rate and are expected to suffer a loss because of the non-extension of the GST compensation beyond July 2022. Notably, the fact that two years (2020-21 and 2021-22) were Covid affected and states' revenue dried up, and expenditure shot up, extending compensation for a minimum of two years would help stabilise the state economies.

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