

NUMBER WISE

TAX COLLECTIONS ROBUST DESPITE FRAGILE RECOVERY

Direct-tax-to-GDP ratio in the first quarter of 2021-22 increased to 5.14 per cent compared with 3.29 per cent over the last two years

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A government's tax collections depend on the state of the economy. When the coronavirus pandemic hit last year, India's economy shrank 7.3 per cent to pull down corporation and income-tax collections. Muted goods and services tax (GST) collections in the first half of the year forced the government to borrow and compensate states for their revenue shortfall.

That story changed from the second half of 2020-21, with tax collections becoming almost independent of economic performance.

Direct-tax-to-GDP ratio in the first quarter of 2021-22 increased to 5.14 per cent, compared with 3.29 per cent over the last two years, riding on the back of growth in corporation tax collection and personal income tax. Direct taxes now have a larger share of India's GDP when most international agencies are slashing

the country's growth forecast for the current financial year. The trend is unusual as economic growth suffered in Q1 this year due to the second wave of Covid-19.

GST collections exceeded the ₹1-trillion mark for eight months till May, though the economy's supplies — captured through electronic way bill generation — fluctuated. GST collections have become almost independent of high-frequency and macroeconomic indicators.

In November 2020, there was a mere 4 per cent growth in e-way bill generation on a year-on-year basis, but GST collections for December were a record ₹1.15 trillion. Sequentially, e-way bill generation declined in November compared to October. As e-way bill generation improved marginally to 64.1 million in December from 57.7 million in

November, tax collections soared to another record level of ₹1.19 trillion in January.

According to GST laws, an e-way bill is mandatory for moving goods valued above ₹50,000. Business transactions of a month reflect in GST collections with a month's lag. E-way bills fell from 71.2 million in March to 58.7 million in April, but GST collection in May breached the ₹1-trillion mark.

Corporation tax collections nearly doubled in the first quarter of 2021 compared to the same period last year. They grew 75 per cent when compared with the corresponding period in 2019-20, a pre-pandemic time. Personal

Data sharing allows the income tax department to draw an entire network diagram if a fake bill is generated

income tax grew by 87 per cent in Q1 of FY22 compared to the previous financial year and 28 per cent in 2019-20.

What explains the rise in tax collections in a slowing economy?

Tax department officials attribute it to better compliance and enforcement.

By introducing data sharing on income tax, customs and GST, the government can track income mismatches. An official said the income tax department could draw an entire network diagram if a fake bill was generated.

The launch of mandatory e-invoicing in a phased manner from October 2020 has helped tax collection. It has helped curb fake GST invoices, and ensured

genuine input tax credit claims. In September, the government brought in Aadhaar-based GST registration to prevent fraud — another measure to improve collection.

The question is: Is this trend in tax collection is sustainable?

ROBUST GST MOP UP IN SPITE OF FLUCTUATING E-WAY BILL GENERATION

GST collections exceeded the ₹1-trillion mark for eight months straight till April 2021 though economic activity, as captured by e-way bill generation, varied in this time

■ E-way bills generated (₹ mn)
 ■ GST Collection in subsequent month (₹ bn)



GST for a particular month's economic activity is collected in the subsequent month
 Source: Ministry of Finance, GSTN

DIRECT TAX TO GDP RATIO ZOOMS TO 5.1% IN APRIL-JUNE 2021

Direct taxes occupied a bigger share in India's GDP compared to pre-Covid years

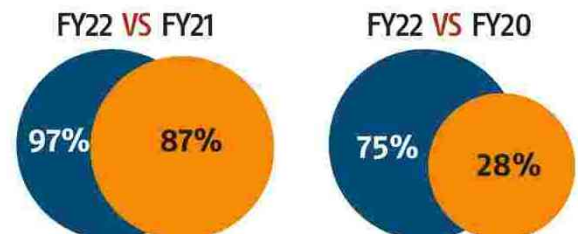


* Estimated by ICRA Ratings a 24% growth in nominal GDP at ₹48 trillion
 Source: Mospi, CBDT

TAX MOP UP DEFIES LOCKDOWN BLUES

Corporation tax collection grew 75% over two years, compared to 28% growth in personal income tax

■ Personal Income Tax (Direct tax collection, ₹ crore)
 ■ Corporation Tax



Data does not include Securities Transaction Tax and Equalisation Levy
 Source: Central Board of Direct Taxes