



Revenue Loss to States

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Why in News

According to estimates from the India Ratings and Research (a credit rating agency), the **Covid-19** lockdown has caused 21 major States to suffer a collective revenue loss of about Rs. 97,100 crore for the month of April.

Key Points

- **The lockdown caused disruptions** to production, supply-chains, trade and the total washout of activities in aviation, tourism, hotels and hospitality.
The disruption caused has taken place with such a speed and scale that even if the lockdown is lifted, economic activity is unlikely to normalise in near future.
- Although, during the lockdown, **nearly 40% of the economy was functional** as economic activities defined as **essentials** were allowed to operate.
This means that despite the lockdown **some amount of revenue did accrue to the states**. But despite this, the states faced significant revenue loss in April.
- The lockdown has a more **paralyzing impact on the states**, which have a **high share of own revenue** in the total revenue mix.
For example, for **Goa, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Tamil Nadu and Telangana** 65%-76% of their revenue comes from their **own sources**.
- Both Union government and State governments are struggling due to the dried-up cash inflow.
But the problems of the **States are more precarious** because of the actual **battle against the Covid-19 and the associated expenditure** being incurred by them.
- Under the current circumstance, there is a fair **amount of uncertainty** regarding the quantum and timings of the states' receivables from the Centre. Their own sources of revenue have also fallen to abysmally low levels.

- This is pushing states to adopt **austerity measures** and combine it with exploring new/more ways of generating revenues.
Austerity measures include action by a government to reduce the amount of money it spends.
- **Conclusion**
The situation may improve somewhat in May 2020 due to the easing of some restrictions–
 - Allowing the liquor sale.
 - Raising the excise duty on liquor.
 - Some states have raised VAT on petrol and diesel.

Note

- **Sources of State government revenue:**
 - States' Own Tax Revenue (SOTR),
 - Share in central taxes,
 - States' Own Non-Tax Revenue (SONTR)
 - Grants from the Centre.
- **States' own revenue** mainly comes from seven heads–
State Goods and Services Tax (SGST), State Value Added Tax (VAT)- mostly on petroleum products, **State excise**-mostly on liquor, **stamps and registration fees, vehicle tax, tax and duty on electricity, and own non-tax revenue.**

Source: TH