

GST magic dulls, big tax shortfall likely

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After Rs 100,000 cr GST shortfall, Rs 50,000 cr in direct taxes in FY19; low average tax paid means compliance quite poor.

Even when the budget was presented, the much lower projection of a 13.5% growth in FY20 tax collections suggested the government also realized that the expected boom in FY19 collections – taxes were to rise by 17.2% – was a one-time event, driven by more people paying income tax due to the fear of being caught out by the surveillance mechanism in-built into GST or by those who re-stated their taxes after being caught on the wrong foot by demonetization. Whatever the reason, though, a near-20% hike in the tax-to-GDP ratio since [Narendra Modi](#) became prime minister – from 10.1% in FY14 to a projected 11.9% for FY19 – is quite impressive. Indeed, this went well with the other narrative of the sharp hike in the number of taxpayers, especially the e-filers from 2.97 crore in FY13 to 6.75 crore in FY17.

Despite this, however, it appears all is far from well. As FE's Sumit Jha has pointed out earlier, while the number of e-filers rose 2.3 times, what really mattered is the increase in overall taxpayers, and this rose a smaller 1.4 times, from 5.28 crore to 7.41 crore – this includes those who file their returns, whether electronically or physically, as well as those who pay TDS but don't file returns. More important, despite the 1.5 times hike in nominal GDP between FY13 and FY17, the average tax paid across individuals and companies rose by a mere 7%, from Rs 104,704 to Rs 112,604.

Indeed, at 140,139 in FY17 for all taxpayer groups – individuals, HUFs, AoPs, companies – and 81,344 for individuals, the number of crorepatris is quite small compared to the PRICE estimate of one million crorepati households in the country; PRICE's data is for households, but that translates to around 6.6 lakh individuals with an annual income of more than Rs 1 crore a year. This means that just around an eighth of eligible crorepati households are declaring their incomes. The tax data for FY17 shows 1.4 million taxpayers declared an annual income of more than Rs 20 lakh; 1.3 million in the case of individual taxpayers. Once again, this compares poorly with PRICE's estimate of 8 million households or 5.3 million individuals with an income of more than Rs 20 lakh per annum. In other words, even as the number of

taxpayers is rising, there is considerable scope for greater compliance. In FY17, the tax data shows a total of 4.7 crore individuals filed their incomes and declared their incomes to be Rs 28.2 lakh crore; the time-series data shows they paid a total tax of Rs 3.5 lakh crore at an average rate of 12.4%. In FY14, a total of 3.7 crore individuals paid a tax of Rs 2.4 lakh crore on an income of Rs 18.4 lakh crore, making the effective tax rate for that year 13.2%.

While the government had already said it was looking at a Rs 100,000 crore shortfall in GST collections – in the budget, it penciled in GST of Rs 643,900 crore for FY19 as compared to the earlier projection of Rs 743,900 crore – it appears there could be a Rs 50,000-60,000 crore shortfall in direct taxes too. Till now, the government narrative has been one of making up part of the GST shortfall via an increase in direct tax collections. Indeed, when the budget was presented on February 1, the government increased the estimates of direct tax collections by Rs 50,000 crore, primarily by raising estimates for corporate tax collections.

It turns out, however, that with just a week or so to go for the year to end, a Member of the Central Board of Direct Taxes has written to all principal chief commissioners of income tax saying that the government collected just 85.1% of the budget's Rs 12,00,000 crore target by March 23; the letter points to 'regular collections' contracting at an increasing pace and says "this is an alarming situation which needs immediate attention". Given this, and the fact that tax officers have been asked to "take all possible actions urgently, especially with respect to recovery of arrear and current demand", it is possible that firms will be arm-twisted to pay unreasonable taxes and then make a refund after April – the CAG documented such instances when it pointed out that, in March 2016, an extra demand of Rs 5,853 crore was levied on SBI by incorrect calculations of its advance tax and the bank was refunded the amount on April 2; several other examples were also given to show this seems to be a routine exercise since, in FY16, such inflated demands amounted to 10% of the Mumbai region's corporate tax collections for the year.

Even if the taxman is able to arm-twist corporates, analysis of the April to January data that is available on the CGA website suggests that most of the shortage in direct taxes will take place in personal tax collections. If you assume 68% of the year's collections are made in April-January – this is a rough average based on actuals over the past few years – personal income tax collections for FY19 will be Rs 485,000 crore versus the target of Rs 529,000 crore and, at

Rs 669,000 crore, corporate collections will be very close to the upwardly-revised target of Rs 671,000 crore.

If there is a Rs 150,000 crore shortfall in overall tax collections, this implies an FY19 tax-to-GDP ratio of 11.1% as compared to the target of 11.9% and FY18's 11.2%. At a time when GDP is growing as fast as it is today and after all the efforts made to increase compliance – from demonetization to GST and with several other measures in between – this is quite disappointing. All eyes will now be on Project Insight, a computerization of all databases with extensive search and matching facilities; once this is done, and the Aadhaar-linking of PAN numbers takes place, the taxman will have a very good estimate of expenditure and will match this with income statements.

Though GST has in-built compliance systems – these have, though, been mostly kept in abeyance so far – and demonetization meant all cash moved to bank accounts, getting those used to decades of tax non-compliance to fall in line isn't going to be easy.