TAX EXPENDITURES COUNTRY REPORT

India

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Table of contents

List of abbreviations 3
Executive summary 5
India at a glance 6
Tax expenditures key figures 7
Key governance and institutional features 8
Tax expenditures transparency 12
Benchmark 15
Revenue forgone 19
Evaluation 26
Political economy and reform 28
References 30

List of abbreviations

AoP	Association of Persons
ATN	Action Taken Notes
AY	Assessment Year
BCD	Basic Customs Duty
BoI	Body of Individuals
C&AG	Comptroller and Auditor General
CBDT	Central Board of Direct Taxes
CBIC	Central Board of Indirect Taxes and Customs
CIT	Corporate Income Tax
ETR	Effective Tax Rate
FM	Finance Minister
FY	Financial Year (1st April to 31st March)
GDP	Gross Domestic Product
GFC	The Global Financial Crisis
GST	Goods and Services Tax
GVA	Gross Value Added
HUF	Hindu Undivided Family
INR/₹	Indian rupee
IT	Income Tax
MAT	Minimum Alternate Tax
MoF	Ministry of Finance
MP	Member of Parliament
MSME	Micro, Small and Medium Enterprise
OECD	Organisation for Economic Co-operation and Development
PA	Performance Audit
PAC	Public Accounts Committee
PIT	Personal Income Tax
RF	Revenue Forgone

SGST	State Goods and Services Tax
SME	Small and Medium Size Enterprise
SEZ	Special Economic Zone
TLAA	The Taxation Laws (Amendment) Act
TPL	Tax Policy and Legislation Division
TRU	Tax Research Unit
TE	Tax Expenditure
USD/$	United States Dollar
UT	Union Territory
VAT	Value Added Tax

Executive summary

Tax policy ought to be not only efficient but also sufficiently transparent. This requires, inter alia, an elaborate analysis and explicit presentation of tax expenditures (TEs) and the specific policy goals the government is pursuing through them.

Transparency: India has been consistently publishing TE reports as part of its annual budget since 2006. However, the Global Tax Expenditures Transparency Index (GTETI) indicates that there is room for improvement, particularly in making these reports more accessible and comprehensive. The transparency score of 52.7 out of 100 reflects the need for better disclosure of policy objectives, more detailed benchmarks, and the inclusion of Goods and Services Tax (GST) exemptions in revenue forgone estimates.

Complex landscape: India's tax landscape is intricate, with various direct and indirect taxes administered by different bodies, such as the Central Board of Direct Taxes (CBDT) and the Central Board of Indirect Taxes and Customs (CBIC). The introduction of the GST in 2017 significantly transformed the indirect tax structure, subsuming multiple state and central levies. Despite these changes, the tax landscape remains complex, also in the context of managing and reporting TEs.

Fiscal sustainability: TEs represent a significant portion of India's government spending. Careful management of TEs to ensure they do not undermine the country's fiscal health is thus critical. The historical trends indicate a reduction in TEs following the Global Financial Crisis (GFC) in 2007-2008 and the introduction of GST. However, the concessional tax regime introduced in 2019 led to an increase in revenue forgone, raising concerns about the long-term fiscal implications.

Policy recommendations: To enhance the effectiveness and transparency of TEs, the report offers several policy recommendations. These include:

- **Improving transparency:** Enhancing the clarity and accessibility of TE reports, particularly by including comprehensive information about GST exemptions, and providing clearer benchmarks and policy objectives for all TEs.
- **Strengthening evaluation frameworks:** Developing a robust framework for ex-ante and ex-post evaluation of TEs to assess their effectiveness in achieving the stated policy goal and further impacts on economic behaviour, social outcomes, and environmental objectives.
- **Ensuring fiscal prudence:** Carefully managing the scale of TEs to avoid compromising fiscal sustainability, particularly by phasing out ineffective or redundant incentives.

India at a glance (2022)

Population

1.4

(in billion)

GDP

₹ 269.5

$ 3.4
(in trillion)

GDP/capita

₹ 190.2

$ 2.4
(in thousands)

11.3%

(of GDP)
Gross tax revenue
(FY 2022-23)

16.2%

(of GDP)
Central government spending

59.5%

(of GDP)
Central government debt

TAX STRUCTURE

The estimates below are taken from the Annual Financial Statement, called 'The Budget" for 2024-25, which was laid before the Indian Parliament on July 23, 2024. It shows the tax revenues of the Central Government based on actual figures for the financial year (FY) 2022-23 (1st April 2022 to 31st March 2023). This was the first full budget after the formation of the new government in June 2024. The net tax revenues comprise different taxes listed below. The discussion on tax expenditures (TEs) for this report is restricted to income tax on corporates and non-corporates, goods and services tax (GST), customs, and union excise duties.

Net revenue from taxes, Actuals FY 2022-23

Tax type	Billion ₹	Billion $	% Total
Direct taxes	16,598	200	54.3%
Indirect taxes	13,857	167	45.4%
Taxes of Union Territories	87	1	0.3%
Gross Tax Revenues	30,542	368	
States' share and others	9,564	116	
Net revenue from taxes	**20,978**	**254**	

Source: Government of India (2024b), IMF (2023), and World Bank Group (2024a)

Tax expenditures key figures (2022)

Annual
reporting since
2005

82
Reported provisions

₹ 3,121.6
$ 39.7
Total revenue forgone
(in billion)

1.15%
Total TEs as % of GDP

Source: Redonda et al. (2024b)

The fiscal year in India runs from 1st April to 31st March the following year. The incomes earned during a fiscal year are reflected in the tax returns filed in the following year called the Assessment Year (AY). On the 1st of February every year, the Budget is presented before the Parliament by the finance minister (FM) (The exceptions are election years, when an interim budget is followed by a full budget.) This is an outlay of estimated receipts and expenditures of the government in the upcoming fiscal year. The 'Receipt Budget' is part of the Budget documents and includes a statement on revenue forgone for the latest year for which data is available.

The latest TE figures are provided in Annexure 7 of the Receipt Budget for 2024-25. The revenue impact has been estimated in respect of major TEs only. The estimates are for the FY 2021-22, the most recent year for which data is available, based on the tax returns filed for AY 2022-23. Based on the TE figures for the financial year 2021-22, projections have been made for the revenue impact for the FY 2022-23. For this purpose, the average nominal GDP growth for four years calculated at 12.84% is taken (FYs 2018-19, 2019-20, 2021-22 and 2022-23). FY 2020-21 is not included because of the extraordinary circumstances owing to the Covid-19 pandemic.

The total revenue forgone of INR 3,121.6 billion/USD 39.7 billion accounts for 1.15% of GDP.

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Key governance and institutional features

The spirit of fiscal federalism is enshrined in the Constitution of India which ensures the distribution of powers of taxation and public expenditure between the Centre and the states. This report focuses on TEs granted by the Centre through the Annual Budget. A note on subnational TEs is included in Box 1, although detailed discussions on individual state budgets is beyond the scope of this report. The direct taxes introduced by the Income Tax Act (IT Act) of 1961, the indirect taxes enacted through the Customs Act of 1962, and the Central Excise Act of 1944 are administered by the Centre. On 1st July 2017, the indirect tax structure in India was transformed through the elimination of multiple central and state levies such as excise duty, service tax, additional duties of customs, state Value Added Tax (VAT), sales tax, and others which were subsumed into the consumption-based GST. The Ministry of Finance (MoF) comprises the Central Board of Direct Taxes (CBDT) and the Central Board of Indirect Taxes and Customs (CBIC) responsible for the administration of direct and indirect taxes respectively. The GST Council, a joint body comprising both central and state representatives is responsible for implementing GST.

New provisions

The proposals for the introduction of new TE provisions are formulated as part of the Budget exercise within the MoF. The Budget exercise typically begins with the issue of the Budget Circular by the Budget Division within the MoF in August-September. This circular is distributed among various ministries that present their revised estimates for expenditure during the current fiscal year and budget estimates for the upcoming fiscal year.

In mid-November, the MoF begins discussions with industry bodies, sectoral representatives, domain experts, and other stakeholders for their input on potential policy proposals to be included in the forthcoming Budget. These suggestions also include TEs for specific sectors. A press release dated 28th November 2022, details various suggestions made for inclusion in the Budget for 2023-24 including lower customs duties and reduction

of taxes on EVs (Ministry of Finance, 2022a). Another media report mentions industry stakeholder consultations on June 20 prior to the presentation of the full budget in July this year (Singh, 2024).

Recommendations on tax policy and procedure are also invited from field offices and operational units within the Revenue Administration. The Tax Policy and Legislation Division (TPL) within the CBDT and the Tax Research Unit (TRU) within the CBIC are involved in examining these suggestions for their likely incorporation into the Budget documents. The addition of new TEs and the revision of existing ones are discussed in detail within the MoF, and approvals are vetted at different levels before receiving the approval of the FM. The Budget formulation discussions are strictly confidential, and no record of comments and notes is available in the public domain.

The Budget is introduced as a Money Bill with the assent of the President of India and presented first in the Lok Sabha or lower house of the Parliament. The proposals for receipt and expenditure are discussed and debated in Parliament and demands for grants are subjected to vote. Thereafter the Finance Bill is sent to the Rajya Sabha or the upper house. After passage in both houses, the bill is sent for Presidential approval and becomes law.

When the FM presents the Budget, the rationale for new tax incentives or proposed amendments to existing ones is part of the speech delivered in the Parliament on the 1st of February every year. The explanatory memorandum or the 'Pink Book' which is part of the Budget documents also details the basis behind these proposals (Government of India, 2024c).

Tax expenditure report

The current approach to reporting TEs was first proposed under the Fiscal Responsibility and Budget Management Act, 2003 and subsequently, the TE figures were first laid before the Parliament in the Budget 2006-07 and included as Annexure 12 of the Receipt Budget. The following year a separate budget document was also added by way of 'Statement of Revenue Forgone'. This continued till the Budget of 2015-16 when it was termed the 'Statement of Revenue Impact of Tax Incentives under the Central Tax System'. This nomenclature continues to this date.

Annexure 12 to the Receipts Budget for 2006-07 provided the revenue forgone estimates for FY 2004-05 using a small sample size of 1689 companies only. In the following year (2007-08), a separate budget document was added by way of 'Statement of Revenue Forgone'. This included TEs for FY 2005-06 based on actual figures and projections for FY 2006-07. In July 2006, the government mandated the electronic filing of income tax returns, and 301,736 companies filed online submissions by 31st January 2007 (The Economic Times, 2006). The data of these companies was culled from the database of the Income Tax Department for estimating the TE figures for FY 2005-06 and making projections for FY 2006-07.

In subsequent years with the stabilisation of electronic filing systems in both the CBDT and the CBIC, data coverage and capture improved significantly lending greater accuracy to revenue forgone estimates. While the first TE report covered losses from 8 corporate tax and 4 non-corporate tax incentives, this figure has improved to accommodate all major TEs in subsequent FYs. It currently includes 24 corporate tax, 23 non-corporate tax, and 28 tax incentives for individuals in the latest TE estimates provided in Budget 2024-25.[1]

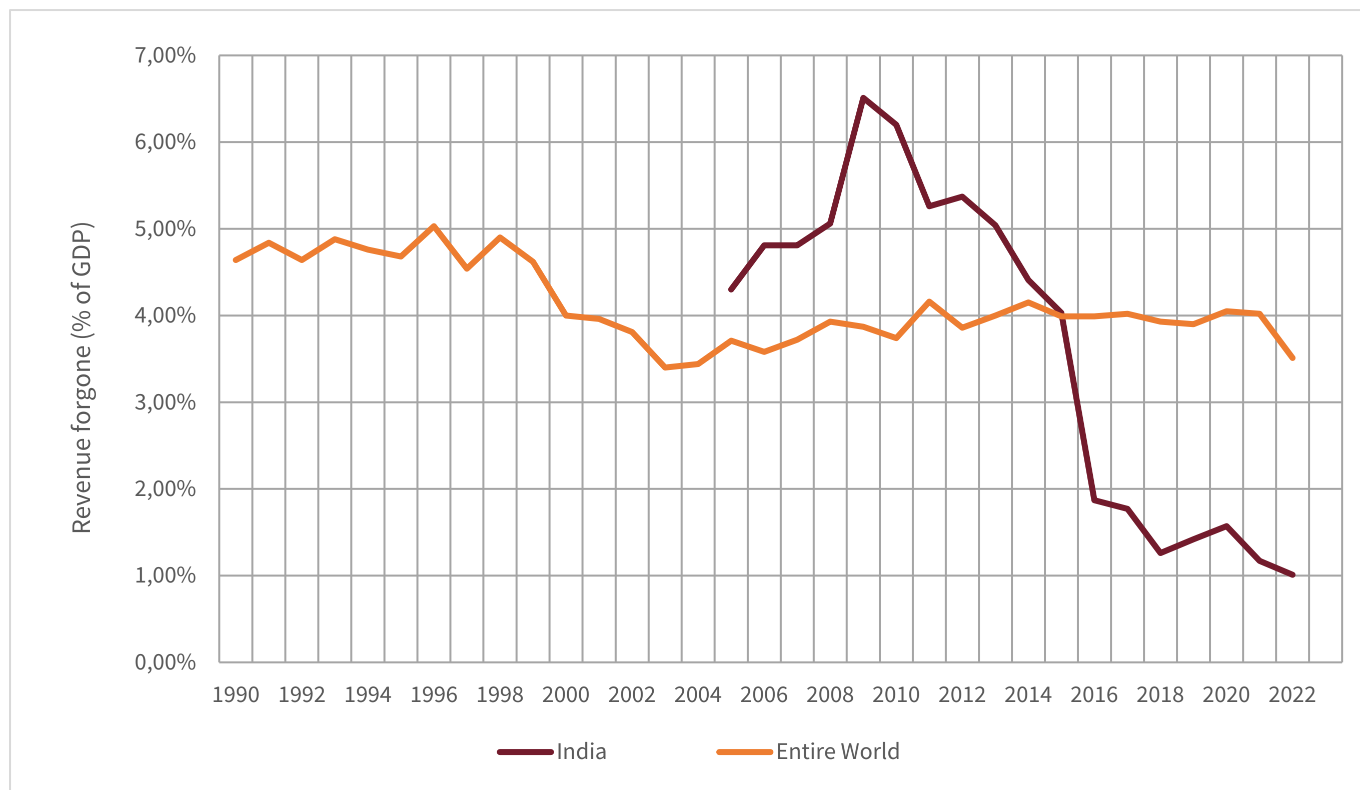
[1] Large businesses are mostly organized as companies (the main beneficiaries of tax incentives), but may also be organized as non-corporates, such as partnership firms, Association of Persons (AoPs), and Body of Individuals (BoIs). The TEs associated with these are smaller than those of the corporate sector. Individual taxpayers also enjoy tax benefits, but mostly as deductions on investments made of salary income (Government of India, 2024b).

As in the vast majority of countries worldwide, TE estimates and projections are based on the revenue forgone approach, hence, the following two assumptions apply:

i. They focus on potential revenue gain from removing exemptions, deductions, and other tax benefits without considering the changes in underlying taxpayer behaviour due to the elimination of preferential tax measures.
ii. The impact of each tax incentive is calculated separately ignoring the interactions and effects when multiple incentives are eliminated.

Figure 1 shows the comparative trends of revenue forgone as percentage of GDP for India vis-à-vis the entire world average. The TEs for India comprise revenue losses from Corporate Income Tax (CIT), Personal Income Tax (PIT), customs and Union excise duties only. Between 2005 and 2015, the TEs figures for India were above the world average ranging between 4.03% to 6.51% of GDP as against the world average of 3.58% to 4.16% in the same period. These patterns can broadly be attributed to excise and customs duty cuts as part of the stimulus package for managing the adverse impact of the Global Financial Crisis (GFC) in 2007-2008.

Figure 1. Comparative trends of revenue forgone as % of GDP - India and the world average



Source: Redonda et al. (2024a)

The Budget for 2015-16 initiated the process of reduction in corporate tax rates and pruning of tax incentives for the sector over a period of four years. In respect of indirect taxes, the introduction of GST necessitated consolidation of excise tariffs and phased out reduction of excise duties and the associated customs duties on imports. This resulted in a sharp drop in TEs in India from 2015 onwards.

The introduction of a concessional tax regime for corporates from 2019 onwards contributed to an increase in revenues forgone from 1.26% in 2018 to 1.57% in 2020. The corresponding world average figures remained

almost static, varying slightly between 3.93% (2018) and 4.05% (2020). Post 2020, with the introduction of the GST, the revenue losses from indirect taxes comprise benefits associated with customs duties only and continue to decline. The revenue losses associated with GST regime are yet to be reported.

Tax expenditures transparency

The Global Tax Expenditures Transparency Index (GTETI) is the first comparative assessment of TE reporting, covering countries worldwide. Building on the data made available through the Global Tax Expenditures Database (GTED), the GTETI provides a systematic framework to rank countries according to the regularity, quality, and scope of their TE reports. For the first edition of the GTETI, released in October 2023, only TE reports published between January 1, 2018, and December 31, 2022, were considered (Redonda et al., 2023b).

The Indian TE reports have been published annually since 2006, as part of the Budget, and include data for the most recent fiscal year. As indicated by the GTETI (see the next page), there is scope for improvement on indicators pertaining to public availability, dimension one, such as visibility, online access, and reader friendliness. The institutional framework for transparent reporting, dimension two, exists in terms of annual publication being intertwined with the annual budget proposals. However, limitations such as incomplete disclosures on policy objectives, and the size of TEs contribute to lower scores.

The TE estimates are calculated using different methods and assumptions which are detailed in the revenue forgone statement. The benchmarks are specified to a limited extent. A major shortcoming is the non-availability of revenue forgone from GST exemptions which limits the scope of the revenue forgone estimates. Although the Receipt Budget for 2018-19 explicitly mentioned that the revenue impact of GST exemptions would be provided from Budget 2019-20 onwards, these figures have still not been included within the revenue forgone estimates published to date.

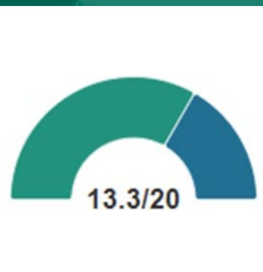
The overall score of 52.7 indicates the consistent reporting of TEs by India and the policy commitment to budget transparency since 2006. These goals can be better realized through comprehensive reporting and the introduction of an evaluation framework for outcome measurement of individual TEs.

52.7/100

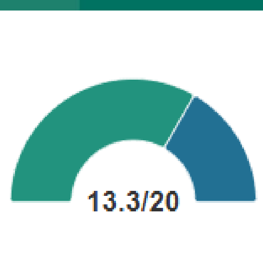
The overall GTETI score

Tax expenditures transparency

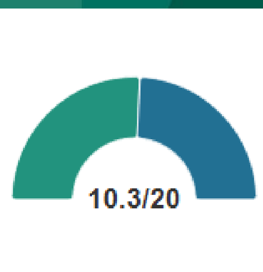
The quality and scope of TE reporting in India is reflected in the **GTETI**, where it ranks **36 out of 104** assessed jurisdictions.



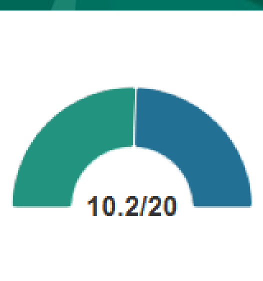
Dimension 1 – **Public Availability**
This dimension captures the extent to which TE reports are made available to the public. It considers the regularity of reporting, the timeliness of data, the online accessibility, and the reader-friendliness of the document.



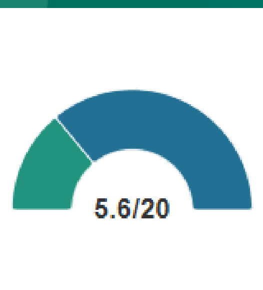
Dimension 2 – **Institutional Framework**
This dimension evaluates how well the institutional framework promotes transparency and accountability in TE policymaking. It assesses the legal basis for TE reporting, the requirement to submit reports to parliament, the assignment of the responsibility to report to a specific public authority, and the consideration of TEs in the country's budget cycle and medium-term strategy.



Dimension 3 – **Methodology and Scope**
This dimension analyses the extent to which TE reports cover all TEs available at the national level, the level of specification of the reference benchmark system against which TEs are assessed, and the method(s) used to calculate revenue forgone.



Dimension 4 – **Descriptive TE Data**
This dimension assesses the information available in the report to identify and explain the nature of different TEs. It evaluates the extent to which the report specifies the policy objective(s) of TEs. Also, it analyses the availability of TE data regarding the type of TE (tax credit, deduction etc.), beneficiaries, time frames, and the legal basis under which TEs are granted.



Dimension 5 – **TE Assessments**
This dimension analyses the extent to which revenue forgone estimates are provided in the report, including levels of (dis)aggregation and the time span of revenue forgone estimates (previous years and forecasts). Further, it assesses the availability of information on TE evaluations, considering both the existence of ex-ante and ex-post evaluation frameworks, and the scope of publicly available evaluations.

Source: Redonda et al. (2023a)

Evaluation framework

As already mentioned, suggestions for tax proposals to be included in the Budget are invited in the pre-budget consultations of the MoF. This is followed by in-house deliberations on the acceptance or otherwise of these recommendations and accordingly included in the Budget documents laid before the Parliament. The central government may sometimes invite public comments on new tax proposals. One such instance specific to TEs can be found in the FM's speech during the presentation of the Budget in 2016 (Ministry of Finance, 2016).

"*A phasing out plan of removing these exemptions and tax incentives was placed in the public domain and we have received a large number of constructive suggestions. The final plan of phasing out exemptions is given in Annexure. The highlights are as follows:*

a) The accelerated depreciation provided under IT Act will be limited to maximum 40% from 1.4.2017.
b) The benefits of deduction for Research would be limited to 150% from 1.4.2017 and 100% from 1.4.2020.
c) The benefit of section 10AA to new [Special Economic Zone] SEZ) units will be available to those units which commence activity before 31.3.2020.
d) *The weighted deduction under section 35CCD for skill development will continue up to 1.4.2020.*"

In this manner, the ex-ante audit of TEs is conducted through wide-ranging consultations under the aegis of the MoF before their introduction into the tax statute.

The ex-post audit of the TE framework is conducted at two levels. The 'Internal Audit' units within both the CBDT and CBIC exercise oversight over the functioning of the direct and indirect tax administrations respectively and review the orders passed by individual Assessing Officers. This includes inter alia the examination of exemptions and deductions claimed in the returns of income and whether the same have been correctly allowed as per the procedure prescribed under the IT Act.

Parliamentary committees, such as the Standing Committee on Finance and Commerce, are permanent committees comprising a few Members of Parliament (MPs) selected from different political parties and entrusted with providing analysis and opinions on specific issues. These committees examine and obtain expert opinion including from government officials on Bills proposed by their ministries and submit reports to the Parliament. The government mostly accepts these recommendations, although they are not binding.

In August 2023, the Standing Committee on Commerce submitted its report on the 'Ecosystem of Start-ups to Benefit India' wherein it inter alia examined the efficacy of Section 80-IAC of the IT Act in providing tax benefits for the startup ecosystem in the country. The report raised concerns regarding the limited uptake of the 2017 tax exemption, noting its utilization by just 1% of entrepreneurs in the last six years, and made recommendations for refining policies and procedures to boost this percentage (Chakrabarty, 2023).

Oversight: C&AG audit of tax expenditures

The Constitution of India provides for a statutory authority, namely the Comptroller and Auditor-general (C&AG) of India, responsible for the audit of the receipts and expenditures of the Central and state governments.

In fulfilment of its statutory role, the office of the C&AG has conducted the Performance Audit (PA) of several tax incentive measures implemented by the Central Government. The procedure involves the examination of orders

and related documents and the issue of queries to CBDT and CBIC for their comments. The 'Inspection Report' is finalized based on the replies received and the final 'Audit Report' is tabled before the Parliament.

The C&AG Report No. 20 of 2013 relates to 'Exemptions to Charitable Trusts and Institutions'. The Public Accounts Committee (PAC) of the Parliament submitted their comments on the observations of the C&AG in their 27th Report dated 16th December 2015 (Ministry of Finance, 2015). A report on the compliance by the government in the form of Action Taken Notes (ATN) were laid before the Parliament by the PAC on 18th July 2018 (C&AG, 2013). The C&AG conducted another audit of charitable trusts during 2020/2022 (see page 26).

The scope of the C&AG audit extends to the appraisal of procedures for the registration, approval, and grant of exemption to charitable trusts as also the identification of specific instances of incorrect exemption claims and grant of registration. The PAC seeks the government's explanation on the C&AG's observations and may also obtain oral evidence of MoF officials. The C&AG and the PAC together oversees the accountability of the government for the effective implementation of the TE regime within the country.

> *"The C&AG and the PAC together ensure the accountability of the government for the effective implementation of the TE regime within the country.*

Benchmark

TE provisions are defined as deviations from the benchmark tax system. This includes deviations from the standard tax base, deviations from the standard tax rate, or changes in the tax period benefitting the taxpayer. Nevertheless, the definition of what should be attributed to the benchmark tax system and what should be marked as a TE provision is not always clear-cut. In India, the TE report specifies the benchmark by type of tax.

Personal income tax (PIT)

Personal income tax (PIT) includes tax receipts from all taxpayers other than companies such as individuals, firms, AoPs and BoIs. Tax brackets vary by category of taxpayers. Individuals, Hindu undivided families (HUFs), Association of Persons (AoP) and Body of Individual (BoIs) fall in the same slab (Income Tax Department, 2024). Firms and corporates are subject to different tax slabs. The statutory rates for individuals are progressive and based on different income slabs above the threshold limit of INR 2,50,000/USD 3,180.7[2] (FY 2021-22). The threshold limit is higher for senior (above 60 years) and super-senior (above 80 years) citizens. Additional surcharge is leviable on higher incomes. A 4% cess for health and education is levied for computing the taxable income.[3] These rates are also applicable to the HUF, AoP, and BoI which are taxable persons under the Indian IT Act (Income Tax Department, 2024).

A majority of individual/HUF taxpayers derive their incomes primarily from salaries and are unable to claim profit-linked deductions available for taxpayers declaring business/professional incomes. Several deductions are available for income covered by Personal Income tax (PIT) under Chapter VI-A of the IT Act. The largest TE is incurred under Section 80C of the IT Act which allows tax deductions for certain investments like savings instruments, repayment of housing loans, and payment of tuition fees for children.

The second largest TE linked to individual taxpayers is a rebate under Section 87A available to resident individuals with taxable income up to 5 lakhs/INR 0.5 million/USD 6361.3[4]. Contributions to health insurance premiums (Section 80D), the New Pension Scheme, and higher exemption limits for senior and super-senior citizens all constitute significant TEs. Profit-linked deductions are available on individual incomes derived from undertakings engaged in the development of SEZs, generation of power, telecommunication services, housing projects, and others (Sections 80-IA, IB, and IC) and contribute to significant revenue forgone figures in this taxpayer category.

Firms are taxed at the base rate of 30% on which surcharge and cess are applicable as per the income level (Income Tax Department, 2024). Firms with less than INR 10 million/USD 127 226[5] in income have a statutory rate of 31.2 %, while those with income above INR 10 million/USD 127 226[6] have a statutory rate of 34.94%. The benchmark is a weighted average of the two rates at 34.09%. This is applied to each deduction for the

[2] OECD (2024) for 2022, the rate is INR 78.6 to one USD.

[3] A cess is 'a tax on tax', an additional levy for a specific purpose. (Clear Tax, 2023). The health and education cess is payable at 4% of the tax amount plus surcharge (if applicable).

[4] OECD (2024) for 2022, the rate is INR 78.6 to one USD.

[5] OECD (2024) for 2022, the rate is INR 78.6 to one USD.

[6] OECD (2024) for 2022, the rate is INR 78.6 to one USD.

determination of the revenue forgone. The largest TE on firms' income is provided under Section 80P whereby a deduction is allowed on the profits of co-operative societies.

Non-corporate taxpayers like firms, AoPs, and BoIs also enjoy profit-linked deductions on their business income. Among these, the deduction of export profits of units in SEZs (Section 10AA), and the deduction of profits and gains of housing projects (Section 80-IBA) constitute significant TEs.

Corporate income tax (CIT)

For both FY 2020-21 (AY 2021-22) and FY 2021-22 (AY 2022-23), domestic companies were subject to tax at a basic rate of 30% (25% if turnover/gross receipts in FY 2018-19 were up to INR 4 billion/USD 5.7 million[7]). These rates are subject to surcharge and 4% education and health cess are payable as per the income slab (see Table 1).

A new concessional tax regime of 22% and 15% under Section 115BAA and Section 115BAB respectively was introduced for domestic companies from FY 2019-20, with a view to boost the global competitiveness of domestic companies through the rationalisation of the corporate tax structure. The Taxation Laws (Amendment) Act, 2019 (TLAA) inserted Sections 115BAA and 115BAB which provided the option of reduced tax rates of 22% and 15% respectively subject to certain conditions whereby no further deductions and exemptions could be availed by companies opting for the new regime.

During FY 2021-22, the total income being taxed under Section 115BAA was INR 1,548,040 crores, representing an increase of 29.8% over the figures of FY 2020-21 (INR 1,192,851 crores) (Government of India, 2024b). Similarly, in respect of companies opting for Section 115BAB, the total taxable income for FY 2021-22 is INR 2361 crores, an increase of 206.5% over the corresponding figures for FY 2020-21 (INR 770 crores). Additionally, there is an increase of 4% in the total tax share by these companies (opting for Sections 115BAA & 115BAB together) over that of FY 2020-21 (Government of India, 2024b). These figures affirm the continuing trend of corporate taxpayers shifting towards the concessional tax regimes.

Table 1. Statutory tax rates for corporates, FY 2021-22[8]

Sl No.	Income level and other conditions	Basic rate	Surcharge	Cess	Statutory rate
1.	Up to INR 10 million/ USD 135,901	30%	0	4%	31.2%
2.	Up to INR 100 million/ USD 1,352,941	30%	7%	4%	33.38%
3.	Exceeding INR 100 million/ USD 1,352,941	30%	12%	4%	34.94%
4.	Specified companies under Section 115BA[9]	25%	7%/12%	4%	27.6%/ 29.12%
5.	Concessional tax regime companies (S115BAA)/(S115BAB)	22%/15%	10%	4%	25.17%/ 17.16%

Source: EY (2024) and author's own elaboration.
Note: OECD (2024) for 2022, the rate is INR 78.6 to one USD.

[7] OECD (2024) for 2019, the rate is INR 70.4 to one USD.
[8] Used the rate of INR 73.9 to one USD for 2021.
[9] Depending on income level.

These statutory rates are set as the benchmark for corporate taxpayers. Exemptions and deductions which result in Effective Tax Rates (ETRs) lower than these rates are treated as TEs.

In FY 2021-22 and projections for FY 2022-23, the largest TE for corporate taxpayers was linked to the deduction of export profits of units located in SEZs. Accelerated depreciation (Section 32 of the IT Act) ranks 2nd in terms of revenue forgone figures for FY 2021-22 and the projections for FY 2022-23. This constitutes a tax deferral as the actual depreciation debited in the company's books of accounts is lower and hence the taxable profit is deferred over many years. Other significant TEs are the deduction from profits of undertakings engaged in the generation, transmission, and distribution of power, specified business infrastructure facilities, and deductions for scientific research. Corporate donations to charitable trusts and institutions also enjoy tax exemptions. The revenue impact of this provision for FY 2021-22 (INR 11329 million/USD 144 million) was lower than for FY 2020-21 (INR 12749.9 million/USD 172.06 million).[10]

The Minimum Alternate Tax (MAT) fastens a tax liability on companies at a minimum percentage of book profits (15% for FY 2021-22) in cases where the tax liability is lower after availing exemptions and deductions (PwC, 2024). The MAT paid is like an advance payment of future tax liability and can be used as a credit to offset taxes of subsequent years (up to 15 years) when the tax payable at normal rates exceeds the MAT liability. This method restricts the period of deferral of taxes and moderates the revenue impact of profit-linked deductions. The additional tax liability on account of MAT (after deducting the MAT credit claimed) is reduced from the revenue forgone estimates to arrive at the final TE figures for corporate taxpayers.

Customs duties

The basic customs duty (BCD) is levied at the rates specified in the First Schedule to the Customs Tariff Act, 1975. Export duty is levied on certain items at rates specified in the Second Schedule to the Customs Tariff Act which are known as “tariff rates”. These constitute the base or benchmark rates.

The Central Government issues notifications prescribing reduced duty rates for imports. Some are unconditional such as those offered under the Second Schedule to the Customs Tariff Act known as the MFN rate. Similarly, as per sovereign commitments, lower customs duties can be allowed under FTAs signed with trade partner jurisdictions. The above exemptions apply to all imports of a commodity and prescribe de facto benchmark tariff rates. Hence, they are not treated as TEs or included in the revenue forgone calculations.

A similar effect is observed in respect of duty-free imports under the export schemes which provide tax neutralisation given zero rating of exports and do not contribute to the revenue forgone calculations.

Another method of providing concessional duties is through the set-off of BCD against credit from freely tradeable duty credit scrips.[11] These export-linked remissions or incentives are provided under specific schemes and were treated as TEs until FY 2020-21. Subsequently, the accounting method has been changed and the duty paid through scrips is now accounted as revenue, and the duty credit allowed to the exporter is treated as expenditure.

[10] OECD (2024) for 2022, the rate is INR 78.6 to one USD.

[11] The duty credit scrip is a certificate that can be used by its holder for the payment of import tariff/customs duty (Director General of Foreign Trade, n.d.).

Conditional exemptions are linked to policy objectives such as the promotion of domestic industry, concessional domestic procurements, and so on, and result in TEs relative to the tariff or MFN rate. For FY 2021-22, the exemption for goods used in the manufacture of mobile phones constitutes the single largest TE during the year (Government of India, 2024b).

Central excise

All the revenue forgone statements published up to Budget 2018-19 provided the TE estimates linked to excise duty exemptions. This practice has been discontinued with the introduction of GST from 1st July 2017.

The excise duties were levied as per the rates specified in the First and Second Schedules to the Central Excise Tariff Act, 1985. The Finance Acts (the 'Budget') also specified the rates of levy of excise duties. Both these enactments specified the benchmark "tariff rates". As in the case of customs duties, various notifications were issued prescribing tariffs at 'effective rates' lower than the "tariff rates". The effective rates prescribed a departure from base tariffs and were used to estimate the revenue forgone.

In a practice similar to the treatment of TEs linked to exemptions of customs duties, the rates prescribed under unconditional exemptions were being treated as de facto tariff or benchmark rates from the Budget of 2017-18 onwards and are no longer included in the 'Statement of Revenue Forgone'.

The major TEs on excise duty arose from area-based tax exemptions. Those TEs were either refund, as in the erstwhile state of Jammu and Kashmir and North-eastern states, or complete exemptions as provided in the states of Uttarakhand and Himachal Pradesh (Government of India, 2018).[12]

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[12] Now state of Jammu and Kashmir has been bifurcated into two Union Territories (Government of India, 2018).

Revenue forgone

The revenue forgone method estimates the loss in revenue incurred by the government because of a TE provision. This involves comparing the amount of revenues actually collected with the amount of revenues that would be collected in the absence of the provision (under the benchmark tax system), and *without considering taxpayers' behavioural responses*.

Annexure 7 of the Receipt Budget for 2024-25 contains Tables 5, 6, and 7 which estimate the revenue impact of tax incentives for FY 2021-22 and estimates for FY 2022-23 separately for corporate taxpayers, non-corporate taxpayers (firms/BoIs/AOPs) and individual/HUF taxpayers respectively (Government of India, 2022). The headings under which the revenue impact has been estimated are broadly similar for corporates and non-corporates. However, in the case of individuals, certain other headings have been included as these are specific to them only. The statement for the corporate sector also analyses the spread of effective tax rates for companies in different profit slabs. Besides, details of entities engaged in charitable activities have also been provided separately under the heading 'Charitable Entities' (ibid).

The GTED provides the figures for the top largest 10 TEs across all taxpayer categories (see Table 2). The largest TE, constituting 29% of revenue forgone, is the tax deduction available for certain investments and payments made by individual taxpayers.

Table 2. Revenue forgone of the 10 largest TE provisions, Actuals FY 2021-22

TE provision	Billion ₹	Billion $	% Total revenue forgone
Deductions on account of certain investments and payments (individual payments)	905.5	11.5	29.0%
Rebate U/S 87A (individual taxpayers)	362.9	4.6	11.6%
Conditional BCD exemptions: EDI Locations: Exemption and effective rate of customs duty for other item	288.1	3.7	9.2%
Deduction of export profits of units located in SEZs (corporate sector)	246.8	3.1	7.9%
Accelerated depreciation (corporate sector)	214.8	2.7	6.9%
Deduction of profits of undertakings engaged in the generation, transmission and distribution of power (corporate sector)	152.9	1.9	4.9%
Deduction on account of contribution to the New Pension Scheme (individual taxpayers)	113.6	1.4	3.6%
Adjustment of tax liability due to the Minimum Alternative Tax	98.2	1.3	3.2%
Deduction on account of health insurance premium (individual taxpayers)	97.8	1.2	3.1%
Deduction of profits of undertakings engaged in development of infrastructure facilities (corporate sector)	82.1	1.0	2.6%
Total	**2,562.6** (billion)	**32.6** (billion)	**82.1 %**

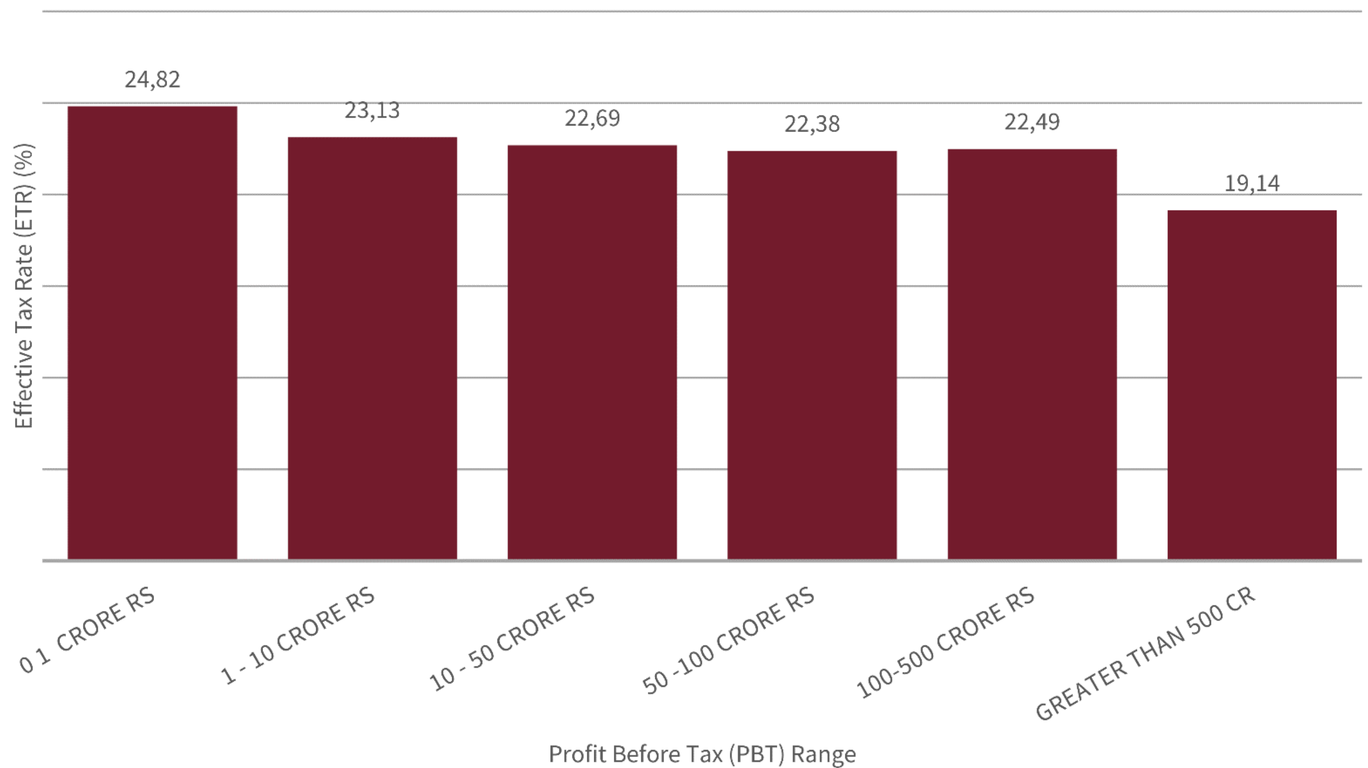
Source: Redonda et al. (2024b)
Note: UNCTAD (2023) for 2022 at INR 78.6 to one USD

Corporates

All corporates are mandated to file their income tax returns electronically. For estimating the TE, data from 1,025,717 companies filing returns till 31st December 2023 (for FY 2021-22) were culled from the database for analysis.

The weighted average statutory corporate tax rate of 34.59 % is applied to each deduction to arrive at the revenue impact of each tax concession. In the case of accelerated depreciation and deduction/weighted deduction for expenditure on scientific research, the difference between the actual depreciation debited to the company's profit and loss account and the depreciation allowable under the IT Act is determined. The weighted average corporate tax rate is applied to this difference to arrive at the TE figure.

Figure 2. Effective Tax Rate (ETR) vs Profit Before Tax (PBT) Range (in Crore INR), FY 2021-22



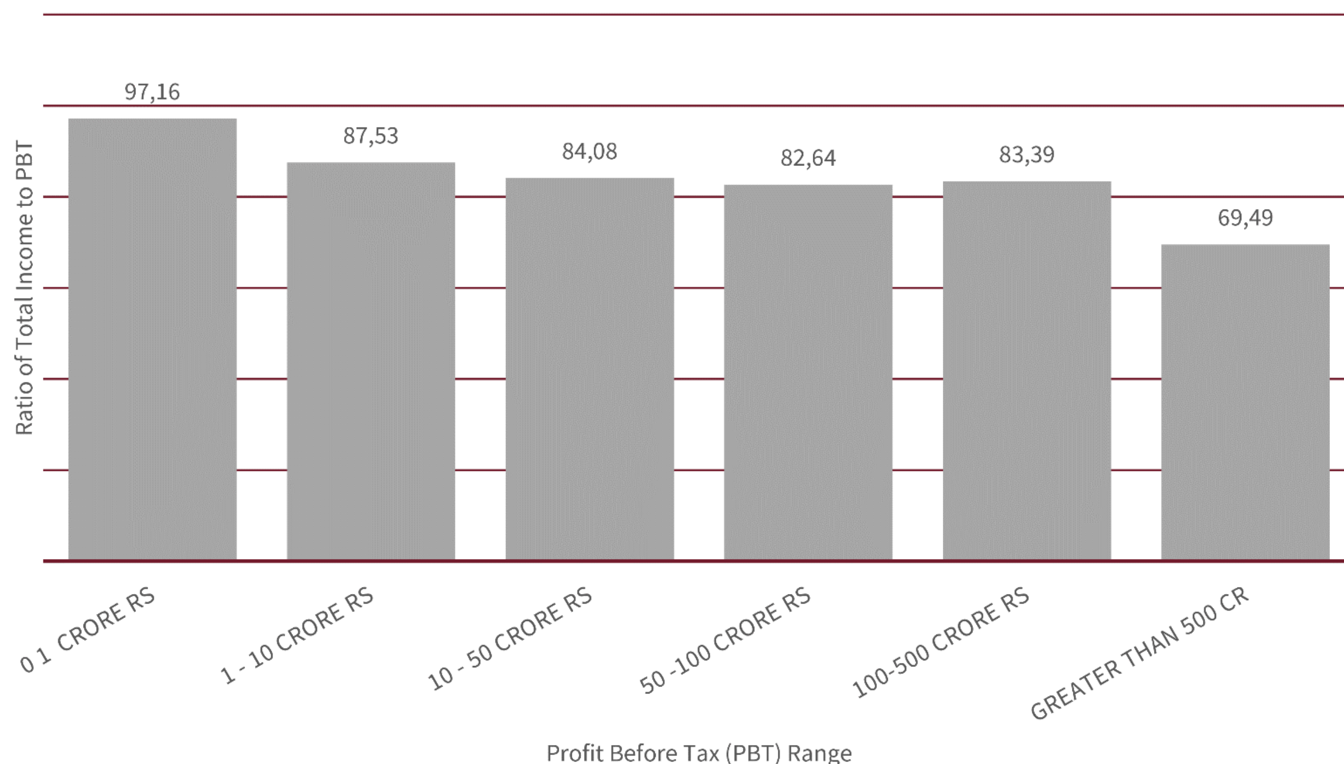
Source: Government of India (2024b) and author's own elaborations

Figure 2 shows that the ETR is lower for companies with higher profits before taxes thereby indicating that larger companies are availing higher deduction and incentives compared to smaller ones. The data from corporate tax filings for FY 2021-22 highlight that 47,005 companies accounting for 4.54% of the total profits and 9.30% of the total taxes had an ETR greater than 33%, which is closer to the average statutory rate of 34.69% (Government of India, 2024b). These findings are corroborated by Figure 3 which illustrates that the ratio of total income to profit[13] is higher for smaller companies. These patterns point to the distributional impact of tax benefits whereby companies with higher profits are making greater use of tax preferences to lower their taxable incomes.

[13] Profit is PBT (before taxes) while income is the taxable income after claiming the eligible deductions out of PBT.

Across various sectors, deductions availed by units located in SEZs and accelerated depreciation rank first and second in terms of TEs for both FY 2021-22 and projections for FY 2022-23. Among other tax benefits, exemptions for undertakings engaged in the development of infrastructure facilities, specified businesses, and deductions on scientific research accounted for a significant portion of the total tax incentives. The deduction on account of donations to charitable trusts and institutions has decreased for FY 2021-22 as compared to such donations for FY 2020-21.

Figure 3. Ratio of Total Income to PBT vs Profit Before Tax (PBT) Range (in Crore INR), FY 2021-22



Source: Government of India (2024b) and author's own elaborations

Concessional tax regime

To promote a globally competitive business environment for domestic companies, attract investment, create employment, and give an overall boost to the economy two new sections 115BAA and 115BAB have been inserted under TLAA 2019 (see Table 1, page 16). The new sections offer concessional tax rates of 22% and 15% respectively for domestic companies subject to certain conditions. The data analysis of returns filed up to 31st December 2023 (FY 2021-22) reflects a trend whereby there is a movement away from the deduction and exemption regime toward the new concessional tax system.

Non-corporates (Firms/AoPs/BoIs etc)

The Income Tax Department received 1,724,125 electronic returns up to 31st December 2023 for income of FY 2021-22 in respect of firms/AoPs/BoIs. AoPs and BoIs.[14] The largest two TEs in decreasing order of revenue impact are the deduction of profits of units located in SEZs, and accelerated depreciation.

Individual taxpayers

A total of 71,270,191 returns were filed electronically by individuals with the IT Department till 31st December 2023. Several deductions are available for this tax base under Chapter VI-A of the IT Act. The largest TE is incurred under Section 80C which allows tax deductions for certain investments like savings instruments, repayment of housing loans and payment of tuition fees for children.

The second largest TE linked to individual taxpayers is a rebate (tax credit) under Section 87A available to resident individuals with taxable income up to 5 lakhs/INR 0.5 million/ USD 6361.3[15]. Contributions to health insurance premiums (80D), the New Pension Scheme and higher exemption limits for senior and super-senior citizens all constitute further significant TEs. Profit-linked deductions are available on individual incomes derived from undertakings engaged in the development of SEZs, generation of power, telecommunication services, housing projects and others (Sections 80-IA, IB and IC) and contribute to significant revenue forgone figures in this taxpayer category.

Customs

Conditional exemptions are linked to policy objectives such as the promotion of domestic industry, concessional domestic procurements, and so on, and result in TEs relative to the tariff or MFN rate. These constitute TEs and are included in estimates of revenue forgone. The largest TE on any single item category is the BCD exemption for specified goods used in the manufacture of mobile phones.

The estimates of revenue impact are based on the data generated from the Bills of Entry (BoE) filed by importers with the Indian Customs Electronic Data Interchange System (ICES) at various Electronic Data Interchange (EDI) locations (Customs ports of entry that are automated) which accounted for 96% of total imports during FY 2022-23. These figures have been extrapolated to cover the data of non-EDI locations.

Central excise

The estimate of the total revenue impact of tax incentives in central excise was based on the Automated Central Excise System (ACES), which captured data from tax returns filed by central excise assesses. The revenue impact of area-based exemptions was obtained from the respective Central Excise Zones. This method resulted in the underestimation of the revenue forgone figures as the ACES data did not capture details in cases where all the goods manufactured were fully exempt from excise duty (Government of India, 2018). With the introduction of GST from 1st July 2017 the practice of including the revenue impact of central excise exemptions has been discontinued from Budget 2019-20 onwards.

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[14] A firm is a separate and distinct taxable entity which has been created under the Indian Partnership Act, 1932 between persons who have agreed to share the profits of a business carried on by all or any of them. An AoP or BoI whether incorporated or not is treated as a person under the IT Act (Government of India, 2024d).

[15] OECD (2024) for 2022, the rate is INR 78.6 to one USD.

Goods and services tax (GTS)

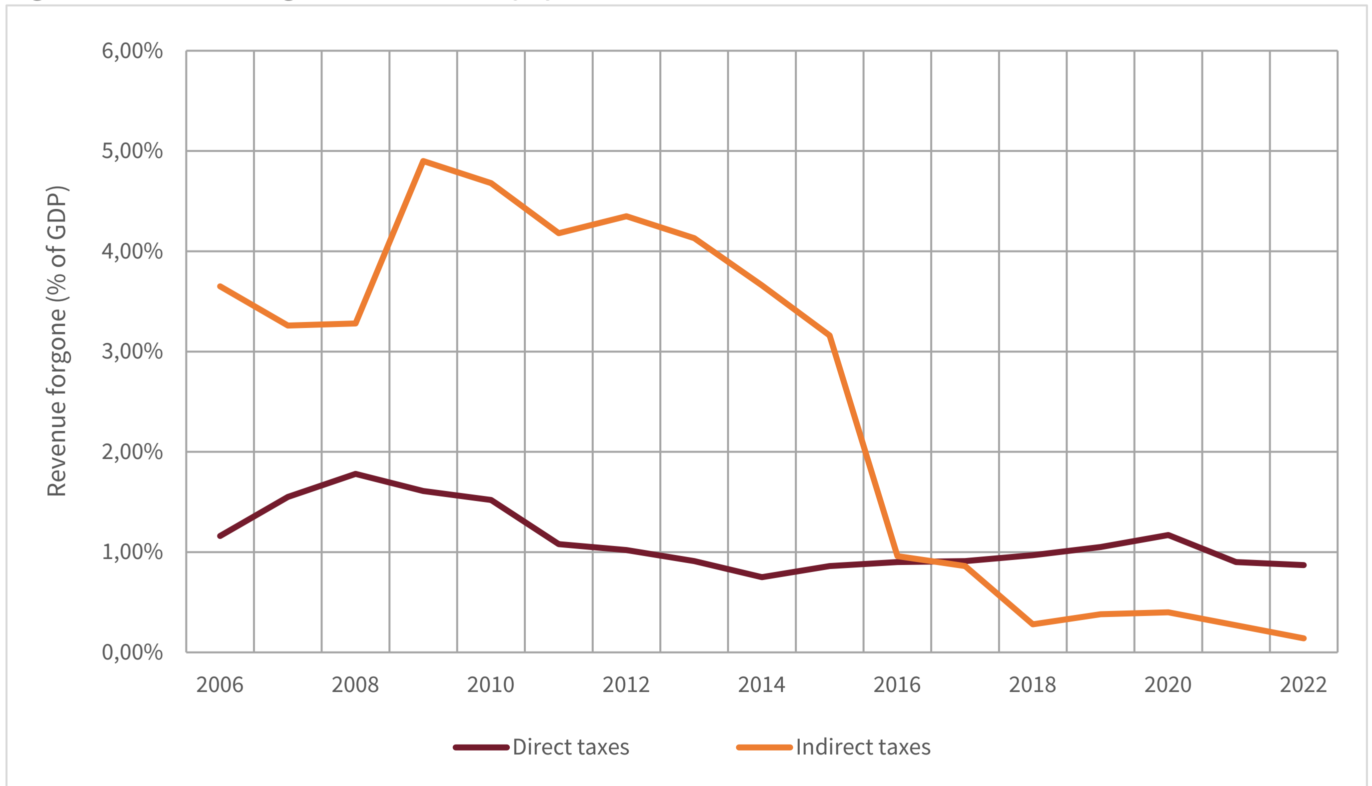
GST is a consumption-based tax which was introduced with effect from 1st July 2017. Unlike other central taxes, GST has both a central as well as state component. The Centre levies and collects the Central GST (CGST) whereas the states levy and collect the State GST (SGST). The Integrated GST applies in case of inter-state supply of goods and services. IGST is collected by the Centre but is distributed between the Centre and the state after the verification of the destination of the goods and services.

GST is levied as per a 4-tier rate structure of 5%, 12%, 18% and 28% respectively. All matters relating to GST such as tax rates, exemptions, thresholds, and procedural matters are decided by the GST Council which is a constitutional body responsible for implementation of the GST in India (GST Council, n.d.). The GST Council is a joint forum of the Centre and states.

The GST has subsumed a number of levies including Union Excise Duty (UED), Service tax and State VAT and these taxes have been discontinued since 1st July 2017. Accordingly, the revenue foregone from central excise is no longer included in the revenue foregone estimates from Budget 2019-20 onwards. Revenue impact of GST exemptions have yet to be included in TE figures.

Figure 4 shows the revenue forgone as percentage of GDP by tax base. Between 2005 and 2022, the percent of tax forgone to GDP for direct taxes (taxes on income) fluctuated between 0.91% and 4.88% while this ranged between 0.14% and 4.68% for indirect taxes. For the first 11 years (2005 to 2015), the expenditures associated with indirect tax incentives were higher than the revenue losses from corporate and personal income taxes. Thereafter (2016-2022) the TEs on indirect taxes fell steadily from 0.96% in 2016 to 0.14% in 2022.

Figure 4. Revenue forgone (% of GDP) by type of tax base in India



Source: Redonda et al. (2024a)

As already mentioned, the fiscal stimulus package in response to the GFC in 2008-10 included cuts in both customs and excise duties thereby contributing to increases in indirect TEs. Post-GFC, the excise duty rates were successively raised to pre-GFC levels leading to a decrease in the size of TEs. Beginning with the 2015-16 Budget, excise exemptions were withdrawn, and the rate structure was consolidated in preparation for the rollout of GST.[16] This led to the elimination of excise duties, except for those on tobacco products, crude petroleum, natural gas, petrol, and diesel. This may partly explain the steady fall in TEs from indirect taxes, although in the absence of further data, particularly on GST revenue forgone estimates, no definite conclusion can be reached on the indirect tax TE patterns from 2016 onwards.

Beginning with the 2015-16 Budget, a phased reduction in corporate tax rates from 30% to 25% and a schedule for the elimination of exemptions for the sector were announced and detailed proposals were laid out in subsequent Budgets (see section about Benchmarking). Additional relief was provided to small taxpayers but rates for individual taxpayers remained unchanged. The 2016-17 Budget introduced wide-ranging measures for the elimination of direct tax exemptions and deductions.

Various tax incentives were discontinued or curtailed after 31st March 2017 and sunset clauses were introduced into profit and investment-linked corporate tax incentives. Individual taxpayers however continued to enjoy tax benefits and incentives to promote savings and health care were announced for middle-class taxpayers in the 2016-17 Budget. The introduction of concessional tax rates for corporates in 2019 resulted in a shift towards the new tax regime (see section about Benchmarking). These factors contributed to a steady rise in direct TEs until 2020.

The 2020-21 Budget announced additional benefits for individual taxpayers in the form of an optional new regime of reduced tax rates for individual taxpayers by eliminating 70 existing exemptions. Other measures announced were concessional tax rates for electricity generation companies, as well as tax benefits for foreign investors, Micro Small and Medium Enterprises (MSMEs), and startups which were continued in the Budget proposals of the following year. However direct TEs have continued to fall since 2020 (Redonda et al., 2024b).

In respect of indirect taxes, a review of 400 exemptions and the introduction of a maximum cut-off date of 2 years for new exemptions were announced in the 2021 Budget. In the absence of extensive literature on TEs in India, a more rigorous analysis is necessary to explain the TE trends post-2020. Prima facie, non-stabilisation of new tax measures and incentives targeted primarily at small taxpayers may partly explain the sharp fall in direct TEs from 2020 onwards relative to 2019. Similarly, customs duty cuts on a few items and non-reporting of GST TEs may partly explain the gradual decline in indirect TEs during this period though richer data insights are necessary for definitive conclusions as discussed in earlier paras (0.4% of GDP in 2020 to 0.14% of GDP in 2022) (Government of India, 2024f).

[16] The education and secondary and higher education cess were subsumed in the central excise duties and the general rate of excise duty of 12.36% was rounded to 12.5%.

Box 1. TE policy at the subnational level in India.

TEs are not exclusively the domain of the Centre but are also levied by India's subnational governments, consisting of 28 states and 8 Union Territories (UTs).[17] Despite the necessity for fiscal responsibility and accountability, there is a lack of systematic reporting on TEs at the state level. State budgets provide consolidated figures for revenue expenditures towards salaries, pensions, subsidies and interests but do not report TEs, such as lower rates or exemptions to SGST and stamp duty waivers.[18] Ex-post evaluations such as by the C&AG only point to non/short levy of stamp duty and registration fees arising out of irregularities in grant of exemptions in individual states (C&AG of India, 2020).

Examples of policies combining expenditure measures, including TEs, are specific industrial policies to attract investments in key sectors. These policies can target strategic sectors, manufacturing or services, or can be designed to support start-ups across multiple sectors (Invest India, 2020). For example, to support manufacturing, states promote capital investment through subsidies and land acquisition rebates. They also offer exemptions on electricity duties and stamp duties to lower operating costs.

The state of Haryana provides reimbursements of net SGST through an investment subsidy, subsidized electricity tariffs, a stamp duty waiver as well as capital and interest subsidies for units ranging from mega projects to MSMEs (PwC, 2021; EY, 2024; Chakraborty & Bhadra, 2024). States like Maharashtra have dedicated policies to incentivize the IT/ITES sector[19] (EY, 2023), while 31 out of 36 states and UTs have start-up policies comprising reimbursement of rental costs and patent fees and provide seed grants (Government of India, n.d.).

Gujarat stands out with its International Financial Services Centre (IFSC) at GIFT City, a Special Economic Zone designed to attract both domestic and international investments. Business units established within GIFT City, including Offshore Banking Units, enjoy several direct and indirect tax benefits. Eligible units operating within GIFT City enjoy a tax holiday for 10 out of 15 years under Section 80LA of the Income Tax Act (Nag & Jain, 2023). Other direct and indirect tax benefits include long-term capital gains exemption and zero-rated GST (ibid.). Apart from these tax benefits pertaining to central taxation, units located within the GIFT City enjoy state subsidies for lease rentals and electricity charges, and stamp duty exemptions (Nag & Jain, 2023).

While these incentives are designed to attract investment, their effectiveness is uncertain, and they come at a significant cost to state finances. Above all, the absence of adequate reporting and analysis of TEs is a major impediment to the rationalization of revenue expenditures within the states and UTs. In FY 2023-24, eleven states estimated a revenue deficit, highlighting the urgency to augment revenue collections and streamline revenue expenditure (Chakrabarty & Vipra, 2023). Improving transparency in the reporting and estimation of TEs in state budgets is a critical step toward facilitating evidence-based TE policy making by state governments.

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[17] Apart from the Centre, states and UTs (combined), the rural and urban local bodies constitute the third tier in the decentralized financial structure of India. They are responsible for the collection of property taxes. However, a discussion on TEs at the level of local bodies is beyond the scope of this paper (Awasthi & Nagarajan, 2020).

[18] All state budgets provide consolidated figures for revenue expenditures (on salary, pensions, interests, grants and subsidies) and capital outlay separately (PRS Legislative Research, 2023).

[19] Capital and interest subsidies are provided as funds from the government to reduce the burden of capital procurement by manufacturing enterprises. In Haryana, capital subsidies up to 25% of loan taken are subject to a limit of INR 5 million and are provided for eligible manufacturing units. Similarly, interest subsidies are provided up to 8% on term loans for 7 years (BIPP, n.d.) Maharashtra also provides incentives in terms of capital subsidies, electricity and stamp duty exemptions and others (EY, 2023).

Evaluation

As previously discussed, TEs are subject to scrutiny within parliamentary committees which may examine the efficacy of certain incentives such as Section 80-IAC of the IT Act in boosting the startup ecosystem within the country. Literature on the evaluation of TEs is sparse though some national research institutes and policy think tanks have published reports examining specific exemptions and incentives (Kavita Rao et al, 2016). In addition, as already mentioned, more comprehensive evaluations of TEs are carried out by the C&AG in fulfilment of its statutory mandate to audit the receipts and expenditures of the central and state governments.

Exemptions to charitable trusts

Charitable trusts, associations and non-profit organizations have a vital role in supplementing government efforts in providing economic growth and social welfare, particularly at the regional and grassroots level. In recognition of these contributions, various tax benefits and incentives are provided both to charitable organizations and their donors. In order to qualify for these benefits, charitable trusts and associations are required to comply with specified procedures regarding registration, approval, and application of income.

The C&AG Report No. 20 of 2013 flagged irregularities in the grant of exemption to charitable institutions relating to registration, application of income, receipt of foreign contributions and others (C&AG of India, 2013). The PAC examined these findings and Action Taken Notes (ATN) were submitted by the Central Government on the issues raised during the Performance Audit (PA). Audit Report No. 12 of 2022, reviewed the earlier reports and compliance thereof and examined the assessment of charitable or religious trusts and institutions for the Assessment Years (A.Y.s) 2014-15 to 2017- 18.

The PA (2020/2022) pointed out gaps in the supervision of activities of trusts such as non-verification of anonymous donations, automatic/summary audit in many cases and ineffective monitoring of foreign contributions (C&AG of India, 2022). Subsequent Budgets have rationalised the provisions relating to trusts through measures such as the introduction of registration for a limited period of up to 5 years and filing of statement by the donee for verification of donation received from the donor (Government of India, 2020).

The Budget for 2022-23 presented on 1st February 2022 introduced several provisions for ensuring consistency between different tax exemption regimes, effective monitoring of trusts and clarity on definitions for determining the quantum of income exempt from tax (Government of India, 2022b). The latest Budget of July 2024 has simplified the exemption regime by merging of different sections for claiming tax exemptions out of charitable income (Ministry of Finance, 2024).

Tax exemptions for Special Economic Zones (SEZs)

India’s SEZs are established under the SEZ Act of 2005 and provide preferential tax treatment for businesses located within a specific geographical area. The main objectives are to boost exports, encourage investment, and promote employment opportunities by providing concessions and exemptions under both direct and indirect taxes.

A Performance Audit (PA) of SEZs conducted by the C&AG in 2014 pointed out ineligible exemptions and deductions amounting to INR 11456.7 million/USD 187.7 million[20] and INR 43.9 million/USD 0.7 million[21] in indirect and direct taxes respectively between 2006-07 and 2012-13 (C&AG of India, 2014). The operating units in SEZs are provided duty exemptions under customs, central excise, and service tax. The C&AG audit of 2014 flagged several discrepancies in granting service tax exemptions by pointing out specific instances of incorrect claims and procedural lapses committed by indirect tax authorities. Non-inclusion of revenue forgone on account of excise and service tax were also pointed out by the CAG.

Procedural deficiencies under the Income Tax Act, such as non-specifying of time limits for repatriation of export proceeds under Section 10AA, lack of clarity on the definition of profits for computing tax deductions, and others were also flagged in the audit report submitted to Parliament. The Finance Act of 2023 has amended Section 10AA of the Income Tax Act to provide a time limit of 6 months for remittance of export proceeds for claiming tax exemption by SEZ units under this Section.

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[20] OECD (2024) for 2014, the rate is INR 61.03 to one USD.
[21] OECD (2024) for 2014, the rate is INR 61.03 to one USD.

Political economy and reform

The Government of India has appointed several committees to review the functioning of the tax administration in the country. Notably, the Chelliah Committee (1991-92), the Kelkar Committee (2002), and the Shome Committee (2014) have all recommended rationalizing the tax structure by eliminating unnecessary TEs.

The Chelliah Committee Report recommended the reform of the direct tax structure through a reduction in both rates of PIT and CIT, and a pruning of rebates and allowances on savings instruments. This was implemented by introducing lower tax slabs, higher exemption limits, and reduced savings limit exemptions for individuals, and a single tax rate for domestic companies (Income Tax Department, n.d.).

The Kelkar Committee recommendations led to the introduction of the Fiscal Responsibility and Budget Management Act 2003. This marked a significant step in budget transparency leading to the publication of revenue forgone figures from 2006 onwards. Other recommendations included increasing the income tax exemption limit, lowering the corporate tax rate for domestic companies to 30%, and reducing tax exemptions aimed at the simplification and rationalization of the tax structure.

Lastly, the Tax Administrative Reforms Commission (TARC) also called the 'Shome Committee', submitted its report in 2014 (PRS Legislative Research, 2014). Though known primarily for its recommendation on GAAR and capital gains tax on indirect transfers, the committee report stressed the simplification of the tax system through the abolition of excess tax benefits.

TEs in India entail revenue foregone to the extent of 1.15% of GDP and directly impact resource mobilization for economic growth and social welfare (Redonda et al., 2024b). At the same time, TEs are inextricably linked to policy objectives. Yet, since there the stated policy goal of a TE is usually not clearly defined, TEs are often not evaluated in terms of their costs and benefit. TEs for charitable activities are a case in point.

The Income Tax Department has launched 'ITR 7', a tax return form designed to simplify compliance for taxpayers involved in charitable or religious activities by capturing essential details such as registration, income application, contributions, and investments (Taxmann, 2024). On July 23rd, the Budget announcements merged provisions allowing charitable entities to claim exemptions under the Income Tax Act (Kably, 2024). Despite ongoing efforts to streamline the approval and monitoring processes for charitable trusts, estimating and evaluating their tax exemptions remains challenging. According to the latest Budget estimates, 8171.9 billion INR was reported as applied for charitable or religious activities in FY 2021-22 (Government of India, 2024b). However, it is unclear if this figure is based solely on charities' declarations in tax returns or verified claims regarding income application and investments. Additionally, increased scrutiny over illegitimate claims has complicated the assessments (Mint, 2023). Establishing clear evaluation criteria and improving data insights could facilitate a more accurate assessment of TEs related to charitable entities.

One of the most contentious issues relating to TEs in India relates to the tax exemption for agricultural income. The agriculture sector employs about 42.38% (World Bank, 2024b) of the workforce and according to the Economic Survey 2022-23, the share of agriculture and allied sectors in total Gross Value Added (GVA) of the economy has settled at around 18% in the long term (Ministry of Finance, 2022b). Though the average monthly

household income of a farmer was estimated at INR 10218/- (around USD 120) in 2018-19[22], the sector has been perceived as a conduit for tax evasion or money laundering of non-agricultural income (Trumboo, 2022).

Despite the blanket exemptions continually enjoyed by the sector, there are no official estimates of the revenue impact of these tax benefits. Scholars like Sengupta and Rao (2012) and Mehta (2017) project the potential gain in revenue from the imposition of agricultural income tax (AIT) at INR 50,000 crores/USD 9653.3 million and INR 85,000 crores/USD 15905.7 million respectively (Sengupta and Kavita Rao, 2012; Mehta, 2017).[23] The audit of 6,778 cases from all over the country for the FY 2014–2015 to 2016–2017 revealed that the agricultural income exemption claimed by taxpayers amounted to INR 3,656.25 crores/USD 599.1 million (C&AG of India, 2019).[24]

In 2002, the Kelkar Task Force on Direct Taxes estimated the loss of revenue 'from laundering of non-agricultural income as agricultural income' to be about INR 1,000 crores (Kelkar, 2002). A similar view was expressed by the TARC (2014) which said, 'Agricultural income of non-agriculturists is being increasingly used as a conduit to avoid tax and for laundering funds, resulting in leakage to the tune of crores in revenues annually', although it did not quantify the amount (PRS Legislative Research, 2014).

Policy reforms to plug this gap in taxation and garner revenue for public expenditure have focussed on threshold-based taxation of agricultural income (Trumboo, 2022). The proponents argue that this can ensure that poor farmers are not burdened with tax payment and rich agriculturists who already benefit from sectoral subsidies, pay their share of government revenue. Farmer related issues specifically on taxation continue to be politically sensitive and hence these suggestions have not been accepted till date.

[22] According to a Press Release by the Ministry of Agriculture and Farmers Welfare dated 21st March 2023, the monthly Agricultural Household Income was estimated as Rs.6426/- which increased to Rs.10218/- as per the survey conducted in 2018-19 (Ministry of Agriculture and Farmers Welfare, 2023).

[23] OECD (2024) taking the rate in 2012 at INR 53.44 to one USD.

[24] OECD (2024) taking the rate of 2014 at INR 61.03 to one USD.

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