

Unrealised central tax revenue stands at Rs. 13 trillion or 7% of GDP

Government of India has decided to increase its total expenditure by Rs. 32,931 crore, or hardly 0.1% of India's GDP in the forthcoming financial year (2021-22) from the previous year. This limited growth in government spending reflects the government's desperate attempt to reduce its fiscal deficit from a record high of 9.5% in the current year to 6.8% next year. Also, with the government increasing its spending by a record Rs. 7.6 lakh crore or 3.9% of GDP in the current pandemic-hit year, the need for government stimulus will be limited next year, which is expected to be a normal year.

At a time when the government is taking steps to bring down fiscal deficit by controlling expenditure and increasing revenue, it is revealing to note that the government has declared Rs. 12.9 lakh crore as tax revenues raised but not realized as of 2019-20, the latest year for which data is available. To put this in perspective, this amount is 58% of the gross tax revenue of the central government and around 7% of India's GDP. Out of this Rs. 12.9 lakh crore, Rs. 10.4 lakh crore of tax revenue is not realized because of disputes. The government could not realize the remaining Rs. 2.5 lakh crore because of reasons such as absence of assets or inadequate assets for recovery or non-traceability of assesseees.

Of this total amount, Rs.5.9 lakh crore or 45% belongs to corporate tax demand that is raised but not realized, while 40% is income tax (other than corporate tax) that is raised but not realised. The remaining amount is the unrealized demand of indirect taxes such as GST, customs, excise and service tax.

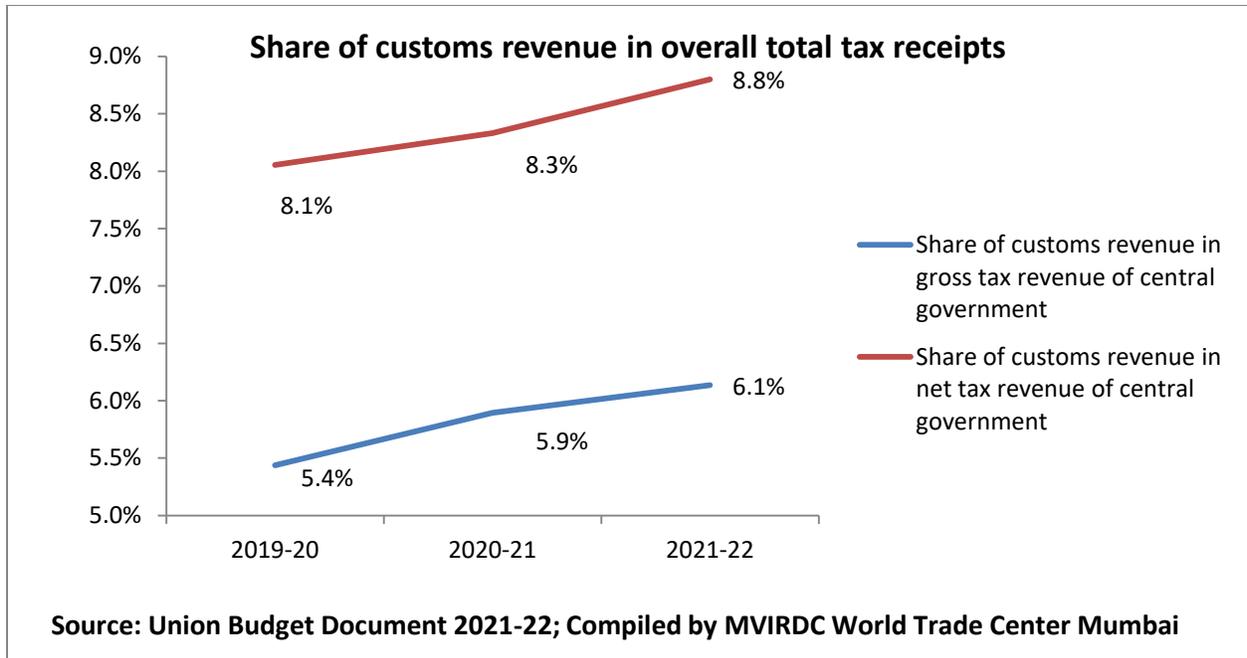
Growth in Customs Duty

Meanwhile, Government of India managed to post marginal growth in customs duty revenue in the current financial year. In fact, when all the other sources of tax revenue (except excise duty) declined in 2020-21, revenue collection from customs duty increased during the year.

In 2020-21, the government will receive Rs. 2,717 crore higher customs duty revenue (from Rs. 1.09 lakh crore to Rs. 1.12 lakh crore) on account of increase in collections from social welfare charge, Additional Duty on Customs (CVD) and other receipts. In the coming financial year (2021-22), the increase in customs duty is likely to be Rs. 24,000 crore, largely because of expected improvement in volume of imports and hike in customs duty on several products.

As can be seen from the following graph, the share of customs revenue in overall tax collection of the central government has increased on both gross and net basis. On gross basis, the share of customs revenue in the central government's tax receipts is likely to grow from 5.4% in 2019-20 to 6.1% in 2021-22. On a net basis, this figure is expected to rise from 8.1% to 8.8% during this period.

The government should use the higher customs revenue realized during the current year and that will be realized in the next financial year towards promotion of exports and MSMEs.



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