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REVENUE UPTICK

Centre's tax collections pick up pace, driven by higher fuel taxes, opens up space to provide more support to economy

THE PROVISIONAL ESTIMATES of direct and indirect tax collections indicate that the Central government's finances have fared better during 2020-21 than what had been expected. Gross tax collections are estimated to have touched Rs 20.16 lakh crore, up Rs 1.2 lakh crore from the revised estimates detailed in the Union budget a few months ago. This is in line with the view that the Centre's revised revenue estimates for 2020-21 were a tad conservative, considering the pick-up in economic activities during the second half of the year. While these are provisional estimates, and are subject to change, they do suggest that the Centre's tax collections during the pandemic year, will be at par with its collections in 2019-20, despite nominal GDP expected to contract by 3.8 per cent in 2020-21.

In large part, the higher than expected tax collections have been driven by better indirect tax collections. As per the data, the Centre's indirect tax collections have touched Rs 10.71 lakh crore in 2020-21 — this is not only higher than the revised estimates presented in the Union budget, but even higher than the collections in 2019-20. In large part, this rise can be traced to the levy of higher taxes and cesses on petroleum products — excise collections in 2020-21 were Rs 1.5 lakh crore higher than in 2019-20. Alongside, collections through the goods and services tax (GST) also picked up in the second half of the year, exceeding the Rs 1 lakh crore per month mark. At the aggregate level, direct taxes too appear to have fared better than expected. But, while collections from personal income taxes have crawled back up, in fact, they are only marginally lower than in 2019-20, corporate tax collections remain considerably lower than in 2019-20.

This higher than expected tax collection creates fiscal space for the Centre. It also means that the Centre's revenue collections in the current fiscal year may also end up being higher than what it has budgeted for, conditional upon the recent surge in infections not translating to restrictions on economic activities as severe as that last year, and the link between rising infections and economic activity remaining weak. At a time of acute uncertainty (recent reports suggest that migrant workers are already returning home), this additional fiscal space could be utilised for providing greater support to the economy and for ramping up the vaccination drive.