

UNION BUDGET 2023-24 PROPOSALS FOR DIRECT AND INDIRECT TAXES



NOVEMBER 2022



(An Autonomous Institution of Government of Kerala)
GIFT Campus, Thiruvananthapuram, Pin- 695017, Kerala, India

**UNION BUDGET 2023-24
PROPOSALS FOR DIRECT AND INDIRECT TAXES**

Submitted to
**The Department of Finance
Government of Kerala**

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*An Autonomous Institution of Government of Kerala
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Union Budget 2023-24

Proposals for Direct and Indirect Taxes

Introduction

Budgets are often the constructs of the context. Every context, however, has a short-term and long-term dimension. Hence, while it is imperative to give importance to issues of immediate concern, the chief architect of the budget, the Finance Minister, has to keep the building in mind while placing each brick. Thus viewed, the challenge of any Finance Minister is to strike the delicate balance between short-run and long-run issues. This rather tricky task is possible if and only if the Finance Minister is cognisant of the state of the economy in general and the fiscal position in particular. Hence, in what follows, we shall make direct and indirect tax proposals, against the background of emerging economic and fiscal trends.

While reflecting on tax proposals, our objective is to ensure that adequate resources are mobilised in a manner that hurts neither the economy nor the people, especially the less privileged.

In what follows, we shall articulate the context for each proposal, while annexures are provided for elaborating why we propose what we propose.

Indian Economy: Which Way Now?

Within the above perspective, we shall paint the positives and perils as regards the present state of the Indian economy.

The Green Shoots:

India is on the cusp of a major leap forward, with a target of becoming a \$5 trillion economy by 2025. Recent IMF's estimate suggests that India has emerged as the fifth largest economy in the world, overtaking the United Kingdom. This is exactly what was predicted by Goldman Sachs (2003) in their much-quoted study "Dreaming with BRICs".

Subsequently, estimates by the State Bank of India indicated that India is all set to emerge as the third-largest economy in the world by 2029 by overtaking Germany in 2027 and Japan in 2029. These estimates indicate that India's growth trajectory is ahead of what was projected by Goldman Sachs. It is important to note that in 2014 with a share of 2.6% of the global GDP, India was in the 10th position, and today India's share is 3.5% of the global GDP. With a GDP growth rate of 13.5% recorded during the first quarter of this year, India also emerged as one of the fastest-growing economies in the world. This has been further reinforced by the IMF forecast that India is going to be the fastest-growing economy in the world till 2027, surpassing China.

The Red Lines:

At the same time, the budget 2023-24 cannot afford to ignore some of the not-so-desirable emerging trends in short run. There is an imperative to reverse these trends for which the direct and indirect tax proposals could be effective.

Decelerating Growth: After galloping at a growth rate of 8.3% during 2016-17, the GDP growth started decelerating with a recorded growth rate of 6.8% and 6.5%, respectively, in 2017-18 and 2018-19, before reaching the lowest growth rate of 3.7% during 2019-20 attributed to a host of factors.

Subsequently, the economy was hit hard by the once-in-a-century pandemic that brought down the growth rate to -6.6 % in 2020-21 and 8.7% in 2021-22. *Albeit* our faster recovery, the estimated loss during the COVID-19 is estimated to be recouped only by 2025. Sadly enough, even before the recovery from the pandemic, the Russia-Ukraine war inflicted yet another fatal injury to the global economy, and the Indian economy has not been spared.

Rising Unemployment: In sync with the deceleration of GDP growth, our performance in generating employment has not been encouraging. The unemployment rate has remained high and crossed even at 8% in certain months. If the data provided by International Labour Organization (ILO) is any indication, India's youth unemployment (for those in the age group of 15 to 24 years), who are looking for work, is as high as 28%. According to Kaushik Basu, former Economic Advisor to the Government of India, this places India in the cluster of troubled West Asian nations such as Iran (27.2%), Egypt (24.3%) and Syria (26.2%), and in a much worse state than most Asian countries such as Indonesia (16%), Malaysia (15.6%), and Bangladesh (14.7%). Needless to say, it raises much concern among the young generation about their future and our failure to reap the demographic dividend.

Declining Savings and Investment: The output and employment scene cannot be delinked from the investment trends. Investment, as indicated by the rate of gross capital formation, has been in the southward direction. According to RBI's *Handbook of Statistics on Indian Economy*, gross capital formation as percent of GDP has declined from 33.9% in 2017-18 to 27.3% in 2020-21. The observed decline was from a rate as high as 39.8% in 2010-11. Investment does not come out of heaven. It is the progeny of people's propensity to save which is governed mainly by their disposable income and the incentive for saving. With the plausible decline in income, the saving rate declined 32.1% in 2017-18 to 28.2% in 2020-21. It was as high as 36.9% in 2010-11. There is hardly any evidence to suggest that FDI will come to our rescue when our economy is sluggish.

Rising Inflation: Inflation, despite the concerted efforts by the Central Bank, seems to be out of control remaining at over 7% for the last six months. Although it is global and much of it could be imported, the bearing of the supply-side factors in the domestic economy cannot be ignored.

To reverse the trend in GDP, employment, and prices through enhanced Saving and Investment, *we propose the following changes with respect to income tax after due consideration of price rise since the existing rates were introduced; (Annexure 1. for Details)*

- The standard deduction may be enhanced from the present level of Rs 50,000 to Rs 75,000, which is expected to enhance savings
- House loan interest deduction may be enhanced to Rs 3 lakhs from Rs 2 lakhs, which we consider could be instrumental in inducing investment in the housing sector
- Section 80C for saving may be increased to Rs 3 lakhs from Rs 1.5 lakhs which could serve as a means of reversing the downward trend in the rate of saving
- Interest income exemption may be increased to Rs.1 lakh from Rs 40000, which could be yet another means of raising savings
- In the Old tax regime, the income slab between Rs 5 lakhs to Rs 10 lakhs is taxed at 20%. Keeping inflation and rising per capita income in mind, this slab may be increased from Rs 5 lakhs to Rs 15 lakhs. This is also expected to help savings and also boosting demand

Increasing Inequality: The adverse effect of maintaining social distancing, the globally practised strategy to contain the pandemic, varies across sectors of the economy, and there are also intra-sectoral differences. So also, there is inter-regional variation. As a result, the adverse effect also varies across different sections of society. Evidently, while those in the organised sector with social protection were relatively less affected, those in the unorganised sector were the ones hit very hard (GIFT 2022). Needless to say, the inequality, which we are committed to keep under control, seems to be crossing limits. What is more, interregional inequality is also in its upward direction. Inflation which hits the poor hard would have made the poor poorer, adding fuel to inequality.

In this context, we propose the following: (see Annexure 2 for Details)

- The income tax rate may be marginally reduced for the lower bracket, and the loss of revenue on account of this may be recouped by marginally increasing the tax rate of the upper-income bracket.
- The proposals that we make with respect to corporate income tax and wealth tax, in the next section, would also help arrest the growing inequality (see below).
- It is also suggested that urgent steps for the enhancement of the profession tax maximum ceiling to Rs 18,000 from the existing ceiling Rs 2500. This could be much helpful in decentralised and balanced regional development

Poor Government and Rich Corporates: In the world over, governments in developing countries after globalisation have become poorer as their Tax GDP ratio has been declining or stagnant. This has been mainly on account of the cut in customs duties. While the cut in customs is not necessarily bad, the countries became poorer as there has been neither any international financial support nor a corresponding rise in corporate taxes (Piketty 2022). In India, prior to the implementation of GST, the customs duty contributed around 15% to the Union Government's Gross Tax Revenue. After the implementation of GST, customs duty contributed only around 6-7% of the gross tax revenue.

Corporates were the beneficiaries through the double bonanza; when customs cut helped boost their international competitiveness and profitability through greater integration with the Global Value Chain, corporate taxes were also slashed.

The combined net profit of the listed companies was up 57.6 per cent to Rs 5.31 trillion in FY21. As a result, the corporate profit share in India's gross domestic product (GDP) hit a 10-year high of 2.63 per cent in the last financial year. The ratio was at a record low of 1.6 per cent in FY20, while it was the highest in FY11 at 3.2 per cent.

The Union Government reduced corporate tax rates from 30% to 22% for domestic companies and 18% to 15% for new domestic manufacturing companies on September 20, 2019. The effective tax rate is 25.17% inclusive of cess & surcharges. While European/OECD countries currently levy, on average, a corporate income tax rate of 21.7 percent, the worldwide average across 177 jurisdictions stood at 23.9% in 2020. More importantly, India's corporate tax rate is only 25.2%, while the average rate for the BRICS, excluding Russia, is as high as 29%. India's corporate tax revenues as a percentage of GDP are below the global average of 3.2% in 2018.

In this context, we propose the following: *(Annexure 2 for Details)*

- **We make a case for increasing corporate tax at least by 2%**
 - **Apart from mobilising government revenue, such a measure will also be effective in reducing inequality.**
- **Various studies have observed a positive association between size and profitability. In light of this finding, we make a case for revisiting the present slabs of below Rs 400 Crore and above Rs 400 Crore. It is desirable to have a third slab for companies exceeding annual turnover Rs 1000 Crore with a marginally higher rate.**
- **There is a case for subsuming the surcharge and cess with the corporate income tax such that the whole revenue is shared with the states.**
- **As part of ease of doing business, in the case of MSMEs certain proportion of tax (1-2%) could be levied on turnover. This can be collected easily GSTR filing information is available.**

Wealth tax and estate duty

India abolished wealth tax in 2015-16 and estate duty in 1985, considering the high cost-of collection. But today with the effective use of information technology, the collection and monitoring could be a lot easier. It needs to be noted that at this juncture, very few countries impose a wealth tax.

But the World Inequality Report (2022) proposes several policy options to redistribute wealth to invest in the challenges of the 21st century. The report presents revenue gains from different wealth tax scenarios on global multimillionaires. It has been argued that given the large concentration of wealth, a modest progressive wealth tax can generate significant revenues for governments. The report finds that with a modest progressive tax rate scenario, 1.6% of global incomes could be generated and reinvested in education, health and the ecological transition. The report also comes with an online simulator so that everybody can design their preferred wealth tax at the level of the world or in their region.

Against this background, we recommend the following: *(see Annexure 3 for Details)*

- **The union budget 2023-24 may consider reinstating both the Wealth Tax and Estate Duty**
- **Introduction of an inheritance tax for non-agricultural high net-worth individuals through the modification of existing tax laws**

The Great Centre-State Fiscal Divide: The states have to be at the forefront of creating the five trillion-dollar economy. But unfortunately, the states are confronted with the “great fiscal divide” wherein the Centre accounts for 62.7% of the revenue and bears only 37.6% of the expenditure (Fifteenth Finance Commission, 2021). The state of Kerala needs to be thankful to the Centre for the generous revenue deficit grant, which could be treated as the prize for being the top performer in SDGs and HDI. This has indeed kept the fiscal boat of the state floating during the stressed times. However, there are certain serious issues affecting the fiscal health of states and our pursuit of cooperative fiscal federalism that needs to be addressed sooner than later through the forthcoming budget.

There has been an enormous rise in the vertical gap in resource mobilisation, which could be attributed to the rising share of cess and surcharges in total tax revenue, which is outside the purview of the divisible pool as per Article 270 of the Constitution. Our analysis shows that the share of cess collection in gross tax revenue increased from 5.2 per cent to 20.3 per cent during 2010-11 to 2022-23, indicating a four-fold increase (see Annexure 4).

A comparison of growth rates between 2010-11 to 2015-16 and 2016-17 to 2021-22 shows that tax revenue growth decelerated in the second period (9.7% compared to 15.3% in the first period). On the contrary, cess collection registered a growth rate of 45% in the second period compared to 18.3%.

In the case of petroleum products, for example, currently, the basic customs duty, which is in a divisible pool, is kept to a minimum for both imported petroleum and diesel (2.5%), while other non-sharable components take up the majority of the income received from this segment. As indicated above, from the perspective of states, cess is a serious issue in corporate income tax as well.

Although the Fifteenth Finance Commission has provided for 41% of the divisible pool for the states, the actual devolution, mostly on account of the cess and surcharges was only about 29%. This is primarily because the Centre has been appropriating more resources by way of cesses and surcharges, adversely affecting the divisible pie. This trend has to cease sooner than later if we are to promote the cooperative federalism in the true sense and ensure balanced regional development.

In this context, we propose the following: (Annexures 4, 5 and 6 for Details)

- **Instead of additional cess and surcharges, the budget 2023-24 shall explore the avenues to increase the tax revenue base, which would enhance the size of the divisible pool.**
- **The budget doesn't clearly indicate the net proceeds and therefore the net proceeds shall be stated in the budget.**
- **Basic Customs duty on petroleum should be increased while reducing the other components such as CVD (Rs 1.4/Ltr), SAD (Rs. 11/Ltr), AIDC (Rs 2.5/Ltr) and ADC (Rs 13/Ltr).**
- **Currently, the basic customs duty on imported petroleum and diesel is only 2.5%. Similarly, basic customs duty on Diesel should be increased. Currently, basic excise duty on imported diesel is only 2.5 %, whereas there are other components such as CVD (Rs 1.8/Ltr), SAD (Rs. 8/Ltr), AIDC (Rs 4/Ltr) and ADC (Rs 8/Ltr).**
- **Amendment of the CSR rules is suggested to make CMDRF eligible for CSR donations like PMDRF and PM-CARES.**

The External Shock: Coming to the external sector, the recent remarkable performance in the merchandise exports notwithstanding, India's current account balance recorded a deficit of 2.8% of GDP in the first quarter of 2022-23, up from US\$ 1.5% in the last quarter of 2021-22 from a surplus of 0.9% of GDP a year ago [Q1:2021-22]. Our foreign exchange reserves have declined from \$642 billion in October 2021 to \$531 billion in October 2022 – the highest decline of \$111 billion in the recent past. Our currency has been depreciating, making the imports dearer and thus further widening our trade deficit with its added adverse effect on our strategy of *Aatmanirbhar Bharat*.

In this context, we propose the following

- ***Explore the possibility of increasing custom duties specially to ensure that the inverted duty structure, that many companies complain about, is effectively addressed in the budget.***

Annexure 1 Income Tax and Professional Tax

Direct taxes

Direct taxes are considered to be more equitable in income distribution because burden of these taxes fall more heavily on the richer sections of the society as it is based on the principle of ability to pay. This helps to reduce inequalities in income distribution and thereby ensure social welfare. Income tax and Corporate taxes are the two major direct taxes of Union government.

- a. **Income Tax:** Income tax is one of the important direct taxes levied on income other than agricultural income. Income tax constitutes 24.3 per cent (Rs 487144 crore) of gross tax revenue of the Union Government during the year 2020-21. Standard deduction is one of the tax benefits for the salaries and the middle class. The prevailing standard deduction is Rs 50000 which was introduced during the year 2019-20. This deduction has been introduced in lieu of transport allowance and medical reimbursement which were earlier allowed to the employees. Considering the increase in salary, cost of transportation and medical reimbursement (16.42 per cent is the compounded inflation from 2019-20 to 2021-22) and other supply driven factors, the present level of standard deduction of Income tax may be raised from Rs 50000 to Rs 75000.

At present, interest portion of the house loan is upto Rs 2 lakhs as per section 24 of the income tax Act. Housing loan interest deduction has to be enhanced to Rs 3 lakhs per annum. It will attract home buyers and boost economic growth.

Section 80C provides deductions on various investments such as house loan principal amount paid, Provident fund, fixed deposits, Life insurance payments, Equity Linked Saving Schemes, NSC etc upto Rs 1.5 lakh per year. It has been fixed more than 10 years back. The compounded inflation rate for the last ten years recorded as 58 percent. Moreover, saving capabilities of the salaries class has increased on account of pay revision. In order to promote the saving culture of the people, enhance the limit of saving from Rs 1.5 lakhs to Rs 3 lakhs.

Exemption of Interest on income of senior citizens is Rs 40000 at present. There are large number of senior citizens having only interest income for meeting their day-to-day expenses. Considering the increase in livelihood expenditure due to high inflation, the exemption of interest income to be increased to Rs one lakh.

The present rate of tax has to be modified to attract the small and medium tax payers and boost saving and thereby investment. Considering the increase in income due to pay revision and salary hikes in private sector especially in the range of Rs 10 lakhs to Rs 15 lakhs, the tax base from Rs 5 to Rs 10 lakh to be increased to Rs 5 to Rs 15 lakh. A tax rate of 25 per cent may be considered without changing the maximum rate of tax. The rate of income tax with exemption present and proposed are given in Tables A1.1 and A1.2.

Tax Base (in lakhs)	Tax rate (in percent)	Amount of tax (in Rs)
Upto Rs 2.5	Nil	0
2.5 lakh to 5 lakh	5	12500
5 lakh to 10 lakh	20	100000
Above 10 lakhs	30	

Tax base (in lakhs)	Tax rate (%)	Amount of tax (Rs)
Up to Rs 3	Nil	0
3 lakh to 5 lakh	5	10000
5 lakh to 15 lakh	20	200000
15 lakh to 30 lakh	25	375000
Above 30 lakh	30	

Suggestions for 2023-24 Union Budget

- **Standard deduction to be enhanced to Rs 75000 from Rs 50000**
- **House loan interest deduction to be enhanced to Rs 3 lakhs from Rs 2 lakhs**
- **Section 80C for saving to be increased to Rs 3 lakhs from Rs 1.5 lakhs**
- **Interest income exemption to be increased to Rs.1 lakh from Rs 40000**
- **The tax base of Rs 5 lakhs to Rs 10 lakhs to be increased to Rs 5 lakhs to Rs 15 lakhs**
- **A tax rate of 25 per cent may be considered without changing the maximum rate**

b. Profession tax

Profession tax is a tax on profession and callings and an important source of revenue of Local Governments (LGs). Profession tax is determined by Article 276(2) of the Constitution at a maximum of Rs 2500 per annum which was fixed in 1988 only. The Fifteenth Finance Commission suggested to increase the upper limit from Rs 2500 to Rs 18000. A change in the profession tax rate is possible only with a constitutional amendment. Tax revenue collection depends mainly on the rate of tax and base of tax. Rate of tax revision of profession tax is not possible due to the constitutional barriers. Immediate intervention is required from State Governments for the constitutional amendment of increasing profession tax from the maximum range of Rs. 2500. This legal hurdle in increasing profession tax has to be removed so that the rate can be increased to a minimum of Rs.10000 in a year. Sixth State Finance commission of Kerala recommended the increase of profession tax to the tune of Rs 12000 per year (SSFC First Report, 2020).

Expansion of the tax base, by all types of professionals and skilled workers needs to be brought under the profession tax net.

Sl No	Half Yearly Income	Half Yearly tax (Rs)
1	From Rs 12000 to Rs 17999	12
2	From Rs 18000 to Rs 29999	180
3	From Rs 30000 to Rs 44999	300
4	From Rs 45000 to Rs 59999	450
5	From Rs 60000 to Rs 74999	600
6	From Rs 75000 to Rs 99999	750
7	From Rs 100000 to Rs 124999	1000
8	Over Rs 124999	1250

Profession tax contributes 27.32 per cent in LGs.in 2017-18 in Kerala. The profession tax share of Corporations and Municipalities was 39 per cent during the year 2017-18. It is the second largest contributor of LGs own tax revenue. Profession tax contributes only 9 per cent of panchayats's own tax revenue collection during the year 2017-18. The total collection of profession tax was Rs.15798 lakhs in 2012-13 which increased to Rs.23371 lakhs in 2017-18 in all LGs. (Table A1.4). The existing slab of half yearly profession tax in Kerala is given in Table A1.3.

If the rate of profession tax raised to Rs.10000, the revenue from profession tax would increase in fourfold and the profession tax collection would become Rs 1000 crore. This could be due to the hike in salary of government employees and public sector undertakings due to implementation pay revisions. Hike in salaries seen in the private sector due to higher economic activity and also due to inflation. Increase in the number of commercial activities also will contribute to the high collection of profession tax. Hence it is requested to initiate urgent steps for the enhancement of profession tax maximum ceiling.

Year	Panchayats	Corporations	Municipalities	Total	Total own tax revenue	Share of profession tax in total own tax revenue
2012-13	2991	6657	6042	15690	50006	31.38
2013-14	1921	8662	6883	17466	56160	31.10
2014-15	2101	8267	7265	17634	68896	25.59
2015-16	2243	8780	8405	19427	68394	28.40
2016-17	2428	9856	9018	21302	79263	26.88
2017-18	2710	10658	10003	23371	85541	27.32

Suggestion to the Union Budget 2023-24

- It is suggested that urgent steps for the enhancement of profession tax maximum ceiling to Rs 18000 from the existing ceiling Rs 2500 may be considered in the budget 2023-24.

Annexure 2

Proposal for Corporate Income Tax *A Case for Reducing Cess and Surcharges*

Highlights

- The Union Government reduced corporate tax rates from 30% to 22% for domestic companies and 18% to 15% for new domestic manufacturing companies on September 20, 2019.
- The effective tax rate is 25.17% inclusive of cess & surcharges.
- While European/OECD countries currently levy, on average, a corporate income tax rate of 21.7 percent, the worldwide average across 177 jurisdictions stood at 23.9 percent in 2020.
- Thus, it can be seen that India's corporate income tax rate is at par with other countries.
- The economic rationale behind the tax cut was that it would attract private investment from across the globe, improve the competitiveness of our private sector, and create more jobs.
- However, the data as of now, does not support those typical neoclassical economic arguments. India did not see a corresponding rise in private investment, not growth.
- However, it has severe repercussions on the fiscal deferral relationship.
- As the move resulted in a straight loss of ₹1.84 lakh cr in the first 2 years, the state's share of union taxes also declined considerably as the divisible pool shrunk.
- The statutory corporate tax consists of 22% corporate income tax and 3.2% surcharge and cess. The latter is not sharable with the states.
- Thus, there is a case for subsuming the surcharge and cess with the corporate income tax and raising the statutory corporate tax to 25.2%.
- As a result, the divisible pool will increase, and states will get a higher share in union taxes.
- Currently, domestic companies with annual turnover of up to Rs 400 crore pay income tax at the rate of 25%. For other domestic companies, the tax rate is 30%. A new tax slab can be introduced where companies with an annual turnover exceeding Rs 1000 crores should be taxed at 35%.
- Finally, India's corporate tax revenues as a percentage of GDP is below the global average of 3.2% in 2018. Thus, to raise the corporate tax to GDP ratio, there is a case for raising the statutory corporate tax a little more since India is the next stop for firms seeking higher returns to their investment as India is going to be global engine growth. Further, the tax base should be broadened.

The context

The Union Government reduced corporate tax rates from 30% to 22% for domestic companies and 18% to 15% for new domestic manufacturing companies on September 20, 2019. Further, this was brought down, keeping in mind the average corporate tax rates in the world. The Prime Minister [tweeted](#) that “the step to cut corporate tax is historic. It will give a great stimulus to #MakeInIndia, attract private investment from across the globe, improve competitiveness of our private sector, create more jobs and result in a win-win for 130 crore Indians”. The effective tax rate becomes 25.17% inclusive of cess & surcharges.

The economic rationale behind this move was that it would spur fresh investment, which would boost consumption and growth. This is in line with the corporate tax rate countries around the world, which has been declining. On average, European/OECD countries currently levy a corporate income tax rate of 21.7 percent. This is below the worldwide average which, measured across 177 jurisdictions, was 23.9 percent in 2020. However, India’s decision to slash rates came at a time when the Indian economy was languishing with lower growth, demand and investment were at a six-year low, manufacturing was at a 15-month low, and exports were decelerating.

Fig. A2.1

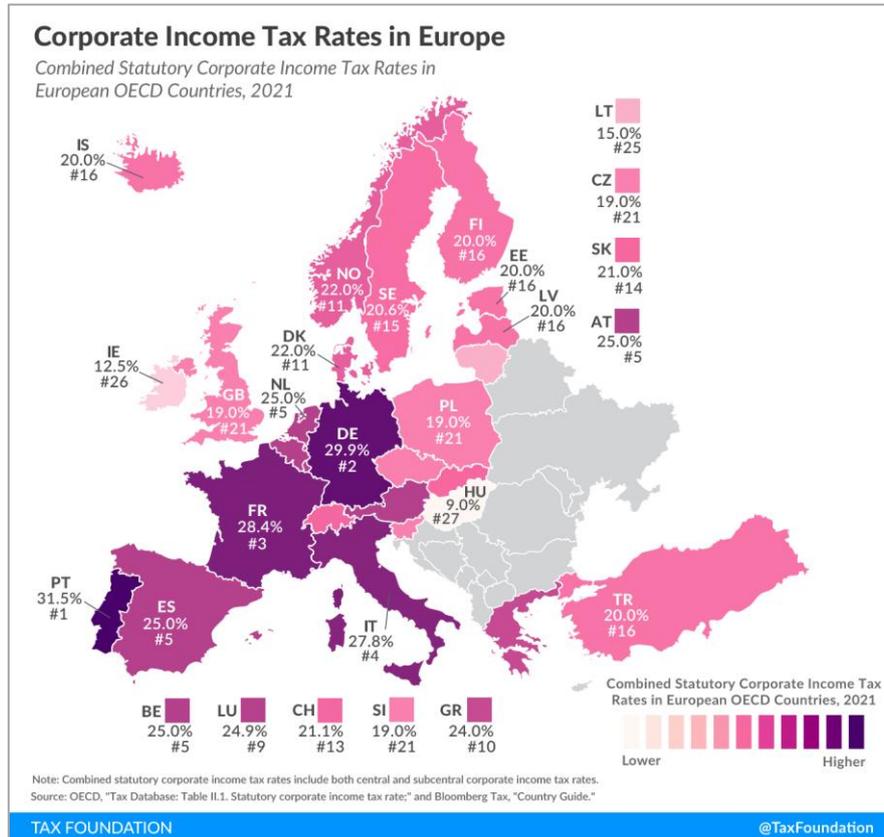


Fig. A2.2

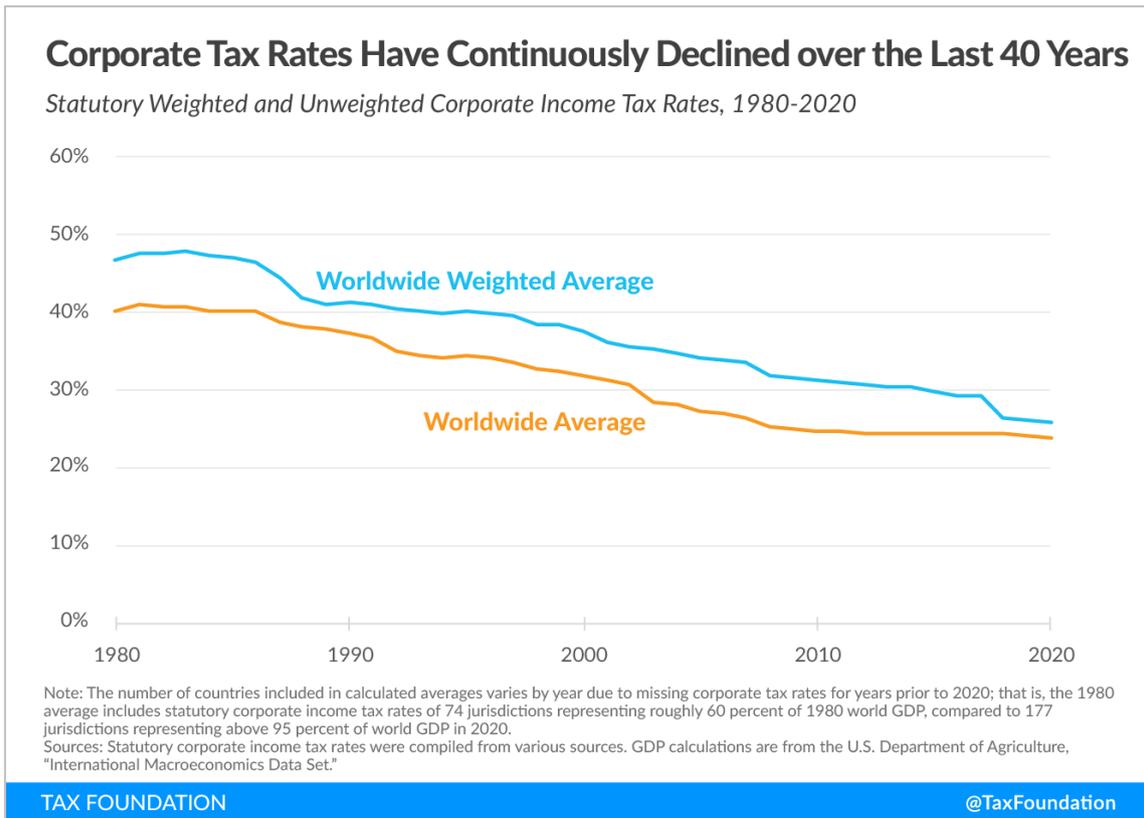


Fig. A2.3



Hardly any gains

Whether it has achieved its stated objectives is hard to tell since immediately after the reduction, Covid-19 hit the economy, and it is difficult to separate the impact of tax reduction on investment, FDI, and growth. However, to the naked eye, the impact, if there is any, is hardly tangible and visible. Rather, the 2019 corporate tax cut contributed to the soaring corporate profits.

What it did instead is that the top 0.9% of India Inc has benefitted the most from the rate cut. According to the Economic Survey - 2019-20, 99.1 % of companies in India had a gross turnover of below Rs 400 crore and were anyway taxed at the base rate of 25%.

Repercussions on state finances

This tax cut severely impacted the federal fiscal relationship between the states and the Union. As a result of the reduction in corporate tax rates with effect from 2019-20, the revenue loss was Rs 1.84 lakh crore in 2019-20 and 2020-21, as per the parliamentary Committee estimates. A reduction in corporate tax collection automatically reduces its share in the divisible pool and a corresponding reduction in the share of central taxes to states.

Cess and surcharges on corporate taxes

Since, in the present context, it might be difficult to raise the corporate tax rates in the present economic circumstances, the Union government can revisit the cess and surcharges applied on top of corporate taxes.

As the discussed below, the Union government levies a surcharge of 10% only where total taxable income exceeds INR 10 million and a Health and Education Cess of 4% over and above what corporations pay.

While the extra revenue that accrues to the government is a good thing, it, however, does not go to the divisible pool, which is used to divide the resources between the Union and the states. Thus, the states not only missed the revenue forgone from the corporate tax slashes but also from the cess and surcharges.

Covid-19 has complicated the fiscal situation of states. While the expenditure requirement shot up to meet both health and developmental expenditures, the revenues precipitated. The 15th Finance Commission had expressed concern regarding this exceptional context and called this dual pressure a "scissor effect" of the pandemic on state finances.

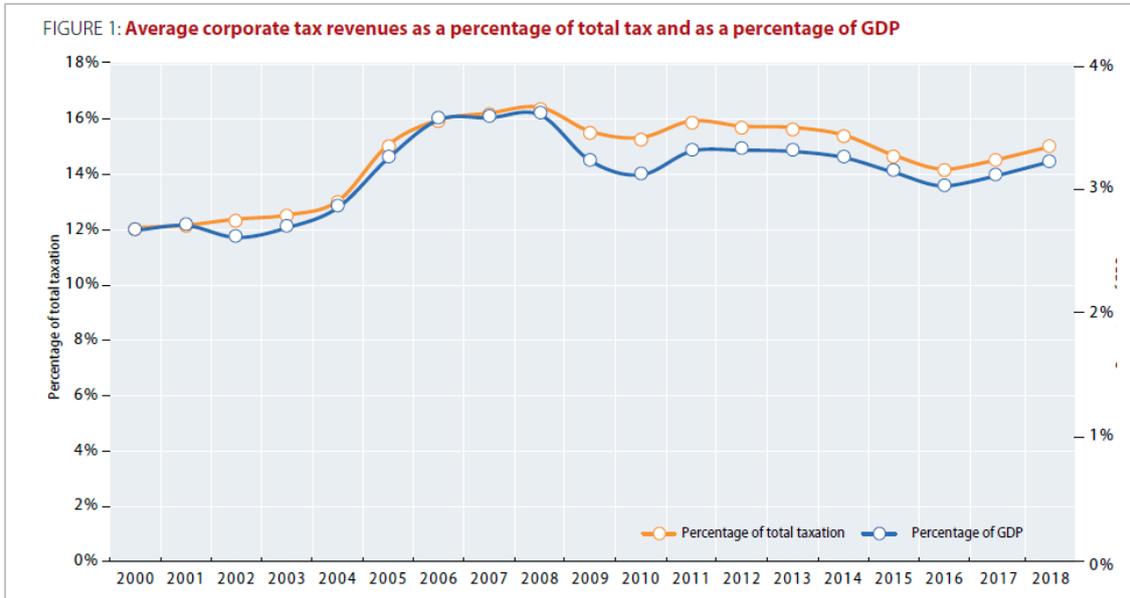
Policy suggestions

In light of the above discussion, there is a case for removing surcharge and cess and raising the corporate tax equally. That is to say, if the corporate income tax was 22% and the effective tax rate, including cess and surcharges, is 25.17%; it implies that 3.2% comes from cess and surcharges. Thus, eliminate the cess and surcharges, and raise statutory corporate taxes to 25.17%. The benefit is that this additional 3.2% revenue could be shared with the states.

Second, the tax-to-GDP ratio of the country is hovering around 5.5% in the last couple of years. This is approximately equally shared between the personal income taxes and corporate income taxes. Data from the OECD's *Corporate Tax Statistics* reveal that the average corporate tax revenues as a percentage of GDP increased from 2.7% in 2000 to 3.2% in 2018 (see the below chart). Thus, India needs to raise the corporate tax to GDP ratio. Since India may not be able to raise the tax rate, it should broaden the tax base. In the long run, there is a need to raise the tax rate marginally for two reasons. First, inequality – both income and wealth – has been steadily rising. Second, investment decisions by firms – both global and domestic – are not solely based on the tax rate. Other factors such as the

ease of doing business, governance, expected profit or the return from the investment, and macroeconomic conditions such as inflation and exchange rate also matter.

Fig. A2.4



Further details

Cess and surcharges on corporate taxes

1. Partnership Firm

For the Assessment Year 2022-23 and 2023-24, a partnership firm (including LLP) is taxable at 30%.

Add:

(a) *Surcharge*: The amount of income-tax shall be increased by a surcharge at the rate of 12% of such tax, where total income exceeds one crore rupees. However, the surcharge shall be subject to marginal relief (where income exceeds one crore rupees, the total amount payable as income-tax and surcharge shall not exceed total amount payable as income-tax on total income of one crore rupees by more than the amount of income that exceeds one crore rupees).

(b) *Health and Education Cess*: The amount of income-tax and the applicable surcharge, shall be further increased by health and education cess calculated at the rate of four percent of such income-tax and surcharge.

2. Domestic Company

Surcharge and cess applicable in case of domestic companies for assessment year 2022-23 and 2023-24 are as follows:

(a) *Surcharge*: The amount of income-tax shall be increased by a surcharge at the rate of 7% of such tax, where total income exceeds one crore rupees but not exceeding ten crore rupees and at the rate of 12% of such tax, where total income exceeds ten crore rupees. The surcharge shall be subject to marginal relief, which shall be as under:

(i) Where income exceeds Rs. 1 crore but not exceeding Rs. 10 crore, the total amount payable as income-tax and surcharge shall not exceed total amount payable as income-tax on total income of Rs. 1 crore by more than the amount of income that exceeds Rs. 1 crore.

(ii) Where income exceeds Rs. 10 crore, the total amount payable as income-tax and surcharge shall not exceed total amount payable as income-tax on total income of Rs. 10 crore by more than the amount of income that exceeds Rs. 10 crore.

(b) *Health and Education Cess*: The amount of income-tax and the applicable surcharge, shall be further increased by health and education cess calculated at the rate of four percent of such income-tax and surcharge.

3. Foreign Company

For the Assessment Year 2022-23 and 2023-24,

a) *Surcharge*: The amount of income-tax shall be increased by a surcharge at the rate of 2% of such tax, where total income exceeds one crore rupees but not exceeding ten crore

rupees and at the rate of 5% of such tax, where total income exceeds ten crore rupees. However, the surcharge shall be subject to marginal relief, which shall be as under:

(i) Where income exceeds one crore rupees but not exceeding ten crore rupees, the total amount payable as income-tax and surcharge shall not exceed total amount payable as income-tax on total income of one crore rupees by more than the amount of income that exceeds one crore rupees

(ii) Where income exceeds ten crore rupees, the total amount payable as income-tax and surcharge shall not exceed total amount payable as income-tax on total income of ten crore rupees by more than the amount of income that exceeds ten crore rupees.

(b) Health and Education Cess: The amount of income-tax and the applicable surcharge, shall be further increased by health and education cess calculated at the rate of four percent of such income-tax and surcharge.

4. Co-operative Society

For the Assessment Year 2022-23 and 2023-24,

(a) Surcharge: The amount of income-tax shall be increased by a surcharge at the rate of 12% of such tax, where total income exceeds one crore rupees. However, the surcharge shall be subject to marginal relief (where income exceeds one crore rupees, the total amount payable as income-tax and surcharge shall not exceed total amount payable as income-tax on total income of one crore rupees by more than the amount of income that exceeds one crore rupees).

Note: From Assessment Year 2023-24 onwards, the rate of surcharge in the case of co-operative societies having income between 1 crore to 10 crores is reduced from 12% to 7%.

(b) Health and Education Cess: The amount of income-tax and the applicable surcharge, shall be further increased by health and education cess calculated at the rate of four percent of such income-tax and surcharge.

Source: Income Tax Department

Annexure 3 Proposals for wealth tax and estate duty

Wealth Tax

An annual tax on new wealth was introduced in India with the enactment of the Wealth Tax Act, 1957 which came into force from April 1st of the year. The rationale behind the imposition of wealth tax lies essentially in furthering the equity objective of tax policy. Since ownership of wealth is the main source of economic inequalities in India, a tax on wealth intended to reduce its concentration in a few hands to promote vertical equity. The tax is progressive in nature and is justified on grounds of equity, economic effects and administrative efficiency.

Actual Collection of Wealth Tax for 2016-2017 was Rs.185.14 crore (Table A3.1). This Tax has been abolished since 2015-16.

Year	Collection (Cr)
2015-16	1079.26
2016-17	185.14
2017-18	63.43
2018-19	40.86
2019-20	19.81
2020-21	11.85

By abolishing the wealth tax in 2015-16, Shri Arun Jatley, the then Finance Minister stated in Union Budget 2015-16 read as follows,

“My next proposal is regarding minimum government and maximum governance with focus on ease of doing business and simplification of Tax Procedures without compromising on tax revenues. The total wealth tax collection in the country was `1,008 crore in 2013-14. Should a tax which leads to high cost of collection and a low yield be continued or should it be replaced with a low cost and higher yield tax? The rich and wealthy must pay more tax than the less affluent ones. I have therefore decided to abolish the wealth tax and replace it with an additional surcharge of 2% on the super-rich with a taxable income of over `1 crore. This will lead to tax simplification and enable the Department to focus more on ensuring tax compliance and widening the tax base. As against a tax sacrifice of `1,008 crore, through these measures the Department would be collecting about `9,000 crore from the 2% additional surcharge. Further, to track the wealth held by individuals and entities, the information regarding the assets which are currently required to be furnished in wealth-tax return will be captured in the income tax returns. This will ensure that the abolition of wealth tax does not lead to escape of any income from the tax net”.

However, the abolition of wealth tax avoids the possibility of capturing individual wealth accumulation in terms of various assets. Imposition of 2 per cent additional surcharge on the super-rich with a taxable income of over 1 crore limits to track the wealth accumulation of individuals and entities. Hence it is advisable to reinstate wealth tax in the context of increasing inequality. Since the number of rich and wealthy are increasing on a fast way, it is

high time to reinstate wealth tax by distributing the tax burden on super rich and mobilise revenue based on the canon of diversity. This would enhance the principle of fiscal adequacy and equity. Implementation through an IT enabled platform will reduce the collection cost and improvement of higher revenue.

Suggestion

- **Reinstate wealth tax in union budget 2023-24**

Estate Duty

Estate duty was introduced in India in 1953 when the Estate Duty Act of that year imposed a duty on the capital value of all properties passing on the death of any person on or after October 15, 1953. The rationale for the tax was to curb the perpetuation of income and wealth inequalities through inheritance. One of the objectives of imposition of Estate duty was to increase central revenue. This tax was levied to prevent accumulation and prevention of wealth in the hands of a few and reduce the glaring economic disparity between the rich and poor. However, the estate duty was abolished in 1985 on the ground that it had failed in both its objectives, viz., to reduce the accumulation of dynastic wealth and raise resources for the Government.

The estate duty was abolished in 1985 due to administrative hurdles such as difficulty in valuing different kinds of property of the deceased person. The complexities in law and valuation procedures resulted in large number of litigations relating to determination of valuation of property. However, in the modern world with IT enabled platforms, valuation can be made easy. It is known that there exists a large number of inherited properties of the deceased remain unnoticed. With simple legislation and implementation steps, it is advisable to reinstate estate duty so as to reduce social inequality and to facilitate economic redistribution of wealth.

Suggestion

- **Reinstate estate duty in union budget 2023-24**

Annexure 4

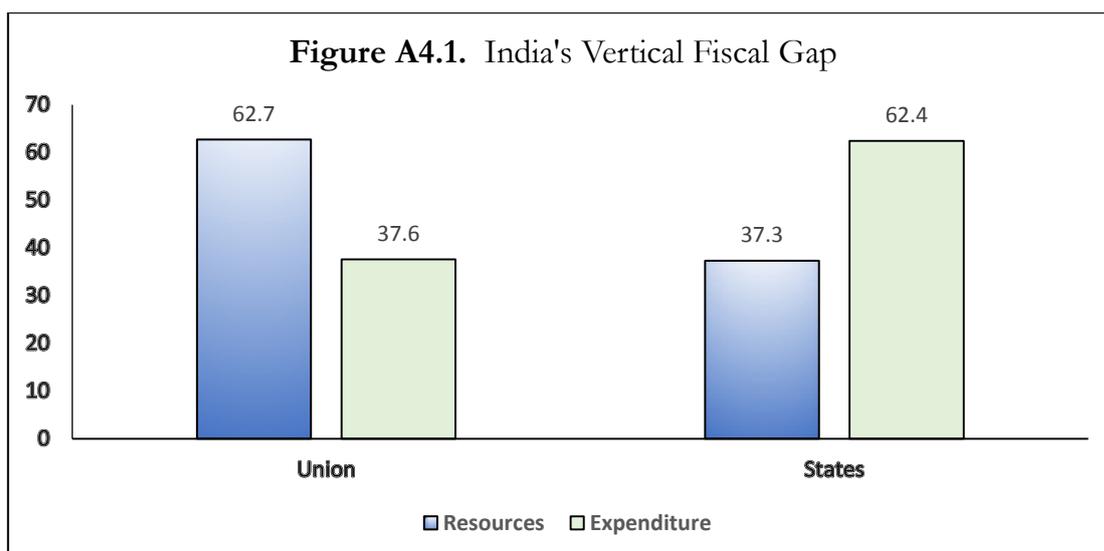
Proposals with respect to Cess and Surcharges

Highlights

- The union government has higher revenue space (62.7%) than states (37.3%). In comparison, spending powers are entrusted to the states (62.4%) compared to the union (37.6%) (Fifteenth Finance Commission, 2021). It has been found that over a few years, this vertical gap has been widening.
- Notwithstanding the loss of fiscal autonomy of the states, the rise in the vertical gap in resource mobilisation could be attributed to the rising share of cess and surcharges in total tax revenue, which is outside the purview of the divisible pool as per Article 270 of the Constitution.
- Our analysis shows that the share of cess collection in gross tax revenue increased four-fold from 2010-11 to 2022-23.
- It increased from 5.2 per cent to 20.3 per cent during the last ten years. It is important to note that the share of cess collection nearly tripled from 7.4 per cent in 2016-17 to 23.3 per cent in 2021-22 RE (Figure A4.2).
- A comparison of the growth of tax revenue and cess collection during the one decade shows that cess collection grew at a much higher rate than tax revenue growth. A comparison of growth rates between 2010-11 to 2015-16 and 2016-17 to 2021-22 shows that tax revenue growth decelerated in the second period (9.7% compared to 15.3% in the first period). On the contrary, cess collection registered a growth rate of 45% in the second period compared to 18.3%.
- The union government's approach to increasing cess and surcharges adversely impacts the state's recourses as the divisible pool pie is shrinking.
- After COVID-19, the dual pressure of loss of revenues, and the need for increased spending was expected to hit hard the finances of the state governments
- In this context, instead of additional cess and surcharges, exploring the avenues to increase the tax revenue base would increase the amount of the divisible pool.
- The future budget could avoid such measures of exploring revenue opportunities to cess and surcharges.

Introduction

The role of the state in a federal entity like India is to maintain macroeconomic stability and distribute financial resources such that equity and efficiency at the vertical-horizontal level are accomplished (Musgrave, 1959). The allocation of taxing powers between the national and subnational governments, considering the characteristics of different taxes and the efficiency associated with their collection, often gives rise to imbalances in revenue and expenditure at different levels of government. Accordingly, there was a clear demarcation of the powers and responsibilities between the Centre and the States as laid down in the seventh schedule of the Indian Constitution; List 1 and List 2 pertain to subjects of the centre and states, respectively, while the list 3, the Concurrent List, belongs to both the central and state governments wherein in the event of a conflict, the law passed by the centre prevails.



Source: 15th Finance Commission

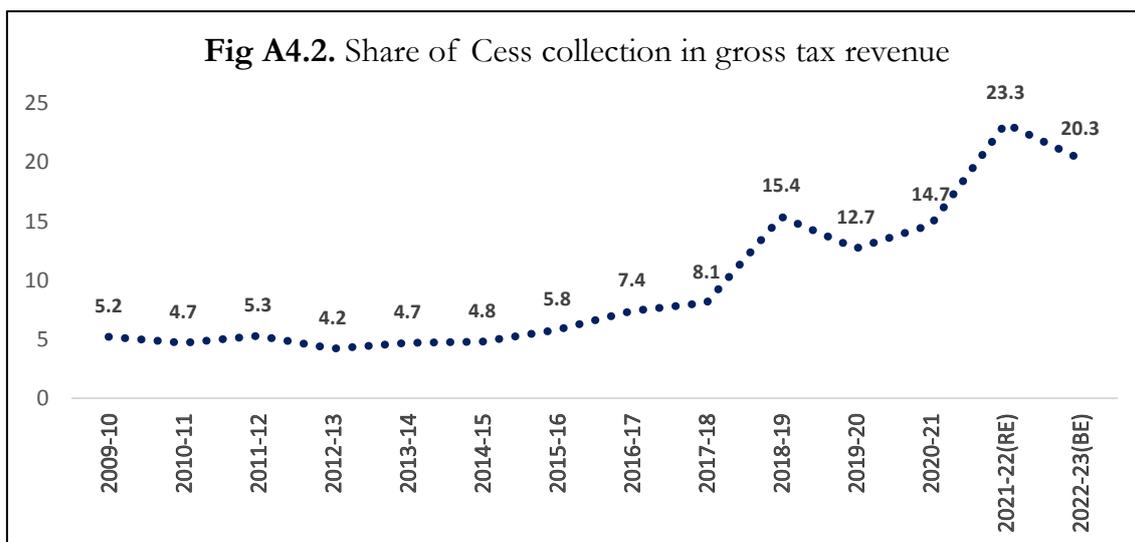
Figure A4.1 shows that the union government has higher revenue space (62.7%) than states (37.3%). In comparison, spending powers are entrusted with the states (62.4%) compared to union (37.6%) since the principle of subsidiarity requires lower levels of governments to undertake development activities that they could do better as they are closer to the people and ground realities, their spending responsibilities far exceeded what they could mobilize. To address the gap between revenue and expenditure, the Constitution of India has provided a Finance Commission to decide upon the devolution of resources from the centre to the states. Additional discretionary financial support was also provided by the erstwhile planning commission for the state plans, part of it through formula-based grants and the central projects implemented in the states to ensure horizontal and vertical equity. Yet another mode of central support, often discretionary, to the states has been through centrally sponsored schemes. These were, however, tied flows for schemes designed by the centre, not necessarily by considering the states' priorities, wherein the states are forced to share an increasing part of the cost (Isaac et al 2019). Hence, the fiscal transfers from the central government to subnational governments assumed the centre stage of fiscal federalism in India. It has also been argued that the vertical fiscal imbalances between the Centre and the States have worsened over time (Isaac et al 2019; Mohan 2019).

Increasing Vertical Imbalance: The role of cess and surcharges

Under Article 270 of the Constitution, the net proceeds of all taxes levied by the union, except surcharges and cesses, are shareable with the states after the 80th Constitutional Amendment. The shares of net proceeds recommended being devolved were 29.5%, 30.5%, 32%, 42%, and 41%, respectively, by the Eleventh to Fifteenth Finance Commissions. Net proceeds are defined in Article 279 of the Constitution as gross tax revenue of the centre fewer surcharges and cesses, and cost of collection. The share of cess collection in gross tax revenue increased four-fold from 2010-11 to 2022-23. The increase in share of cess almost doubled after 2017-19 due to GST cess. Further, the union government has introduced various cesses in the last five to six years.¹ During 2009-10 to 2015-16, the share of cess in total tax revenue increased from 5.2% to 5.8%. In the next six years it increased to almost as high as 23% in 2021-22. The increase in share of cess is

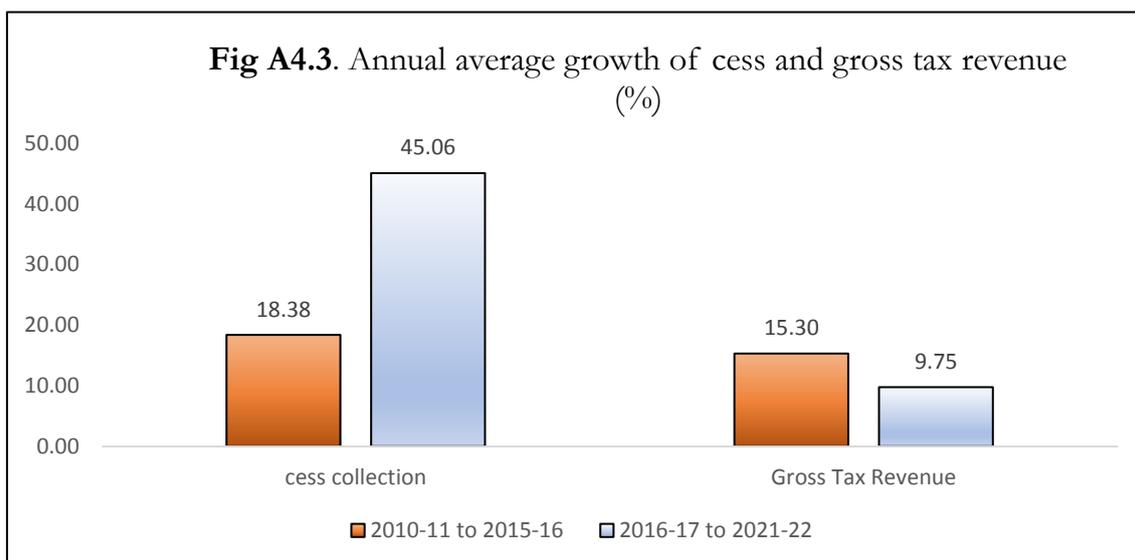
¹ Please see annexure for the list of cess imposed by the union government.

neutralising the higher shares recommended by the successive Finance Commissions thus leading to erosion of space for higher amounts of share in central taxes.



Source: Union Budget Documents, various years

Since surcharges and cesses are levied for the purpose of the union and are not shareable with the states, according to the provisions of Article 271 of the Constitution, a rise in their share is contributing to shrinking the divisible pool of taxes and making a reduction in basic tax rates revenue neutral for the centre (Isaac et al, 2019). Figure A4.3 provides an empirical illustration for the above argument. During 2010-15, cess collection and tax revenue have grown at 18.3% and 15.3% respectively. However, in the next five years (2016 to 21), cess collection recorded a massive growth rate of 45% while tax revenue growth declined (15.3%) compared to the previous period.



Source: Union Budget Documents, various years

Rising share of cess and surcharges: Implications for states' fiscal health

Many studies have already reported that the COVID-19 pandemic has resulted in the erosion of revenues coupled with increased pressure to expand public spending on health, social security and other sectors to deal with economic adversities arising from the pandemic. The concern about the impact of the pandemic was particularly heightened by the fact that the economy was already on a downslide when the pandemic struck. The dual pressure of loss of revenues and the need for increased spending was expected to hit hard the finances of the state governments. As the state governments across the country are still recovering from the crisis, the transfer of resources from the union government plays a critical role in improving states' economic performance.

Including cess and surcharges in the divisible pool is a long pending request of the state. As it is the decision of the Finance Commission based on the 80th constitutional amendments, a matching amount will be transferred to states in terms of CSS or other development transfers. This shall help the state governments generate additional revenue and reduce the debt burden.

Further, in the current context, further introduction of cess instead of exploring the avenues to increase the tax revenue instead of introducing additional cess and surcharges would increase the amount of divisible pool. Two examples could lead to a reduction in the divisible pool. When the tax rate of incomes up to Rs 5 lakh was reduced from 10% to 5% and the revenue loss was sought to be compensated by levying a surcharge on incomes above Rs 50 lakh. Similarly, in the 2018–19 budget, excise duty on petrol was reduced by Rs 9 per litre, and the road cess was increased by an equivalent amount. The future budget could avoid such measures of exploring revenue opportunities to cess and surcharges.

Table A4.1. Type of cess collected by Union Government
Corporate tax -Edu cess
Surcharge
Income tax-Edu cess
Surcharge
Krishi Kalyan Cess
Customs duty- Edu cess
Secondary and Higher Edu cess
Social Welfare surcharge
Health cess
Agriculture Infrastructure and Dev Cess(AIDC)
Cesses on Exports
Road and Infrastructure cess
Surcharge on Pan Masala and tobacco products
Union Excise duties-Edu cess
Secondary and Edu cess
Cess on crude oil
Cess on Bidi
Cess on sugar
Cess on Automobiles
Others
Clean Energy Cess (Changed as Clean Environment cess from 2014-15)

Infrastructure cess
Duty of Excise on Motor spirit and High Speed Diesel Oil (Road and Infrastructure Cess)
Agriculture Infrastructure and Dev Cess(AIDC)
Cesses administered by other depts
Coal and coke
Salt
Rubber
Jute
Tea
Oil and Oil Seeds
Cotton
Tabacco
Paper
Micca
Iron ore, Manganese Ore & Chrome ore
Lime stone and Dolomite
Cine Workers
Prevention & Control of (Air&Water) Pollution
Research and Development
Beedi Fund
Cess under other accounts
Cess collection on Textiles & Textiles Machinery
Service Tax-Edu cess
Secondary and Higher Edu cess
Swachh Bharat Cess
Krishi Kalyan Cess
GST Compensation Cess

Table A4.2. Gross tax revenue of Centre and State's share of taxes from 2009-10 to 2022-23

Year	Gross Tax Revenue of Centre (crore)	State's share in central taxes (crore)	Centre's Net tax revenue(crore)	Cess Collection
2009-10	624527.2	164831.5	459695.7	32195.31
2010-11	793071.7	219302.8	569868.9	37669.73
2011-12	889176.4	253022.4	629764.8	47356.54
2012-13	1036234.3	291546.6	741877.4	43329.96
2013-14	1138733.7	318229.6	815854.2	53467.39
2014-15	1244884.5	337808.5	903615.2	59953.54
2015-16	1455648.1	506193.0	943765.2	84240.19
2016-17	1715822.0	608000.3	1101372.1	126879.9
2017-18	1919008.7	673005.3	1242488.3	155635.1
2018-19	2080465.4	761454.2	1317211.1	320954.6
2019-20	2010059.3	650677.1	1356902.3	254665.3
2020-21	2027103.8	594996.8	1426287.1	297872.6

2021-22(RE)	2491831.5	720556.9	1765144.7	579571.9
2022-23(BE)	2757820.1	816649.5	1934770.7	559361.5

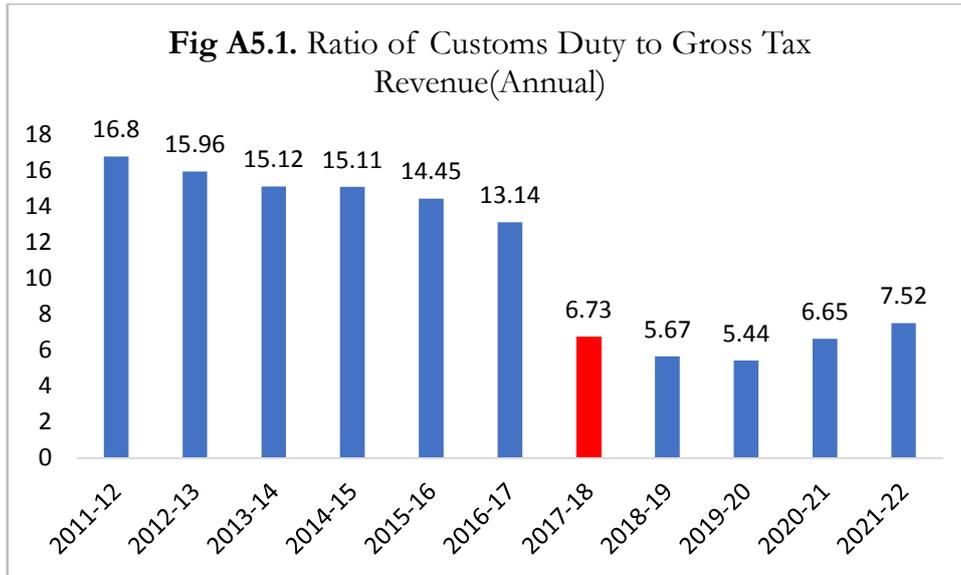
Annexure 5

Customs Duty

Customs duty tax is an indirect tax on consumers, who imports goods and services. Duties are paid by importers and distributors, which is then passed on to consumers. Customs duty in India is defined under the Customs Act, 1962. All matters related to customs duty fall under the purview of Central Board of Excise & Customs (CBEC), which is a division of the Department of Revenue of the Ministry of Finance.

Customs duty in India has been reduced progressively in the post-reforms period to keep our markets competitive and to honour various trade agreements. Further, with the introduction of the goods and services taxes (GST) in India, a large portion of the customs duty was subsumed by the GST regime. Prior to the implementation of GST, the customs duty contributed around 15% to the Union Government's Gross Tax Revenue (refer to Figure A5.1). However, the implementation of GST resulted in a drastic drop in this segment, and currently customs duty contributes around 6-7% of the gross tax revenue. Customs duty and Gross Tax Revenue collection in India from 2011-12 to 2021-22 is given in Table A5.1.

Year	Gross Tax Revenue (Cr)	Customs (Cr.)
2011-12	889177	149328
2012-13	1036235	165346
2013-14	1138733	172085
2014-15	1244886	188016
2015-16	1455648	210338
2016-17	1715822	225370
2017-18	1919008	129030
2018-19	2080465	117813
2019-20	2010059	109282
2020-21	2027104	134750
2021-22(RE)	2516059	189000



Source: Union Government Budget Documents

From the customs duty segment, only Basic customs duty falls under the divisible pool, i.e. the receipts sharable with the state governments. However, like in the case of excise duty, the basic customs duty is reduced whereas the other components like additional customs duty, special additional duty are increased.

Therefore, we suggest that the basic customs duty, which is sharable, maybe increased while keeping the overall rate same. That is, to reduce the non-sharable segments of the customs duty.

Annexure 6

Non-GST Indirect Taxes and Central Excise

Introduction

Indirect taxes, i.e., taxes that individuals do not pay directly to the government (national or sub-national) on their consumption, constitute a key component of the country's total tax revenue. Currently, the Goods and Services Tax (GST) holds the lion's share of the total indirect taxes as most of the indirect taxes were subsumed under GST in 2017. The rest includes central excise, customs, service tax and other taxes and duties, though GST takes up their major subsets. Under pressure from the falling tax revenues relative to GDP, both central and state governments have relied increasingly on non-GST indirect taxes.

Non-GST Indirect Taxes

Table A6. 1. Components of Indirect Tax and their relative shares						
	2017-18	2018-19	2019-20	2020-21	2021-22RE	2022-23BE
(In ₹ crore)						
Goods and Services Tax	442561	584338	601784	548778	675000	780000
Customs duty	129030	117813	109283	134750	189000	213000
Central Excise	259431	231982	240615	391749	394000	335000
Service Tax	81228	6904	6029	1615	1000	2000
Gross indirect Taxes	913486	940099	956574	107759 7	1250000	1330000
Net indirect Taxes	636272	593719	718537	843077	956345	1016016
Gross tax revenue	191900 8	208046 5	201005 9	202710 3	2516059	2757820
as % of Gross Tax Revenue						
Total Indirect Taxes	47.60	45.19	47.59	53.16	50.08	48.26
Goods and Services Tax	23.06	28.09	29.94	27.07	26.83	28.28
Customs duty	6.72	5.66	5.44	6.65	7.51	7.72
Central Excise	13.52	11.15	11.97	19.33	15.66	12.15
Service Tax	4.23	0.33	0.30	0.08	0.04	0.07
as % of Gross indirect tax						
Goods and Services Tax	48.45	62.16	62.91	50.93	53.57	58.60
Customs duty	14.13	12.53	11.42	12.50	15.00	16.00
Central Excise	28.40	24.68	25.15	36.35	31.27	25.17
Service Tax	8.89	0.73	0.63	0.15	0.08	0.15

Source: Union Budget, Various years & RBI

Customs duties, Central excise duties and service tax are three major taxes on commodities and services that accounted for about 25 percent of gross tax revenue after implementation

of goods and services tax, while it was about 46 percent before 2017. As most components of customs, excise duties and service tax have been subsumed in GST, their relative shares have declined significantly. Table A6.1 shows various components of indirect taxes and their relative shares in the post GST period.

Central Excise Duty

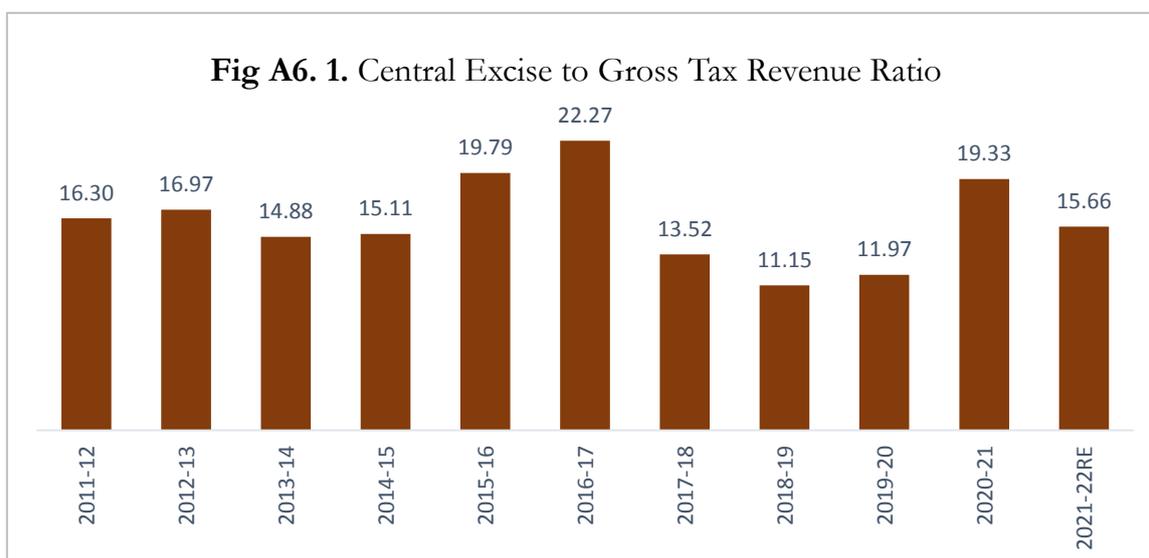
Central Excise duty is levied on manufacture or production of goods that have not been brought under the GST regime. The GST exempted Central Excise components are petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas, aviation turbine fuel and tobacco and tobacco products. Parliament has powers to levy excise duties on these products. Though excise duties are levied by the centre, it has only 59% of the revenue from these taxes. The remaining 41% of the revenue is required to be devolved to the state governments as per the recommendations of the 15th Finance Commission. These devolved taxes are un-tied in nature; states can spend them according to their own discretion.

Like other indirect taxes, excise duty in India has been reduced progressively in the post-reforms period. After the decline in crude prices in the international market in 2014, the Centre increased the excise duty to reap the benefits of lower crude price. As a result, growth rate of excise duty remained positive. Prior to the implementation of GST, the excise duty contributed around 17-18% to the Union Government's Gross Tax Revenue (refer to figure A6.1). Reduction in Basic Excise Duty on Petrol and Diesel (during 2017-18 and 2018-19) is the key factor for short fall in Indirect Taxes between 2017-18 and 2019-20. Though, its relative share has come down significantly since 2017-18 due to merger of its components in GST, it increased significantly from Rs 2.41 lakh crore in 2019-20 to Rs 3.91 lakh crore in 2020-21 (almost 62 per cent), due to increase in the Central Excise duty on Petrol and Diesel in March and May 2020. In 2020-21 (actuals) excise duty contributes around 19% of the gross tax revenue. This growth has been slightly dissipated in recent years due to the negative impact of Covid-19 pandemic on Indian economy, which affected manufacturing, trade and service activities. The collection of Excise Duty and its share in Gross Tax Revenue is given in Table A6.2.

Year	Central Excise	State's Share in union excise duties	Net central excise	Central excise to net indirect taxes (%)	Central excise to Gross Tax Revenue (%)
2011-12	144901	28726	116175	50.58	16.30
2012-13	175845	33000	142845	50.93	16.97
2013-14	169455	36764	132691	47.07	14.88
2014-15	188128	30921	157207	46.67	15.11
2015-16	288073	67717	220356	58.26	19.79
2016-17	382094	96259	285835	65.87	22.27
2017-18	259431	71685	187746	40.77	13.52
2018-19	231982	35874	196108	39.07	11.15
2019-20	240615	28870	211745	33.49	11.97
2020-21	391749	23880	367869	46.47	19.33
2021-22RE	394000	23775	370225	41.20	15.66

Source (basic data): Union Budget, Various years

Regarding excise duty, the Union Budget 2022-23 has announced an additional excise duty of Rs 2 on unblended fuel. This measure has been taken in order to expand the production and consumption of ethanol-blended fuel. Blended fuels reduce emission since they are a combination of petrol or diesel with Ethanol.



Source (basic data): Union Budget, Various years

Subsets of Central excise

The central excise duty consists of three broad components:

- (i) Tax Component
 - i.e., Basic Excise Duties
 - Only the revenue generated from the tax component is devolved to states
- (ii) Cess component
 - Cess component comprises of Cesses administrated by Department of Revenue (Education Cess, Secondary & Higher Education Cess, Cess on Crude Oil, Cess on Bidi, Cess on Sugar, Cess on Automobiles, Others, Clean Environment Cess (Erstwhile Clean Energy Cess), Infrastructure Cess, Duty of Excise on Motor Spirit and High Speed Diesel Oil (Road and Infrastructure Cess) and -Cesses administrated by Department of Revenue (Coal & Coke, Rubber, Prevention & Control of (Air & Water)Pollution, Research and Development, Beedi Fund, Cess Collection on Textiles & Textile Machinery)
 - Revenue generated by the centre from any surcharge is not devolved to states.
- (iii) Additional duty/ special duty/surcharge & other duties Component
 - This includes, Additional Duty of Excise on Motor Spirit, Additional Duty of Excise on High Speed Diesel Oil, National Calamity Contingent Duty, Special Additional Duty of Excise on Motor Spirit and Surcharge on Pan Masala and Tobacco Products, Auxiliary Duties of Excise, Special Excise Duties, Excise Duty on generation of Power,

Additional Excise Duty on Textile and Textile Articles, Additional Duty of Excise on Mineral Product, Additional Excise Duties in lieu of Sales Tax, Additional Excise Duties on TV Sets, Additional Excise Duties on TV Sets, Sale of Confiscated Goods and Miscellaneous Receipts

- Of these National Calamity Contingent Duty is transferred to NDRF
- Revenue generated by the centre from any surcharge is not devolved to states.

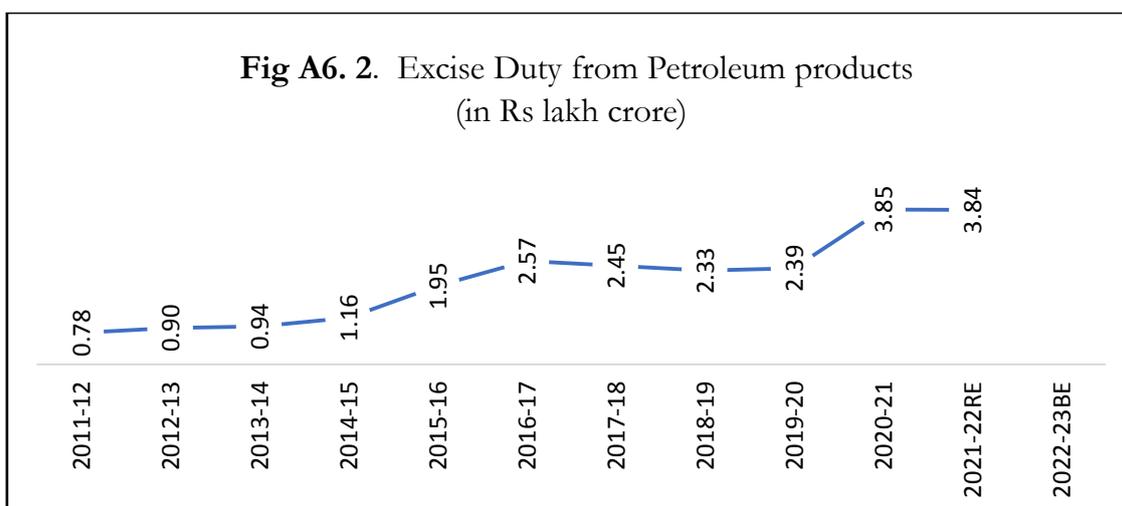
It is noticed that that the non-sharable component has increased significantly in the recent years (See Table A6.3).

Year	2017-18	2018-19	2019-20	2020-21	2021-22RE	2022-23BE
Basic Duty	45.16	30.02	25.80	13.87	6.63	8.03
Cess	10.65	29.92	34.04	34.51	68.44	61.75
Additional duty/ special duty/surcharge & others	44.19	40.06	40.16	51.61	24.93	30.22
Sharable component (with state) as per 15 th FC	18.52	12.31	10.58	5.69	2.72	3.29
Non-sharable component	81.48	87.69	89.42	94.31	97.28	96.71

Source (Basic data): Petroleum Planning and Analysis Cell, Ministry of Petroleum and Natural Gas

Central Excise on Petroleum Products

Apart from minor components like cess and surcharge on other products including pan masala and tobacco, excise duty on petroleum products can be synonymously referred to as Central Excise. The central government has exploited its jurisdiction on petroleum taxes through the continuation of the union excise duties on selected petroleum products. Not only has the central government been increasing the rates of the central excise duties on these products but it has also increased the non-sharable component of these taxes. In 2021, the share of unshared cesses and surcharges in total central taxes on petrol and diesel was around 94.3 per cent.



Source: Petroleum Planning and Analysis Cell, Ministry of Petroleum and Natural Gas

Excise Duty was raised on Petrol and Diesel in March and May 2020, which contributed to healthy growth in Central Excise revenue. Excise duty on per litre petrol comes to around Rs 28. Out of which only Rs 1.40 forms basic excise duty. This is only in the shareable pool. Remaining are (around Rs 26.6 not going to the divisible pool). These include special additional excise duty (Rs 11), Agriculture Infrastructure & Development Cess (AIDC) (Rs 2.50) and Additional Excise duty (Road and Infrastructure Cess (Rs 5) and for Crude petroleum Rs 11 as special additional Excise duty (See Table A6.4 for the details).

Table A6. 4. Central excise on petroleum products

Particulars	CENTRAL EXCISE			
	Basic Excise Duty	Special Additional Excise Duty	Agriculture Infrastructure & Development Cess (AIDC)	Additional Excise Duty (Road and infrastructure Cess)
Crude Petroleum	Rs. 1/MT+ Cess @ 20% +Rs.50/ MT as NCCD	Rs. 11000/ MT	-	-
Petrol	Rs.1.40/ltr	Rs.11.00/ltr	Rs.2.50/ltr	Rs.5.00/ltr.
Petrol (branded)	Rs.2.60/ltr	Rs.11.00/ltr	Rs.2.50/ltr	Rs.5.00/ltr.
High Speed Diesel	Rs.1.80/ltr	Rs.8.00/ltr	Rs.4.00/ltr	Rs.2.00/ltr.
High Speed Diesel (branded)	Rs.4.20/Ltr	Rs.8.00/ltr	Rs.4.00/ltr	Rs.2.00/ltr.
Aviation Turbine Fuel	11%	-	-	-
Liquefied Natural Gas	Nil	-	-	-
Natural Gas [Gaseous state]	Nil	-	-	-
Natural Gas [Compressed]	14.0%	-	-	-

Source: Petroleum Planning and Analysis Cell, Ministry of Petroleum and Natural Gas

Concluding remarks

It is suggested increase basic customs duty by reducing the other excise related duties so that the divisible pool kitty will increase and corresponding increase will be in the shared taxes to states.

Other Suggestions

Introduction of an inheritance tax for non-agricultural high net-worth individuals via modification of the existing tax laws

- Publication of net proceeds of taxes in the union budget
- Amendment of the CSR rules to make CMDRF eligible for CSR donations like PMDRF and PM-CARES



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