Fall in Direct Tax Collection

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Why in News

According to the **Central Board of Direct Taxes (CBDT)**, the gross direct tax collections for the financial year (FY) 2019-20 fell by almost 5% compared to FY 2018-19.

- The total direct tax collections for 2019-20 was at Rs. 12.33 lakh crore against Rs. 12.97 lakh crore of 2018-19.
- Direct tax is a type of tax where the incidence and impact of taxation fall on the same entity. In the case of direct tax, the burden can't be shifted by the taxpayer to someone else.
    - These are largely taxes on income or wealth. e.g Income tax, corporation tax, property tax etc.

Key Points

- The fall in the collection of direct taxes is due to a combination of factors, **which include the historic tax reforms undertaken in 2019 and much higher refunds** issued during the FY 2019-20.
    - **Tax Reforms:**
        - **Reduction in corporate tax rate to 22%** from FY 2019-20 **for all existing domestic companies.**
        - **Incentive for new manufacturing domestic companies** by reducing the tax rate to 15%.
            - Such companies have also been exempted from payment of **Minimum Alternate Tax (MAT).**
            - This was done in order to promote growth and investment.
        - **Reduction in MAT rate from 18.5% to 15%** to provide relief to the companies which continue to avail exemption and pay tax under MAT.
        - **Exemption from income-tax** to individuals earning income up to Rs. 5 lakh and increase in standard deduction from Rs. 40,000 to Rs. 50,000.
        - The revenue impact of these reforms have been estimated at Rs. 1.45 lakh crore for Corporate Tax and at Rs. 23,200 crore for the Personal Income Tax (PIT).
    - **High Refunds:** In FY 2019-20, the **total refunds** given was Rs. 1.84 lakh crore as compared to Rs. 1.61 lakh crore in FY 2018-19 which is a 14% increase year-on-year.
- **Tax Buoyancy:** Excluding the effect of tax reform measures and higher issuance of refunds during the FY20, **the tax buoyancy for gross direct collection, corporate tax and personal income tax was positive.**
    - The tax buoyancy for gross direct tax collection was 1.12, for corporate tax it was around 1 and for personal income tax it was 1.32.
    - The higher growth rate in direct taxes as compared to GDP even in these challenging times proves that recent efforts for the widening of the tax base undertaken by the government are yielding results.
    - **Tax buoyancy is used to assess the efficiency of the tax system.**
- **Investment:** The setting up of new manufacturing facilities requires various preliminary steps like acquisition of land, construction of factory sheds, setting up of offices and other infrastructures, etc.

    The tax reforms were brought in September 2019 and these activities cannot be completed in just a few months. Further, the outbreak of **Covid-19**, may delay this process.

Steps Taken by the Government to Increase Direct Tax and Investment

- **Personal Income Tax -** The Finance Act, 2020 has provided an option to individuals and co-operatives for paying income-tax at concessional rates if they do not avail specified exemption and incentive.

- **Abolition of Dividend Distribution Tax (DDT) -** The Finance Act, 2020 removed the Dividend Distribution Tax in order to increase the attractiveness of the Indian Equity Market.
- **Vivad se Vishwas -** Under **Vivad se Vishwas**, declarations for settling pending tax disputes are currently being filed.
  This will benefit the Government by generating timely revenue and also to the taxpayers by bringing down mounting litigation costs.
- **Encouraging digital transactions -** In order to facilitate the digitalisation of the economy and reduce unaccounted transactions, various measures have been taken which include:
  - Reduction in rate of presumptive profit on digital turnover,
  - Removal of **Merchant Discount Rate (MDR)** charges on prescribed modes of transactions,
  - Reducing the threshold for cash transactions,
  - Prohibition of certain cash transactions, etc.
- **Raising of monetary limit for filing of appeal -** To effectively reduce taxpayer grievances and help the Income Tax Department focus on litigation involving complex legal issues and high tax effect, the monetary thresholds for filing of departmental appeals have been raised.
  The monetary threshold has been raised from Rs. 20 lakh to Rs. 50 lakh for appeal before Income Tax Appellate Tribunal (ITAT), from Rs. 50 lakh to Rs. 1 crore for appeal before the High Court and from Rs. 1 crore to Rs. 2 crore for appeal before the Supreme Court.
- **Expansion of scope of TDS/TCS -** For widening the tax base, several new transactions were brought into the ambit of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS).
  These transactions include huge cash withdrawal, foreign remittance, purchase of luxury cars, e-commerce participants, sale of goods, acquisition of immovable property, etc.

Key Terms

- **Corporate Tax:** It is levied on a firm's profit by the government.
  - It is taxed on operating earnings after expenses have been deducted.
  - The rate of corporate tax in India varies from one type of company to another i.e. domestic corporations and foreign corporations pay tax at different rates .
- **Dividend Distribution Tax (DDT):** Dividend refers to the distribution of profits to shareholders of a company.
  - Thus, the dividend distribution tax is a type of tax that is payable on the dividends offered to its shareholders by the corporate.
  - Higher dividends mean a greater tax burden for the corporate entity.

- **Minimum Alternate Tax**
  - At times it may happen that a taxpayer, being a company, may have generated income during the year, but by taking the advantage of various provisions of Income-tax Law (like exemptions, deductions, depreciation, etc.), it may have reduced its tax liability or may not have paid any tax at all.
  - Due to an increase in the number of zero tax paying companies, Minimum Alternate Tax (MAT) was introduced by the Finance Act, 1987 with effect from assessment year 1988-89. Later on, it was withdrawn by the Finance Act, 1990 and then reintroduced by Finance Act, 1996.
  - MAT is an important tool with which tax avoidance can be prevented.

Source: PIB