

# States' revenues may cross pre-pandemic level

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High tax buoyancy, led primarily by fuel taxes, and increase in grants from the Centre under the Finance Commission package will help revenue growth of states cross the pre-pandemic level in the current fiscal, provided there is no third Covid wave, according to a report.

Given the higher prices of fuels, revenue from this segment is set to grow by 50 per cent to 30 per cent in the current financial year from 20 per cent it clipped last fiscal, even though the overall volume will fall, Crisil said in a report today.

The tax on fuels constitute 10 per cent of the rev-

enues of states.

Revenue of the top 10 states had plunged by 600 basis points (bps) last fiscal, but is set to exceed the pre-pandemic level this financial year, driven by higher tax buoyancy, rise in sales tax collections from petroleum products coupled with increase in grants following 15th Finance Commission recommendations, it said.

The assessment is based on projections for 10 large states ~ Maharashtra, Gujarat, Karnataka, Tamil Nadu, Uttar Pradesh, Telangana, Rajasthan, West Bengal, Madhya Pradesh, and Kerala ~ which account for almost 70 per cent of the aggregate gross state domestic product.

The key revenue compo-

## CRISIL FORECAST FOR FINANCIAL YEAR 2021-22

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nents of the states are Central taxes (25 per cent), state GST (21 per cent), Central grants (17 per cent), sales tax from petrol and alcohol (13 per cent). Non-tax revenues, excise duty, stamp duty and others make up the rest.

It can be noted that despite

petrol crossing the Rs 100 mark in many states and also diesel in some places, the Centre and the states have not lowered the taxes on these fuels. In fact, almost 65 per cent of the retail prices of these fuels are made up of VAT as petroleum products are not under

the GST.

Aggregate goods and services tax (GST) collections, which account for a fifth of the states' revenues, have recovered well in the fourth quarter of financial year 2020-21 as economic activity sprung back. The momentum con-

tinues this fiscal, with April and May collections averaging Rs 0.93 lakh crore (April being the highest ever at Rs 1.41 lakh crore), marking an 11 per cent growth over fiscal 2020 so far, it said.

While the second wave of the pandemic may moderate GST collections in June and July, Crisil said it expects a recovery in GST mop-up to the pre-pandemic levels by August.

Another factor that will provide a fillip to the states' revenues is sales tax. The price of crude has jumped to \$70 a barrel from \$60 on an average in fiscal 2020, leading to higher petrol and diesel prices.

That combined with the Rs 10-13 per litre increase in

Central excise duty imposed last year will increase the taxable value of fuel for levy of sales tax, which accounts for 10 per cent of states' revenues, the report said.

Most of these 10 states had hiked sales tax on fuel sales by 6-7 per cent or Rs 1.5-1.8 a litre last fiscal.

In addition to own taxes, the states have a share of the central taxes, which forms a quarter of their overall revenues. While the proportions are determined by the Finance Commission, the overall kitty is linked with GDP growth. This kitty, which declined 9 per cent last fiscal, should recover to pre-pandemic levels with a growth of 9-10 per cent this fiscal, in line with the Union Budget.