



STATE GOVERNMENT FINANCES

Sales tax collections to undershoot the FY2025 BE by a considerable margin, weighing upon SOTR growth

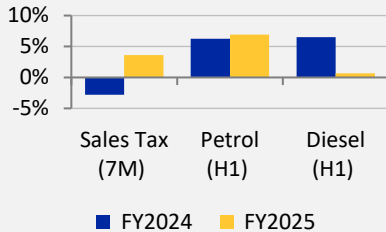
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EXHIBIT: YoY trends in combined trends of 15 states*



*Note: *Includes Andhra Pradesh (AP), Bihar, Chhattisgarh, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh (MP), Maharashtra, Punjab, Rajasthan, Tamil Nadu (TN), Telangana, Uttar Pradesh (UP) and West Bengal (WB).
Source: State Budgets; CAG; Petroleum Planning & Analysis Cell (PPAC); ICRA Research*

The provisional data for April-October FY2025 (7M FY2025) released by the Comptroller and Auditor General of India (CAG) reveals a lacklustre 3.6% growth in the combined sales tax collections of the 15 state governments, led by factors such as the dull consumption of diesel, and a slight dip in fuel prices. We assess the actual YoY growth of sales tax collections in FY2025 to substantially undershoot the 18% growth indicated in the Budget Estimates (BE) for FY2025. Given that sales tax inflows account for nearly a quarter of the States Own Tax Revenues (SOTR), the continuing modest YoY growth of such collections in Q4 FY2025, would dampen SOTR growth.

States levy VAT mainly on petroleum, oil and lubricant (POL) products while some also levy it on alcohol and other products consumed in their state. The trends in consumption of retail fuels in a state, changes in excise duty rates by the Government of India (GoI), and modifications in VAT rates are the key determinants of the sales tax collections. The data on diesel consumption available for H1 FY2025, shows a marginal 1% growth at the pan-India level with sub-3% growth reported by several of the 15 states and contraction by a few. This appears to be one of the key reasons for low growth in sales tax collections in 7M FY2025. However, five states have reported a 6-11% growth in their sales tax collections in 7M FY2025, despite weak diesel consumption. They seem to have benefitted from either revenues from non-POL products, especially the ones with a sizeable share from this source, and/or from increase in their VAT rates.

The base price of fuels on which states levy VAT, dipped mildly in FY2025 relative to FY2024. While states have the full autonomy to change the rate of VAT levied on POL products (as they are outside the GST framework), several states have restrained from increasing it in FY2025, continuing from the trend in FY2024. If there is no change in the excise duty rates on fuels by the GoI and the VAT rates imposed by the states in Q4 FY2025, we assess the actual YoY growth of sales tax collections in FY2025 to undershoot the 18% growth indicated in the BE for FY2025 by a wide margin. Given the sizeable share of sales tax collections (~23%) in the SOTR, the continuing modest YoY growth of sales tax collections in the remainder of FY2025, would weigh on the growth of the SOTR.



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