Dent on 2021 by COVID-19

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The rampant spread of COVID-19 outbreak across the borders has severely affected the whole world and triggered significant downside risks to the overall global economic outlook.

Due to lockdown, the economy has come to a stop and it may even take years to regain what has been lost. The crisis has caused an unprecedented collapse in economic activities over the last few weeks affecting the business of various industries.

In recent times, due to lockdown and deferment of tax compliances, GST revenue Collection has noticed a downfall. GST revenue collection in April 2020 fell down to approx. INR 50,000 Crores as compared to Feb 2020 collection of over INR 1 Lac crores. However, to curb its impact on the taxpayers the government has come up with several relief packages through various notifications & circulars.

GST collection can be directly linked to people's spendings and industrial production on a month to month basis. The real effect of the lockdown on GST revenue will be reflected in the revenue collections in May which would account for the business activity in the month of April.

The sudden stop has affected various sectors adversely. A pick-up even after the lockdown is lifted, will be slow and could have a protracted effect on GST revenue collection.

1. **Manufacturing Industry**: An acute shortage of workers due to the movement of migrant workers will have its impact on industrial production. This may increase cost of labour and consequently the cost of production. Further, the strict SOPs of the Ministry of Home Affairs for running factories is not helping the industry in bringing down the cost. All this will lead to a loss in productivity and consequently revenue collection in GST. Manufacturing Industry may face Obsolesce of stock or damage of stock due to perishable items and thus a reversal of ITC attributable to that stock. As per the estimation by United Nations Conference on Trade and Development (UNCTAD), the COVID-19 outbreak could cause global FDI to shrink by 5%-15%, due to the downfall in manufacturing sector coupled with factory shutdown.

2. **Service Industry:** The service sector contributes more than 50% to India's GDP. In India, the service industry is primarily a supportive industry that facilitates Manufacturing Industry and will not only have a direct but indirect impact of the pandemic. Cancellation of existing contracts and

downward revision in prices is a common phenomenon in the sector today. This will lead to the issuance of Credit Notes against tax invoice which may be litigated by the department for fulfillment of credit eligibility. ITC of spending on employee sanitization for making the office as per MHA guidelines is a grey area where all industries especially the service industry shall be cautious.

- **Aviation Industry:-** This industry faced a sudden halt in international and domestic flights due to the lockdown which otherwise would have been a peak season for travel during summer break. Even when the lockdown is lifted and permission is granted to aviation sector to operate it is likely that only people would cut down on all non-essential movements. Even optimistically, it may take at least a few months for the things to be back to normal for the industry. According to International Air Transport Assoscaition (IATA), airlines globally can lose in passenger revenues of up to $113 billion due to this crisis.
- **Hospitality & Tourism Industry:-** Due to lockdown extended all over India there is little revenue for April & May, 2020. The future after lockdown also remains bleak for the industry as people will avoid movement due to the scare of coronavirus. The ITC of the sale bills of this industry was mostly not available to the recipient either due to the issue of the place of supply or due to the consumption of food items, or becasuse of being an end consumer. As this industry will suffer it will have an impact on collection of GST revenue of the government. The World Tourism Organization (UNWTO) foresees international tourist arrivals declining by 1 to 3% in 2020 globally.
- **Telecommunication Sector:** - The Telecom Sector would be one of the few sectors which can grow in the aftermath of the pandemic. Now more and more employees are doing work from home, and would need superior internets and may create a market to be captured for Telecomm service providers.

World Trade is expected to fall by 13% to 32% in 2020 as this pandemic has disrupted normal economic activity and life around the world. Estimates of the expected flow of foreign currency in year 2021 are also uncertain. Exporters are toggling with the idea of long term effects of COVID-19 be assessed now or can be answered with time only.

Many global companies across the world tend to shift from China seeking to diversify their operations following covid-19 outbreak. India should take advantage of this scenario and make special provisions even in GST law to welcome such industries to the country.

The government has already granted various reliefs to support the industry during this pandemic. They include removal of late fee, deferment of GST returns, reduction of interest rates, deferment of E-invoice, QR code, Extension of exemption from IGST and Cess on imports etc. Most of these reliefs end on 30th June 2020 but the country is still reeling the effects of pandemic and need further support from the government. Government shall introduce special reduced tax rates for FY 2021 in order to shore up demand and assist the languishing industries.

It is expected that all these will only further worsen the GST revenue collection of the government. It may also consider a new Corona Cess on SIN goods or luxury items which can bring up some extra revenue for the government. However, it is a very subtle time where the government will have to create a balance between reliefs to aid industries and also find ways to increase its revenue collection.