ANNEX-15

Statement of Revenue Impact of Tax Incentives under the Central Tax System: Financial Years 2014-15 and 2015-16.

The primary objective of any tax law and its administration is to raise revenue for the purpose of funding Government expenditure. The amount of revenue raised is primarily dependent upon the collective tax base and the effective tax rates. The determinants of these two factors are a range of measures which include special tax rates, exemptions, deductions, rebates, deferrals and credits. These measures are collectively called as 'tax incentives' or 'tax preferences'. They have an impact on Government revenues and also reflect a significant policy of the Government.

The tax policy provides specific tax incentives which give rise to tax preferences. Such preferences have a definite revenue impact and can also be viewed as an indirect subsidy to preferred tax payers, also referred to as 'tax expenditures'. It is often argued that tax policy should not only be efficient but also transparent. This means that programme planning which requires specific policy objectives to be addressed using incentives having revenue impact, should be explicit and transparent budgeting calls for inclusion of such indirect outlays (or revenue impacts) under the respective programme headings. Tax incentives resulting in any form of revenue impact per se are spending programs embedded in the tax statute.

The present statement is an analysis of the revenue impact of the tax incentives available under the Central Tax system. Such revenue impact of tax incentives was laid before Parliament for the first time during Budget 2006-07 as Annex-12 of the Receipts Budget 2006-07 by way of a statement of Revenue Foregone. It was well received by all quarters and gave rise to a constructive debate on the entire gamut of issues concerning fiscal policy. It also lent credence to the Government's intention of bringing about transparency in the matter of tax policy and tax expenditures. The second edition of this statement was placed before Parliament during Budget 2007-08 by way of Annexure-12 of the Receipts Budget and also by way of a separate budget document titled "Statement of Revenue Forgone". Thereafter, it was placed every year before Parliament during Budget from 2008-09 to 2014-15. In the year 2015-16 and in the present year, it has been termed more appropriately as the "Statement of Revenue Impact of Tax Incentives under the Central Tax System", since what is actually being analysed is the revenue impact.

As earlier, this Statement seeks to list the revenue impact of tax incentives or tax subsidies that are a part of the tax system of the Central Government. The revenue impact of such tax incentives has been estimated in respect of most of the "tax preferences". The estimates are for financial year 2014-15, the most recent year for which data is available. However, an attempt has also been made to estimate the revenue impact which would be there during financial year 2015-16 on the basis of the tax expenditure figures of the financial year 2014-15.

The estimates of the tax expenditures have been made on the basis of the following assumptions:-

(a) The estimates and projections are intended to indicate the potential revenue gain that would be realised by removing exemptions, deductions, weighted deductions and similar measures. The estimates are based on a short-term impact analysis. They are developed assuming that the underlying tax base would not be affected by removal of such measures. As the behaviour of economic agents, overall economic activity or other Government policies could change along with the elimination of the specific tax preference, the revenue implications could be different to that extent.

(b) The impact of each tax incentive is determined separately, assuming that all other tax provisions remain unchanged. Many of the tax concessions do, however, interact with each other. Therefore, the interactive impact of tax incentives could turn out to be different from the tax expenditure calculated by adding up the estimates and projections for each provision.

Though the revenue impact has been quantified in terms of tax expenditure, it does not imply that this quantum of revenue has been waived by the Government. Rather, these could be seen as targeted expenditure for the promotion of certain sectors. In some cases, the economic and social activities which are incentivized by such indirect subsidy by way of tax expenditure may not have actually been undertaken or may have been much lower in scale in the absence of such incentives. The assumptions and methodology adopted to estimate the tax expenditure on account of different tax incentives are indicated at the relevant places in this Statement.

Direct Taxes

The Income-tax Act, inter alia, provides for tax incentives to promote exports; balanced regional development; creation of infrastructure facilities; employment; rural development; scientific research and development; the cooperative sector and encourage savings by individuals and donations for charity. Accelerated depreciation is also provided as an incentive for capital investment. Most of these tax benefits can be availed of by both corporate and non-corporate taxpayers. This statement attempts to estimate the revenue impact of the tax incentives in respect of the aforesaid sectors separately for : (A) Companies ; (B) Firms , Association of Persons, Body of Individuals etc and; (C) Individuals and HUFs. Details of entities engaged in activities having a charitable or a social purpose has also been given in Part (D). The heads under which the revenue impact has been estimated are broadly similar for the companies and firms etc. However, in the case of individuals, certain other heads have also been included as these are specific to them only. The statement for the corporate sector also analyses the spread of effective tax rates for companies in different profit slabs. A sectoral analysis of effective tax rates has also been attempted.

A. Corporate Sector

Large business is mainly organised as companies. The Income-tax Department has received 5,82,889 corporate returns electronically up to 30.11.2015 for the financial year 2014-15 [i.e. assessment year 2015-16]. Every company is required to file its return of income electronically. These returns constitute about 90% of the total corporate returns expected in financial year 2015-16. These companies reported corporate tax liability of ₹ 2,98,205 crores [inclusive of surcharge and education cess] for their income of financial year 2014-15. They also reported ₹ 32,262.95 crore as Dividend Distribution Tax payable during the financial year 2014-15.

For the purposes of estimating the tax expenditure, data pertaining to these 5,82,889 companies[1] was culled from the database for analysis and is detailed in Tables 1 to 5 and Appendix to this statement. **Table 1** profiles these companies across profit ranges. The following facts emerge from an analysis of the data:-

- 310730 companies (53.31 %) reported ₹ 12,08,658 crore as profits before taxes and a total income (taxable income)[2] of ₹ 9,29,941 crore for the financial year 2014-15.
- 2,54,079 companies (43.59 %) reported ₹ 4,76,006 crores as losses.
- 18080 companies (3.10%) reported Nil profit.

The **effective tax rate[3] of the entire sample was 24.67 per cent[4]** [as against the rate of **23.22** per cent reported in 2013-14] while the statutory tax rate was 32.445 per cent in the case of companies having income up to ₹ 10 crore and of 33.99 in the case of companies having income exceeding ₹ 10 crore resulting in an average statutory rate of 33.84%[5] . Companies with profits before taxes [PBT hereafter] of ₹ 500 crore and above, accounted for a total of 60.63 percent of the total PBT and a total of 56.21 per cent of the total corporate income tax liability. However, their effective tax rate was 22.88 per cent, while the effective tax rate was 29.37 per cent for companies with PBT up to ₹ one crore. This rate of effective tax of 29.37 per cent for smaller companies , which is close to the statutory rate in companies, is the result of the gradual phasing out of profit linked deductions. The effective rate for the entire sample of 24.67 per cent, is however, marginally higher than the effective rate of 23.22 per cent in the F.Y 2013-14 . This is due to gradual phasing out of various profit linked deductions and the levy of Minimum Alternate Tax on companies.

The ratio of total income to PBT is much higher (95.39 per cent) for companies with PBT up to one crore rupees than that for the total sample (76.94 per cent). This is also reflected by the average effective tax rate of 29.37 per cent, being much higher for smaller companies. This indicates lesser deviance from PBT in the case of relatively smaller companies as compared to larger companies and that higher tax concessions are being availed by the larger companies.

Table 1: Profile of sample companies across range of profits before taxes

(Financial Year 2014-15) (Sample size – 582889)

Sl. No.	Profit Before Taxes	Number of Companies	Share in Profits Before Taxes (in %)	Share in Total Income (in %)	Share in Total Corporate Income Tax liability (in %)	Ratio of Total Income to Profits Before Taxes (in %)	Effective Tax Rate (in %) [Profit to tax ratio]
1.	Less than Zero	2,54,079	0.00	0.58	0.47		
2.	Zero	18,080	0.00	6.54	2.81		
3.	₹ 0-1 Crore	2,76,531	2.73	3.38	3.25	95.39	29.37
4.	₹ 1-10 Crore	26,983	6.76	7.54	7.40	85.44	26.99
5.	₹ 10-50 Crore	5,130	9.17	9.08	9.48	76.26	25.52
6.	₹ 50-100 Crore	894	5.16	5.01	5.26	74.83	25.14
7.	₹ 100-500 Crore	895	15.55	14.56	15.12	72	23.97
8.	Greater than ₹ 500 Crore	297	60.63	53.31	56.21	67.66	22.88
9.	**All Companies**	**582889**	**100.00**	**100.00**	**100.00**	**76.94**	**24.67**

1. *The sample size for financial year 2013-14 was 564787.*
2. The term “total income”, in income-tax returns, represents taxable income as would be implied in common parlance.
3. *Effective tax rate in case of companies is the ratio of total taxes [including surcharge and education cess but excluding Dividend Distribution Tax] to the total profits before taxes [PBT] and expressed as a percentage.*
4. *Effective tax rate including dividend distribution tax was 27.34 percent.*
5. *Average statutory tax rate has been worked out taking an average of the tax rate of 32.445% in the case of companies having total income upto ₹ 10 crore and 33.99% in the case of companies having total income exceeding ₹ 10 crore.*

Table 2 profiles the sample companies across effective tax rates. It is noted that 3,37,053 companies with average effective tax rates up to 20 per cent accounted for 36.49 per cent of total profits before taxes, 14.59 per cent of total taxable income and 13.73 per cent of total taxes. In other words, a large number of companies (3,37,053) i.e. 57.82 percent of the total companies contributed a disproportionately lower amount of taxes in relation to their profits. Interestingly, 52,899 companies accounting for 6.52 percent of the total profits and 13.89 percent of the total taxes, had an effective tax rate approximately equal to the average statutory rate of 33.84 %. This shows that the tax liability across companies is unevenly distributed. This is primarily due to the various tax preferences in the Statute.

Table 2: Profile of sample companies across range of Effective tax rates*

(financial year 2014-15) [sample size – 582889]

Sl. No.	Effective tax rate (in %)	Number of Companies	Share in Total profits (in %)	Share in Total Income (in %)	Share in Total Tax liability (in %)
1.	Less Than Zero and Zero	3,06,990	10.11	0.63	0.49
2.	0-20	30,063	26.38	13.96	13.24
3.	20-25	15,088	10.82	10.45	10.26
4.	25-30	23,835	13.47	15.59	15.66
5.	30-33.	1,35,934	32.70	45.80	46.46
6.	>33.	52,899	6.52	13.56	13.89
7.	**Indeterminate (PBT = 0)**	18,080	0.00	0.00	0.0
	TOTAL	**582889**	**100.00**	**100.00**	**100.00**

*effective tax rate is inclusive of surcharge and education cess.

Table 3 compares the effective tax rate of public companies [PSUs only] with that of private companies. While the rate is lower than the statutory rate for both categories, the private sector companies pay a slightly larger proportion of their profits as tax than the public sector companies.

Table 3: Effective tax rate* of sample companies in the public and private sectors

(financial year 2014-15) [sample size – 582889]

Sl. No.	Sector	Number of Companies	Share in total profits (in %)	Share in total tax liability (in %)	Effective tax rate (in %)
1	Public	218[#]	21.37	20.23	25.03
2	Private	582671	78.63	79.77	23.36
	Total	**582889**	**100.00**	**100.00**	**24.67**

* effective tax rate is inclusive of surcharge and education cess.

[#] Based on the information given by the assessee companies (as PSU) in their respective returns

Table 4 shows a comparison between the effective tax rate of the manufacturing sector and the service sector in respect of the sample companies. The service sector has a higher effective tax rate of 26.73 per cent as compared to manufacturing sector 22.06 per cent. Both the sectors have an effective tax rate that is well below the average statutory rate of 33.84 per cent.

Table 4: Effective tax rate* of sample companies in the manufacturing and service sectors

(financial year 2014-15) [sample size – 582889]

Sl. No.	Sector	Number of Companies	Share in total profits (in %)	Share in total tax liability (in %)	Effective tax rate (in %)
1	Manufacturing	1,28,095	44.05	39.38	22.06
2	Service	4,54,794	55.95	60.62	26.73
3	Total	5,82,889	100.00	100.00	24.67

* effective tax rate is inclusive of surcharge and education cess..

Table 5 gives details of the major tax expenditures on corporate tax payers in terms of the tax expenditure during the financial year 2014-15 and 2015-16. The analysis is based on the corporate returns filed up to 30th Nov 2015, which constitute 90% of the expected returns in the financial year 2015-16. However, the due date for filing of returns by all companies is on or before 30th November and most of the tax concessions analysed require the return to be filed before the due date for the purpose of claim of such incentive. Therefore, the tax expenditure from the data sample has not been scaled up in any manner. The revenue impact of each tax concession availed by these companies has been calculated by applying the average statutory corporate tax rate of 33.84 per cent on the amount of each deduction. The revenue impact of accelerated depreciation, deduction/ weighted deduction for expenditure on scientific research, and deduction for expenditure on eligible projects/schemes for social and economic uplift of the public, has been calculated by first determining the difference between the depreciation/deduction debited to the profit and loss account by companies and the depreciation/deduction allowable under the Income-tax Act. Thereafter, the average corporate tax rate of 33.84 per cent has been applied to this difference to arrive at the tax expenditure figure.

Another aspect of tax expenditure is tax deferral. Tax deferral occurs when the taxpayer, on account of being allowed higher deductions under the tax statute is able to defer his tax liability by claiming an allowance (e.g. depreciation allowance) as a deduction over shorter time period whereas he may be spreading the same depreciation claim over a number of years in his own accounts. As depreciation does not entail cash outgo, this is a tax deferral. On the other hand, the Minimum Alternate Tax (MAT) on companies under the tax statute fastens a liability (for 2014-15, at the rate of 20.99 per cent inclusive of cess and surcharge on book profits), on the profit reported by the company to its shareholders (subject to some adjustments), if this liability is in excess of the tax liability computed at normal rates. The excess liability on account of MAT is allowed as a credit (upto 10 years) in a subsequent year in which the normal tax liability is in excess of MAT. The additional tax paid on account of MAT is, therefore, an advance payment of future tax liability. It restricts the period of deferral of taxes on account of claims of depreciation and moderates the revenue impact of other deductions such as profit linked deductions by spreading the same claim over a longer period of time.

Based on the tax expenditure figures for the financial year 2014-15, the tax expenditure for the financial year 2015-16 has been projected. The estimation for 2015-16 has been made by multiplying the tax expenditure on each tax incentive in 2014-15 by the corporate tax growth in 2015-16 as per revised estimates. Table 5 depicts the major tax expenditures on corporate taxpayers in terms of tax expenditure during the financial year 2014-15 and projection for the financial year 2015-16.

Table 5: Revenue Impact of major incentives on corporate taxpayers during the the financial years 2014-15 and 2015-16; [sample size 582889]

Sl. No.	Nature of incentive	Revenue Impact (in ₹ Crore) [2014-15]	Projected Revenue Impact (in ₹ Crore) [2015-16]
1.	Deduction of export profits of units located in SEZs (section 10A and 10AA)	16685.53	17619.92
2.	Accelerated Depreciation (section 32)	41530.56	43856.27
3.	Deduction/weighted deduction for expenditure on scientific research (section 35 (1), (2AA) &(2AB))	8401.97	8872.48
4.	Deduction for expenditure on eligible projects or schemes for the social and economic uplift of the public (section 35AC)	747.34	789.19
5.	Deduction in respect of specified business (section 35AD)	1790.57	1890.84
6.	Deduction on account of donations to charitable trusts and institutions (section 80G)	992.26	1047.83
7.	Deduction on account of donations for scientific research or rural development (section 80GGA)	2.84	3.00
8.	Deduction on account of contributions to political parties (section 80GGB)	111.67	117.93
9.	Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA)	4225.3	4461.92
10.	Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA)	396.3	418.49
11.	Deduction of profits of undertakings engaged in providing telecommunication services (section 80-IA)	1745.33	1843.07
12.	Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA)	9621.02	10159.80

Sl. No.	Nature of incentive	Revenue Impact (in ₹ Crore) [2014-15]	Projected Revenue Impact (in ₹ Crore) [2015-16]
13.	Deduction of profits of undertaking engaged in revival of power plant (section 80-IA)	134.98	142.54
14.	Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)	1548.30	1635.01
15.	Deduction of profits of industrial undertakings located in Jammu & Kashmir (section 80-IB)	3119.70	3294.41
16.	Deduction of profits of industrial undertakings located in industrially backward States other than Jammu & Kashmir (section 80-IB)	23.87	25.20
17.	Deduction of profits of industrial undertakings located in backward districts (section 80-IB)	2.96	3.12
18.	Deduction of profits of industrial undertakings derived from development of scientific research (section 80-IB)	45.07	47.60
19.	Deduction of profits of industrial undertakings derived from production of mineral oil and natural gas (section 80-IB)	3227.32	3408.05
20.	Deduction of profits of industrial undertakings derived from housing projects (section 80-IB)	105.42	111.33
21.	Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB)	3.3	3.48
22.	Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB)	22.05	23.28
23.	Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB)	270.23	285.36
24.	Deduction of profits of industrial undertakings derived from hospital in rural area (section 80-IB)	1.67	1.77
25.	Deduction of profits of undertakings set-up in North Eastern States (section 80-IC)	718.34	758.57
26.	Deduction of profits of undertakings set-up in Sikkim (section 80-IC)	959.20	1012.92
27.	Deduction of profits of undertakings set-up in Uttaranchal (section 80-IC)	2885.65	3047.25
28.	Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC)	1305.7	1378.82
29.	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	5.4	5.70
30.	Deduction in respect of employment of new workmen (section 80JJAA)	91.38	96.50
31.	Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Centre [IFSC] (section 80LA)	0.0	0.00
32.	Deduction in respect of hotels ,convention centres in specified areas (section 80-ID)	1.07	1.13
33.	Total	1,00,722.31	1,06,362.76
34.	**Less Additional Tax Liability on account of MAT = 46,510.50**		
	Reduced By MAT credit claimed = 10,855.40		
	Net Additional Tax due to MAT = 35655.10	35655.10	37651.78
	Total Revenue Foregone	65,067.21	68,710.98

While the projected tax expenditure figure for 2014-15 (exclusive of additional tax due to MAT payment) was estimated in the last year's statement to be ₹ 98,407.60 crores , it has now been actually calculated at ₹ 1,00,722.3 crore. Taking into account, the additional tax collected as a result of MAT, the actual revenue impact of tax incentives is slightly higher at ₹ 65,067.20 crores against the projected tax expenditure of ₹ 62398.6 crores. One reason for this is that for this year the MAT credit claimed is at ₹ 10,885.40 crore which is more than that of F.Y.2013-14 of ₹ 6900.6 crore.

Accelerated depreciation accounts for the head under which the highest amount of tax incentive (₹ 41530.56 crore) has been given. Across various sectors, deductions availed by units located in SEZ, undertakings engaged in generation, transmission and distribution of power, undertakings engaged in development of infrastructure facilities and for scientific research accounted for a substantive portion of the total tax incentive.

The industry-wise distribution of effective tax rate of companies is given in the table in the Appendix to this statement. At the lower range, the effective tax rate for the sugar and the cement sector is at 6.95 per cent and 9.01 per cent respectively. Similarly the effective tax rate of leasing companies is lower than average at 1.53 percent.

B. Non-Corporate [Firms/AOPs/BOIs] Sector

Apart from the corporate sector, large business is also organised as partnership firms and Association of Persons [AOPs] or Body of Individuals [BOIs]. The tax expenditure on these is not as large as that in case of companies. The Income-tax Department has received 7,59,875 returns filed electronically upto 30th November for income of the financial year 2014-15. For the purposes of estimating the tax expenditure, data pertaining to these 7,59,875 firms/AOPs/BOIs was culled out from the database of the Income-tax Department. They account for a substantial part of the tax paid by the universe of firms/AOPs/BOIs in financial year 2014-15.

The data was analysed and the following facts emerged:-

- The sample firms/AOPs/BOIs reported ₹ 1,23,806.90 crore as profits before taxes and declared a total income (taxable income) of ₹ 1,07,532.69 crores for the financial year 2014-15. Losses were reported by about 93,511 returns which is 12.30 per cent of the sample.
- These sample firms/AOPs/BOIs reported ₹ 32573.95 crore as income tax payable [inclusive of education cess] for the financial year 2014-15. The effective tax rate[6] in their case works out to 26.31 per cent.

The revenue impact of each tax concession claimed by the sample firms/AOPs/BOIs has been calculated by applying the income tax rate of 30.90 per cent (30% plus cess of 3%) on the amount of each deduction. The tax expenditure on account of accelerated depreciation; deduction/weighted deduction for expenditure on scientific research; and deduction for expenditure on eligible projects/schemes for social and economic uplift of the public has been calculated by first determining the difference between the depreciation/deduction debited to the profit and loss accounts by firms/AOPs/BOIs and the depreciation/deduction allowable under the Income-tax Act. Thereafter, the income tax rate of 30.90 per cent has been applied to this difference to arrive at the revenue impact of each tax incentive .

Based on the revenue impact for each tax incentive for financial year 2014-15, the revenue impact for the financial year 2015-16 has been estimated. The estimation for 2015-16 has been done by calculating the ratio of income tax collections as per the Revised estimates in 2015-16 to the actual income-tax collected in the year 2014-15 and then applying the same ratio to the tax expenditure on account of each tax incentive in 2014-15. **Table 6** depicts the major tax expenditures on non-corporate taxpayers in terms of tax expenditure during the financial years 2014-15 and 2015-16. The highest tax expenditure is on account of deduction of profits of cooperative societies which accounts for 44.95 per cent of the total revenue impact in this sector. The tax expenditure on account of deduction of profits derived by undertakings in North Eastern States , Sikkim , Himachal Pradesh and Uttarakhand was 14.44 per cent of the total revenue forgone.

The total tax expenditure for non-corporate sector i.e. firms, AOPs/BOIs is ₹ 4319.78 crore which is less than ₹ 5141 crore projected in last years' Statement of Revenue Impact. The reason for reduction in tax expenditure is due to levy of alternate minimum tax on non-corporate entities and gradual phasing out of deductions.

Table 6: Revenue Impact of major tax Incentives for firms /AOP / BOI tax payers during financial years 2014-15 and 2015-16 [sample size - 759875]

Sl. No.	Nature of incentive/deduction	Revenue Impact (in ₹ Crore) [2014-15]	Projected Revenue Impact (in ₹ Crore) [2015-16]
1.	Deduction of export profits of units located in SEZs (section 10A and 10AA)	337.74	356.65
2.	Accelerated Depreciation (section 32)	687.03	725.51
3.	Deduction/weighted deduction for expenditure on scientific research (section 35 (1), (2AA) &(2AB))	23.31	24.62

6 Effective tax rate in case of firms/AOPs/BOIs is the ratio of total taxes paid [including education cess] to the total profits before taxes [PBT] and expressed as a percentage.

Sl. No.	Nature of incentive/deduction	Revenue Impact (in ₹ Crore) [2014-15]	Projected Revenue Impact (in ₹ Crore) [2015-16]
4.	Deduction for expenditure on eligible projects or schemes for the social and economic uplift of the public (section 35AC)	4.59	4.84
5.	Deduction in respect of specified business (section 35AD)	72.44	76.49
6.	Deduction on account of donations to charitable trusts and institutions (section 80G)	87.93	92.85
7.	Deduction on account of contributions to political parties (section 80GGC)	13.80	14.58
8.	Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA)	36.84	38.90
9.	Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA)	67.03	70.79
10.	Deduction of profits of undertakings engaged in providing telecommunication services (section 80-IA)	1.34	1.42
11.	Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA)	162.76	171.87
12.	Deduction of profits of undertaking engaged in revival of power plant (section 80-IA)	5.31	5.60
13.	Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)	20.39	21.54
14.	Deduction of profits of industrial undertakings located in Jammu & Kashmir (section 80-IB)	27.31	28.84
15.	Deduction of profits of industrial undertakings located in industrially backward States other than Jammu & Kashmir (section 80-IB)	1.62	1.71
16.	Deduction of profits of industrial undertakings located in backward districts (section 80-IB)	0.97	1.02
17.	Deduction of profits of industrial undertakings derived from housing projects (section 80-IB)	172.88	182.56
18.	Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB)	0.19	0.21
19.	Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB)	2.26	2.38
20.	Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB)	23.27	24.58
21.	Deduction of profits of undertakings set-up in North Eastern States (section 80-IC)	75.64	79.88
22.	Deduction of profits of undertakings set-up in Sikkim (section 80-IC)	150.36	158.78
23.	Deduction of profits of undertakings set-up in Uttaranchal (section 80-IC)	116.44	122.96
24.	Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC)	281.59	297.36
25.	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	4.22	4.46
26.	Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Centre [IFSC] (section 80LA)	0.24	0.25
27.	Deduction in respect of hotels ,convention centres in specified areas (section 80-ID)	0.62	0.66
28.	Deduction in respect of profits of cooperative societies (Section 80P)	1941.65	2050.39
29.	**Total**	**4,319.78**	**4,561.69**

C) Individual Taxpayers

Chapter VI-A of the Income-tax Act primarily provides for deduction on certain payments and deduction on certain incomes. Individual/HUF taxpayers are eligible to claim these deductions and have a wide range of tax preferences available to them. However, since approximately 50 per cent of the individual taxpayers derive their income primarily from salaries, the profit-linked deductions [i.e. deduction on certain business incomes] are not claimed by them. On the other hand, the group of non-salaried individuals claims both types of deductions.

The estimate of revenue impact of tax incentives granted to individual taxpayers is presented in Table 7. The tax impact under various sections of Chapter VI-A of the Income-tax Act has been estimated on the basis of various claims for tax preferences in the **2,25,29,732** returns filed electronically by individuals with the Income-tax Department till 30th November 2015. Apart from deductions under Chapter VI-A, the other major tax expenditure on individual taxpayers in the financial year 2014-15 was on account of the higher basic exemption limit of ₹ 3,00,000 for senior citizens (individuals aged 60 years or more) , and enhanced exemption limit of ₹ 5,00,000 for very senior citizens (individuals aged eighty years or more).

Based on the figures of the sample of **2,25,29,732 r**eturns of income, the tax expenditure for the entire population of tax payers has been estimated as under:-

(i) The revenue impact of higher basic exemption limits, as aforesaid (Sl. No. 25 and 26 of table 7), has been calculated by multiplying the tax expenditure per senior citizen and very senior citizen with their respective numbers. Their respective numbers have been estimated by calculating the percentage of sample returns filed by them. Thereafter, this percentage has been applied to the estimate of total number of returns filed by individuals for financial year 2014-15. The total sample returns filed electronically with the Income-tax Department till 30th November 2015 is 2,25,29,732. The total number of returns filed by individuals for financial year 2014-15 is estimated to be 3,74,54,773 by assuming a growth rate of 5 percent over the estimate of returns filed for the financial year 2013-14 which was 3,56,71,213. According to the sample returns**,** 10.17 per cent of the returns were filed by senior citizens and 0.59 per cent of the returns were filed by very senior citizens. Further, the revenue impact of a higher exemption limit available to senior citizens, has been calculated by taking into account the difference between the higher basic exemption limit [i.e. ₹ 3,00,000] as compared to the general exemption limit of ₹ 2,50,000 and applying the lowest tax rate of 10 per cent (plus cess) on the difference. The tax expenditure for each senior citizen is ₹ 5,150. For a very senior citizen the exemption limit is ₹ 5,00,000 and the tax computed on such income amounting to ₹ 25,750 (inclusive of cess) is payable by an individual who is below the age of sixty years. This has been taken to be the revenue impact for each very-senior citizen. Thereafter, the tax expenditure on account of each such taxpayer (senior citizen and very-senior citizen) has been projected on the total estimate of the number of such tax payers above the general exemption limit of ₹ 2,50,000.

(ii) Specifically, in the case of deduction under sections 80-IA, 80-IAB, 80-IB 80-IC and 80-ID (Sr. No. 14 to 18 of table 7) the revenue impact or tax expenditure has been calculated on the assumption that the actual figure reflect the total claims made by individuals under these sections as all tax audited returns for income of F.Y. 2014-15 were subject to compulsory e-filing.

(iii) In all other cases, the tax expenditure for the entire population of taxpayers is worked out by-

(a) First calculating the average tax expenditure for a particular incentive per taxpayer for each income slab which has a separate tax rate in the sample returns.

(b) Secondly, multiplying the average tax expenditure for each incentive by the estimated number of individual taxpayers in that income slab in the total number of returns filed by individuals for financial year 2014-15 .

This gives the tax expenditure for that income slab for a particular incentive. The sum of the tax expenditure for all the slabs gives the tax expenditure for the entire population on account of the particular tax incentive.

(iv) Based on the tax expenditure figures for financial year 2014-15, the tax expenditure for the financial year 2015-16 has been estimated. The estimation for 2015-16 has been done by calculating the ratio of the personal income tax collections as per the revised estimates for 2015-16 to the actual personal income-tax collected in the year 2014-15 and then applying the same ratio to the tax expenditure on account of each tax incentive in 2014-15 .In case of Revenue impact of rebate u/s 87A, the projection is based on assumption of annual growth rate of 5 % in total number of taxpayers.

As detailed above, Table 7 depicts the revenue impact of major tax incentives for individual tax payers, in terms of tax expenditure, during the financial years 2014-15 and 2015-16.

Table 7 : **Revenue Impact of major tax Incentives for individual tax payers during financial years 2014-15 and 2015-16**

Sl. No.	Nature of incentive/deduction	Revenue Impact (in ₹ Crore) [2014-15]	Projected Revenue Impact (in ₹ Crore) [2015-16]
1.	Deduction on account of certain investments and payments (section 80C)	39,682.59	44650.85
2.	Deduction on account of contribution to certain pension funds (section 80CCC)	102.37	115.18
3.	Deduction on account of contribution to the New Pension Scheme (section 80CCD)	432.78	486.96

Sl. No.	Nature of incentive/deduction	Revenue Impact (in ₹ Crore) [2014-15]	Projected Revenue Impact (in ₹ Crore) [2015-16]
4.	Deduction on account of investment in RGESS(section 80CCG)	9.93	11.18
5.	Deduction on account of health insurance premium (section 80D)	1,064.91	1198.24
6.	Deduction on account of expenditure for medical treatment of a dependent who is disabled (section 80DD)	208.13	234.19
7.	Deduction on account of expenditure for medical treatment of specified diseases (section 80DDB)	110.98	124.87
8.	Deduction on account of interest on loan taken for higher education (section 80E)	352.95	397.14
9.	Deduction on account of interest on housing loan (80EE)	90.98	102.38
10.	Deduction on account of donations to charitable trusts and institutions (section 80G)	433.64	487.93
11.	Deduction on account of rent paid for housing accommodation (section 80GG)	151.08	169.99
12.	Deduction on account of donations for scientific research or rural development (section 80GGA)	50.35	56.66
13.	Deduction on account of contributions given to political parties (section 80GGC)	45.39	51.07
14.	Deduction of profits of undertakings engaged in development of infrastructure facilities, SEZs and Industrial Parks, generation of power, and providing telecommunication services (section 80-IA)	55.61	62.57
15.	Deduction of profits of undertakings engaged in development of SEZs pursuant to SEZ Act, 2005 (section 80-IAB)	1.21	1.36
16.	Deduction of profits of industrial undertakings derived from housing projects, production of mineral oil, development of scientific research, integrated business of handling, storage and transportation of food grains and of industrial undertakings located in Jammu & Kashmir and in other backward areas (section 80-IB)	63.6	71.56
17.	Deduction of profits of undertakings set-up in North Eastern States, Sikkim, Uttaranchal and Himachal Pradesh (section 80-IC)	114.48	128.81
18.	Deduction in respect of hotels, convention centres in specified areas (section 80-ID)	0.44	0.50
19.	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	6.80	7.65
20.	Deduction of royalty income of authors of certain books other than text books (section 80QQB)	10.72	12.06
21.	Deduction of royalty income on patents (section 80RRB)	0.93	1.05
22.	Deduction on account of interest in savings account (section 80TTA)	730.92	822.43
23.	Deduction in case of a person with disability (section 80U)	163.21	183.64
24.	Rebate u/s 87A	3,397.43	3822.79
25.	Higher exemption limit for senior citizens	1528.62	1720.00
26.	Higher exemption limit for very senior citizens	396	445.58
	Total	**49,206.05**	**55,366.64**

The revenue impact of providing a tax incentive for investments in various savings instruments, repayment of housing loan and payment of tuition fees for children [all these come under section 80C of the Income-tax Act] is the single largest tax expenditure in case of individual taxpayers followed by rebate on tax in case of resident individuals having income up to five lakh rupees and deduction on account of health insurance premium (section 80D). The tax expenditure on account of higher basic exemption limits for senior citizens and very senior citizens are also significant. As regards profit-linked deductions, the highest tax expenditure is on account of section 80-IB and section 80-IC of the Income-tax Act, 1961.

D) Charitable entities:

The Income-tax Act provides for exemptions to various entities including government funded entities engaged in objects which are charitable in nature. In addition to this, specific exemption is also available to entities engaged in certain activities which satisfy social purposes. These entities receive donations, voluntary contributions and have other incomes from activities which are charitable in nature. The total receipts of such entities are required to be applied for the purposes for which these have been set up. These entities are required to file an income tax return. The total number of electronically filed returns of such entities till 30th November 2015, during the financial year 2015-16 is 1,19,317 . The total amount applied by such entities for charitable and religious purposes in India is ₹ 2,36,326 crores.

Indirect Taxes

A. Excise duties

Excise duty is levied as per the rates specified in the First and Second Schedules to the Central Excise Tariff Act, 1985. In many cases, various Finance Acts specify the rates at which these duties are to be levied. The rates specified in various enactments are known as the **"Tariff rates"** of excise duty. However, powers have been delegated to Central Government under section 5A(1) of the Central Excise Act, 1944 to issue exemption notifications in public interest so as to prescribe duty rates lower than the Tariff rates. The rates prescribed by such exemption notifications are known as the **"effective rates"**.

Revenue impact of tax incentives is defined as the difference between duty that would have been payable but for an exemption notification and the actual duty paid in terms of such notification –

- In cases where the tariff and effective rates of duty are ad valorem rates,**- Revenue impact of tax incentives= Value of goods X (Tariff rate of duty - Effective rate of duty)**
- In cases where the tariff rate is ad valorem basis but the effective duty is specific, then – **Revenue impact of tax incentives = (Value of goods X Tariff rate of duty) - (Quantity of goods X Effective rate of specific duty)**
- In cases where the tariff rates and effective rates are a combination of ad valorem and specific rates, revenue impact of tax incentives is calculated accordingly
- In all cases, where the tariff rate equals the effective rate, revenue impact of tax incentives will be zero.

Besides, powers to issue general exemption notifications under section 5A(1) ibid, the Central Government also has the powers to issue special orders for granting excise duty exemption on a case to case basis under circumstances of an exceptional nature, vide section 5A(2) of the Central Excise Act. However, unlike general exemptions which form part and parcel of fiscal policy of the Central Government, the main object behind issue of exemption orders is to deal with circumstances of exceptional nature. As such, the revenue impact on account of issue of special exemption orders is not being taken towards revenue impact of tax incentives figures.

Automation of Central Excise & Service Tax (ACES) system has been launched in all the Central Excise formations across the country. The figure of revenue impact of tax incentives for 2014-15 was based on ACES data, which, among other things, captures the data contained in returns filed by assesses. The revenue impact due to the operation of area based exemption schemes was obtained separately from the concerned Central Excise Zones.

In this manner, the revenue impact of tax incentives for the financial year 2014-15 was provisionally estimated at ₹.1, 84, 764 Crore [₹.1, 67, 480 Crore (general exemption) + ₹.17, 284 Crore (area based exemption)]. The revenue impact of tax incentives for the financial year 2014-15 based on actual data for the full year is now available and it comes to ₹.1, 96,789 Crore [₹ 1,76,811 Crore (general exemption) + ₹ 19,978 Crore (area based exemption)] as against the estimates of ₹ 184,764 Crore.

The revenue impact of tax incentives for the financial year i.e. 2015-16 has been estimated based on ACES data for part of the year i.e April- December, 2015 and then extrapolated for the whole year 2015-16. The revenue impact of tax incentives for the financial year 2015-16 so estimated is ₹ 2, 24, 940 Crore [₹.2, 05, 820 Crore (general exemptions) and ₹ 19,120 Crore (area based exemptions)].

This figure of ₹ 2, 24, 940 Crore shows an increase of 14.31% over last year's revised revenue impact of tax incentives figure of ₹ 1, 96, 789 Crore.

As for area-based exemptions, there are two types of exemption schemes currently in operation –

[i] Based on refunds (North East and J & K) and

[ii] Outright exemption (Himachal Pradesh and Uttarakhand).

In the case of refund-based exemptions, the revenue impact is computed by aggregating the refunds actually sanctioned to the individual units. As for outright exemptions, the revenue impact is calculated using the difference between the general effective rate and the duty actually paid - Nil.

The overall revenue impact of tax incentives in central excise duty are as under:

Table 8 : Revenue impact of tax incentives under Excise duty regime

Sl. No.	Details of Exemption	Revenue impact (in ₹crore) 2014-15 Estimates	2014-15 Revised	2015-16 Estimates
1	Area based exemptions applicable in the North Eastern States, Uttarakhand, Himachal Pradesh, Jammu & Kashmir	17, 284	19, 978	19, 120
2	Others	1, 67, 480	1, 76, 811	2, 05, 820
	Total	**1, 84, 764**	**1, 96, 789**	**2, 24, 940**

The estimated revenue impact of excise tax incentives of ₹ 2,24,940 for the year 2015-16, is inclusive of tariff cushions/ exemptions [of about ₹ 1.5 lakh Crores] *inter-alia* on petroleum products, cement, kerosene, LPG, vehicles (including tractors), sugar, fertilizers and textiles *as well as* area based exemptions of about ₹ 19 thousand Crores.

B. Customs duties

Customs duty on goods is levied under the Customs Act, 1962 at rates specified in the First Schedule to the Customs Tariff Act, 1975. On exports, export duty is levied under the Customs Act, 1962 at rates specified in the Second Schedule to the Customs Tariff Act, 1975. In addition, the Customs Tariff Act, 1975 provides for levy of-

- Additional duty of customs [sub-section (1) of section 3] (commonly referred to as countervailing duty or CV duty), and
- Additional duty of customs [sub-section (5) of section 3] (commonly referred to as SAD) levied at the rate of 4%.

These rates are known as "**Tariff Rates**". However, the Central Government has been delegated powers of exemption under section 25(1) of the Customs Act, 1962 to issue notifications, in public interest, so as to prescribe duty rates lower than the tariff rates. These rates, prescribed by notifications, are known as the "**effective rates**".

The revenue impact of tax incentives in customs duty regime is calculated in the same manner as in case of revenue impact of tax incentives in central excise duty regime.

Estimate of revenue impact of tax incentives under various exemption notifications is based on the data generated from the Bills of Entry filed by importers in the Indian Customs Electronic Data Interchange System (ICES) at various Electronic Data Interchange (EDI) locations. Since the EDI system does not capture data in respect of imports through non-EDI locations or where the EDI system is not fully operational or where Bills of Entry are still being filed manually, suitable adjustments have been made in order to arrive at the total picture of revenue impact of tax incentives. Revenue impact data takes into account the exemptions from basic customs duty, CV duty and also exemption notifications issued under the Central Excise Act, 1944 which are relevant for levy of CV duty. It also takes into account exemptions from SAD of 4%.

For working out the estimated revenue impact of tax incentives for the year 2014-15, the methodology used in previous years was adopted. The EDI had captured 90.35% of the actual reported gross customs revenue collection in 2014-15. As per EDI data, estimated customs revenue impact of tax incentives for 2014-15 (April to December, 2015) was ₹ 2, 31, 472 Crore. After extrapolation for data not captured by EDI, the estimated customs revenue impact for the whole year 2014-15 came to ₹ 3, 41, 592 Crore. The customs revenue impact of tax incentives for the financial year 2014-15 based on actual EDI data for the full year is now available and after extrapolation for data not captured by EDI it comes to ₹ 2, 83, 630 Crore.

The estimated impact of tax incentives for financial year 2014-15 included goods warehoused under Section 62 of the Customs Act, 1962 (into bond). This led to double counting of revenue forgone when such warehoused goods are cleared for home consumption. Therefore, in this Statement, the goods deposited in a warehouse have not been taken into account since the revenue forgone on account of these goods will be counted when such goods are cleared for home consumption. Accordingly, the actual figures for the year 2014-15 and estimates for the year 2015-16 have excluded into bond figures.

For working out the estimated revenue impact of tax incentives for the year 2015-16, the same methodology has been adopted. As per EDI data, estimated customs revenue impact of tax incentives for the financial year i.e. 2015-16 (April to December, 2015) is ₹ 2, 09, 038 Crore. Considering the data captured by EDI at 90.35% of the actual reported gross customs revenue collection in 2015-16, after extrapolation for data not captured by EDI, the estimated customs revenue impact of tax incentives for the whole year 2015-16 comes to ₹ 3, 08, 487 Crore. This revenue impact, however, includes export-related input taxes. Many of these schemes provide input tax neutralization to ensure that we do not export taxes. Thus, the revenue impact of tax incentives from these schemes has been excluded from estimated revenue impact of tax incentives. After deducting the revenue impact of tax incentives from the various export promotion schemes but including the revenue impact from incentive schemes mentioned at Sr.

no. 14 of the Table 11 below, the net revenue impact of tax incentives for the year 2015-16 works out to ₹ 2, 57, 549 Crore [₹ 3, 08, 487 Crore – ₹ 50, 938 Crore].

The estimated revenue impact of tax incentives during 2015-16 is about 7.78% higher than that during 2014-15. During the same period customs duty collections have increased by 9.7%.

The revenue impact of tax incentives under customs duty regime for the period 2014-15 and 2015-16 on account of major commodity groups and their share in overall revenue impact is given below:

Table 9: Contribution of major commodity groups to revenue impact of tax incentives

Chapter	Commodity	2014-15		2015-16 (Estimated)	
		Revenue impact (₹ crore)	% Share in total revenue impact	Revenue impact (₹ crore)	% Share in total revenue impact
71	Precious stones, jewellery	44926	16	61126	20
27	Mineral fuels and mineral oils (Crude petroleum)	55646	20	41128	13
15	Animal or vegetable fats(Edible oils)	42694	15	40507	13
84	Machinery	16586	6	17922	6
85	Electrical machinery	14698	5	16574	5
54	Manmade filaments	7609	3	14406	5
29	Organic chemicals	10959	4	11009	4
7	Edible vegetables, certain roots and tubers(Pulses), Onions	6814	2	10349	3
72	Iron and steel	8766	3	9534	3
31	Fertilizers	6279	2	9131	3
28	Inorganic chemicals	4115	1	6931	2
8	Edible fruit and nuts	3971	1	6875	2
39	Plastics	4485	2	4794	2
90	Optical/photographic instruments	3849	1	4630	2
88	Aircrafts	2945	1	3516	1
26	Ores	3344	1	2927	1
89	Ships, boats and floating structures	4009	1	2906	1
73	Articles of iron and steel	2650	1	2520	1
98	Project imports, baggage	2818	1	2361	1
44	Wood	2206	1	2304	1
87	Motor vehicles	2024	1	2189	1
	Total	**251393**	**89**	**273639**	**89**

The revenue impact of tax incentives for each of the chapters of Customs Tariff Act is given below:

Table 10: Estimates of revenue impact of tax incentives under the Customs duty regime

(₹ in Crore)

Chapter	Brief Description of Goods	2014-15	2015-16 (Estimated)
1	Live animals	5	6
2	Meat and edible meat offal	14	9
3	Fish and crustaceans, other aquatic invertebrates	99	111
4	Dairy Products	68	49
5	Other products of animal origin	27	41
6	Live trees and other plants	3	3
7	Edible vegetables, certain roots and tubers	6814	10349

Chapter	Brief Description of Goods	2014-15	2015-16 (Estimated)
8	Edible fruit and nuts	3971	6875
9	Coffee, tea, mate and spices	1345	1436
10	Cereals	124	1172
11	Products of the milling industry	68	54
12	Oilseeds, grains, seeds, fruits	317	385
13	Lac, gums and resins	308	362
14	Vegetable plaiting materials	28	41
15	Animal or vegetable fats and oils	42694	40507
16	Preparations of meat or fish	9	11
17	Sugar	2379	1832
18	Cocoa	366	317
19	Preparations of cereals	73	106
20	Preparations of vegetables	62	48
21	Miscellaneous edible preparations	485	414
22	Beverages and spirits	421	589
23	Residues and waste from food industry	402	506
24	Tobacco	92	100
25	Salt, sulphur earths and stone	819	875
26	Ores	3344	2927
27	Mineral fuels and mineral oils	55646	41128
28	Inorganic chemicals	4115	6931
29	Organic chemicals	10959	11009
30	Pharmaceutical products	1073	1179
31	Fertilizers	6279	9131
32	Tanning and dyeing extracts, pigments	631	788
33	Essential oils	475	462
34	Soap and washing preparations	256	263
35	Albuminoidal substances	160	153
36	Explosives, matches	28	32
37	Photography goods	63	57
38	Miscellaneous chemical products	1664	1785
39	Plastics	4485	4794
40	Rubber	1899	1423
41	Hide and skins and leather	495	505
42	Articles of leather	48	85
43	Fur skins	4	3
44	Wood	2206	2304
45	Cork	1	2
46	Manufactures of straw	0	1
47	Wood Pulp	1237	1309
48	Paper	1702	1676
49	Printed books, newspapers	1177	1770
50	Silk	313	321
51	Wool	158	180
52	Cotton	605	556
53	Other vegetable fibres	222	338
54	Manmade filaments	7609	14406
55	Man made staple fibres	1222	1344

Chapter	Brief Description of Goods	2014-15	2015-16 (Estimated)
56	Wadding and non woven	104	125
57	Carpets	38	41
58	Special woven fabrics	402	600
59	Coated textile fabrics	696	583
60	Knitted fabrics	382	393
61	Knitted readymade garments	163	211
62	Woven garments	342	452
63	Made ups	109	183
64	Footwear	364	496
65	Head gear	2	2
66	Umbrellas	14	13
67	Feathers/artificial flowers	2	2
68	Articles of stone, plaster	208	239
69	Ceramic Products	290	290
70	Glass and glass ware	281	349
71	Precious stones, jewellery	44926	61126
72	Iron and steel	8766	9534
73	Articles of iron and steel	2650	2520
74	Copper and articles thereof	1562	1680
75	Nickel and articles thereof	229	184
76	Aluminum and articles thereof	1518	1874
78	Lead and articles thereof	263	248
79	Zinc and articles thereof	203	234
80	Tin and articles thereof	104	85
81	Other base metals	135	118
82	Tools and implements	532	455
83	Miscellaneous articles of base metals	238	250
84	Machinery	16586	17922
85	Electrical machinery	14698	16574
86	Railways or tramways locomotives, rolling stocks etc.	162	234
87	Motor vehicles	2024	2189
88	Aircrafts	2945	3516
89	Ships, boats and floating structures	4009	2906
90	Optical/photographic instruments	3849	4630
91	Clocks and watches	45	55
92	Musical instruments	11	11
93	Arms and ammunitions	1777	1077
94	Furniture	429	694
95	Toys and games	378	482
96	Miscellaneous manufactured articles	229	254
97	Work of art, antiques	75	237
98	Project imports, baggage	2818	2361
	Total	**283630**	**308487**

These figures include revenue impact of tax incentives from the working of various export promotion schemes other than from drawback. The break-up of revenue impact from individual export promotion schemes is given below, separately. Out of these schemes, Duty Free Entitlement Credit Certificate, Target Plus, Vishesh Krishi and Gram Udyog Yojana (VKGUY), Served from India and Focus Market / Product are incentive schemes. The revenue impact from these schemes has been taken into account while calculating the duty impact on account of exemption notifications. The remaining schemes are either exemption schemes or input tax neutralization schemes, the basic objective of which is to offer a level playing field to our exporters in the international markets. As these are not export incentive schemes, the revenue impact from the schemes has been excluded from the calculation of revenue impact, as indicated in Table 11 hereunder.

Table 11: Revenue impact on account of Export Promotion Concessions

(₹ in Crore)

S. No.	Name of the Scheme	2014-15	2015-16 (Estimated)
1	Advance Licence Scheme	23461	25899
2	EOU/EHT/STP	6076	5756
3	EPCG	6643	9729
4	DEPB Scheme	96	523
5	SEZ	4737	7591
6	DFRC	1	1
7	Duty Free Import Authorisation Scheme	3650	1440
8	Duty Free Entitlement Credit Certificate	167	222
9	Target plus schemes	365	780
10	VisheshKrishi and Gram UdyogYojana	3401	2436
11	Served from India Scheme	650	683
12	Focus Market/Product Scheme	13261	12229
13	TOTAL	62507	67288
14	Less revenue impact on incentive schemes maintained at S.Nos. 8 to 12	17845	16350
15	Revenue impact on account of input tax neutralization or exemption schemes to be reduced from gross revenue impact on account of customs duty	44663	50938

These aforesaid estimates of revenue impact do not include revenue impact on account of ad hoc exemption orders issued under Section 25(2) of the Customs Act, 1962, which are extended in specific cases taking into consideration circumstances of exceptional nature.

The revenue impact in respect of Direct and Indirect Taxes is summarized as under:

Table 12: Revenue impact of tax incentives (Direct Taxes) in financial years 2014-15 and 2015-16

(in ₹ Crore)

	Revenue impact of tax incentives in 2014-15	Projected Revenue impact of tax incentives in 2015-16
Corporate Income-tax	65,067.21	68,710.98
Personal Income-tax	53,525.83	59,928.33
Total	1,18,593.04	1,28,639.31

Table 13: Revenue impact of tax incentives (Indirect Taxes) in financial years 2014-15 and 2015-16

(in ₹ Crore)

	Revenue impact of tax incentives in 2014-15	Revenue impact of tax incentives in 2015-16 (Estimated)
Excise Duty	1,96,789	2,24,940
Customs duty	2,38,967	2,57,549
Total	**4,35,756**	**4,82,489**

The aggregate revenue impact in respect of central taxes (both direct and indirect) is ₹ 5,54,349.04 crores for 2014-15 and is projected to be ₹ 6,11,128.31 Crores for 2015-16. To conclude, the total tax expenditure is showing an upward trend , both for direct and indirect taxes.

SUPPLEMENTARY NOTE IN RESPECT OF REVENUE IMPACT OF TAX INCENTIVES (INDIRECT TAXES)

CUSTOMS

The revenue impact of tax incentives as per the formula, Revenue impact = Value * [Tariff rate – Effective rate], for financial year 2014-15 works out to Rs.2,38,967crore. Similarly, estimated revenue impact of tax incentives for financial year 2015-16 is Rs.2,57,549 crore.

However, in many cases a higher Tariff rate has been prescribed with intention to have a tariff cushion and use the same judiciously if the need so arises. Some such situations and their contribution to impact of tax incentives is summarised below:

Chapter	Commodity	Revenue forgone (Rs. crores) 2014-15	2015-16	Reasons
71	Diamonds, Gold	44926	61126	<u>Rough diamonds</u> <u>BCD</u> • Tariff rate 10% • General effective rate - Nil <u>Cut and polished diamonds</u> <u>BCD</u> • Tariff rate - 10% • General effective rate - 2.5% <u>Gold bullions</u> <u>Excise/CVD</u> • Tariff rate - 12%/12.5% • General effective rate - Nil <u>Gold dore</u> <u>BCD</u> • Tariff rate - 10% • General effective rate - Nil <u>Excise/CVD</u> • Tariff rate - 12% / 12.5% • General effective rate - 8%
27	Mineral fuels and mineral oils	55646	41128	Mainly on account of: a) Crude petroleum: <u>BCD</u> • Tariff rate 5% • General effective rate - Nil. b) Coal <u>BCD</u> • Tariff rate 10% • General effective rate - 2.5%. Excise/CVD • Tariff rate 6% • General effective rate 2%.
15	Edible oils	42694	40507	<u>BCD</u> Tariff rate - 100% General effective rate • 12.5% on crude oils • 20% on refined edible oils. <u>Excise/CVD</u> • Tariff rate - 6% • General effective rate - Nil Decrease in impact of tax incentives due tofall in prices.
7	Pulses, edible vegetables, roots and tubers	6814	10349	<u>BCD</u> <u>Pulses</u> • Tariff rate - 30% • General effective rate - Nil

Chapter	Commodity	Revenue forgone (Rs. crores) 2014-15	2015-16	Reasons
				Onion • Tariff rate - 30% • General effective rate - Nil Increase in impact of tax incentives due increase in imports by Rs.8500 crore.
72	Iron and steel	8766	9534	BCD • Tariff rate - 15% • General effective rate - 7.5%/ 10%/12.5% Increase in Tariff rate in 2015-16 Budget led to increase in impact of tax incentive.
31	Fertilizers	6279	9131	Urea BCD • Tariff rate - 10% • General effective rate - 5% Excise/CVD Tariff rate - 12% / 12.5% General effective rate -1%
88	Aircrafts	2945	3516	BCD • Tariff rate - 3% • General effective rate - Nil / 2.5% Excise/CVD • Tariff rate - 12% / 12.5% • Effective rate - Nil [other than private purpose]
89	Ships, vessels, boats	4009	2906	BCD • Tariff rate - 10% • General effective rate -Nil Excise/CVD • Tariff rate - 12% / 12.5% • General effective rate -Nil
73	Articles of iron and steel	2650	2520	BCD • Tariff rate - 15% • General effective rate - 10% Increase in Tariff rate in 2015-16 Budget led to increase in impact of tax incentive.
All	Preferential rates under various Free Trade Agreements	13653	15745	BCD • Tariff rate - 7.5%/10% • Preferential rate - Numerous lower rates Sovereign commitment.
	TOTAL	**188382**	**196462**	

The above list is indicative and not exhaustive. If this theoretical revenue impact is deducted from the total revenue impact, the remaining impact works out to Rs.50,585 crore for financial year 2014-15, and estimated revenue impact is Rs.61,087 crore for financial year 2015-16.

EXCISE

The revenue impact of tax incentives as per the formula, Revenue impact = Value * [Tariff rate – Effective rate], for financial year 2014-15 works out to 1,96,789 crore. Similarly, estimated revenue impact of tax incentives for financial year 2015-16 is Rs.2,24,940 crore.

However, in many cases a higher Tariff rate has been prescribed with intention to have a tariff cushion and use the same judiciously if the need so arises. Some such situations and their contribution to impact of tax incentives is summarised below:

Chapter	Commodity	Revenue forgone (Rs. crores) 2014-15	2015-16	Reasons
27	Mineral fuels and mineral oils	44731	72820	Diesel • Tariff rate – 14%+Rs.15 per litre • Effective rate – Rs.11.33 per litre / Rs.13.69 per litre Domestic LPG • Tariff rate – 14% • Effective rate - Nil Kerosene PDS • Tariff rate – 14% • Effective rate - Nil
87	Motor vehicles	20114	18260	Petrol and diesel vehicles of engine capacity 1200cc/1500cc • Tariff rate - 24% • Effective rate -12.5% Tractors • Tariff rate - 12.5% • Effective rate - Nil.
25	Cement	8505	11399	Cement. • Tariff rate - Rs. 1000 per tonne • Effective rate at current price - Rs.650 per tonne.
17	Sugar	6449	5800	Sugar • Tariff rate 12.5% • Effective rate Rs.71 per quintal [about 3.5%]
31	Fertilisers	5447	6558	Fertilizers • Tariff rate 12.5% • Effective rate 1%
	TOTAL	**85246**	**114837**	

The above list is indicative and not exhaustive. If the above theoretical revenue impact is deducted from the total theoretical revenue impact, the remaining revenue impact works out to Rs.1,11,543 crore for financial year 2014-15 and estimated revenue impact is Rs.1,10,103 crore for financial year 2015-16.

APPENDIX

Effective tax rate , inclusive of surcharge and education cess , of sample companies across Industry

(financial year 2014-15)[sample size 582889]

Sl. No	Sector	Industry	Number of Companies	Profit before tax (in ₹ crore)	Total tax (in ₹ crore)	Effective tax rate (in %)
1.	Manufacturing Industry	AGRO-BASED INDUSTRIES	15,658	14,001.66	3195.80	22.82
2.	Manufacturing Industry	AUTOMOBILE AND AUTO PARTS	4,537	45,873.60	11814.23	25.75
3.	Manufacturing Industry	CEMENT	668	9,907.28	893.04	9.01
4.	Manufacturing Industry	DIAMOND CUTTING	446	2,510.29	694.72	27.67
5.	Manufacturing Industry	DRUGS AND PHARMACEUTICALS	5,400	41,120.90	8381.83	20.38
6.	Manufacturing Industry	ELECTRONICS INCLUDING COMPUTER HARDWARE	2,393	9,881.81	3167.58	32.05
7.	Manufacturing Industry	ENGINEERING GOODS	9,733	34,129.23	10050.25	29.45
8.	Manufacturing Industry	FERTILIZERS, CHEMICALS, PAINTS	3,791	20,878.70	5241.11	25.10
9.	Manufacturing Industry	FLOUR AND RICE MILLS	1,532	756.07	230.26	30.46
10.	Manufacturing Industry	FOOD PROCESSING UNITS	3,159	10,221.91	3032.32	29.66
11.	Manufacturing Industry	MARBLE AND GRANITE	2,029	1,036.41	339.59	32.77
12.	Manufacturing Industry	PAPER	1,359	1,703.81	295.40	17.34
13.	Manufacturing Industry	PETROLEUM AND PETROCHEMICALS	664	92,573.66	17120.27	18.49
14.	Manufacturing Industry	POWER AND ENERGY	5,140	50,215.26	7400.87	14.74
15.	Manufacturing Industry	PRINTING AND PUBLISHING	2,573	5,105.90	1502.82	29.43
16.	Manufacturing Industry	RUBBER	912	894.54	288.48	32.25
17.	Manufacturing Industry	STEEL	4,314	20,227.28	2438.40	12.06
18.	Manufacturing Industry	SUGAR	325	506.10	35.15	6.95
19.	Manufacturing Industry	TEA,COFFEE	1,027	1,350.91	300.73	22.26
20.	Manufacturing Industry	TEXTILES,HANDLOOM, POWER LOOMS	9,758	12,118.92	2682.08	22.13
21.	Manufacturing Industry	TOBACCO	278	16,139.67	4426.89	27.43
22.	Manufacturing Industry	TYRE	154	5,465.05	1429.14	26.15
23.	Manufacturing Industry	VANASPATI AND EDIBLE OILS	601	1,544.69	303.01	19.62
24.	Manufacturing Industry	OTHERS	51,644	1,34,238.18	32175.85	23.97
25.	Trading	CHAIN STORES	690	973.35	311.44	32.00
26.	Trading	RETAILERS	15,930	5,583.21	1488.72	26.66
27.	Trading	WHOLESALERS	24,462	10,949.68	3431.62	31.34
28.	Trading	OTHERS	89,565	28,820.70	7243.91	25.13
29.	Commision Agents	GENERAL COMMISION AGENTS	4,166	1,081.44	326.07	30.15
30.	Builders	BUILDERS	19,457	7,829.73	1905.84	24.34
31.	Builders	ESTATE AGENTS	3,695	427.78	88.00	20.57
32.	Builders	PROPERTY DEVELOPERS	29,212	15,684.53	3438.91	21.93
33.	Builders	OTHERS	21,151	4,260.55	840.77	19.73
34.	Contractors	CIVIL CONTRACTORS	10,696	11,957.37	3362.10	28.12
35.	Contractors	EXCISE CONTRACTORS	27	12.22	3.70	30.24
36.	Contractors	FOREST CONTRACTORS	8	0.49	0.19	37.84
37.	Contractors	MINING CONTRACTORS	887	6,197.00	869.06	14.02
38.	Contractors	OTHERS	11,187	6,262.53	1817.68	29.02

Sl. No	Sector	Industry	Number of Companies	Profit before tax (in ₹ crore)	Total tax (in ₹ crore)	Effective tax rate (in %)
39.	Professionals	CHARTED ACCOUNTANTS, AUDITORS, ETC.	82	7.18	2.41	33.62
40.	Professionals	FASHION DESIGNERS	99	21.83	5.37	24.58
41.	Professionals	LEGAL PROFESSIONALS	318	26.16	8.05	30.77
42.	Professionals	MEDICAL PROFESSIONALS	1,690	302.46	88.02	29.10
43.	Professionals	NURSING HOMES	1,026	232.93	76.43	32.81
44.	Professionals	SPECIALTY HOSPITALS	1,254	1,409.31	426.09	30.23
45.	Professionals	OTHERS	5,696	1,291.54	426.74	33.04
46.	Service Sector	ADVERTISEMENT AGENCIES	2,996	2,009.84	657.30	32.70
47.	Service Sector	BEAUTY PARLOURS	304	29.35	11.98	40.81
48.	Service Sector	CONSULTANCY SERVICES	18,231	16,783.91	2665.24	15.88
49.	Service Sector	COURIER AGENCIES	517	458.19	185.66	40.52
50.	Service Sector	COMPUTER TRAINING/EDUCATIONAL AND COACHING INSTITUTES	3,456	920.89	275.41	29.91
51.	Service Sector	FOREX DEALERS	871	282.56	94.85	33.57
52.	Service Sector	HOSPITALITY SERVICES	4,833	1,337.25	411.14	30.75
53.	Service Sector	HOTELS	6,763	2,279.74	571.15	25.05
54.	Service Sector	I.T. ENABLED SERVICES, BPO SERVICE PROVIDES	14,205	49,586.42	12512.13	25.23
55.	Service Sector	SECURITY AGENCIES	1,992	777.95	269.51	34.64
56.	Service Sector	SOFTWARE DEVELOPMENT AGENCIES	12,059	86,182.04	18584.70	21.56
57.	Service Sector	TRANSPORTERS	4,542	6,700.55	1512.93	22.58
58.	Service Sector	TRAVEL AGENTS,TOUR OPERATORS	4,449	1,131.57	364.78	32.24
59.	Service Sector	OTHERS	68,212	96,191.92	22503.95	23.39
60.	Financial Service Sector	BANKING COMPANIES	250	1,32,975.81	46580.71	35.03
61.	Financial Service Sector	CHIT FUNDS	2,660	491.02	157.33	32.04
62.	Financial Service Sector	FINANCIAL INSTITUTIONS	480	17,601.37	4413.46	25.07
63.	Financial Service Sector	FINANCIAL SERVICE PROVIDERS	2,552	10,939.79	2681.54	24.51
64.	Financial Service Sector	LEASING COMPANIES	513	2,106.54	32.29	1.53
65.	Financial Service Sector	MONEY LENDERS	336	99.05	20.45	20.64
66.	Financial Service Sector	NON BANKING FINANCE COMPANIES	8,668	61,621.35	16191.07	26.28
67.	Financial Service Sector	SHARE BROKERS, SUB-BROKERS, ETC.	3,750	7,796.90	2269.16	29.10
68.	Financial Service Sector	OTHERS	16,840	38,524.94	10449.77	27.12
69.	Entertainment Industry	CABLE T.V. PRODUCTIONS	387	152.77	41.00	26.84
70.	Entertainment Industry	FILM DISTRIBUTION	342	1,319.96	445.44	33.75
71.	Entertainment Industry	FILM LABORATORIES	36	3.16	0.84	26.64
72.	Entertainment Industry	MOTION PICTURE PRODUCERS	653	266.54	77.35	29.02
73.	Entertainment Industry	TELEVISION CHANNELS	390	2,600.08	875.21	33.66
74.	Entertainment Industry	OTHERS	4,050	2,270.66	603.63	26.58
75.	Others	OTHERS	28,159	29,481.65	9143.97	31.02
	Total		**5,82,889**	**12,08,658**	**298205**	**24.67**