ANNEX-7

Statement of Revenue Impact of Tax Incentives under the Central Tax System: Financial Years 2022-23 and 2023-24

Tax law and its administration are primarily aimed at generating revenue to fund the various Government expenditures. The main variables that determine the amount of revenue generated are the collective tax base and the effective tax rates. An elaborate set of measures including special tax rates, exemptions, deductions, rebates, deferrals and credits determine these two variables. These measures are collectively called as 'tax incentives' or 'tax preferences'. They create an impact on Government earnings and also reflect the significant policy measures of the Government.

The tax incentives provided by the Government have a significant impact on its revenue. It may also be perceived as an indirect subsidy to the preferred taxpayers and is therefore referred to as 'tax expenditures'. In a democratic setup, tax policy is ought to be not only efficient but also sufficiently transparent. It requires an elaborate analysis and explicit presentation of tax incentives and the entailed program planning intended to address the specific policy goals of the Government. Further, transparent budgeting requires an analysis of revenue impact being created under the respective programme heads. These tax incentives having impact on the Government earnings are inherent part of the spending plans stated in the tax policy.

The present statement is a detailed analysis of the revenue implications of the various tax incentives provided by the Government through the taxation system. Such revenue implications of tax incentives were laid before the Parliament for the first time during Budget 2006-07 as Annex-12 of the Receipts Budget in the form of statement of Revenue Forgone. It was welcomed across all quarters and started the process of a constructive debate on whole range of issues concerning fiscal policy. It also lent credence to the Government's intention of bringing about transparency in the matter of tax policy and tax expenditures. The second edition of this statement was placed before Parliament during Budget 2007-08 by way of Annexure-12 of the Receipts Budget and also by way of a separate budget document titled "Statement of Revenue Forgone". Thereafter, it was placed every year before Parliament during Budget from 2008-09 to 2014-15. In the Budget 2015-16, it has been termed more appropriately as the "Statement of Revenue Impact of Tax Incentives under the Central Tax System", as it actually involves an analysis of the revenue impact. In Budget 2015-16 and 2016-17, it was made part of Receipt Budget as Annexure-15, while in Budget 2017-18, it was Annexure-13. In the Budgets 2018-19, 2019-20, 2020-21, 2021-22, 2022-23, 2023-24 and 2024-25, it was part of Receipt Budget as Annexure-7.

As stated earlier, this Statement seeks to list the revenue impact of tax incentives or tax subsidies that are a part of the tax system of the Central Government. The revenue impact of such tax incentives has been estimated in respect of most of the "tax preferences". The estimates are for financial year 2022-23, the most recent year for which data is available. It is based on the returns filed for the Assessment year 2023-24. An attempt has also been made to project the revenue impact for the financial year 2023-24 on the basis of the tax expenditure figures of the financial year 2022-23.

The estimates of the tax expenditures have been made on the basis of the following assumptions: -

(a) The estimates and projections are intended to indicate the potential revenue gain in case of removal of exemptions, deductions, weighted deductions and similar measures. The estimates are based on a short-term impact analysis. They are developed assuming that the underlying tax base would not be affected by removal of such measures. As the behavior of economic agents, overall economic activity or other Government policies could change along with the elimination of the specific tax preference, the revenue implications could be different to that extent.

(b) The impact of each tax incentive is determined separately, assuming that all other tax provisions remain unchanged. Many of the tax concessions do, however, interact with each other. Therefore, the interactive impact of tax incentives could turn out to be different from the tax expenditure calculated by adding up the estimates and projections for each provision.

Though the revenue impact has been quantified in terms of tax expenditure, it does not imply that this quantum of revenue has been waived by the Government. Rather, these could be seen as expenditure for the development of certain target sectors. In some cases, the socio-economic activities meant to be incentivized by such indirect subsidy may have either not been undertaken at all or have been undergoing at much lower scale in the absence of these incentives. The assumptions and methodology adopted to estimate the tax expenditure on account of different tax incentives are indicated at the relevant places in this Statement.

Direct Taxes

The direct tax policy through Income-tax Act, inter alia, provides for tax incentives to promote exports; balanced regional development; creation of infrastructure facilities; employment; rural development; scientific research and development; cooperative sector, encourage savings by individuals and donations for charity. Accelerated depreciation is also provided as an incentive for capital investment. Most of these tax benefits can be availed of by both corporate and non-corporate taxpayers. This statement attempts to estimate the revenue impact of the tax incentives separately in respect of all the categories of taxpayers viz., Corporate Sector; Non-Corporate Sector (Firms, Association of Persons, Body of Individuals etc.); and Individuals/ HUF. The heads under which the revenue impact has been estimated are broadly similar for the corporates and non-corporates. However, in the case of individuals, certain other heads have also been included as these are specific only to them. The statement for the corporate sector also analyses the spread of effective tax rates for companies in different profit slabs. A sectoral analysis of effective tax rates for different industries has also been attempted. Besides, details of entities engaged in charitable activities have also been provided separately under the head “Charitable Entities”**.**

Revenue impact of various tax incentives for FY 2023-24 is projected by taking the average GDP growth for four years [FYs 2019-20, 2021-22, 2022-23 and 2023-24].[1]

A. Corporate Sector

Large businesses are mainly organized as companies. The Income-tax Department has received 10,75,866 corporate returns electronically up to 30th November 2024 for the financial year 2022-23 [i.e. assessment year 2023-24]. Every company is required to file its return of income electronically. These companies reported corporate tax liability of Rs. 7,27,415.89 crore [inclusive of surcharge and education cess] for their income of financial year 2022-23. The companies have paid additional tax of Rs. 6,440.99 crore [inclusive of surcharge and education cess] on their ‘distributed income’ on buy-back of shares under section 115QA of the Act.

For the purposes of estimating the tax expenditure, data pertaining to these companies were culled from the database for analysis and is detailed in Tables 1 to 5 and Appendix to this statement. **Table 1** profiles these companies across different profit ranges. The following facts emerge from an analysis of the data:-

- 5,34,092 companies (49.64 per cent) reported Rs. 32,10,198.19 crore as profits before taxes and a total income (taxable income) of Rs. 31,66,634.86 crore.
- 4,93,714 companies (45.89 per cent) reported Rs. 8,73,307.67 crore as losses.
- 48,060 companies (4.47 per cent) reported Nil profit.

The **effective tax rate[2] of the entire base of companies was 23.24 per cent** for financial year 2022-23 [as against

[1] *FY 2020-21 has not been taken for calculating the average GDP growth for it being an extraordinary year due to COVID-19 pandemic.*

[2] *Effective tax rate in case of companies is the ratio of total taxes [including surcharge and education cess to the total profits before taxes [PBT] and expressed as a percentage.*

C. Individual/ HUF Taxpayers

Chapter VI-A of the Income-tax Act primarily provides for deduction on certain payments and deduction on certain incomes. Individual/ HUF taxpayers are eligible to claim these deductions and have a wide range of tax preferences available to them. However, since more than 50 per cent of the individual taxpayers derive their income primarily from salaries, the profit-linked deductions [i.e. deduction on certain business incomes] are not claimed by them. On the other hand, the group of non-salaried individuals claims both type of deductions. The tax incentives granted to individual taxpayers is presented in Table 7. The tax impact under various sections of Chapter VI-A of the Income-tax Act has been calculated on the basis of various claims for tax preferences in the 7,74,07,645 returns filed electronically by individuals with the Income-tax Department till 30th November, 2024.

Based on the tax expenditure figures for financial year 2022-23, the tax expenditure for the financial year 2023-24 has been projected by multiplying the tax expenditure on each tax incentive in the financial year 2022-23 by the average GDP growth for four years [FYs 2019-20, 2021-22, 2022-23 and 2023-24]. The average GDP growth rate was calculated to be 12.36 per cent.

Based on the figures of total **7,74,07,645** returns of income filed for F.Y. 2022-23 (AY 2023-24), the tax expenditure for the entire population of taxpayers has been prepared. Some of the significant findings are as under: -

(i) Impact of higher basic exemption limits, (Sl. No. 27 and 28 of Table 7), has been calculated by multiplying the tax expenditure per senior citizen and very senior citizen with their respective numbers. According to the data of these returns, 12.05 per cent of the returns were filed by senior citizens and 0.79 per cent of the returns were filed by very senior citizens. Further, the revenue impact of higher exemption limit available to senior citizens has been calculated by taking into account the difference between the higher basic exemption limit (i.e. Rs. 3,00,000) as compared to the general exemption limit of Rs. 2,50,000 and applying the lowest tax rate of 5 per cent (plus cess) on the difference.

(ii) In case of individuals, the maximum tax expenditure of an amount of Rs. 1,02,557.01 Crore is on account of claim of deduction for investments in certain instruments as per section 80C of the Act.

(iii) The other major tax expenditure on individual taxpayers in the Financial Year 2021-22 is on account of rebate under section 87A amounting to Rs. 41,237.43 Crore.

(iv) Deduction on account of contribution to the New Pension Scheme under section 80CCD, and deduction on account of health insurance premium under section 80D also had a contribution of Rs. 14,999.41 Crore and Rs. 12,719.50 Crore respectively to the overall figure.

As detailed above, Table **7** depicts the revenue impact of major tax incentives for individual/ HUF taxpayers, in terms of tax expenditure, during the financial year 2022-23 and projection for financial year 2023-24.