TAX BUOYANCY MODEST, YET...

Tax-GDP ratio projected to be highest in FY25 since 2008-09

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New Delhi, 1 February

The finance ministry has been conservative in revising the projection of revenues from some of its taxes such as corporation tax and central goods and services tax (CGST) for this financial year and tax buoyancy for FY25.

However, the tax-GDP ratio was kept at the highest level since 2008-09 for FY24 in revised projections and further higher for FY25.

Though tax buoyancy comes to 1.4 in the Revised Estimates (RE) for this financial year compared to 0.99 per cent estimated in the Budget Estimates (BE), all the increase was projected to come from personal income tax.

Personal income tax is the only tax that was shown to collect more in RE for this financial year.

While collection from corporation tax and central goods and services tax (CGST) were kept intact in RE at BE level, that from Union excise duty and customs duty was revised down (*see chart*).

Corporation tax stood at ₹7.22 trillion till December this financial year, according to figures by the Controller General of Accounts. This is around ₹2 trillion less than what was estimated for FY24 in both BE and RE.

When advance tax collection came, September and December gave over ₹2 trillion each to the exchequer, though June delivered only ₹82,000 crore. If March also yields ₹2 trillion from corporation tax, the target would be easily met from that month's collection only. That leaves January and February, which would also deliver some receipts from this head.

The finance ministry's own data showed corporation tax rose 12.37 per cent till January 10 year-on-year. The BE for FY24 estimated growth at 11.72 per cent. This also showed that corporation tax may overshoot the BE.

The same is the case with CGST. Despite a robust increase, the RE kept it at BE level. CGST till January was just ₹1.10 trillion less than BE for FY24.

For next financial year, growth in tax collection was estimated at 11.45 per cent (BE for FY25 over RE for FY24).

This was less than the 12.5 per cent projected for FY24 (RE for FY24 over the actual figures of FY23).

Growth would come from corporation tax, personal income tax, and central GST, each of which was estimated to grow over 13 per cent in FY25 over RE of FY24.

HDFC Bank in a note said assumptions on GST collection seem conservative and could overshoot. Customs and excise duties for FY25 were projected to grow 5-6 per cent each over RE in the previous year.

Each of the two duties was projected to deliver less in FY25 compared to BE in FY24.

Tax buoyancy was kept at a modest 1.09 for FY25 against 1.4 for FY24. Though buoyancy of over 1 per cent means that tax receipts will grow more than GDP growth at current prices, it seems to be quite modest, given the recovery in the Indian economy and reliance on the corporate sector to invest more.

However, when it comes to the tax-GDP ratio, the Interim Budget has estimated it at 11.69 per cent for FY25, the highest since 2008-09. The revised tax-GDP ratio at 11.58 per cent for FY was also estimated highest since 2008-09, though lower than projected for FY25.

PLAYING IT SAFE

	FY24 BE (₹ trn)	FY24 RE (₹ trn)	% chg over FY24 BE	FY25 BE (₹ trn)	% chg over FY24 RE	% chg over FY24 BE
Corporation tax	9.23	9.23	0	10.43	13.02	13.02
Personal income tax	9.00	10.22	13.52	11.56	13.07	28.36
Customs duty	2.33	2.19	-6.19	2.31	5.77	-0.77
Union excise duty	3.39	3.04	-10.44	3.19	5.00	-5.96
CGST	8.12	8.12	0	9.18	13.06	13.06
GST cess	1.45	1.45	0	1.50	13.07	13.07
Total tax	**33.61**	**34.37**	**2.27**	38.31	**11.45**	**13.98**

CGST: Central goods and services tax; BE: Budget Estimates; RE: Revised Estimates; individual taxes will not add up to total because small taxes such as service tax have not been included

Source: Interim Budget for 2024-25

Finance Bill seeks to boost tax compliance of tobacco, pan masala manufacturers

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The Finance Bill for 2024 has proposed to amend the Central Goods and Services Tax (CGST) Act to give effect to the GST Council's decision on input service distributors (ISDs).

The Bill seeks to make manufacturers of tobacco, pan masala, etc more compliant.

An ISD is a taxpayer that receives invoices for services used by its branches. It distributes input tax credit (ITC) on a proportional basis by issuing ISD invoices. The GST Council had made the ISD mechanism compulsory for allocating ITC related to services acquired by the head office but distributed across multiple registrations.

The Finance Bill proposal, if effected, will make it compulsory for such companies to register ISD. Non-adherence would lead to penalties. "Organisations operating across various locations should promptly secure ISD registration and revise their fundamental compliance frameworks to align with these new mandates," said Rajat Mohan, executive director, Moore Singhi. The Bill proposed to bring a reverse charge mechanism (RCM) for these companies within the ISD fold. Under the mechanism, GST is paid by the recipient of services while it is the supplier that pays the tax under normal circumstances.