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GOVERNMENT OF INDIA

REVENUE SECRETARY DR. HASMUKH ADHIA: FORTHCOMING UNION BUDGET 2016-17 WOULD AIM TO PROMOTE GROWTH, EMPLOYMENT AND PROVIDE A LEVEL PLAYING FIELD TO INDIAN DOMESTIC MANUFACTURERS

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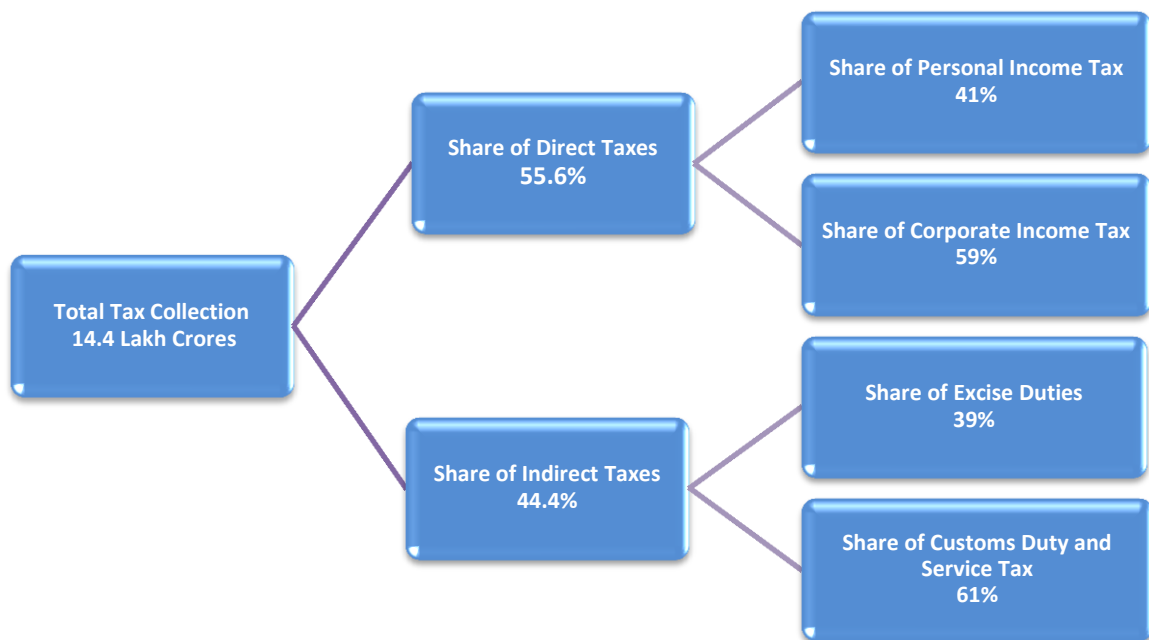
Dr. Hasmukh Adhia, Revenue Secretary, Government of India said that from the taxation perspective, the forthcoming Union Budget 2016-17 would aim to promote growth, employment and provide a level playing field to Indian domestic manufacturers. Dr. Adhia was replying to the questions regarding taxation and the related issues and the expectations from the forthcoming Union Budget for 2016-17 in an interaction with a TV Channel here today.

On being specifically asked about the possible emphasis on 'Make in India' in the forthcoming Budget, Dr Adhia replied that the thrust of the budget would also be on Make in India as well amongst other things.

In reply to a question regarding tax collections target during 2015-16, Dr Adhia said that the Government will be able to achieve the overall tax collections target of Rs. 14.4 Lakh crore for both i.e. direct and indirect taxes during the current Financial year 2015-16. He said that this will be for the First time that after a gap of five years, the Government will be able to achieve the Budget Estimate (B.E.) target of tax collections during 2015-16.

Dr. Adhia mentioned that out of overall target of Rs. 14.4 Lakh crore, about Rs. 8 Lakh crore was the target for direct taxes and Rs. 6.5 lakh crore for the indirect taxes during 2015-16. In case of Direct taxes, Corporate Income Tax accounted for about 59 % of the total and personal income tax accounts for about 41%.

Elaborating further, Dr. Adhia said that normally, excise duties, customs duties and service tax contribute in equal proportion for indirect taxes i.e. 33% each. However, Revenue Secretary said that this year, the structure of indirect tax collections is skewed due to the fall in the international prices of the crude oil and scope for raising excise duty on the same. As a result, the share of excise duty jumped to 39% of indirect taxes, he added.



In reply to a question about the reason for low direct tax collections, Dr. Adhia said the reasons for the shortfall in direct tax collections by around Rs. 40,000 crore was mainly due to Corporate earnings not being as robust as expected. He said that the growth in direct tax collections till January 2016 in current FY 2015-16 over last year was 11% compared to growth of 33% in case of indirect taxes in the same period. The increase in indirect tax collections will enable the government to meet the shortfall in direct tax collections and meet the overall tax collection BE target for 2015-16, Dr. Adhia added.

Dr. Adhia further said that an increase in the indirect tax revenue collections during 2015-16 such as the rise in collections of service tax on banking and financial services by 45% and rise in Customs duty collections due to import of machinery by 25-30% indicates rise and growth in the overall economic activity in the market.

In response to a question on widening of the tax base, Dr. Adhia said that the figure of 3% to 3.5% of the total population only paying tax must be analyzed in the context of the total working population. A large section come from agriculture, BPL and small enterprises who are not liable to pay tax as their income falls below the exemption limit i.e. Rs 2,50,000. However, due to Tax Deduction at Source (TDS), many more people are paying tax even though many of them may not be filing their tax returns. He said that currently, 3.5 crore to 4 crore people are filing the income tax returns, and 1.85 crore to 2 crore people pay tax through TDS bringing the total number of the tax payers close to 6 crore. He said that total number of the tax payers have nearly doubled in last 3 year period which is a big achievement.

Dr. Adhia highlighted the use of Information Technology to address the administrative hassles in filing tax returns as well as in dealing with other tax related matters. A state of the art, Central Processing Centre (CPC) has been set-up in Bengaluru and more than 90% of the

Income Tax returns have been filed online this year. Use of Information Technology has made possible processing of 3.27 crore assessments of the tax returns till 31st December, 2015 i.e. in the first 9 months of the current financial year 2015-16. He further said that out of which 1.81 crore people have received their tax refunds and out of that, 1.31 crore assesses have received their refunds within 30 days of filing their returns, which has been widely appreciated.

On the question of harassment, Dr. Adhia stated that less than 1% of the total tax returns are randomly selected for scrutiny and given a notice. These are mostly big cases. 99% of the cases are not scrutinised and returns are accepted as filed by the assesses, Dr Adhia added.

In response to another question on phasing-out of tax exemptions, Dr. Adhia said that though the exemptions are given for a noble cause such as for promoting domestic industries to provide level playing field or to achieve balanced regional development among others, yet there is a distortionary impact of such exemptions on the taxation system. Dr. Adhia stated that currently, the Government forgoes revenue of about Rs. 1 lakh crore in direct taxes and a similar amount in case of Indirect taxes. This has a cascading impact on tax rates which are relatively higher in order to meet the overall revenue targets, he added.

Dr. Adhia stated that these exemptions also create inequities in the taxation system. He shared that larger companies pay at lower effective tax rates as they can avail benefit of these exemptions while smaller companies are not able to do the same. Similarly, certain sectors like Manufacturing enjoy this advantage over financial and services sector. He reiterated the Government's commitment to phase-out exemptions in a phased manner.

However, he agreed that certain exemptions will continue to be retained. For example, to provide support to Start-ups during incubation period, the Government has recently announced tax holiday for certain period for the new enterprises under Start-up India programme.

In reply to a question on the high pendency of taxation cases in the judicial system, Dr Adhia said that there are 3.44 lakh litigations pending with regards to income tax and 1.36 lakhs in case of indirect taxes. He further said that only 18% of the cases concerning direct taxes i.e. 61, 000 cases are filed by the department, the rest being filed by the tax assesses, contrary to the perception that the Government is a compulsive litigant.

Dr. Adhia said that the Government has already announced various measures to reduce the litigation including the increase in threshold limit for filing appeal in Tribunal and High Courts in case of direct taxes in order to reduce appeals filed by the income tax department. This will reduce the burden of appeals or litigations concerning direct taxes by about 50% in the next 3 to 4 months. He added that litigation by assesses may be reduced by introducing a scheme to bring down the prescribed penalty rates. According to Dr. Adhia, one of the

main reasons for high litigation by assesses is due to reluctance on their part to pay penalty rates which range from a minimum of 100% to a maximum of 300%.

In response to a question how can a tax regime be made conducive for foreign investment, Dr. Adhia replied that emphasis should be on rationalisation and simplification of tax laws and predictability and certainty in the tax regime among others.

Dr. Adhia further pointed-out that the multiplicity of levies by the Central and State Governments places a compliance burden on firms, which is not conducive for investment. He said that the Goods and Service Tax (GST) will solve this problem. In reply to a question about the Revenue Department's readiness to implement the Goods and Services Tax, Dr. Adhia said that the Government is fully prepared, both in terms of administrative arrangements and required IT systems. He said that GST would be implemented once the GST Constitution Amendment Bill is passed by the Parliament and the States' legislatures.

In reply to a question about the need to almost double India's tax receipts, Revenue Secretary Dr Adhia said that the current Tax to GDP ratio is around 10% which is low but said that there is a need to balance this with the capacity of the people to bear the taxation burden. Dr. Adhia said that rationalising the tax administration system and removing unwanted exemptions should be sufficient to bring the Tax to GDP ratio to the required level.

Finally, in reply to the question regarding the expectations from the forthcoming Union Budget 2016-17, Revenue Secretary Dr Adhia replied that the focus should be on tax rationalisation and simplification among others.

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