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Union Budget 2024: Will robust tax collection continue to provide comfort?

Over the last 2-3 years, the direct tax collection growth has stayed robust giving a cushion to the government.

Rajat Mishra

Economy • 4 min read

Nirmala Sitharaman | Image:Republic

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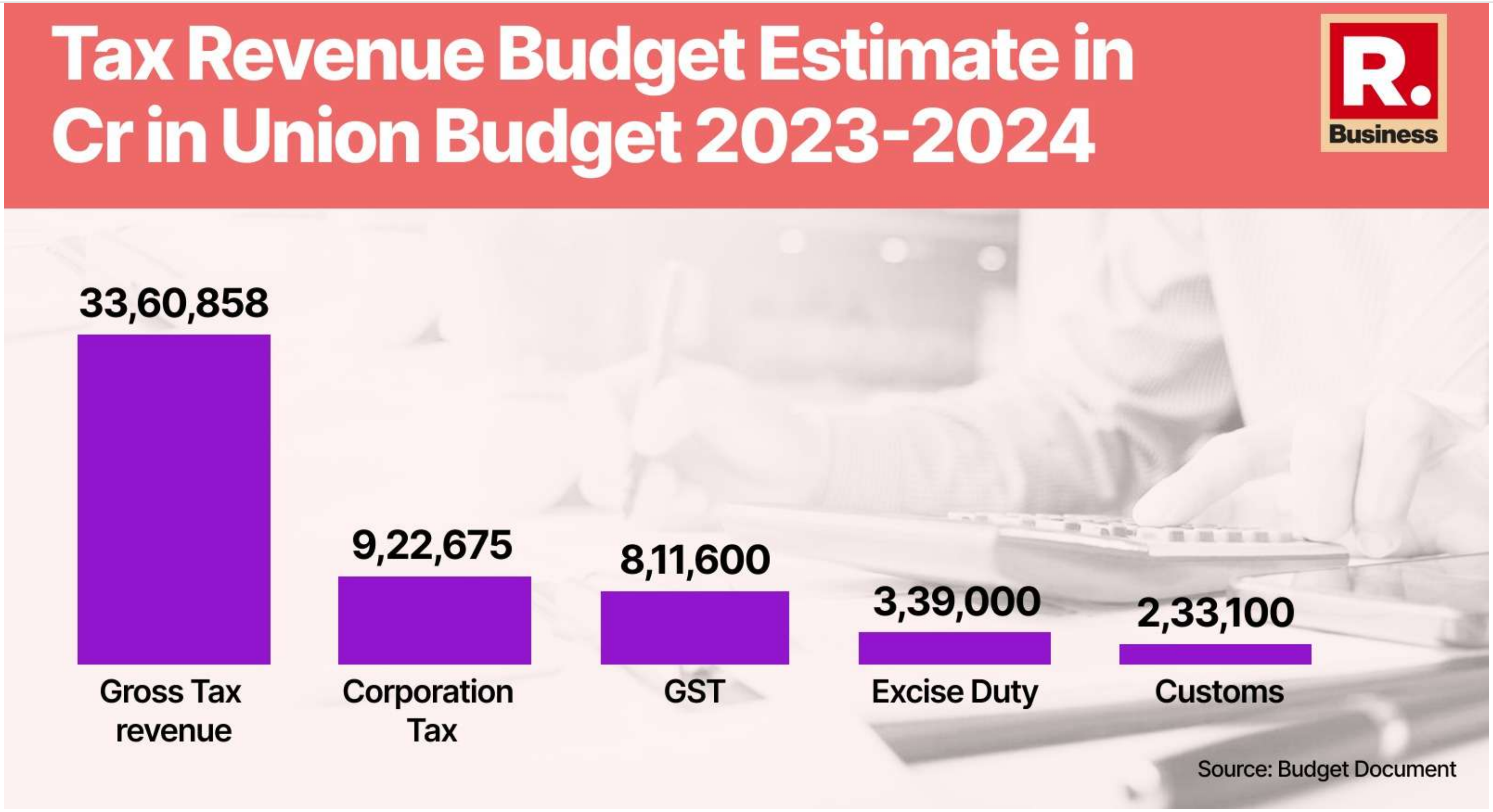
Terrific tax collection: The last few years have been challenging for Finance Minister, Nirmala Sitharaman as the country braved demonetisation and the pandemic, and the impact of the Russia-Ukraine war. Some natural results were an upswing of the fiscal deficit combined with a growth decline. What provided a breather for the government and made up for fiscal slippage was its direct tax collections. As the finance minister gets set to work the finances of India with her 'khata bahi', will she peg the gross tax collection growth even higher?



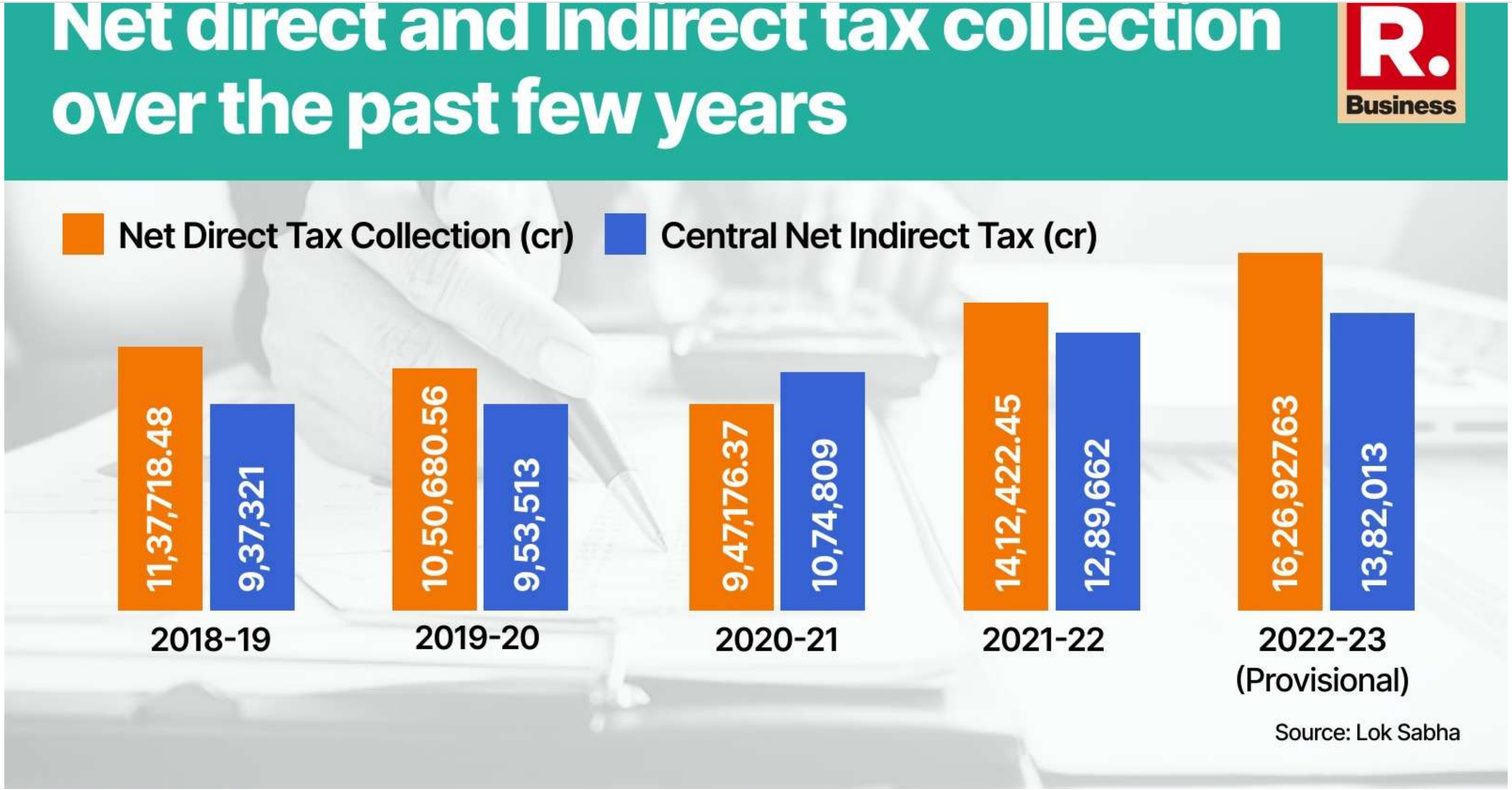
“The tax collection has been very good and that has been supportive. If we can maintain and achieve that kind of GDP growth, then the assumption is that we should be able to get good tax growth going forward next year as well. So, that support will continue in terms of tax collection,” Sinha added further,” Rajni Sinha, Economist at CareEdge, told Republic Business.

Over the last 2-3 years, the direct tax collection growth has stayed robust giving a cushion to the government. This year as well, the robust tax collection and the more than budgeted dividends from RBI and CPSEs emerged as the saviour for the government. And robust tax collection along with more than expected dividends are offsetting the impact of sluggish divestment receipts.

Tax collection's phenomenal growth

The gross tax collection target was set at Rs 33,60,858 in the budget of FY24. The budget estimated the growth of gross tax collection to be at 11.1 per cent. However, the provisional tax collection data by the Income Tax department in December showed that net collections are at Rs 13,70,388 crore, compared to Rs. 11,35,754 crore in the corresponding period of the FY 2022-23, representing an increase of 20.66 per cent.

The budget estimate pegged the gross tax collection growth at 11.1 per cent but the provisional data by Income tax showed the gross tax collection grew by 17 per cent till December, more than the estimated growth, providing much-needed comfort to the North Block.



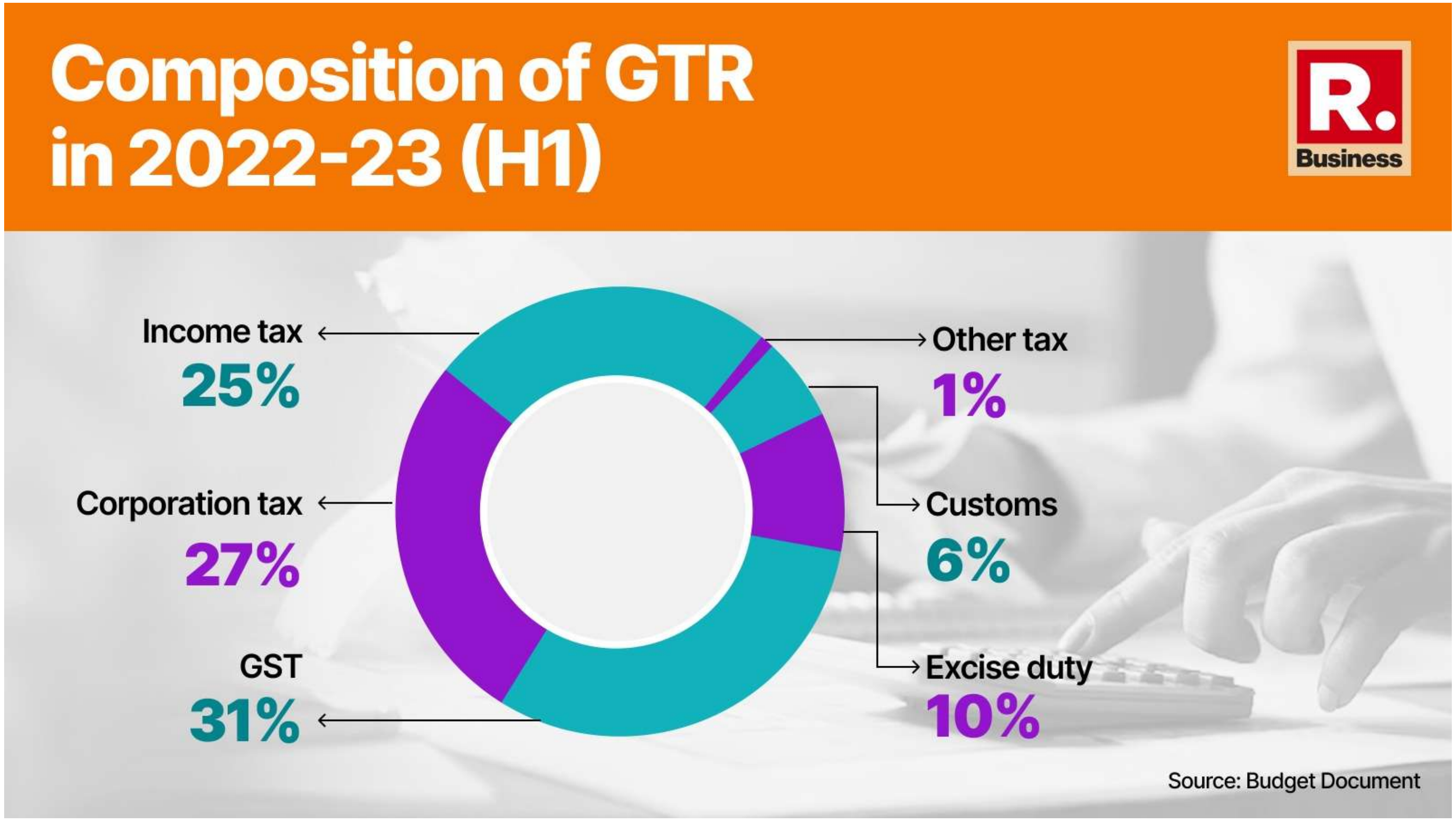
The Net Direct Tax collection of Rs 13,70,388 crore (as of 17.12.2023) includes Corporation Tax (CIT) at Rs 6,94,798 crore (net of refund) and Personal Income Tax (PIT) including Securities Transaction Tax (STT) at Rs. 6,72,962 crore (net of refund).

“The tax collections have been robust: be it corporate tax or income tax, this explains the growth in economic activity. And since the country is on the growth path, the tax robustness is expected to sustain even further,” Nilanjan Banik, Economist, Mahindra University told Republic Business.

Terrific Tax

The Centre has set a direct tax collection target of Rs 18.2 trillion in FY24, expecting to collect 10.5 per cent more than what was collected in the year before. Going by the provisional figure released by the Income Tax Department

December, an improvement of 20.66 per cent from the collections made in the same period a year ago.



The robust tax revenue growth till December makes up three-fourths of the full-year budget estimate target, showing that the government is well on its path to reaching its full-year target.

“If I look at the tax collections, both direct and indirect tax collection has been good this year, except for excise duty collection, which has been lagging and that's mainly because of the excise duty cuts announced for petrol and diesel. But if I leave aside excise duty, otherwise tax collection has been good,” Rajni Sinha, Chief Economist, Care Edge said.

The rising compliance along with a flurry of reforms unleashed by the current dispensation has led to an uptick in tax collections. The surge in digital payments made it difficult for traders to underreport their sales volume leading helped the authorities in tracking transactions and economic activity, leading to better tax compliance.

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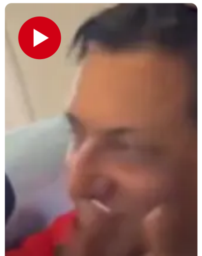

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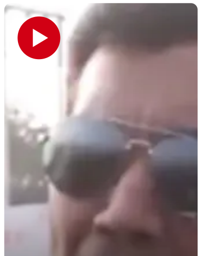

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Dividends from CPSEs: Two things that have given comfort to the government on the fiscal front are direct tax collection, more than budgeted dividends from RBI and Public Sector Enterprises. Going ahead in FY25, ICRA expects robust dividends from RBI and CPSEs. Overall, ICRA has placed the target for dividends and profits at a healthy Rs 1.2 trillion for FY25. However, this would be less than Rs 1.4-1.5 trillion expected for FY24. The robust and more than-budgeted dividend was largely driven by higher RBI surplus transfer.

“The dividends from PSEs may remain healthy in FY2025, as is the case in the ongoing fiscal (Rs. 439.7 billion as of

According to ICRA, the RBI is likely to have earned its net interest income under LAF/MSF operations in FY2024 after reporting a net outgo in FY2023, with net liquidity turning into deficit mode since mid-Sep 2023.

However, the amount of G-secs held by RBI has reduced at end-Sep 2023 from end-March 2023 levels, which may have eased interest income on such account, while the exchange gain from forex transactions is estimated to have tempered from FY2023, amid net forex purchases in the ongoing fiscal so far (up to Oct 2023).

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