Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

News: The gross tax revenue collected by the central government during the first seven months of 2019-20 was ₹10.52 trillion, up by just 1.22% from the tax collected during the same period in 2018-19.

Taxing times

The Centre, which collected ₹10.52 trillion in the first seven months of FY20, is likely to fall short of its target of ₹24.61 trillion set for this fiscal.

How will a lower tax revenue affect govt?

In fiscal year 2019, the central government had collected ₹20.80 trillion in gross tax revenue. In 2019-20, it hopes to collect ₹24.61 trillion, or 18.32% more. In the first seven months of fiscal 2019-20, the tax collected has grown just 1.22%. Hence, the government is way off the mark in terms of what it hopes to collect during the current fiscal. This is clearly reflected in delayed payments by the government. What will help the government bridge part of the gap between what it hopes to earn and what it actually will, is the dividend of ₹1.76 trillion, which it has received from the Reserve Bank of India.

What else can it do to address the gap?

Until October, ₹17,365 crore had been earned through the disinvestment route against the targeted ₹1.05 trillion. Clearly, the government has to be fairly aggressive about selling its stake in public sector enterprises in the little over three and a half months left in 2019-20. If it wants to bridge the tax-revenue gap, it needs to better the target of ₹1.05 trillion. This apart, it should work towards shutting down many non-strategic public sector enterprises, which are simply a drag on government finances and have no buyers. This will free up both land and capital, which can be adequately employed in the years ahead.

What has led to slow growth in gross tax revenue?

The central goods and services tax (GST) was supposed to grow 14.96% during 2019-20. It has grown at a much slower 8.30% to ₹2.85 trillion between April and October. Income tax collected during the year has grown just 6.67% to ₹2.44 trillion. The targeted growth is 23.25%, as per the budget. These numbers show a slowdown in economic activity.

What about corporate income tax collection?
A total of ₹2.73 trillion in corporate income tax has been collected. This is 0.88% more than the amount collected during the same period in 2018-19. A little over 35% of the ₹7.66 trillion that the government hopes to collect during 2019-20 has been collected in the first seven months of the year. This is largely because of the slowdown and also due to lower corporate income tax rates introduced earlier this year. All in all, things are not looking great for the three main taxes of the government.

What does this say about govt finances?

There has been some talk of the government raising the GST rates in order to earn greater tax revenue. In an economic slowdown, the idea should always be to put more money in the hands of people and hope they spend it, and not take it away. Also, when it comes to its earnings, this year, the government has primarily been saved by the huge RBI dividend. What it will do next year is a question well worth asking.