REVIEW OF TRENDS IN RECEIPTS AND EXPENDITURE IN RELATION TO THE BUDGET ESTIMATES 2019-2020

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The Tamil Nadu Fiscal Responsibility Act, 2003 (Act No.16 of 2003) has been enacted by the Tamil Nadu Legislative Assembly in the year 2003. According to Section 6(2) of this Act, the Minister-in-charge of the Department of Finance shall review every half year, the trends in receipts and expenditure in relation to the Budget Estimates and the remedial measures to be taken to achieve the budget targets, and place the outcome of such reviews before the Legislative Assembly.

Section 6(3) of the Act states that while placing the outcome of such review before the Legislative Assembly, the Minister shall make a statement explaining:

a) Any deviation in meeting the obligations cast on the State Government under this Act;
b) Whether such deviation is substantial and relates to the actual or the potential budgetary outcomes; and
c) The remedial measures the State Government proposes to take.

The Hon’ble Deputy Chief Minister has reviewed the trends in receipts and expenditure for the period of six months from April to September 2019 in relation to the Budget Estimates 2019-2020 on 27th December 2019. The outcome of this review is placed before the Legislative Assembly.

REVIEW OF REVENUE RECEIPTS

The Total Revenue Receipts of the Government include the following:

a) State's Own Tax Revenue

b) State's Own Non-Tax Revenue

c) Tamil Nadu's Share in Central Taxes

d) Grants-in-Aid from the Government of India

The Total Revenue Receipts are estimated at Rs.1,97,721 crore in Budget Estimates 2019-2020, which include Grants-in-Aid and Share in Central Taxes from the Government of India. The Total Revenue Receipts of the State Government upto the month of September 2019 are Rs.83,206 crore. This constitutes 42.08 percent of the budgeted revenue in the Budget Estimates 2019-2020. This represents a growth rate of 6.45 percent over the revenue receipts of the corresponding period in 2018-2019. The following table provides a comparative picture of the Total Revenue Receipts of the State Government.

TRENDS IN REVENUE RECEIPTS OF GOVERNMENT OF TAMIL NADU DURING THE FIRST SIX MONTHS OF THE FINANCIAL YEAR 2019-2020

Revenue Receipts	Accounts 2018-2019	Budget Estimates 2019-2020	Accounts up to September 2018	Collections up to September 2019	Growth rate in 2019-2020 over 2018-2019 (up to Sept.)	% of Budget Estimates 2019-2020
	(Rs. in Crore)				%	
State's Own Tax Revenue	1,05,534	1,24,813	50,695	52,428	3.42	42.01
State's Own Non-Tax Revenue	14,200	13,327	4,383	5,260	20.01	39.47
Share in Central Taxes	30,639	33,978	12,964	12,520	-3.42	36.85
Grants-in-Aid	23,368	25,603	10,118	12,998	28.46	50.77
Total	**1,73,741**	**1,97,721**	**78,160**	**83,206**	**6.45**	**42.08**

a) <u>State's Own Tax Revenue:</u>

The total State's Own Tax Revenue (SOTR) receipts in the first six months of this financial year i.e. upto the month of September 2019 is Rs.52,428 crore. This constitutes 42.01 percent of that estimated in the Budget Estimates 2019-2020. It shows a growth rate of 3.42 percent over the receipts in the corresponding period of the previous year 2018-2019.

The summary of the trends in State’s Own Tax Revenue during the first six months is given below:

State Taxes	Accounts 2018-2019	Budget Estimates 2019-2020	Accounts up to September 2018	Collections up to September 2019	Growth rate in 2019-2020 over 2018-2019 (up to Sept.)	% of Budget Estimates 2019-2020
	(Rs. in Crore)				**%**	
Commercial Taxes	81,219	96,177	38,939	40,166	3.15	41.76
State Excise	6,863	7,262	3,309	3,451	4.29	47.52
Stamps and Registration Fees	11,066	13,123	5,458	5,393	-1.19	41.10
Taxes on Vehicles	5,573	6,511	2,851	2,829	-0.77	43.45
Others	813	1,740	138	589	326.81	33.85
Total	**1,05,534**	**1,24,813**	**50,695**	**52,428**	**3.42**	**42.01**

The Goods and Services Tax has been implemented from 1st July 2017, and the State is assured of compensation from the Government of India to the extent of the protected revenue as per norms of GST. The compensation received is part of the Grants-in-Aid from the Central Government. The collections under Major components of State Taxes upto the month of September 2019 showed a growth rate of 3.15 percent over the collection for the corresponding period of the previous year. Even though, there is negative growth in collections under Stamps and Registration and Taxes on Vehicles due to seasonal factors and a nationwide slowdown, the trend is expected to be on the positive side in the rest of the fiscal year. The Government is also taking proactive steps to obtain the arrears pertaining to IGST from the year 2017-2018 amounting to

Rs.4,073 crore which constitutes part of the State’s Own Revenue.

The Government, in addition to taking all efforts to improve tax collection, may also take up Additional Resource Mobilization measures as appropriate to make up for the revenue shortfall and achieve the revenue targets as per Budget Estimates of 2019-2020.

b) State's Own Non-Tax Revenue:

The collection upto the month of September 2019 is Rs.5,260 crore as against the Budget Estimates 2019-2020 of Rs.13,327 crore. This has shown a growth rate of 20.01 percent against the receipts during the corresponding period of the previous year and constitutes 39.47 percent of Budget Estimates 2019-2020. It is expected that the revenue projected in Budget Estimates 2019-2020 would be achieved based on the present trends of receipt and even compensate for a portion as the shortfall in tax revenue.

c) <u>State's Share in Central Taxes</u>:

Consequent to the 14th Finance Commission recommendations, the inter-se share of Tamil Nadu was reduced from 4.969% to 4.023% in the general divisible tax pool, i.e., a 19.04% fall in the devolution of taxes to the State. The receipt in 2018-2019 was Rs.30,639 crore as against

Rs.37,878 crore that would have been Tamil Nadu's share had the formula not been changed thus resulting in a loss of Rs.7,239 crore in 2018-2019 to the State exchequer due to the 14th Finance Commission's recommendations.

The Government of India's resort to cesses and surcharges to raise tax revenue for itself and which is not shareable with the States has also denied States a greater flow of devolution from the Centre. Share of cesses and surcharges have grown from 8.8% of Centre's gross tax revenue in 2012-2013 to 15% in the Budget Estimates 2019-2020.

Based on the recommendations of the Fourteenth Finance Commission, the Government of India has fixed a total amount of Rs.33,978 crore as the share of Central Taxes to Tamil Nadu for the year 2019-2020 in its interim budget. Later, in July 2019, the Government of India has revised the Share in Central Tax amount as Rs.32,551 crore. If the inter-se share had not been reduced as per the 14th Finance Commission recommendations, Tamil Nadu would have received about Rs.40,206 crore. Thus, Rs.7,655 crore is the loss to the State exchequer.

The share of Central Taxes is being released by the Government of India on a monthly basis. The receipts till the month of September 2019 is Rs.12,520 crore, which is about 3.42% less than the receipts during the corresponding period of the previous year. This constitutes about 36.85 percent of that revised estimated in Budget Estimates 2019-2020. A further significant shortfall in revenue is expected on account of the Corporate Tax reduction announced recently by the Government of India. The negative trend in the Share of Central Taxes due to revenue under performance by the

Government of India is a cause for serious concern.

d) <u>Grants-in-Aid from the Government of India:</u>

As against the estimated receipts of Rs.25,603 crore under Grants–in–Aid from the Government of India including the Centrally Sponsored Schemes for 2019-2020, the total Grants-in-Aid received from the Government of India till the month of September 2019 is Rs.12,998 crore. This is about 50.77 percent of the estimated receipts for 2019-2020. The total Grants-in-Aid received from the Government of India during the corresponding period of the previous year was Rs.10,118 crore. There is a healthy growth of 28.46 percent this year which reflects the efforts of the Government to collect arrears of grants due from the Government of India.

The Central Government from 2014-2015 has rationalized and revised the sharing pattern of certain Centrally Sponsored Schemes, which implies that the State Government has to contribute more as its share from own resources. Persistent efforts are being made for getting the release of arrears of Grants-in-Aid relating to previous years and for receipts of the current financial year from the Government of India, particularly with respect to the arrears in

GST compensation, reimbursements of Post-Matric Scholarship scheme, Sarva Shiksha Abhiyan, Rashtriya and Madhyamik Shiksha Abhiyan. As the non receipt of the Government of India's grants will put the State's finances under severe strain, the departments are being constantly instructed to follow up with the Government of India to ensure the timely release of Grants-in-aid so that the Budget Estimates are achieved and if possible, even exceeded.

REVIEW OF EXPENDITURE

(a) Revenue Expenditure

The estimated total revenue expenditure for the financial year 2019-2020 is Rs.2,12,036 crore. The total revenue expenditure incurred till the month of September 2019 is Rs.96,014 crore and it constitutes 45.28 percent of that estimated in the Budget Estimates. The revenue expenditure incurred during the corresponding period of the previous year was Rs.89,543 crore which was 46.22 percent of Budget Estimates 2018-2019. The revenue expenditure for the first six months of 2019-2020 has shown a growth of 7.23 percent over the expenditure incurred during the corresponding period of the previous year. This is marginally lower than the 7.52 percent growth that Budget Estimates 2019-2020 represents over Accounts 2018-2019. This reflects the efforts taken by the Government to contain expenditure.

The summary of trends in Revenue Expenditure during the first six months of the current financial year is as follows:

Revenue Expenditure	Accounts 2018-2019	Budget Estimates 2019-2020	Accounts up to September 2018	Expenditure up to September 2019	Growth rate in 2019-2020 over 2018-2019 (up to Sept.)	% of Budget Estimates 2019-2020
	(Rs. in Crore)				%	
Salaries (including Grants-in-Aid for Education)	52,535	55,400	28,239	30,567	8.24	55.18
Pensions & Retirement Benefits	27,206	29,627	15,944	15,865	-0.50	53.55
Non-wage operation & Maintenance	10,183	11,083	3,601	3,425	-4.89	30.90
Subsidies and Transfers	77,895	82,673	30,233	33,387	10.43	40.38
Interest Payments	29,358	33,226	11,509	12,758	10.85	38.40
Others	24	27	17	12	-29.41	44.44
Total	**197,201**	**212,036**	**89,543**	**96,014**	**7.23**	**45.28**

(b) Capital Expenditure

An amount of Rs.31,251 crore has been allocated towards Capital Expenditure for 2019-2020. Out of which, a sum of Rs.9,211 crore has been incurred till the month of September 2019 and it constitutes 29.47 percent of that estimated in the Budget Estimates. The Capital expenditure incurred during the corresponding period of the previous year was Rs.5,796 crore. The Capital expenditure for the first six months of 2019-2020 has shown a growth of 58.92 percent over the expenditure incurred during the corresponding period of the previous year. In respect of Capital Expenditure, orders have been issued to implement various capital works and projects are being implemented expeditiously. Therefore, the pace of implementation of capital works will pick up in the ensuing months and the allocated funds will be utilized appropriately.

FISCAL INDICATORS OVER THE YEARS

The State Government amended the Tamil Nadu Fiscal Responsibility Act, 2003 in the month of March, 2017. As per the amended Act, the State Government shall eliminate Revenue Deficit by 2017-2018 and maintain Fiscal Deficit within 3 percent to Gross State Domestic Product. Due to the circumstances indicated in the Review

Statement for the years 2017-2018, 2018-2019 and the present review, this target could not be achieved and may necessitate an amendment to the provisions relating to revenue deficit and an extension of the period to achieve revenue surplus. For the year 2019-2020, the Fiscal Deficit to GSDP has been maintained at 2.56 percent, which is within the prescribed norms.

The year wise position of the fiscal indicators, since the enactment of Tamil Nadu Fiscal Responsibility Act, 2003 is furnished in the Annexure. The fiscal indicators for the first six months of the current financial year are as follows:

Fiscal Indicators in the current year

Fiscal Indicators	Budget Estimates 2019-2020	Till the month of September 2019
	(Rs. in crore)	
Total Revenue Receipts (TRR)	1,97,721	83,206
Revenue Expenditure	2,12,036	96,014
Revenue Surplus (+)/Deficit (-)	-14,315	-12,808
Total Capital Expenditure (including Loans and Advances Net)	29,861	7,212
Total Expenditure	241,897	103,226
Fiscal Deficit	44,176	20,020
Gross State Domestic Product	17,26,681	---
	(%)	
Revenue Surplus (+)/Deficit (-) over TRR (%) (Target)	---	---
Revenue Surplus (+)/Deficit (-) over TRR (%) (Actual)	-7.24	-15.39
% of Fiscal Deficit to Gross State Domestic Product (Target)	<3.00	<3.00
% of Fiscal Deficit to Gross State Domestic Product (Actual)	2.56	1.16

The Revenue Deficit up to the month of September 2019 is Rs.12,808 crore. Efforts are being taken to bring revenue deficit within estimates by bridging the revenue-expenditure gap through control of expenditure and stepping up of revenue collections.

REVIEW OF FISCAL INDICATORS

The trends in receipts and expenditure in the first six months are generally in line with the Budget Estimates for 2019-2020, except for a few aspects which have been explained in the previous paragraphs.

The significant reduction in share in Central Taxes for Tamil Nadu as per the

14th Finance Commission Recommendations has severely strained the finances of the State. The increasing tendency of Government of India to raise Tax revenue for itself through resort to surcharges and cesses on basic taxes which are not shareable with the State is squeezing the divisible pool for devolution to States. Moreover, the reduced share of the Government of India in Centrally Sponsored Schemes has put the State under further financial stress as additional expenditure has to be incurred for these schemes from the State's own resources. The situation is further aggravated by the delay in release of previous year's arrears and current year grants by the Government of India, including the State's share of IGST, reimbursement under Post-Matric Scholarships, Sarva Shiksha Abhiyan, Rashtriya Madhyamik Shiksha Abhiyan, arrears of 13th Finance Commission grants, etc. Hence, strenuous steps are being taken to obtain the pending amounts due to the State, from Government of India. The recent tax revision of Corporate Tax is also likely to dent the resources from the Government of India in the form of share in Central Taxes.

The revenue deficit is likely to increase above the budgeted Rs.14,315 crore. In order to contain this revenue deficit, the Government is taking serious steps to control revenue expenditure and step up revenue receipts through appropriate measures including administrative steps and additional resource mobilization wherever feasible.

In spite of these constraints on the fiscal position, the State Government has been successfully implementing various welfare and development schemes. Efforts are being taken to minimize the revenue deficit by controlling expenditure, improving the efficiency of scheme implementation and taking steps for enhancing the revenue receipts. In a year where there is a slowdown in growth rate at the national level, fiscal tightening by cutting back on expenditure sharply could have a further adverse impact on the growth prospects of the economy. Hence the Government will make carefully calibrated decisions with due attention to ensuring that growth enhancing expenditure is not reduced. It is therefore expected that the State will adhere to the Budget Estimates substantially, except for the Revenue Deficit, which is expected to go up. Steps will be taken to maintain Fiscal Deficit target and Debt to GSDP ratio within the projections.

A Medium Term Fiscal Plan (MTFP) is being presented by the Government along with the Budget on the management of the State's Finances with regard to the Tamil Nadu Fiscal Responsibility Act, 2003 (as amended).

This review of Trends in Receipts and Expenditure in relation to the Budget Estimates 2019-2020 is intended to present the actual status of State's Finances and the efforts being taken by the State Government to bridge the revenue-expenditure gap if any in the Medium Term Fiscal Plan.

O.PANNEERSELVAM
Deputy Chief Minister

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Annexure
YEARWISE POSITION OF FISCAL INDICATORS

Details	REVENUE SURPLUS / DEFICIT			FISCAL DEFICIT		
	OVER TRR % (Target)	(Rs. in Crore)	OVER TRR % (Actual)	% to GSDP (Target)	(Rs. in Crore)	% to GSDP (Actual)
2003-04 Accounts	-20.28	-1565.24	-6.60	4.01	5591.16	3.19
2004-05 Accounts	-17.28	-703.34	-2.47	3.76	5569.76	2.54
2005-06 Accounts	-14.28	1951.33	5.75	3.51	2250.61	0.87
2006-07 Accounts	-11.28	2648.26	6.47	3.26	3956.00	1.27
2007-08 Accounts	-8.28	4545.49	9.57	3.01	3685.59	1.05
2008-09 Accounts	< -5.00	1452.25	2.64	<3.00	8547.76	2.13
2009-10 Accounts	**	-3531.22	-6.32	<4.00	11807.26	2.46
2010-11 Accounts	< -5.00	-2728.69	-3.89	<4.00	16646.62	2.85
2011-12 Accounts	0 / surplus	1364.10	1.60	<3.00	17274.08	2.30

Details	REVENUE SURPLUS / DEFICIT			FISCAL DEFICIT		
	OVER TRR % (Target)	(Rs. in Crore)	OVER TRR % (Actual)	% to GSDP (Target)	(Rs. in Crore)	% to GSDP (Actual)
2012-13 Accounts	0 / surplus	1760.27	1.78	<3.00	16518.99	1.93
2013-14 Accounts	< -5.00	-1788.24	-1.66	<3.00	20583.49	2.12
2014-15 Accounts	**	-6407.56	-5.23	<3.00	27162.44	2.49
2015-16 Accounts	**	-11985.35	-9.29	<3.00	32627.56	2.69
2016-17 Accounts	**	-12964.13	-9.24	<3.00	56171.35	4.20
2017-18 Accounts	**	-21593.88	-14.76	<3.00	39839.51	2.76
2018-19 Accounts	< -5.00	-23459.45	-13.50	<3.00	47334.90	2.97
2019-20 Budget Estimates	---	-14314.76	-7.24	<3.00	44176.35	2.56

** Target not fixed.
GSDP – Gross State Domestic Product
TRR – Total Revenue Receipts