FY24 direct tax target may see 14-17% increase

Centre's FY23 mop-up may top BE by ₹1-1.5 trn

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The Centre may keep its ambition for growth in direct taxes moderate for FY24 with inflation expected to ease substantially in the next financial year, amid buoyant tax receipts in FY23.

According to a preliminary internal assessment, the finance ministry, which is working on Revised Estimates (RE) for the current fiscal year (FY23) and Budget Estimates (BE) for FY24 as part of the Budget-making exercise, is looking at pegging 14-17 per cent growth in direct taxes for FY24 over ₹14.2 trillion BE of FY23.

RUN-UP TO THE BUDGET 2023-24

"The internal assessment is ongoing as part of the Budget-making exercise. The target depends on nominal GDP growth, which is expected to ease next year with lower inflation, so direct taxes growth will also be in moderate to slightly above moderate level," a senior government official told *Business Standard*.

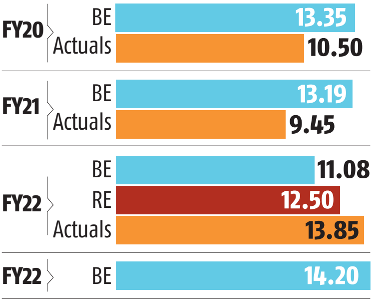
Taxes are said to be buoyant if gross tax revenues increase more than proportionately in response to a rise in the nominal GDP. While the FY23 Budget assumed 11.1 per cent nominal GDP growth, actual nominal GDP growth is expected to be much higher due to elevated price pressures.

For FY23, the government expects direct taxes to be revised upward as it is likely to substantially exceed the Budget target of FY23 by at least ₹1-1.5 trillion, the official cited above said.

Between April 1 and November 10, net direct tax collections (after adjusting refunds) stood at ₹8.71 trillion, which is 61.31 per cent of the Budget Estimate (BE) for the full-year tax collection target.

HEALTHY SIGNS

Direct tax mop-up (₹ trillion)



BE: Budget estimates; RE: Revised estimates
Source: indiabudget.gov.in, Controller General of Accounts

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Officials further said, so far, corporate tax has been 22 per cent more than that during the same period last year, despite external headwinds and a rise in commodity prices. This is a reflection of stable profit margins for India Inc as it recovered from the pandemic-induced slowdown. Further clarity would, however, emerge after third instalments of advance taxes due on December 15, the official said.

Robust growth in taxes may help the Centre meet its fiscal deficit target of 6.4 per cent of GDP. "Higher subsidies, lower-than-expected disinvestment proceeds, and duty cuts are some risky areas but are expected to be offset by buoyant revenues," the official added.

Of the ₹14.20-trillion direct taxes target for FY23, ₹7.2 trillion is expected to come from corporate tax and ₹7 trillion from taxes on various incomes, including personal income tax and securities transaction tax.

As on November 10, the growth rate for corporate income tax (CIT) was 22.03 per cent, while that for personal income tax (PIT) was 40.64 per cent. After the adjustment of refunds, net growth in CIT collections was 24.51 per cent and that in PIT collections was 28.06 per cent, and 27 per cent for PIT, including STT.

Notably, the STT collection stood at ₹16,000 crore against the full-year target of ₹20,000 crore.The finance ministry had assumed direct taxes to grow at 13.6 per cent in the FY23 Budget over the Revised Estimate of FY22. However, the BE of FY23 was 29.1 per cent higher compared to the BE of FY22.

Economists, too, expect moderate growth in direct taxes. "The growth in corporate tax collections is robust, in spite of a year-on-year rise in commodity prices. If commodity prices ease further in the coming months, volume growth is likely to improve and margins will benefit, as well, boosting corporate tax growth in the next calendar year," said Aditi Nayar, chief economist, ICRA. However, recent developments in some sectors may impact tax collection, especially personal income taxes.

"Direct tax collections would moderate going forward as corporate profits were impacted already in the second quarter and that will continue. Layoffs in some sectors and slow employment growth will see a moderation in personal income taxes, too," said Madan Sabnavis, chief economist at the Bank of Baroda.

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