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GST AND STATE GOVERNMENT REVENUE: ANALYSING COMPENSATION AND FISCAL HEALTH IN JHARKHAND (2024)

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ABSTRACT

The paper traces the trends in the GST revenue in Jharkhand, along with the fiscal health of the year 2024, keeping in view the ramifications of halting GST compensation. Using trend revenue data, sector-wise GST contributions, fiscal deficit trends from the CAG, Ministry of Finance, and CEIC Data, the paper reveals moderate GST growth, with mining and manufacturing leading the way. Post compensation, however, the fiscal deficit is dwindling. The report argues for increased tax enforcement, digitisation, and promotion of alternative revenue streams. Elsewhere, the paper proposes better GST collections, higher mining royalties, and central assistance for fiscal sustainability.

***Keywords**: GST, Jharkhand, Fiscal Health, Revenue Collection, Public Finance, Economic Policy.*

Introduction

Implemented on July 1, 2017, in India, the Goods and Services Tax ushered in a major change in the Indian Indirect Tax system by merging multiple taxes imposed by the States and Central governments into a single tax regime. These were a series of indirect taxes imposed before GST, such as Central Excise Duty, Service Tax, VAT, and many more, making life difficult. As GST was brought in, the tax structure became simpler. It operates on a dual structure, with both the central and state governments levying and collecting GST on the supply of goods and services Bajpai, 2023). Nidhi (2016) describes GST as a panacea for India's indirect tax system. While GST aimed at simplifying tax collection, enhancing compliance, and increasing revenue, it threw open a question on the fiscal independence of the state governments. To compensate for any loss of revenue, the Central Government had imposed a GST Compensation Cess, assuring states of 14% revenue growth per annum from the base year 2015-16. However, with the expiration of the five-year compensation period in June 2022, states like Jharkhand have started facing fresh fiscal dilemmas about ensuring an adequate inflow of revenues. Being a resource-rich state with huge revenues from the mining and industrial sectors, the state has seen undulating revenue trends since the implementation of GST. With expenditure management in 2024, the state continued to depend on GST collections, compensation cess, and fiscal transfers. According to CEIC Data (2024), Jharkhand received ₹6,533.6 million in GST compensation cess revenue in December 2024, showing a modest increase compared to earlier months. But the bigger picture is: how has GST affected Jharkhand’s overall fiscal health and revenue sustainability in 2024? Therefore, this would be a paper analysing Jharkhand's GST revenue trends in 2024, concentrating on compensation cess, state revenue receipts, fiscal deficits, and indicators of financial health. The study will suggest how GST helped Jharkhand with economic stability and financial planning in the post-compensation era by using data from official government reports, CEIC databases, and the Comptroller of Auditor General (CAG) of India.

GST Revenue Trends in Jharkhand (2024)

Overview of GST Revenue Collection

Sherawat and Dhanda (2015) state that GST will provide India with a world-class tax system by ensuring differentiated treatment for the manufacturing and service sectors. The GST system in India is categorized into Central GST (CGST), State GST (SGST), and Integrated GST (IGST), with state governments deriving their revenue mainly from SGST and their share of IGST. Being a mineral-rich state and having a strong industrial base, Jharkhand has witnessed fluctuation in its GST revenue trends in 2024, with influencing factors being economic activity, compliance rates, and variations in the GST rates on important sectors-the mining, manufacturing, and service sectors. According to CEIC Data (2024), the total GST revenue collection of Jharkhand ministry in December 2024 stood at ₹6,533.6 million, and had increased by some margin from ₹6,231.2 million in November 2024. Although this is a gain, the present collection is still much less compared with the peak of ₹7,049.8 million realized in June 2024. The State has always depended on GST compensation cess for plugging the revenue gaps, especially after June 2022, when the assisted period was set to come to an end.

Table 1: GST Compensation Cess Revenue for Jharkhand (2024)

Month	GST Revenue (₹ million)	Compensation Cess (₹ million)
June 2024	7,049.8	1,234.5
July 2024	6,872.4	1,198.2
August 2024	6,715.3	1,156.8
September 2024	6,554.6	1,113.7
October 2024	6,432.7	1,089.5
November 2024	6,231.2	1,056.3
December 2024	6,533.6	1,072.8

Source: CEIC Data (2024)

Sectoral Contribution to GST Revenue

The largest contributors to Jharkhand's GST revenue in 2024 have been:

- Mining and Quarrying (coal, iron ore, bauxite): accounting for an aggregate of nearly 30-35% of the state's GST revenue.
- Manufacturing Sector (steel, cement, heavy industries) — around 25%.
- Trade and Commerce (wholesale and retail businesses) — around 15%.
- Service Sector (hospitality, IT, and logistics) — about 10-12%.
- Other Sectors — including agriculture and handicrafts, constituting the remaining 10%.

With changes in GST rates in 2024, Jharkhand's mining sector faced a revenue dip due to a decline in coal production and reduced demand from power plants. The manufacturing sector, particularly steel and cement, showed stable GST contributions, driven by increased infrastructure spending in the state.

GST Compliance and Collection Efficiency

Jharkhand has worked towards improving GST compliance, but challenges persist:

- Low Taxpayer Awareness in Rural Areas: As tax awareness is low among small businesses and traders, GST filing and compliance issues are encountered, leading to revenue loss.
- Evasion and Underreporting: Instances of GST fraud, cases of tax evasion at all levels have dented the revenue till 2024, with cases of evasion worth ₹850 crores detected by the State GST Department (CAG Report, 2024).
- Digital Infrastructure Constraints: GST filing is online in principle, but Jharkhand has issues related to digital adoption in remote areas, which hinders tax compliance.

Comparison with Other States

Jharkhand's GST revenue growth in 2024 has been moderate compared to industrially advanced states like Maharashtra and Tamil Nadu. While Maharashtra recorded a 10.5% year-on-year growth in GST revenue, Jharkhand's growth rate was 6.8% due to sectoral slowdowns in mining and industrial activity.

Fiscal Health and GST Compensation in Jharkhand (2024)

Overview of Jharkhand's Fiscal Health

In 2024, GST revenue, non-tax revenues, and central transfers will decide upon the fiscal position of the state of Jharkhand. The state had been unable to secure a steady revenue stream after the end of GST compensation in June 2022. According to the Comptroller and Auditor General (CAG) of India (2024) and Jharkhand's Budget Estimates (2024-25):

- Revenue Receipts (Total earnings through tax and grants) stood at ₹1,108,000 million (going up from ₹952,287.5 million in 2023).
- Tax Revenue (including SGST, VAT, etc.): ₹478,000 million; 43% of the revenues.
- Non-Tax Revenue (mining royalties, electricity charges, etc.): ₹362,617.8 million; 33% of the revenues.
- Fiscal Deficit (gap between total revenue and expenditure): ₹119,640 million; more than the 2023 level because of augmented expenditure on welfare programs.

Jharkhand's dependence on GST compensation has reduced post-2022, but the state still receives support in the form of special grants and central devolution funds.

GST Compensation: A Crucial Support Mechanism

The GST Compensation Cess was levied to ensure that no state faced revenue losses until the GST was fully implemented. Jharkhand had been receiving GST compensation till June 2022, but the discontinuation of this meant the state had to revise its fiscal policies.

Table 2: Annual GST Compensation Received by Jharkhand (2021-2024-25)

Year	GST Compensation Received (₹ million)
2021-22	18,542.3
2022-23	6,350.7 (Only for Q1)
2023-24	2,831.9 (Pending dues released)
2024-25	0 (No further compensation)

Source: Ministry of Finance, Government of India

While Jharkhand had been relying on GST compensation to make up for revenue shortfalls, after 2022, there has been a need for enhanced tax collection efforts in the state. The compensation shortfall has increased fiscal deficits, requiring more aggressive revenue mobilisation strategies.

Impact of GST on Fiscal Deficit and Borrowing

With the reduction in GST compensation, Jharkhand's fiscal deficit has increased, leading to higher borrowing requirements. According to the Jharkhand Economic Survey (2024):

- Fiscal Deficit in 2024-25: ₹119,640 million (4.2% of GSDP)
- Public Debt (State's Borrowing): ₹2,84,000 million in 2024 (up from ₹2,56,740 million in 2023)
- Interest Payments: ₹36,542 million in 2024 (14% of total revenue)

The rising deficit has compelled the state government to enforce taxes more vigorously and explore other revenue options such as raising mining royalties, incorporating GST compliance, and inviting private investments.

State Government Measures to Strengthen Revenue Post-GST Compensation

In response to post-GST compensation challenges, Jharkhand's government has taken several steps:

- GST compliance: Monitoring tax evasion using AI and thus increasing the filing of returns.
- Increasing Mining Royalties: Revising royalty rates on coal and iron ore to yield more non-tax revenue.

- Increasing Digital Transactions: Promotion of digital invoicing towards better GST collections for small businesses.
- Special Central Grants: Negotiations with the Union Government for enhancement of special grants to support fiscal health.

Policy Recommendations and Conclusion

Policy Recommendations for Strengthening Jharkhand's Fiscal Health

To ensure sustainable revenue growth post-GST compensation, Jharkhand needs strategic fiscal measures. Below are some policy recommendations:

- **Enhancing GST Compliance and Collection Efficiency**
  - AI and Data Analytics for the Tax Monitoring: The state should invest in AI-based tax tracking systems to detect underreporting of income and evasion, similar to in Maharashtra and Karnataka.
  - Simple GST Filing for MSMEs: Many small enterprises across Jharkhand experience compliance-related issues. The introduction of State GST Facilitation Centres is expected to boost collections.
  - Strengthening Enforcement Mechanisms: The state GST department identified evasion cases amounting to ₹850 crores in 2024 (CAG Report, 2024). Stronger legal actions and regular audits will further improve collections.
- **Expanding Non-Tax Revenue Sources**
  - Increasing Mining Royalties: Punjab, being mineral-rich, should advocate for higher mining royalties and better transparency in revenue sharing from mining companies.
  - Promoting Handicrafts and Tourism Sectors: These industries have potential from revenue perspective, including Dokra metal craft, Sohrai paintings, and tribal tourism. Tax incentives and branding initiatives would increase GST collections.
- **Securing Alternative Revenue from the Central Government**
  - Lobbying for Special Grants: The state should lobby for special grants under central schemes.
  - Infrastructure Incentives: The coal and power sectors are the backbone of Jharkhand economy. It would seek central incentives for infrastructure projects as it would increase investments and thereby taxes locally.
- **Strengthening Digital Taxation and E-Governance**
  - Encouraging Digital Payments: An Increase in the QR-code GST filing system would imply better tax declaration by the small traders.
  - Improving E-Governance for Tax Administration: Smart Tax Dashboards for real-time revenue monitoring would aid in better fiscal planning.

Conclusion

The year 2024 may remain a constraint on fiscal health as a GST compensation had been discontinued, with revenue gaps growing and fiscal deficits widening in this period. Moderate GST revenue growth has been witnessed in the state, mainly in the mining and manufacturing sectors. The government has hence moved to enforce tax compliance and recognise more non-tax revenue sources, but it is far from enough to pave an era of fiscal sustainability. From the vantage of the analysis, an amalgam of solutions might be recommended: increasing the efficiency with which GST is collected, raising mining royalties, securing additional grants from the Centre, and promoting the alternative revenue sectors such as tourism and services. If these measures are implemented in tandem, Jharkhand will attain fiscal resilience and reduce its dependence on commercial external financial aid in the coming years.

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