

Govt. stares at tax shortfall of Rs. 2 lakh crore; room for income tax cut limited

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As the Budget draws near, the odds for a personal income tax cut are becoming less and less likely.

Tax collections in the current fiscal may fall short of targets by as much as Rs.2 lakh crore on faltering economy, leaving a very little room for Finance Minister Nirmala Sitharaman for offering any meaningful reduction in personal income tax rates. Sources with direct knowledge of the development said income and corporate tax collections are likely to miss FY2020 targets by as much as Rs.1.5 lakh crore while indirect taxes may fall short by about Rs.50,000 crore on drop in the Goods and Services Tax (GST) in a sluggish economy.

Expectations were that Sitharaman, who had in September last year cut the corporate tax rates to their lowest to boost economic growth, would announce similar sops for individual taxpayers, but lower than expected tax collections and government's missing disinvestment target by a wide margin would limit her largesse.

The exchequer was shaved off Rs.1.45 lakh crore as the government slashed corporate tax rates up to 10 percentage points, the biggest reduction in 28 years.

Base corporate tax for existing companies has been reduced to 22 per cent from 30 per cent, and to 15 per cent from 25 per cent for new manufacturing firms incorporated after October 1, 2019, and starting operations before March 31, 2023.

Besides, the government withdrew the enhanced surcharge on long- and short-term capital gains for FPIs as well as domestic portfolio investors. This resulted in revenue implication of Rs.1,400 crore.

Since August, the government announced other measures having some revenue implication in its effort to stimulate the economy.

There are constraints not only on direct tax side but indirect tax collection is also under stress due to slowdown, sources said, adding, the moderation in demand will surely have bearing on the Goods and Services Tax (GST) collections and customs too.

The shortfall on the indirect tax side would be at least Rs.50,000 crore by any conservative estimate, sources added.

Several experts including former Finance Secretary S C Garg, have indicated at tax shortfall between Rs. 2 lakh and 2.5 lakh crore during the current fiscal.

"Overall, there is likely to be shortfall of Rs.3.5 to 3.75 lakh crore in gross tax collections of the Centre. Expecting that the Centre could revise transfers to the states out of the Centre

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taxes (about 32 per cent of shortfall), the net taxes to the Centre are likely to be short by Rs.2.5 lakh crore or 1.2 per cent of GDP," he had said in a recent blog.

Direct tax revenues - Corporation Income Tax (CIT) and Personal Income Tax (PIT) - together as per the Budget Estimate has been pegged at Rs.13.35 lakh crore, which is 16 per cent higher than the Budget estimate (Rs.11.50 lakh crore) and 11.25 per cent higher than the revised estimate (Rs.12 lakh crore).

Of this CIT is expected to contribute Rs.7.66 lakh crore and PIT Rs.5.69 lakh crore in 2019-20.

With regard to indirect tax, total amount budgeted as receipts for GST is Rs.6.63 lakh crore for the current fiscal.

Total customs revenues were budgeted to bring in gross receipts of Rs.1.56 lakh crore while excise expected to garner Rs.3 lakh crore during 2019-20.

The government has budgeted gross tax revenues of the Centre at Rs.24.59 lakh crore. Setting aside Rs.8.09 lakh crore as the share of the states, the budgeted net tax revenues to the Centre has been kept at Rs.16.50 lakh crore.

This was 3.13 lakh crore higher than the provisional/actual net tax revenues of Rs.13.37 lakh crore collected in 2018-19, an increase of 23.4 per cent.