



Recent Trends in the Revenue Mobilisation of Kerala

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Abstract

This paper titled Recent Trends in the Revenue Mobilisation of Kerala is an attempt to examine the changing trends in the major revenue sources of Kerala during the time period of the 14th and 15th finance commissions. So the study covers a period of nine years starting from 2015-16 to 2023-24. The study examined the changing share of- if any- major revenue sources of Kerala during the period under consideration. The study found a decline of about three percent in the share of the central government's tax revenue to the state of Kerala in recent years. The withdrawal of GST compensation also adversely affected the state as it accounted for around 10 per cent of the own tax revenue of Kerala in 2022-23.

1.1 Statement of the Problem

The mobilisation of revenue is an important concern for many states under federalism where the responsibilities are divided vertically disproportionate to their revenue mobilisation capacity. The constitution makers also identified the possible disparities between states and between the centre and states. To address this appointment of a finance commission by the president of India every five years has become a constitutional mandatory. Even though there were not many differences between different commissions on the broader objectives of terms of references, the criteria used for the vertical devolution of the commission differ significantly. The criteria used by the 15th Finance Commission for the vertical devolution of the central government's tax share and distribution grants were always a bone of contention starting from its beginnings. The criteria used by the 15th Finance Commission are expected to affect adversely the demographically advanced southern states, especially Kerala. In this context, the present study is an attempt to understand the trends in the various revenue sources of Kerala during the 14th and 15th Finance Commission regimes.



There are studies like Kumary and Chakravartti (2020), Joseph and Kumary (2022), Mohan and Shyjan (2021) which examined the fiscal position of the states in recent times. Kumary and Chakravartti (2020) addressed the question “How has the observed recessionary trends at national and sub-national levels affected the state's fiscal position?”. For this, they have analysed the revenue, expenditure, borrowing and deficits of Kerala in comparison with the southern states of Andhra Pradesh, Karnataka, Telangana, and Tamil Nadu for the first half of the fiscal year 2020. Their study observed that the fall in the revenue receipts of the state needs to be compensated by sufficient grants in aid and increased share in central taxes to overcome the adverse effects of the COVID-19 pandemic. Joseph and Kumary (2022) examined the fiscal performance of Kerala during the first eight months of 2022. Mohan and Shyjan (2021) examined the tax performance of 14 Indian states for the period 1990-91 to 2018-19. the study divided the total period into four sub-periods and found that there was a consistent decline in the Own Tax Revenue to GSDP ratio for Kerala during all sub-periods. Since there are no studies that examined the trends in the revenue mobilisation of Kerala during the periods of the 14th and 15th Finance Commission, the present study is an attempt to fill this gap in the literature.

1.2 Data Source and Period of Study

To understand the trends in the revenue mobilisation of Kerala during the regime of two finance commissions, we have taken data from the data source of RBI named State Finances: A Study of Budgets. The study covers a period of 19 years for which the data is available for the 14th and 15th finance commission's recommendation periods.

1.3 Sources of Revenue of Kerala

Here we are trying to look into the revenue sources of Kerala. The total revenue of Kerala can be classified into tax and non-tax revenue. The tax revenue can be further classified into State's Own Tax Revenue and share in Central tax. Non-tax revenue comprises of State's Own Non-Tax Revenue and various grants from the Centre. Such an analysis is important because we would like to know how the Kerala state can run by using its own tax revenue and how much it depends on the central government.



Table 1.1 clearly shows that the share of states' own tax revenue lies between 56 to 60 per cent of the total revenue of the states and it has increased in recent times. Compared to the 14th Finance Commission period the states' share in the central tax has been decreasing. It has decreased from 18 percent in 2019-20 to 10.6 per cent in 2020-21. It is a serious concern for Kerala as there was an average reduction of 3 per cent in the share of Kerala in the central government's tax share during the periods of the 15th Finance Commission's recommendations.

Table 1.1: Decomposition of the Total Revenue of Kerala

Year	Total Revenue (I+II) (in lakhs)	I. Share of Tax Revenue in TR (A+B)	A. Share of State's Own Tax Revenue in TR	B. Share of Central Tax share in TR	II. Share of Non-Tax Revenue in TR (C+D)	C. Share of State's Own Non-Tax Revenue in TR	D. Share of Grants from the Centre in TR
2015-16	69,03,266	74.9	56.5	18.4	25.1	12.2	12.92
2016-17*	80,62,009	74.1	55.3	18.9	25.9	12.5	13.38
2017-18	83,02,014.40	76.2	58.0	18.2	23.8	13.5	10.27
2018-19	92,85,447.10	75.0	54.9	20.1	25.0	12.7	12.27
2019-20	90,22,467.30	74.0	55.8	18.2	26.0	13.6	12.45
2020-21	97,61,683.00	59.2	48.6	10.6	40.8	9.8	31.01
2021-22	1,16,64,024.00	65.3	50.0	15.3	34.7	9.0	26.16
2022-23*	1,29,26,815.10	68.1	54.3	13.8	31.9	11.9	20.07
2023-24**	1,35,41,867.30	75.7	59.8	15.8	24.3	12.6	11.72

Source: Compiled from the various issues of State Finances: A Study of Budgets, RBI
 *RE: Revised estimates **BE Budget Estimates

Another important point which can be seen from the table is that there are not many changes in the share of the State's Own Non-Tax Revenue in total revenue. It was centred on 12- to 13 percent during the study period. The central grant has also shown stagnating despite a sudden hike during the Covid-19 pandemic.



1.4 Decomposition of the State's Own Tax Revenue (SOTR) of Kerala

We have also done a most disaggregate analysis of the State's Own Tax Revenue (SOTR) in Kerala. Such an examination is essential to understand the item which contributed most to the tax revenue and also to understand the areas which need special attention from the policymakers.

Table 1.2: Decomposition of the State's Own Tax Revenue

Item	2015-16	16-17*	17-18	18-19	19-20	20-21	21-22	22-23*	23-24**
Share of Taxes on Income in SOTR	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Share of Taxes on Property and Capital Transactions in SOTR	8.18	7.42	7.89	7.98	8.23	7.98	9.41	9.62	8.57
Share of Taxes on Commodities and Services in SOTR	91.81	92.57	92.10	92.02	91.77	92.02	90.59	90.38	91.43
Share of Sales Tax / VAT in SOTR	78.82	78.94	51.03	37.68	39.05	37.55	38.55	35.57	35.35
Share of State Excise in SOTR	5.04	5.41	4.65	4.94	4.48	4.86	3.48	3.99	3.67
Share of Taxes on Vehicles in SOTR	7.22	7.29	7.61	7.27	7.39	7.44	6.92	7.55	7.23
Share of Taxes and Duties on Electricity in SOTR	0.15	0.35	0.14	0.12	0.13	0.13	0.12	0.11	0.71
Share of State Goods and Services Tax in SOTR	0.00	0.00	28.46	41.92	40.63	41.97	41.43	43.08	44.40
Share of Other Taxes and Duties in SOTR	0.59	0.58	0.21	0.07	0.08	0.08	0.10	0.08	0.07
Source: Compiled from the various issues of State Finances: A Study of Budgets, RBI *RE: Revised estimates **BE Budget Estimates									

Table 1.2 reveals that Taxes on Commodities and Services account for the major share of the State's Own Tax Revenue (SOTR). It accounts for more than 90 per cent throughout the study period. Property tax is the second item which constitutes only less than 9 percent in most of the years of our study. Before the implementation of GST, the sales/ Value Added Tax was the major item within the Taxes on Commodities and Services. Now State Goods and Services Tax (SGST) is the major item followed by VAT or sales tax.



1.5 Trends in Non-Tax Revenue

We have also looked into the major non-tax revenue sources of Kerala. Non-tax revenue consists of the state's own non-tax revenue and grants from the centre. As we see in the previous section the non-tax revenue accounts for around 25 per cent of the total revenue of the state. Of which the central grant is slightly higher than the own non-tax revenue. Since both of these are entirely different things we shall analyse each separately for the study period. The own total non-tax revenue of Kerala consists of interest receipts, dividends and profits, General services, and social and economic services. The state lottery comes under general services. Education, health, housing, and water supply are the major components of social services. The crop, animal husbandry, forest, fisheries and cooperation are the major components of economic services.

Table 1.2 clearly shows that General Services account for more than 80 per cent of the Own Total Non-Tax Revenue of Kerala. The share of social and economic services, dividends profits and receipts is negligible. Economic services are the second major component of the Own non-tax revenue of the states and it account for 10 percent of the Own Non-Tax Revenue. We have also looked separately at the share of state lotteries which is a component of general services. The table clearly shows that the state lottery accounts for more than 70 per cent of the non-tax revenue of Kerala.



Table 1.3: Decomposition of the Own Non Tax Revenue of Kerala

Year	C. State's Own Non-Tax Revenue (ONTR)	Share of Interest Receipts in Total ONTR	Share of Dividends and Profits in Total ONTR	Share of General Services in Total ONTR	Share of State Lotteries*** in Total ONTR	Share of Social Services in Total ONTR	Share of Economic Services in Total ONTR
2015-16	84,2549	1.2	1.1	81.8	74.4	5.1	10.84
2016-17*	1,00,5731	1.3	1.1	81.4	74.8	5.5	10.72
2017-18	11,19,961.1	1.3	1.1	85.9	80.7	4.3	7.40
2018-19	11,78,323.8	1.1	1.1	83.6	78.6	5.4	8.79
2019-20	12,26,522.1	0.7	0.8	86.9	81.3	4.3	7.23
2020-21	7,32,730.9	3.4	1.5	75.5	66.5	8.0	13.64
2021-22	10,46,250.7	1.7	2.2	81.0	68.2	7.4	10.66
2022-23*	15,35,498.7	1.0	0.8	84.9	75.1	5.2	8.14
2023-24 **	17,08,862.0	0.9	0.7	81.3	73.0	5.0	12.00

Source: Compiled from the various issues of State Finances: A Study of Budgets.
 *RE: Revised estimates **BE Budgetary estimates
 *** State lotteries are coming under General Services.

1.6 Decomposition of the Grants from the centre

The decomposition of grants from the centre is important because it consists of a number of items which affect the fiscal position of a state especially Kerala in a federal setup. The major items under this heading are grants for Centrally Sponsored Schemes, Finance Commission Grants, or previously Non-Plan Grants, and GST compensation. Up to 2021-22 RBI provided data under the heading of Non-Plan Grants and since 2021 it has been under the heading of Finance Commission Grants. Similarly, up to 2021 RBI provided data under the headings Statutory Grants and since 2021 it has provided data as post-devolution revenue deficit grants. Even though there may be differences in these two concepts we use these together to make certain comments on certain important variables admitting the data limitations. Similarly, there was no GST Compensation before 2016 as it was not implemented up to that period and there was no GST Compensation in the last year. The GST compensation was for a period of five years starting from July 2017 to June 2022. For GST compensation the financial year 2015-16 has been taken as base year and the growth rate of revenue of a state is assumed to be 14 per cent



during these five years. The withdrawal of GST compensation may adversely affect the state of Kerala as it accounts for 9.2 per cent of the own tax revenue of Kerala in the year 2022-23.

Table 1.4: Decomposition of the Grants from the Centre #

Item	2015-16	16-17*	17-18	18-19*	19-20	20-21	21-22	22-23*	23-24**
Total Grants from the Centre	89,214	1,07,901	85,278	1,39,718	1,12,353	2,88,776	3,00,171	2,59,405	1,58,660
Centrally Sponsored Schemes	35,580	58,326	32,136	69,477	32,627	33,664	38,010	33,889	82,123
Finance Commission Grants/Non-Plan Grants	51,774	48,061	53,147	70,240	79,726	2,55,112	2,21,711	1,59,220	75,919
Post Devolution Revenue Deficit Grants/Statutory Grants	50,327	46,601	31,820	19,322	23,430	1,80,490	1,98,910	1,31,740	47,490
GST Compensation	-	-	17,720	21,000	55,750	74,286	38,555	64,655	0

Source: Compiled from the various issues of State Finances: A Study of Budgets.
#: in Rs million, *RE: Revised estimates **BE Budgetary estimates

From the table 1.4 it is also clearly understood that centrally sponsored scheme is an important element where the grants from the centre goes. Revenue deficit grant was another important item which will also be curtailed as per the recommendations of the finance commission. The finance commission grants include revenue deficit grants, grants for rural and urban local bodies, grants for state disaster relief funds and other grants including health sector grants.

1.7 Conclusions

The present study examined the changing trends in the major revenue sources of Kerala during the time period of the 14th and 15th finance commissions. By analysing the changing trends in the revenue share of Kerala, the study found a declining trend in the share of the central government’s tax revenue. The study also found that the non-tax revenue accounts only a negligible share in the state’s total revenue recipes in which the lion’s share is coming from state lotteries. Since the GST compensation was around ten percent of the own tax revenue of Kerala,



the withdrawal of GST compensation may adversely affect the state's fiscal position which needs to be investigated in future research when the supporting data are released.

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