COVID Hysteria in GST Collections

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Rajat Mohan

Senior Partner, AMRG & Associates

The outbreak of Coronavirus has caused a significant impact on day to day living of the common man, government coffers, and business operations. Though lockdown remains the only way to slow the spread, it will also continue to push economic operations to the brink.

Covid-19 will have a significant impact on various provisions under GST law such as deferring timelines for filing returns, waiver of late fee, reduction in levy of interest, eligibility of input tax credit on a provisional basis, e-way bill validity extension. We all know, GST collection is a good source of Government revenue but in the present scenario, the Country is struggling due to Covid-19 as the economy went down, factories are temporary shutdown, some business has been liquidated and unemployment is on a rising pace. Therefore, the GST collections are expected to see a sharp decline during the COVID period and it is also not expected to shoot back up anytime soon.

Gross GST revenue collection in the month of March is INR 975.97 Billion against a collection of INR 1053.66 Billion in February. The domestic transactions, as well as imports both, are showing a decreasing trend in the GST Revenue collection in March as compared to February.

Centre has already held over the monthly GST collection figures for the month of April and it is expected that such figures may not be shared till June, 2020. However, the Comptroller General of Accounts has released the monthly data for collections and reported a precipitous drop in tax collections.

The Central GST collected in April, stood at INR 5,934 crore, compared with INR 46,848 crore in the previous year for the same period. The compensation cesslevied on sin/luxury goods stood at INR 990 crore against INR 8,874 crore a year earlier. The reason for showing such drop is the extension given by the government for payment of taxes and filing of returns till the last week of June, 2020.

Impact on revenue collection - Sector wise:

Pharmaceuticals

China is the world's largest exporter of Active Pharmaceutical Ingredients (APIs) and major of India's total API requirement is met by imports from China. These active pharmaceutical ingredients are essential to a large number of pharmaceutical manufacturing companies in the country. Due to COVID 19 this will disrupt the supply chain which can be continuous over the next three to nine months from March, 2020 and thereby there is a decline in central Government's funds as IGST has to be paid at the time of import which has been halted in this pandemic. Domestic supply of medicaments in generally Nil rated under GST, thereby this payment of taxes on import would always accrue directly to the kitty of the central government. Thereby fall in imports is having an adverse impact on the tax collections.

Aviation

In the aviation sector huge number of international flights to and from India were cancelled during the pandemic. As well as domestic flights have been cancelled during the lockdown period i.e. from the last week of March 2020, leading to a sharp drop in the collection by airline companies, even on popular local routes. Practically speaking all the carriers are grounded under an order issued by Ministry of civil aviation dated 23.03.2020, leading to flattening of the tax collections from the aviation sector as well as complementary sectors like Online Air Travel Agents, vacation planning companies.

Tourism

India is big on cultural and historical tourism, attracting domestic and foreign nationals throughout the year. With the visas being suspended and tourist attractions being shut as per the Travel and Visa restrictions, the whole tourism value chain including hotels, restaurants, attractions, agents, and operators is expected to face losses worth billions. Experts believe the tourism industry is likely to take a massive hit, and it could end up crippling the industry for the foreseeable future. Hospitality sector may not be revived easily due to this pandemic and which is also eating up the coffers of every State Government. States like Rajasthan, Goa and Tamil Nadu that hinge on tourism would soon start facing the pressure of flattening revenue collections without any immediate expectation of revival.

Apparel & Textile

This is the second-highest employment generator after agriculture which offers jobs to over 18% of the total employment in the manufacturing sector across the country.

In urban centers across the country, apparel retailers and garment factories employ millions of semi-skilled and unskilled workers. Without export orders and a restarting of the economy, many will be either forced to shut shop entirely or inflict stringent cost-cutting measures. And even for those who are employed here, the option to work from home is largely impractical.

In some of the most backward districts of the country, the handloom sector which employs a significant and often forgotten labour force will also be forced to drastically reduce output, or cut wages to compensate for the decline in retail sales across the country. There is 12% GST rate in textile industry and due to a halt in the businesses, the government will have to bear a significant cut in revenues from the sector.

Automobile

The automotive industry comprises a wide range of companies and organizations and is one of the world's largest economic sectors by revenue.

In 2018, India was in Top 5 motor vehicle producing countries in the world, however now with a pandemic situation domestic procurement is down to zero. Forcing the manufacturers to shut shops, which is creating a ruckus in the entire supply chain. Auto-mobiles is placed in the top bracket of taxation for levy of GST (28%), together with an additional levy of Compensation cess of (1% to 22%). Thereby automobiles in India are taxed as high as 50% in many cases without the benefit of the input tax credit. Thereby giving a good support to the revenue collections in all the tax jurisdictions. Zero production would also mean zero tax collections by the government.

Real Estate

When working life gets resumed after COVID-19 lockdown, it is highly expected that the pricing and rates of real estate inventory will come down. Real estate companies with inventories of under-construction properties could be impacted by a fall in property prices. With the implementation of the RERA Act in 2017, all ongoing and new real estate projects across the country were required to be registered with respective State RERA Authorities. As on April 7, 2020, over 50,000 real estate projects have registered under RERA, 50% of which have been registered in Maharashtra.

Already ailing real estate sector is looking at the black year ahead, whereby they will have to weigh in odds of selling the inventory at greatly reduced prices to save upon on future liability of interest. Badly hit sector would impact collections in the local jurisdictions and the state of Mahrashtra is expected to be one of the worst-hit.

Conclusion

The worst-hit seems to be in the states such as Delhi, Assam, Andhra Pradesh and, Maharashtra that are expected to see a massive fall in GST collections. West Bengal is also facing a serious fall in tax collections as lockdown and Amphan have clogged the service sector as well as the manufacturing sector.

The businesses will take time to normalize the hysteria created by the pandemic, till then tax collections will be gravely affected. Also, the government has already extended the due date for filing of tax returns till the end of June 2020 and it would not be unreasonable to expect that a chunk of tax revenues for the quarter ending June 2020 would come in June only.

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