

GST AS A MAJOR SOURCE OF PUBLIC FINANCE AND IMPACT OF COVID - 19 ON GST COLLECTION: A STUDY OF PRE-POST LOCKDOWN.

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Abstract

In the first half of 2020, the whole world gripped in the hands of highly contagious COVID-19 Vi-rus which pushed the governments across world to imposed unexpected and harsh measures such as lockdown to limit the spread of the coronavirus. As a result, all types of commercial activities hampered badly. Business across the world experienced huge fall in their revenues and profits, in some cases, wiped out completely. However, service sector came up with Work from Home solu-tion but these measurements proved inefficient .These realities have led to a number of significant decline in Tax revenues to the government.

Tax revenues and economic activities are positively correlated. Higher growth in economic activi-ties implies positive revenue, on the other hand, lower growth dictates lower revenue growth. Consequently, tax revenues were adversely affected. The deterioration in tax revenues can be seen on both direct taxes impact has been significant on both direct taxes as well as indirect taxes, As soon as economic activities pick up the pace, tax collections are also expected to improve.

In India, the COVID-19 outbreak and nationwide lockdown severely dented the revenue collec-tions of states pushing them to look at possible revenue earning measures. At present, more than two-third of the economic activities are closed during the nation-wide lockdown. Services ac-counts for almost 60-70 per cent of GDP while manufacturing about 25 per cent. Both the activi-ties have been seriously hit in the lockdown pushing analyst to project India GDP growth at just 1-2 per cent in FY 2021.

Keywords: Goods and Services Tax (GST), Coronavirus disease (COVID-19)

GST collections is one of the prime sources of revenue for the states, strict imposition of nationwide lockdown compromised revenue to the states government which eroded as much as 80%-90% revenue in some cases in very first month of lockdown (March-April 2020).

Delhi, West Bengal, Assam, Andhra Pradesh are some examples which were heavily affected and same can be seen in their GST revenue collection. For instance, Govt. of Delhi witnessed collection of just Rs 300 in April month against normal monthly collection of Rs 3,000 crore.

Several other states were also worried about GST tax revenue shortfalls However, The Centre government of India had promised states of compensation for any shortage in their GST tax revenue collections till 2022, but this will not be that east as it seems as the pandemic has significantly affected overall tax collections putting a severe constraint on the central government finances. As of March 2021, the central government released around 1 trillion

rupees shortfall to the states which is around 96% of the estimates. . As per Morning Standard, states may face shortfall in GST revenue collection of around 3 trillion rupees in FY 2022.

The vaccination programme which is running in its full swing has brightened the chances of promising economic growth and there can be surety that Indian economy is expected to grow at slow and steady V-shaped recovery. GST collection of December 2020 stood Rs. 1.15 lakh crore which is highest since roll out of GST in July 2017. There has been lot of cheers in the Indian market. Equity market is continuously showing positive returns after massive crash in March 2020. This positive outlook in market is mainly accelerated due to new domestic investors and foreign investors on the basis of their underlying expectations that market will remain somewhat positive in 2021. Despite of all the positives indicators, economy growth is going to be uneven as employment outlook is very grim in the country as unemployment has risen to all time high level, record FOREX reserves are also indicating dismal import performance due to low industrial activities.

For now, some governments will continue to focus efforts on fighting the spread of COVID-19 whilst keeping their economies afloat, whereas others are starting to look to tax measures to stimulate the economy and further protect jobs (e.g., general VAT rate reductions or rate cuts targeted at specific hard-hit sectors, such as leisure and hospitality). As we look to the future, it is clear that the crisis has produced both profound suffering and enormous anxiety, and it has also resulted in a fundamental rethinking of many aspects of the daily lives of people around the world. In that respect, the crisis can be an action-forcing event for both policymakers and businesses to promote beneficial change throughout society.

Taxation has a part to play in this complex puzzle, and, from a VAT/GST perspective, governments may have an opportunity to improve the neutrality, proportionality, practical administrability and security of the tax to better deliver for their citizens. With respect to VAT/GST and in numerous other areas, the weeks and months ahead will reveal how governments, businesses and citizens respond to the moment.

LITERATURE REVIEW

Babu S (2019) in his research paper titled 'Consumers GST rates in India' found that implementation of GST will reduce the indirect tax burden on consumer in the long run. He further stated that, GST would be a great success, if tax rates are at moderate level. Although, there will be an increase in tax rates on various items but it may get cheaper on account of Input Tax Credit available. However, consumers have to make analysis of the tax rates before making

any purchase of goods or services. Rani S (2017) states that, GST implementation will simplify the tax structure of the country, ensuring 'Ease of Doing Business' which will ultimately contribute to 'Make in India' campaign. She further concluded that GST would provide relief to producers and consumers by simplifying the tax credit set off. Hence, GST will have a positive effect on business and Indian economy.

Mukherjee S (2020) studied the impact of withdrawal of GST compensation on the state finances beyond the transition period i.e. i.e. beyond 30 June 2022. She found that, revenue gap of the states would vary leading to loss of revenue. The major states to impacted are Punjab, Odhisha, Goa, Himachal Pradesh, Tripura etc. The states & centre have to formulate strategy to cover the revenue gap. The centre needs to prepare effective design of compensation cess after 30th June 2022 to maintain its authority over states.

Garg Y & Anand N (2019) studied the pre & post effects of GST on the pricing of the carpet & flooring Industry. They compared the past tax structure with the current GST regime in India and found that GST has reduced the Prices of the carpet & flooring Industry, which helps this industry to grow and face foreign competition.

Dani S(2016) states that proposed GST regime was a half-hearted attempt by Indian government to rationalise the indirect tax structure. She further stated that before implementing GST that the government should consider and evaluate the threshold limit, revenue rate, Compensation cess, inclusion and exclusion of products like petroleum, electricity, liquor and real estate.

Paliwal, U. L., Saxena, N. K., & Pandey, A. (2020) have studied the impact of GST on tax revenue by adopting a Tax Buoyancy approach. The study was analysed by using semi logarithmic ANOVA regression model considering VAT and GST as dummy variables. They found that GST has reduced the tax burden on consumers and corporate but revenues from GST are less responsive to the changes in GDP. Therefore, the Indian government needs to plan effective policy for revenue generation.

Garg Y & Gupta J (2017), states that implementation of GST would bring down the cascading effect on the final consumers by reducing the cost of goods & services and would integrate India with other economies of the world.

OBJECTIVES

The broad objectives of this study are

- To study the growth patterns in GST collection post covid.

- To find out the impact of COVID lockdown on GST collection

HYPOTHESIS

The following Hypothesis is drawn on the basis of above mentioned objective:

- Null Hypothesis (H_0) There is no impact of COVID 19 on GST collection
- Alternative Hypothesis (H_1) There is adverse impact on GST collection after COVID 1

DATA AND METHODOLOGY

For the present study, the secondary data of states indirect tax revenue is collected from the official website of the government. (Ministry of Finance Govt. of India). The data consist of monthly observations. From April 2019 to September 2021 where April 2020 to September 2021 is considered as COVID time period. The study is descriptive in nature and the analysis of data is done by using the multivariate regression

The most appropriate model for estimating the Monthly Compound Growth Rate (ACGR) or the exponential growth rate is the semi-log growth equation (Gujarati, 1995).

Semi-log equation:

$$\ln(DV)=\alpha+\beta T+\epsilon t \quad \text{.....1}$$

The model has been redefined to introduce dummy variable of COVID time period

$$\ln(DV)=\alpha+\beta T+ D + \epsilon t \quad \text{.....2}$$

Where GST collection is the dependent variable

T is the the time in month

D is the dummy variable of COVID perio

ANALYSIS

Month	GST Collection
April 2019	1,13,865 crore
May 2019	1,00,289 crore
June 2019	99,939 crore
July 2019	1,02,082 crore

August 2019	98,202 crore
September 2019	91,916 crore
October 2019	95,380 crore
November 2019	1,03,492 crore
December 2019	1,03,184 crore
January 2020	1,10,828 crore
February 2020	1,05,366 crore
March 2020	97,597 crore
April 2020	32,294 crore
May 2020	62,009 crore
June 2020	90,917 crore
July 2020	87,422 crore
August 2020	86,449 crore
September 2020	95,480 crore
October 2020	1,05,155 crore
November 2020	1,04,963 crore
December 2020	1,15,174 crore
January 2021	1,19,847 crore
February 2021	1,13,143 crore
March 2021	1,23,902 crore
April 2021	1,41,384 crore
May 2021	1,02,709 crore
June 2021	92,849 crore
July 2021	1,16,393 crore
August 2021	1,12,020 crore
September 2021	1,17,010 crore

(Source - Ministry of Finance - <https://pib.gov.in/PressReleasePage>)

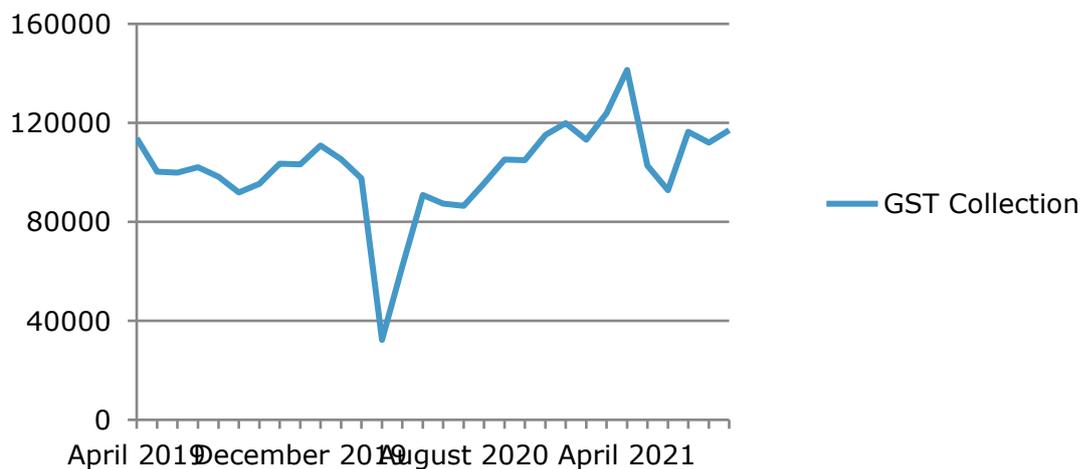
ANOVA table shows the significance of overall model as Significant F is less than 0.05. Adjusted R square of 0.29 indicates that 29 % variation is explained by the model. Compound Monthly growth of GST collection is 0.032 % as indicated by beta value of time period coefficient. The null hypothesis is rejected at 5 % level as indicated by significant coefficient

of dummy variable which -0.52%. Ait implies that there is negative effect of COVID- 19 on GST collection.

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	0.645043	0.322522	6.934045	0.003713
Residual	27	1.255844	0.046513		
Total	29	1.900887			
Adjusted square R		0.29			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	11.32374	0.083713	135.2693	9.01E-40
Month	0.031661	0.00861	3.677489	0.001032
Covid	-0.52207	0.152112	-3.43217	0.001944

GST Collection



From the Graph, it is clear that GST collection reduces in the month April,2020 but thereafter it started increases.

CONCLUSION

There is negative effect of COVID 19 on GST collection. Average monthly growth rate of GST is 0.032 %. Therefore, COVID 19 have negative impact on the the GST collection. The reason could be due to slowdown of business activity, there is reduction in the sales and GST. However the reduction in GST is temporary and event based. Infact after the reduction GST collection rises even at a faster rate. Hence, the impact of COVID- 19 is temporary and of short period.

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