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Formal sector, administration raises tax kitty 29% in Apr-July from FY20

Year-on-year, the collections grew by 83%. This growth was misleading since it comes on a 30% drop in tax mop-up a year earlier

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Direct and indirect tax collections are one of the rare parameters of the economy that have shown growth over the pre-Covid levels in the first four months of the current financial year.

Total tax collections of the Centre before devolution to the states rose almost 29 per cent during April-July of 2021-22 over the corresponding period of 2019-20 (pre-Covid period).

Year-on-year, the collections grew by 83 per cent. This growth was misleading since it comes on a 30 per cent drop in tax mop-up a year earlier.

The growth over even the pre-Covid period was attributed by experts to economic recovery, better performance of the organised sector at the expense of the unorganised sector in these Covid-hit times and improved tax administration and compliance rules.

Tax officials said the rise in tax collections are because of the fact that the economy is increasingly getting formalised which is helping tax collections.

Icra chief economist Aditi Nayar said the listed corporates have seen a sharp YoY revenue recovery in Q1 of FY22, which is likely to have supported the revival in direct taxes, amidst a feeble performance of smaller and less formal entities.

CARE Ratings chief economist Madan Sabnavis attributed the rising growth in tax collections to increase in consumption.

"As the economy picks up with lockdowns being relaxed or lifted, there will be more goods and services purchased. This in no way is reflective of the health of sectors or any segment," he said.

Sabnavis said corporate profits are up due to the base effect and fewer job losses are there this time which are leading to increase in the income tax collections.

Rakesh Nangia of Nangia Andersen said the buoyancy in direct tax collections is suggestive of recovery of industrial and construction activity, flourishing exports and service sector growth from the pandemic blues.

"The uptick in economic activity and increased consumer spending pushed India back on the growth trajectory. There has been a massive inflow of funds in the capital market by all classes of investors resulting in the jump in collection of securities transaction tax (STT)," he said.

STT yielded over 60 per cent higher revenues to the exchequer in the first five months of 2021-22 y-o-y.

Most experts attributed growth in indirect tax collections to the increase in enforcement action by the government.

Rajat Mohan, senior partner AMRG Associates, said that factors like lifting up of the lockdown, pent up suppressed demand for consumer products, shifting the economy from unorganized sector to organized sector, increased pace of recoveries by the tax department, and a multi-fold increase in commodity prices since 2021 have contributed to the rise in tax collections recently.

M S Mani, partner at Deloitte India said that the increasing focus on detection of GST evasion using data analytics has significantly contributed to the robust goods and services tax (GST) collections in recent months .

Sabnavis said when sectors open up, people spend and GST goes up. He, however, said states are still being compensated which implied that collections are not normal.

Pratik Jain, partner at PwC, said the high GST and customs collections clearly indicate that the economy is on an upswing and demand is picking up.

"High GST and customs collections clearly indicate that the economy is on an upswing and demand is picking up. The tax base has expanded in the wake of increased use of technology and tightening of tax administration. Industry as well as consumers have adapted quickly to the challenges posed by the pandemic," Jain added.

Last year in September, the government brought in Aadhaar-based GST registration to keep out fraudulent elements. Besides, through data sharing of income tax, customs and GST, the government is able to track income mismatches through data analytics using artificial intelligence tools. A government official pointed out that they can now draw an entire network diagram if any fake bill has been generated by any non-existent or fake dealers.

In addition, the introduction of e-invoicing in phases has also plugged loopholes in the GST system. As the input tax credit and output tax details are readily available, it becomes easier for the tax officials to track fake input credit. From April one this year, it has been made mandatory for entities with a turnover of over Rs 50 crore.

As for customs, Mani pointed out that while the recent increases in IGST collections on imports could be attributed to the surge in imports, the recent chip and container shortages could impact future collections.

Nayar said growth in excise collections benefited from the hike in rates last year and the recovery in mobility after the ebbing of the second wave.

It should be noted that collections from excise duty along with customs rose in 2020-21 despite the fact that the year faced Covid-induced lockdowns and GDP contracted massive 24 per cent. While customs duty gave merely 0.24 per cent higher collections during the year over the previous year, excise duty made government coffers richer by 24 per cent. It was largely due to an increase in excise duty on petroleum. For instance, excise duty on petrol was hiked from Rs 19.98 per litre to Rs 32.9 last year.

She said customs duty collections are being powered by the surge in gold imports. For instance, gold imports in July surged to $4.2 billion from $1.78 billion a year ago.