PRESS MONITOR
Business Standard, New Delhi
Wednesday, 6th January 2021; Page: 9
Width: 21.89 cms; Height: 37.71 cms; a3; ID: 11.2021-01-06.85

GST's high point

More than recovery, better compliance has improved collection

Goods and services tax (GST) collection reached a record ₹1.15 trillion in December, witnessing a growth rate of 11.6 per cent over the same period last year. This is also the third consecutive month of collection in excess of ₹1 trillion. The increase is being seen as a sign of strong economic recovery but the data should be treated with caution. While economic activity continues to recover from the Covid-induced shutdown, the signals are mixed. For example, the latest reading on the purchasing managers' index (manufacturing) is encouraging but the same cannot be said for the core sector. Having recorded the lowest contraction in seven months (0.1 per cent) in September, the output of eight core industries, which have an almost 40 per cent share in the index of industrial production, slid by 2.6 per cent in November, thanks primarily to a drop in cement and steel. Similarly, railway freight rose in November but electricity demand was down.

There are several other reasons for higher GST collection. For instance, tax collection may be reflecting the festive demand, which may not sustain in the coming months — the December GST data reflects activity in November. Collection on imported goods went up by 27 per cent during the month, which may again be a one-off. Further, the government has taken several steps to strengthen the GST system, which may have resulted in higher collection. It launched a massive crackdown to curb evasion and has initiated action against about 7,000 entities. Besides, the government made electronic invoicing mandatory for companies with a turnover of over ₹500 crore in October. This has now been extended to all businesses above ₹100 crore turnover. It is also using other tools, such as data analytics, to curb tax evasion. The collections may have also benefited from a huge backlog as some tax payments for 2018-19 and 2019-20 were due by December 31.

The government's vigorous efforts to check evasion, which include action against some of the big companies, seems to be working and has increased tax collection. An improvement in the GST system would obviously take the collection to a higher base and contribute to economic recovery. The government has been fairly conservative in terms of spending in the current fiscal year. The expenditure of the Union government till November went up by 4.7 per cent against a budgeted increase of about 13 per cent for the full year. An improvement in tax collection will help push up expenditure and revive growth. Higher GST collection will also ease pressure on state government finances. But at this stage it is not clear as to what extent the collection has improved because of a reduction in evasion or an increase in economic activity.

In any case, it is important not to get carried away by year-on-year comparison. The data on economic activity will show a sharp rebound in the coming months, particularly from April, and should be carefully interpreted. In fact, instead of 2020-21, it would be more appropriate to compare the levels with FY20 in FY22. It would also be important for policymakers to ensure that the recovery is sustainable in the medium term. An improvement in the GST system and overall tax collection will allow the government to support growth without taking excessive fiscal risks.