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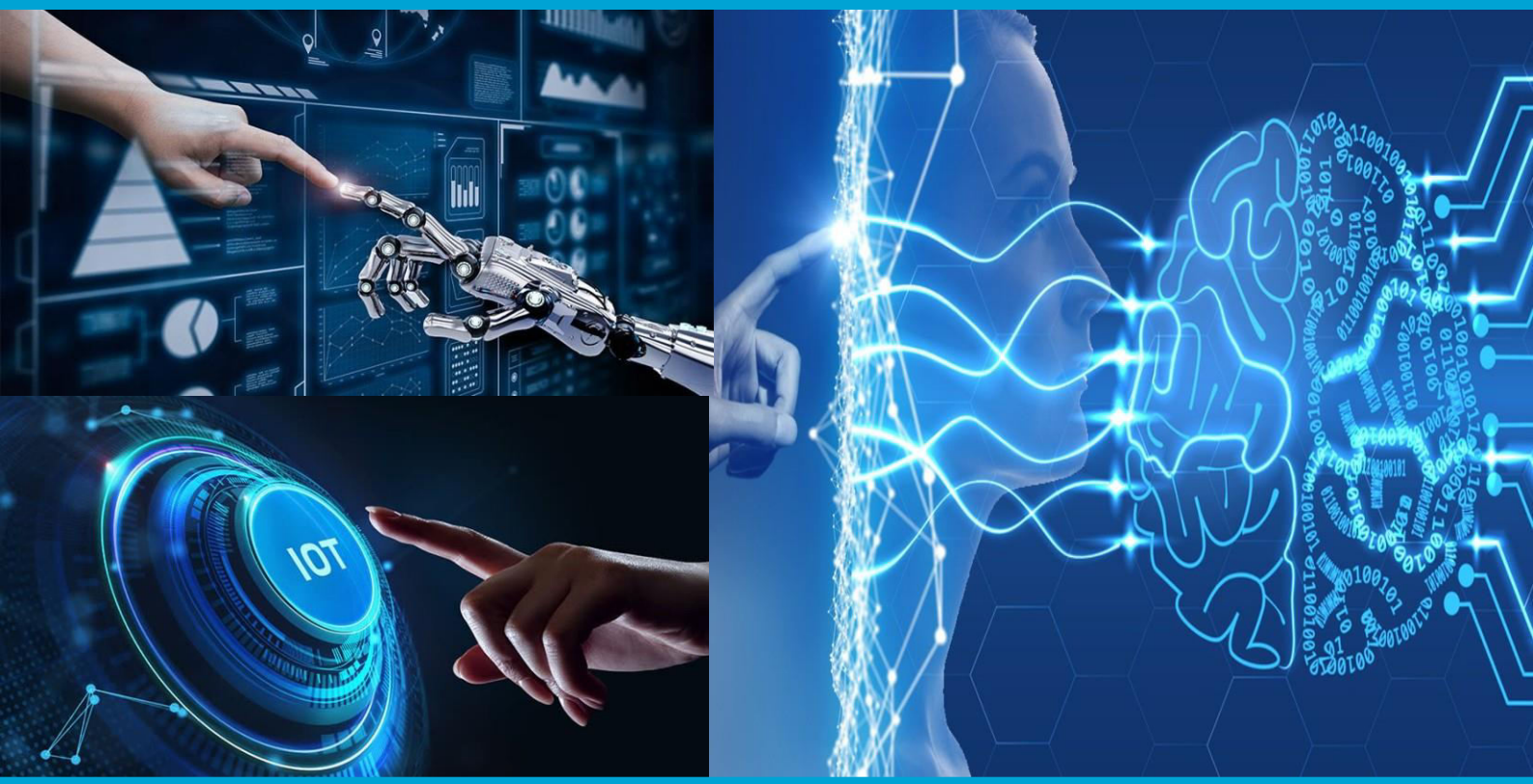

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Effect of Covid for Revenue of GST from Mumbai

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ABSTRACT: With the origin of COVID-19 in December, 2019 from China, the novel corona virus gradually reached all the countries of the world and has caused severe loss of human lives and damage to the economy of the country. The global economy has been shattered during this pandemic time. India is no exception and various sectors of Indian economy have witnessed severe pandemic consequences. Virus has affected GDP, employment, tax collections and various other aspects of Indian economy. GST which is a combined format of various indirect taxes in India is a significant indicator of economic activities important for the economy of the nation. The present study has been designed to analyze the impact of corona pandemic on GST collections and its effect for revenue form from Mumbai

KEYWORDS: covid-19, corona, GST, economy, employment, nation, Mumbai, pandemic, common man

I.INTRODUCTION

Mumbai: Comptroller and Auditor General (CAG) has stated that the Covid-19 pandemic, subsequent lockdowns and high spending to mitigate the virus had an unprecedented impact on the state's finances. Maharashtra's tax revenue in FY 2020-21 dropped steeply by 13.07%, capital outlay declined by 18.48% and market borrowings increased drastically by 51.59%. Mumbai: Comptroller and Auditor General (CAG) has stated that the Covid-19 pandemic, subsequent lockdowns and high spending to mitigate the virus had an unprecedented impact on the state's finances. Maharashtra's tax revenue in FY 2020-21 dropped steeply by 13.07%, capital outlay declined by 18.48% and market borrowings increased drastically by 51.59%. "Supplementary provision of ₹13,226 crore obtained during the year proved unnecessary as the actual expenditure on the grants (₹1,47,153 crore) did not reach the levels of the original provisions of ₹2,03,836 crore," the report stated in Mumbai[1]

It has also recommended that the state should assess and formulate a realistic budget based on reliable assumptions considering the needs and capacity of the departments and their capacity to utilise the allocated resources.
According to the officials from the finance department, the state finances went for a toss due to a drastic drop in the revenue receipts. "Not only in Maharashtra, but the crisis was faced by all states and even the central government in FY 2019-20 because of the pandemic and lockdowns. The situation improved in FY 2019-22 and the economy is now on a recovery path," the official said. The CAG has, however, hailed the state government for the number of attempts it took to contain the fiscal deficit below 3% keeping it at 2.69% in FY 2020-21. The revenue deficit increased to ₹41,142 crore in FY 2020-21 from ₹17,116 crore in 2019-20.[2]

The Covid-19 pandemic has led to an erosion of revenue collection for governments across the globe. Through this paper we study the impact of the Covid-19 first wave on the GST revenue collection and distribution in India as well as on the revenue collection of individual states of India.[3]

Our results provide evidence that there is a sharp decline and uneven distribution in the GST revenue in the months after the lockdown announcement. The months of April 2020 and May 2020 recorded the lowest GST revenue collection with a shortfall of Rs. 81, 571 crores and Rs. 38, 280 crores compared to pre-lockdown announcement period. Post September 2020, a rise in the revenue collection and stable GST revenue distribution is noted with the relaxation of lockdown measures and restarting of economic activity. The results of Wilcoxon signed- Rank Test signified that even after lockdown in India was introduced during the first wave, the impact of Covid-19 first wave on GST revenue collection of Mumbai [4]was not so significant as compared to last one year (i.e. March 2019 to February 2020) before the pandemic, but after combining the monthly GST revenue shortfall for the period after announcement of lockdown i.e., from March 2020 to February 2019 as compare to the period from March 2019 to February 2020 we found out that Indian economy has suffered an estimated GST revenue loss to the tune of Rs. 1, 67, 493 crores due to the first Covid-19 wave. When we analyzed the results of Paired Samples T-Test and Wilcoxon signed- Rank Test for individual small states, it is evident that small states like Manipur and Goa

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shows major setback in GST revenue collection between the pre and post lockdown period announcement as compared to the other small states. A total estimated GST revenue loss of Rs. 1, 995.19 crores is suffered by all the small states taken together. Amidst the large states, as per Paired Samples[5] T-Test there was no huge impact of covid 19 first wave on GST revenue collection one year before the pandemic and one year of pandemic but after taking into consideration the combined loss suffered by large states due to Covid-19 first wave was Rs. 1, 14, 432 crores. To conclude, the first covid 19 wave in India did not have a huge significant impact on GST revenue collection and distribution of the country, but the first wave have definitely put a big hole in government treasury which will take time to fill in future. Further the Government with the view of bringing the economy back on the path of recovery and to ease of the compliance burden of small and large tax payers during the 1st wave of pandemic announced the some relief measures like postponement of deadlines for filing of goods and services tax (GST) returns and related payments of GST, the interest rate for delay in payment of tax has been rationalized and a conditional wavering of late-filing penalties for delay in filing of GST returns in certain cases and extension of the date for certain tax procedural actions like filing objection with dispute resolution panel and appeals to commissioner, generally was postponed in Mumbai[6].

II.DISCUSSION

Unlike the governments of the advanced economies, that have significantly stepped up spending amidst the pandemic, India has been more cautious. Amid uncertain economic growth and tax revenues this year, financing the budgeted expenditure of Rs 30 lakh crore estimated in the Union Budget, 2020-21, as well as the announced Covid-19 fiscal package, will prove to be a challenge. Borrowing beyond Rs 12 lakh crore that is on the budget (initially Rs 8 lakh crore and subsequently increased by Rs 4.2 lakh crore) and the off-budget borrowing that was already in the works will be more difficult if domestic savings decline this year. Households are the net supplier of funds to the economy.[7] Household savings has been falling over the last few years. The savings rate has gone down from 23.6% in 2011-12 to 18.2% in 2018-19. The year on year growth rate of household savings fell from 17.6% in 2017-18 to 5.2% in 2018-19. In 2020-21, household savings may go down further as many households may need to dip into their savings to stabilise consumption amidst income uncertainties.[28] The government normally borrows from households and firms through various financial intermediaries such as banks, life insurance, small savings schemes, provident funds, and the bond market. The hit to incomes may mean that people may save less. They may borrow or may dip into existing savings[8]. The household sector consists of not only households but also household enterprises, or small firms in Mumbai. With lower production and sales, domestic household savings may decline. At the same time, domestic corporate savings will be used up to pay wages and salaries and maintain higher inventories in absence of a steady stream of revenue. This would result in lower corporate savings as well. Our analysis shows that based on an assumption of 5% contraction in real GDP in 2020- 21, and the same nominal expenditure of the Union government as stated in the 2020-21 budget estimates, we get a baseline fiscal deficit of 6.2% of the Union government. If we consider the alternate scenarios, then we get a range of fiscal deficit/GDP ratio from 5.6% to 8.1%, depending on the extent of tax revenue contraction.[9] Increase in government spending beyond the levels already announced would then mean an increase in the fiscal deficit[27] beyond the levels discussed above. This may be financed either if disinvestment revenue turns out to be higher this year due to additional efforts made to sell off Public Sector Enterprises in Mumbai. It may also be that the government receives a higher dividend from the RBI. Government's domestic borrowing has increased and the interest that the government pays to RBI on the bonds it holds will be higher resulting in higher profits of the RBI. In this paper we have not discussed the FRBM and how the present fiscal scenario will put the government off track on meeting its FRBM requirements. That now looks like a certainty and given the pandemic will likely be an acceptable stance. However, if the fiscal deficit is even higher and puts the government's debt trajectory on an unsustainable path, longer term considerations will come into play in Mumbai.[10]

III.RESULTS

India's vaccine policy has seen many twists and turns. Production of vaccines in India may be hobbled by the availability of inputs and vaccine shortage is likely to continue. At the current rate of vaccination, assuming no vaccine hesitancy, the target of vaccinating all adults in 2019 looks difficult to achieve. There are several irrationalities in the vaccination policy. For instance, allowing the private sector to vaccinate.[26] They are getting 25% of the available supplies but vaccinating little, which is leading to inequity. Recently, the Orissa government has asked the Centre to only allow 5% of the vaccines to the private sector which has hardly vaccinated anybody there. Pricing of the vaccines is another issue. There is suspicion of profiteering by private sector manufacturers. They of course claim that they have had to incur high capital costs to set up facilities and to do the necessary testing. But given the huge economies of scale and the very low cost of production of other vaccines, such as for

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polio, the price being charged appears to be high. The Supreme Court has called the government's pricing policy 'irrational' in Mumbai.[11]

Not lowering goods and services tax (GST) on vaccines is another "irrationality". It is in the hands of the government alone unlike other issues that are not entirely in its hands. So why is it reluctant to do so?[12]

The GST council has reduced the GST rates on several items and medicines related to COVID-19 but refused to cut GST on vaccines to zero. This has been demanded by various states and concerned citizens. The current justification for not lowering the tax is that companies will not be able to get input credit and that this will not help lower prices of vaccines in Mumbai.[13]

Those proposing the reduction of tax on vaccines however suggest that this will lead to lowering of the prices of vaccines. GST is an indirect tax and a cut in its rate on any item should lead to a lowering of the price of that item. So, does GST work differently from other indirect taxes?[25] Why would a reduction in its rate at some point in the chain of production not lead to a lowering of the price of the final good or service? Could it be that the vaccine manufacturer will not get the input credit on vaccines if the GST rate is brought down to zero and, therefore, the price of vaccines will not fall? This particular feature of GST needs to be analysed.

It needs to be noted that the GST rate on drugs like Heparin and Remdesivir, on instruments like ventilator and pulse oximeter and on items like hand sanitiser, electric furnace and ambulances have been lowered. Further, on Tocilizumab, the tax rate has indeed been brought down from 5% to zero. So, is there a special problem with regard to bringing down the tax rate to zero only on vaccines?[14]

The Union government has also argued that it will buy the vaccine and pay the tax so that the public will get the vaccine free. The argument is that the tax burden will not fall on the public, so why worry?[24] But this is a strange argument. To whom will the government pay the tax? To itself. So, with one hand the government will pay the tax and with the other hand receive it. It will get counted on both the expenditure and the revenue side of the budget and the government's deficit will not be impacted. Only, there will be an additional administrative cost (however small) both for the producers and the government. So, there will be a net loss. The private sector will be buying 25% of the vaccines and pay the tax and this will get the government additional revenue. The well-off sections getting vaccinated in the private sector will bear this tax burden and that may be okay since it will be paid by the well-off and the businesses in Mumbai.[15]

So, is tax the major consideration? Then why reduce the tax rate on concentrators and oximeters which only the well-off can afford for personal use. After all, government hospitals are to give free treatment to the poor patients, so they would not have to bear the expense even if the tax rate was not reduced on these items. [23]

The private hospitals catering to the middle class and the well-off could pay the tax and charge their patients, mostly the well-off. So, there is an asymmetry in the government's argument when it reduces the GST rate on some items but not on vaccines.[16]

IV.CONCLUSIONS

A major reason for bringing in value-added tax (VAT) and later GST was to reduce/eliminate the cascading effect of tax on tax. This was to lower the effective tax rate on goods and services and thereby lower prices. But, if there is revenue neutrality at each stage then VAT will not lead to a decline in prices and GST is applied as VAT.[17]

Be that as it may, the idea underlying VAT is that in a chain of production, only the value added at each stage is taxed. So, the tax paid at the earlier stage which is included in the value of output is not taxed again. This is rather complicated to calculate and implement.

So, a simplified procedure is followed.[22] Calculate the tax on the value of output at each stage of production and subtract from it the tax paid at the previous stage. For example, A (vaccine manufacturer) buys Rs 50 of input from B to produce a vaccine and it carries with it a tax of Rs 5 paid by B. Then A will subtract Rs 5 from whatever tax is levied on the final vaccine. Assume that A adds another Rs 50 to make the vaccine so that her final

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price becomes Rs 100. Now if she is to pay 12% GST on it then she will calculate Rs 12 (on Rs 100) and subtract from it Rs 5 already paid on inputs. So, she will pay Rs 7 as GST. The government collects Rs 12 as the total tax at the two stages. A will charge the consumer Rs 107 for the vaccine in Mumbai.[18]

Note the consumer pays the entire Rs 12 as the tax collected. This is the nature of the indirect taxes – consumer bears the final burden even though the tax is paid at the various stages of production and distribution.[21] One of the principles followed under GST has been that essentials should be taxed at lower rates or at zero rate. So, wheat does not directly bear GST. Now, in a pandemic, vaccines are absolutely essential to control the disease. This has to be one of the highest priority. Otherwise, economic activity cannot fully resume and the danger of waves will keep lurking. So, the entire chain of production of vaccines should be taxed at 0%, including tax on imported inputs. Given the externalities associated with vaccination, it should be treated as a public good and made free for all citizens. The current differential pricing is leading to inequity.[19]

The government can help lower vaccine prices by lowering GST rate on it. There will be some loss of revenue but far more will get collected as the economy recovers faster. If this is accepted, there is a case for exempting the entire chain of vaccine production from taxes in Mumbai. [20]

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