Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: About GST; reasons for delays in compensation to states

News: Goods and services tax (GST) collections exceeded the Rs.1 trillion mark for the second straight month in December, bringing some relief to policymakers fighting to boost consumption and liquidity in a slowing economy.

- Central and state governments together collected Rs.1.03 trillion in December, 9% more than what was collected in the year earlier. With an improvement in the performance of a number of leading indicators, including core sector industries, auto sales and non-oil merchandise exports, experts expect factory output to report modest growth in November after having contracted since September.

Background

- India’s GDP growth decelerated to a six-and-a-half-year low of 4.5% in the September quarter amid slowing domestic and external demand.
- Declining GST receipts in the past few months had led to tension in Centre-state relations as some states complained about a delay in payment of GST compensation from the central government.
- Tax cuts and exemptions granted in several rounds since the rollout of GST have made it revenue-deficient rather than revenue-neutral, as was originally planned. Tax cuts on consumer goods have also led to a situation where businesses are paying more taxes on raw materials than on finished products and subsequently claiming the excess paid as refunds.

GST collections across states and UTs

Among major states and Union territories (UTs) that recorded a substantial jump in gross domestic GST collections are Assam (33%), Maharashtra (22%), Tamil Nadu (19%), Gujarat (18%), Delhi (18%), Kerala (17%), West Bengal (16%) and Madhya Pradesh (16%). The under-performers include Jharkhand (-3%), Odisha
(2%), Goa (6%) and Rajasthan (10%).

Way ahead

- GST collections crossing ₹1 trillion for the second month in a row and a 16% growth on domestic transactions vis-à-vis December 2018 is a positive development. It seems that efforts of the government, like restriction on availing of unmatched credits, to plug GST evasion is bearing results.
- Finance ministers of central and state governments are likely to discuss restructuring GST slabs and rates as well as ways to handle a revenue shortfall and the GST compensation to states in the year starting 1 April after the Union budget is presented on 1 February.