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Budget underestimates taxes for FY21 and FY22

The actual tax collection in FY21 could be of about ₹21.25 lakh crore. This will have an impact on the budgeted estimates (BE) for the next fiscal year. BE FY22 gross tax revenue (GTR) is pegged at ₹22.17 lakh crore, an increase of about 17% over RE FY21 GTR. Assuming the actual GTR in FY21 to be ₹21.25 lakh crore, the increase in BE FY22 GTR over RE FY21 GTR stands at a mere 4%

THE FINANCE MINISTER appears to have been conservative in estimating the Centre's Gross Tax Revenue (GTR) collections for FY21 and FY22. The Budget Estimates (BE) of the FY21 GTR was ₹24.23 lakh crore, and was revised downwards to ₹19 lakh crore in the FY22 Budget. This Revised Estimate (RE) for FY21 is lower than the actual GTR of ₹20.10 lakh crore collected in FY20.

The Centre collected about 80% of the RE FY21 GTR between April 2020 and January 2021, as compared to 71% of RE FY20 GTR between April 2019 and January 2020. The FY21 GTR collected up to January 2021 is ₹15.15 lakh crore, marginally lower than ₹15.31 lakh crore collected up to January 2020. The actual GTR collection in February and March 2020 was ₹4.79 lakh crore whereas the GTR to be collected in February and March 2021 is ₹3.85 lakh crore if RE FY21 is to be met (see graphic).

AGTR of ₹3.32 lakh crore was collected in March 2020, despite being a bad month for tax collection. The GTR collected in FY20 was 7% lower than the RE20. This was primarily due to tapering down of economic activity and the transition to Bharat Stage VI by the auto industry, which forms about 49% of the manufacturing industry. The tax collection in the months of

February and March, and the percentage this is of actual tax collection in FY18, FY19 and FY20 are given in the accompanying graphic.

From this data, it is apparent that the amount of taxes to be collected during the months of February and Mar 2021 to meet the RE FY21 is lower than the amounts collected in February and March of the previous fiscal years. Corporate profits for the September 2020 quarter were at an all-time high, which was subsequently surpassed by higher corporate profits in the December 2020 quarter. This is evidenced by the highest corporate tax collection, in December 2020 at ₹1.27 lakh crore. This is 57% higher than the corporate tax collection of ₹0.81 lakh crore in December 2019. The income tax collected during October-December 2020 was ₹1.31 lakh crore compared to ₹1.05 lakh crore in October-December 2019. The corporate tax and income tax collected in the December quarter of FY21 is 30% higher than the amount collected in the December quarter of FY20!

In the case of GST, the government has collected about 88% of the RE by January 2021, as compared to 81% of the RE FY20 GST collected up to January 2020. The gross GST revenue collected in February 2021 is ₹1.13 lakh crore, 7% higher than the GST revenues of February 2020. The GST collections in February 2021 exceeded ₹1 lakh crore for the fifth consecutive month, and crossed ₹1.1 lakh crore for the third time in a row post the pandemic, supported by economic recovery and improved compliance. Since the February 2021 collection is already high, we estimate the collections in February and March 2021 to be about ₹1 lakh crore, exceeding the RE FY21 GST by about ₹40,000 crore.

The monthly GTR, over the four months from October 2020 to January 2021, is higher than that for the corresponding period in FY20 by an average of 27%. Applying the average increase of 27%, the total GTR during Feb and Mar 2021 could be about ₹6.08 lakh crore, resulting in an increase in GTR collection over RE FY21 by ₹2.25 lakh crore. Consequently, actual tax collection in FY21 could be about ₹21.25 lakh crore.

The higher tax collection during this year will have an impact on the BE for the next year. The BE FY22 GTR is ₹22.17 lakh crore, an increase of about 17% over RE FY21 GTR. Assuming the actual GTR in FY21 to be ₹21.25 lakh crore, the increase in BE FY22 GTR over RE FY21 GTR may be only 4%. The nominal GDP growth rate for FY22 is estimated to be 15%. The GTR for FY22 could increase to ₹24.44 lakh crore if we factor in the nominal GDP growth rate on the actual GTR collection this year.

Increased economic activity would bring in more taxes this fiscal and the next. The government should use the extra tax collection this year to pay GST dues to states, and repay all pending GST, corporate and individual tax refunds to taxpayers till at least February 2021, so that there will be no overhang of past refunds in the next year. The government should settle all incentives for exports, full subsidy claims and backlog of spending for infrastructure and defence so that it can start the new fiscal year on a clean slate. It should continue the borrowing programme announced in Budget FY22 and not cut it down. This will improve the quality of government spending next year and impact growth positively.

The tax maths

(in ₹ crore)	FY 2019-20			FY 2020-21		
	Revised estimates	Actual Collections	Collections (Apr '19 - Jan '20)	Revised estimates	Collections (Apr '20 - Jan '21)	To be collected (Feb & Mar '21)
Gross tax revenue	21,63,423	20,10,059	15,30,900	19,00,280	15,15,100	3,85,180
Corporation Tax	6,10,500	5,56,876	3,93,200	4,46,000	3,34,500	1,11,500
Taxes on income	5,59,500	4,92,654	3,52,400	4,59,000	3,33,200	1,25,800
Direct taxes	11,70,000	10,49,530	7,45,600	9,05,000	6,67,700	2,37,300
GST	6,12,327	5,98,749	4,97,800	5,15,100	4,55,200	59,900

(₹ crore)	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	% of RE 2020-21
	Amount	Amount	Amount	Amount to be collected	
Gross tax revenue	4,63,163	5,18,082	4,78,941	3,85,150	20%
Corporation tax	1,81,631	2,08,883	1,63,627	1,11,500	25%
Taxes on income	1,19,906	1,31,992	1,27,914	1,25,800	27%
GST	88,071	1,05,236	1,01,051	59,900	12%