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GST CAN BOOST DIRECT, INDIRECT TAX COLLECTIONS, SAY EXPERTS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

The fact that the government is increasingly dependent on tax revenue, especially indirect taxes, to meet its fiscal requirements is not a cause for worry, according to tax analysts, who say that the real benefits of the Goods and Services Tax (GST) have not yet taken effect. Once they do, government revenue from both direct and indirect taxes will grow significantly.

An analysis by *The Hindu* of the budget documents of the last five years has shown that the government's dependence on tax revenue has steadily increased, with tax revenue making up a little more than 70% of its total receipts in 2018-19, up from 65% in 2014-15. Correspondingly, the share of revenue from non-tax sources (such as dividends from PSUs and the RBI) and capital receipts (such as disinvestment proceeds) has been declining.

The view among tax analysts is that the government cannot take the risk of increasing tax rates, whether direct or indirect, for fear of a backlash from the public. So, the only option it has to boost tax revenues is to increase the tax base and stop evasion, both of which the government has been trying to do.

"Several steps such as analysing the business-wise monthly GST payments and ascertaining trends in State-wise movement of goods using the e-waybill data would have already been initiated to evaluate options for enhancing the GST taxpayer database and revenues," M.S. Mani, partner, Deloitte India, said.

"Going forward, it is likely that the GST data would be correlated with information relevant from an income tax payment perspective so that incorrect tax filings can be corrected and revenues enhanced.

Detecting tax evasion

"Hence, the expansion of the GST taxpayer base, improving the return filings compliance and using the large amount of data available to detect tax evasion would become the cornerstone of the government's measures to enhance tax revenues," Mr. Mani added.

The other trend the government would be banking on is that increased economic activity and a higher GDP growth rate will boost consumption and hence, indirect tax collections, other analysts say.

"The indirect tax rate is fixed, so if there is price inflation, then the government receives a tax on that as well because product prices go up and so the tax component also goes up," Ranen Banerjee, partner, PwC India, said. "The second aspect is that when the GDP grows, consumption also grows, and so you get more indirect taxes from that."

Efficiency gains

"The efficiency gains of GST haven't yet kicked in and once they do, this will give revenue buoyancy in the next 3-5 years," Mr. Banerjee added.

However, he said that the worry for the government should be the fact that an increasing proportion of its indirect tax collections are coming from a single source — oil.

Non-tax revenue

Despite this optimistic outlook of future growth in tax revenue, the government has also been trying to improve its collections from other sources such as dividends from public sector companies and the Reserve Bank of India, and also through disinvestments.

The analysis of budget data shows that PSU dividends as a proportion of non-tax revenue have been growing over the years, from 16% in 2014-15 to 21.4% in 2018-19. The government has reportedly been pressurising the state-run oil companies to transfer larger dividends to the Centre every year.

It is also reportedly asking the state-run oil companies to buy back shares, and is also pushing more PSUs to list on the stock exchanges.

However, this is an untenable source of revenue for the government because they are based on finite resources.

Notably, dividends from the RBI, as a proportion of non-tax revenue, have been falling.

“Non-tax revenues, if you look at the majority, they have come from auctioning spectrum licences and royalties from oil, etc, and also disinvestment,” Mr. Banerjee said.

“All of these have a limit. Suppose you decide to sell everything, but after that, what? You cannot expand your budget based on this,” he said.

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