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ROBUST REVENUES: ON DIRECT TAX COLLECTION TARGET AND FISCAL CONSOLIDATION

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With little under a quarter left in the financial year 2023-24, the government has met nearly 81% of its direct tax collection target. At 14.7 lakh crore, direct tax inflows net of refunds, as of January 10, were 19.4% higher than a year ago. Economists believe the exchequer's net direct tax kitty will end up surpassing the Budget estimate of 17.2 lakh crore by about a lakh crore if not more, with the full-year growth settling at around 18%. With Goods and Services Tax inflows also likely to beat the Budget math and non-tax revenues bolstered by a generous dividend from the central bank, overall revenues are likely to go beyond Budget hopes despite a relatively tepid intake from excise duties. Within direct taxes, corporate taxes have grown 12.4% while personal income taxes have yielded 27.3% higher revenues and this dichotomy may persist in coming years with the number of income-tax returns filed this assessment year hitting record levels (8.2 crore by December 31).

The healthy revenue uptick and appreciable widening of the tax filing base offers some comfort for the government's fiscal consolidation hopes going forward, amid apprehensions that this year's deficit target of 5.9% of GDP may be missed by a small margin. It also creates room for the Centre to undertake more reforms in taxation with a focus on simplifying it further for corporates and individuals. For instance, the multiple withholding tax rates for firms, that often lead to disputes, can be minimised to a handful of lower rates, if not one. Tax deduction and collection at source (TDS and TCS) rates, including the much-debated levy to track overseas spends, may be brought down a few notches — the taxman can continue to derive intelligence from them, irrespective of the rates. The new exemption-less personal income tax regime with lower rates and paperwork is gaining traction. Yet, the government can mull some mechanisms to nudge people into better life choices aligned with public policy goals that can also deepen financial markets and strengthen macro-fundamentals — encouraging retirement savings and health insurance, for instance. The 18% GST levy on health insurance must also be reconsidered, even as a broader rationalisation of GST rates is awaited, as it entails significant costs for lower- and middle-income households who face a real risk of slipping into poverty in the aftermath of a health-care crisis for a single member. Finance Minister Nirmala Sitharaman has signalled the Interim Budget 2024-25 will have no spectacular moves, so a repeat of the 2019 pre-election exercise that rejigged income-tax slabs may be unlikely. But the revenue buoyancy must enthuse policymakers to keep more reform options on the table for the new government to consider.

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