

**Revenue foregone under the Central Tax System:
Financial Years 2008-09 and 2009-10**

Introduction

The main objective of any tax system is to raise revenues to fund Government expenditures. The amount of revenue raised is determined to a large extent by tax bases and tax rates. It is also a function of a range of measures – special tax rates, exemptions, deductions, rebates, deferrals and credits – that affect the level and distribution of tax. These measures are sometimes called “tax preferences”. They have an impact on Government revenue (i.e. they have a cost) and reflect the policy choices of the Government.

Tax preferences may be viewed as subsidy payments to preferred taxpayers. Such implicit payments are referred to as “tax expenditures” and it is often argued that they should appear as expenditure items in the Budget. In this context, the basic issue is not one of tax policy but one of efficiency and transparency – programme planning requires that the policy objectives be addressed explicitly; and programme budgeting calls for the inclusion of such outlays under their respective programme headings. Tax expenditures are spending programmes embedded in the tax statute.

A tax expenditure or a revenue foregone statement was laid before Parliament for the first time during Budget 2006-07 by way of annex-12 of the Receipts Budget 2006-07. 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 Foregone”. Thereafter, it was again placed before the Parliament during Budget 2008-09 and 2009-10.

Like in the earlier four years, 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 foregone on account of such tax incentives has been estimated in respect of most items of tax preferences. The estimates are for financial year 2008-09, the most recent year for which data is available. However, an attempt has also been made to estimate the revenue loss during financial year 2009-10 on the basis of the revenue foregone figures of the financial year 2008-09 or the provisional figures for 2009-10.

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 cost of each tax concession 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 revenue foregone calculated by adding up the estimates and projections for each provision.

The assumptions and methodology adopted to estimate the revenue foregone 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 savings by individuals; exports; balanced regional development; creation of infrastructure facilities; employment; donations for charity and rural development; scientific research and development; and the cooperative sector. 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 some of the major tax expenditures.

A. Corporate Sector

Large business is mainly organised as companies. The Income-tax Department has received 3,66,233 corporate returns electronically up to 31st December, 2009 for the financial year 2008-09 [i.e., assessment year 2009-10]. These returns constitute about 90% of the total corporate returns expected in financial year 2009-10. For the purposes of estimating the tax expenditure, data pertaining to these 3,66,233 companies¹ was culled out from the database for analysis.

The following facts emerge from an analysis of the data:-

- The companies reported Rs. 6,68,581 crore as profits before taxes² (losses were reported by about 43% of the companies) but declared a total income (taxable income)³ of Rs. 4,49,085 crore only for the financial year 2008-09.
- These companies paid Rs. 1,52,280 crore as corporate tax [**inclusive of surcharge and education cess**] during the same financial year i.e. 2008-09.
- These companies also paid Rs. 6,523 crore as Fringe Benefit Tax and Rs. 10,981 crore as Dividend Distribution Tax during the financial year 2008-09.

¹ The sample size for financial year 2007-08 was 4,10,451 (data up to 31st March, 2009 was taken as the Budget for financial year 2007-08 was presented in July 2009).

² This does not include loss-making companies.

³ The term “total income”, in income-tax returns, represents taxable income as would be implied in common parlance.

Table 1 profiles these companies across profit range. The **effective tax rate⁴ of the entire sample was 22.78 per cent⁵** [as against the rate of 22.24 per cent reported in 2007-08], **which was well below the statutory tax rate of 33.99 per cent.** Companies with profits before taxes [PBT hereafter] of Rs. 500 crore and above – a total of 179 – accounted for 57.54 per cent of the total PBT and 55.71 per cent of the total corporate income tax payable. However, their effective tax rate was 22.05 per cent in comparison to an effective tax rate of 25.52 per cent for companies with PBT of up to Rs. one crore.

The ratio of total income to PBT is much higher (79.95 per cent) for companies with PBT up to Rs. one crore than that for the total sample (67.17 per cent). This indicates lesser deviance from PBT in the case of relatively smaller companies as compared to larger companies owing to higher tax concessions being availed of by the latter.

**Table 1: Profile of sample companies across range of profits before taxes
(financial year 2008-09) [sample size – 366233]**

| 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 Payable (in %) | Ratio of Total Income to Profits Before Taxes (in %) | Effective Tax Rate (in %) |
|---------|---------------------------|---------------------|--------------------------------------|------------------------------|--|--|---------------------------|
| 1 | Less than Zero | 132356 | 0.00 | 0.58 | 0.36 | - | - |
| 2 | Zero | 24529 | 0.00 | 3.27 | 1.39 | - | - |
| 3 | Rs 0-1 Crore | 188584 | 3.17 | 3.78 | 3.56 | 79.95 | 25.52 |
| 4 | Rs 1-10 Crore | 16596 | 7.47 | 7.55 | 7.87 | 67.88 | 23.99 |
| 5 | Rs 10-50 Crore | 2907 | 9.32 | 8.51 | 9.14 | 61.37 | 22.35 |
| 6 | Rs 50-100 Crore | 531 | 5.51 | 4.98 | 5.37 | 60.75 | 22.21 |
| 7 | Rs 100-500 Crore | 551 | 16.99 | 15.50 | 16.60 | 61.29 | 22.26 |
| 8 | Greater than Rs 500 Crore | 179 | 57.54 | 55.83 | 55.71 | 65.18 | 22.05 |
| 9 | All Sample Companies | 366233 | 100.00 | 100.00 | 100.00 | 67.17 | 22.78 |

Table 2 profiles the sample companies across effective tax rates. Companies with average effective tax rate of upto 20 per cent accounted for 47 per cent of total profits before taxes and 18.44 per cent of total taxable income and 20.66 per cent of total taxes paid. In other words, a large number of companies (2,02,543) contributed a disproportionately lower amount in taxes in relation to their profits. Interestingly, only 40,714 companies accounting for 19.65 per cent of total profits and 36.10 per cent of the total taxes, had an effective tax rate greater than the statutory rate. **Therefore, 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 rate*
(financial year 2008-09) [sample size – 366233]**

| Sl. No. | Effective tax rate (in %) | Number of Companies | Share in Total profits (in %) | Share in Total Income (in %) | Share in Total Tax Payable (in %) |
|---------|---------------------------|---------------------|-------------------------------|------------------------------|-----------------------------------|
| 1 | Less than Zero and Zero | 146554 | 4.25 | 0.71 | 0.36 |
| 2 | 0-20 | 55989 | 42.75 | 17.73 | 20.30 |
| 3 | 20-25 | 11581 | 5.63 | 7.22 | 5.59 |
| 4 | 25-30 | 18570 | 8.40 | 10.42 | 10.20 |
| 5 | 30-33.99 | 68296 | 19.31 | 27.98 | 27.45 |
| 6 | >33.99 | 40714 | 19.65 | 35.93 | 36.10 |
| 7 | Indeterminate | 24529 | 0.00 | 0.00 | 0.00 |
| 8 | All Sample Companies | 366233 | 100.00 | 100.00 | 100.00 |

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

⁴ Effective tax rate in case of companies is the ratio of total taxes paid [including surcharge and education cess but excluding Dividend Distribution Tax and Fringe Benefit Tax] to the total profits before taxes [PBT] and expressed as a percentage.

⁵ Effective tax rate including Dividend Distribution Tax was 24.42 percent.

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 public companies pay a larger proportion of their profits as tax than the private companies. The private sector entails a larger tax foregone for the Government.

**Table 3: Effective tax rate* of sample companies in the public and private sectors
(financial year 2008-09) [sample size – 365509]**

| Sl. No. | Sector | Number of Companies | Share in total profits (in %) | Share in total tax payable (in %) | Effective tax rate (in %) |
|---------|--------------|---------------------|-------------------------------|-----------------------------------|---------------------------|
| 1 | Public | 1947 | 21.69 | 25.85 | 27.14 |
| 2 | Private | 363562 | 78.31 | 74.15 | 21.56 |
| | Total | 365509 | 100.00 | 100.00 | 22.77 |

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

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 manufacturing sector has a slightly lower effective tax rate than the service sector. Both the sectors have an effective tax rate that is well below the statutory rate of 33.99 per cent.

**Table 4: Effective tax rate* of sample companies in the manufacturing and service sectors
(financial year 2008-09) [sample size – 365509]**

| Sl. No. | Sector | Number of Companies | Share in total profits (in %) | Share in total tax payable (in %) | Effective tax rate (in %) |
|---------|---------------|---------------------|-------------------------------|-----------------------------------|---------------------------|
| 1 | Manufacturing | 101329 | 48.46 | 46.74 | 21.97 |
| 2 | Service | 264180 | 51.54 | 53.26 | 23.53 |
| | Total | 365509 | 100.00 | 100.00 | 22.77 |

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

The industry-wise distribution of effective tax rate of companies is given in the Table in the Appendix. While the effective tax rate of almost all the industries is below the statutory level, it is very low for the IT-Enabled Services Providers & BPO Service Providers and Software Development Agencies at 13.1 per cent and 11.8 per cent respectively. The two industries contributed 6.82 per cent of the total profits but only 3.70 per cent of the total taxes.

The tax foregone on each tax concession claimed by these companies has been calculated by applying the corporate tax rate of 33.99 per cent on the amount of each deduction. The revenue foregone 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 companies and the depreciation/deduction allowable under the Income-tax Act. Thereafter, the corporate tax rate of 33.99 per cent has been applied to this difference to arrive at the revenue foregone figure.

Even though only 90 per cent of all companies are covered by the sample companies, the revenue foregone on account of these sample companies has been taken to be the total revenue foregone in the corporate sector. To this extent the revenue foregone may be an underestimate.

Based on the revenue foregone figures for financial year 2008-09, the revenue foregone for the financial year 2009-10 has been estimated. The estimation for 2009-10 has been done by calculating the ratio of revenue foregone on each tax incentive in 2008-09 to the actual corporate tax collected in the year [Rs. 2,13,395 crore] and then applying the same ratio to the revised estimates of corporate tax collections in 2009-10 [Rs. 2,55,076 crore]. Table 5 depicts the major tax expenditures on corporate taxpayers in terms of revenue foregone during the financial years 2008-09 and 2009-10.

Table 5: Major tax expenditure on corporate tax payers during financial years 2008-09 [sample size - 410451] and 2009-10 [sample size - 366233]

| Sl. No. | Nature of incentive | Revenue Foregone (in Rs. Crore) [2008-09] | Projected Revenue Foregone (in Rs. Crore) [2009-10] |
|---------|--|---|---|
| 1 | Deduction of export profits of STPI units (section 10A) | 12321 | 14651 |
| 2 | Deduction of export profits of EHTP units (section 10A) | 67 | 80 |
| 3 | Deduction of export profits of units located in SEZs (sections 10A and 10AA) | 2677 | 3183 |
| 4 | Deduction of export profits of units located in EPZs (section 10A) | 60 | 71 |
| 5 | Deduction of export profits of units located in FTZs (section 10A) | 55 | 65 |
| 6 | Deduction of export profits of Export Oriented Units [EOUs] (section 10B) | 6714 | 7984 |
| 7 | Deduction of export profits of units manufacturing items of artistic value (section 10BA) | 9 | 11 |
| 8 | Accelerated Depreciation (section 32) | 21175 | 25180 |
| 9 | Deduction/weighted deduction for expenditure on scientific research (sections 35 (1), (2AA) &(2AB)) | 2526 | 3004 |
| 10 | Deduction for expenditure on eligible projects or schemes for the social and economic uplift of the public (section 35AC) | 78 | 93 |
| 11 | Deduction on account of donations to charitable trusts and institutions (section 80G) | 371 | 442 |
| 12 | Deduction on account of donations for scientific research or rural development (section 80GGA) | 1 | 1 |
| 13 | Deduction on account of contributions to political parties (section 80GGB) | 24 | 29 |
| 14 | Deduction of profits of certain industrial undertakings or a ship or a hotel business (section 80-I) | Nil | Nil |
| 15 | Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA) | 1553 | 1847 |
| 16 | Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA) | 315 | 375 |
| 17 | Deduction of profits of undertakings engaged in providing telecommunication services (section 80-IA) | 4360 | 5185 |
| 18 | Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA) | 6352 | 7553 |
| 19 | Deduction of profits of undertaking engaged in revival of power plant (section 80-IA) | 122 | 145 |
| 20 | Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB) | 1422 | 1691 |
| 21 | Deduction of profits of industrial undertakings operating in the small-scale sector (section 80-IB) | 120 | 143 |
| 22 | Deduction of profits of industrial undertakings located in Jammu & Kashmir (section 80-IB) | 175 | 208 |
| 23 | Deduction of profits of industrial undertakings located in industrially backward States other than Jammu & Kashmir (section 80-IB) | 321 | 382 |
| 24 | Deduction of profits of industrial undertakings located in backward districts (section 80-IB) | 70 | 83 |
| 25 | Deduction of profits of industrial undertakings derived from multiplex theatre and convention centre (section 80-IB) | 17 | 20 |
| 26 | Deduction of profits of industrial undertakings derived from development of scientific research (section 80-IB) | 74 | 88 |
| 27 | Deduction of profits of industrial undertakings derived from production of mineral oil (section 80-IB) | 936 | 1113 |
| 28 | Deduction of profits of industrial undertakings derived from housing projects (section 80-IB) | 813 | 967 |

| Sl. No. | Nature of incentive | Revenue Foregone (in Rs. Crore) [2008-09] | Projected Revenue Foregone (in Rs. Crore) [2009-10] |
|---------|---|---|---|
| 29 | Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB) | 4 | 5 |
| 30 | Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB) | 25 | 30 |
| 31 | Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB) | 56 | 67 |
| 32 | Deduction of profits of industrial undertakings derived from hospital in rural area (section 80-IB) | 1 | 1 |
| 33 | Deduction of profits of undertakings set-up in North Eastern States (section 80-IC) | 515 | 612 |
| 34 | Deduction of profits of undertakings set-up in Sikkim (section 80-IC) | 37 | 44 |
| 35 | Deduction of profits of undertakings set-up in Uttarakhand (section 80-IC) | 1543 | 1835 |
| 36 | Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC) | 1933 | 2299 |
| 37 | Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA) | 25 | 30 |
| 38 | Deduction in respect of employment of new workmen (section 80JJAA) | 29 | 34 |
| 39 | Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Centre [IFSC] (section 80LA) | 5 | 6 |
| | TOTAL | 66901 | 79554 |

While the projected revenue foregone figure for 2008-09 was estimated last year to be Rs. 68,914 crore, it has now been estimated at Rs. 66,901 crore, which is 2.92 per cent lower.

Accelerated depreciation accounts for the head under which the highest amount of tax revenue (Rs. 21,175 crore) has been foregone.

Among various sectors, deductions for Software Technology Parks (STPs), Export-Oriented Undertakings (EOUs), Power, and Telecom sectors account for 18%, 10%, 9% and 6% of the total tax foregone respectively.

Deduction of export profits of units located in SEZs for financial year 08-09 was estimated at Rs. 1,222 cores at the time of Finance (No.2) Bill, 2009. However, the actual revenue foregone during the same year for these units is now calculated at Rs. 2,677 crore. For financial year 2009-10, deduction for these units has been estimated at Rs. 3,183 crores. Keeping in mind the increase in deduction in financial year 08-09, the actual revenue foregone in financial year 09-10 in respect of sections 10A & 10AA may be higher than the estimate.

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

Apart from the corporate sector, large business is also organised as partnership firms and Associations of Persons [AOPs] or Bodies of Individuals [BOIs]. The tax expenditure on these is not as large as that in case of companies. For the purposes of estimating the tax expenditure, data pertaining to 3,80,983 firms/AOPs/BOIs was culled out from the database of the Income-tax Department. Till 31st December, 2009, these firms/AOPs/BOIs had filed their returns electronically. They account for a substantial part of the tax paid by the universe of firms/AOPs/BOIs in financial year 2008-09.

The data was analysed and the following facts emerged:-

- The sample firms/AOPs/BOIs reported Rs. 53,013 crore as profits before taxes (losses were reported by about 9 per cent of the sample) but declared a total income (taxable income) of Rs. 38,289 crore during the financial year 2008-09.
- These sample firms/AOPs/BOIs paid Rs. 12,001 crore as income tax [inclusive of surcharge and education cess] during the same financial year. The effective tax rate⁶ in their case works out to 22.64 per cent.
- These firms/AOPs/BOIs also paid Rs. 525 crore as Fringe Benefit Tax during the same financial year.

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

The tax foregone on each tax concession claimed by the sample firms/AOPs/BOIs has been calculated by applying the income tax rate of 33.99 per cent on the amount of each deduction. The revenue foregone 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 33.99 per cent has been applied to this difference to arrive at the revenue foregone figure.

Though the sample firms/AOPs/BOIs account for 90 per cent of all such entities in terms of taxes paid, the revenue foregone on account of these sample firms/AOPs/BOIs has been taken to be the total revenue foregone in the non-corporate sector. To this extent the revenue foregone may be a slight underestimate.

Based on the revenue foregone figures for financial year 2008-09, the revenue foregone for the financial year 2009-10 has been estimated. The estimation for 2009-10 has been done by calculating the ratio of revenue foregone on each tax incentive in 2008-09 to the actual income tax collected in the year from firms/AOPs/BOIs [Rs. 13,361 crore] and then applying the same ratio to the revised estimates of income tax collections in 2009-10 [Rs. 14,556 crore]. Table 6 depicts the major tax expenditures on non-corporate taxpayers in terms of revenue foregone during the financial years 2008-09 and 2009-10. The highest tax expenditure, by far, is on account of deduction of profits of undertakings derived from Housing Projects which account for 34.5% of the total revenue foregone.

Table 6 : Major tax expenditure on sample firms/AOPs/BOIs during financial years 2008-09 [sample size – 462053] and 2009-10 [sample size – 380983]

| Sl. No. | Nature of incentive | Revenue Foregone (in Rs. Crore) [2008-09] | Projected Revenue Foregone (in Rs. Crore) [2009-10] |
|---------|---|---|---|
| 1 | Deduction of export profits of STPI units (section 10A) | 78 | 85 |
| 2 | Deduction of export profits of EHTP units (section 10A) | NIL | NIL |
| 3 | Deduction of export profits of units located in SEZs (sections 10A and 10AA) | 359 | 391 |
| 4 | Deduction of export profits of units located in EPZs (section 10A) | 11 | 12 |
| 5 | Deduction of export profits of units located in FTZs (section 10A) | 1 | 1 |
| 6 | Deduction of export profits of Export Oriented Units [EOUs] (section 10B) | 416 | 453 |
| 7 | Deduction of export profits of units manufacturing items of artistic value (section 10BA) | 23 | 25 |
| 8 | Accelerated Depreciation (section 32) | 364 | 397 |
| 9 | Deduction/weighted deduction for expenditure on scientific research (sections 35 (1), (2AA) &(2AB)) | 1 | 1 |
| 10 | Deduction for expenditure on eligible projects or schemes for the social and economic uplift of the public (section 35AC) | 19 | 21 |
| 11 | Deduction on account of donations to charitable trusts and institutions (section 80G) | 103 | 112 |
| 12 | Deduction on account of donations for scientific research or rural development (section 80GGA) | Nil | Nil |
| 13 | Deduction on account of contributions to political parties (section 80GGC) | Nil | Nil |
| 14 | Deduction of profits of certain industrial undertakings or a ship or a hotel business (section 80-I) | Nil | Nil |
| 15 | Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA) | 36 | 39 |
| 16 | Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA) | 47 | 51 |
| 17 | Deduction of profits of undertakings engaged in providing telecommunication services (section 80-IA) | Nil | Nil |
| 18 | Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA) | 16 | 17 |

| Sl. No. | Nature of incentive | Revenue Foregone (in Rs. Crore) [2008-09] | Projected Revenue Foregone (in Rs. Crore) [2009-10] |
|---------|---|---|---|
| 19 | Deduction of profits of undertakings engaged in revival of power plant (section 80-IA) | Nil | Nil |
| 20 | Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB) | 1 | 1 |
| 21 | Deduction of profits of industrial undertakings operating in the small-scale sector (section 80-IB) | 58 | 63 |
| 22 | Deduction of profits of industrial undertakings located in Jammu & Kashmir (section 80-IB) | 79 | 86 |
| 23 | Deduction of profits of industrial undertakings located in industrially backward States other than Jammu & Kashmir (section 80-IB) | 30 | 33 |
| 24 | Deduction of profits of industrial undertakings located in backward districts (section 80-IB) | 17 | 19 |
| 25 | Deduction of profits of industrial undertakings derived from multiplex theatre and convention centre (section 80-IB) | 1 | 1 |
| 26 | Deduction of profits of industrial undertakings derived from development of scientific research (section 80-IB) | Nil | Nil |
| 27 | Deduction of profits of industrial undertakings derived from production of mineral oil (section 80-IB) | 15 | 16 |
| 28 | Deduction of profits of industrial undertakings derived from housing projects (section 80-IB) | 1502 | 1636 |
| 29 | Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB) | 1 | 1 |
| 30 | Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB) | 2 | 2 |
| 31 | Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB) | 5 | 5 |
| 32 | Deduction of profits of industrial undertakings derived from hospital in rural area (section 80-IB) | Nil | Nil |
| 33 | Deduction of profits of undertakings set-up in North Eastern States (section 80-IC) | 171 | 186 |
| 34 | Deduction of profits of undertakings set-up in Sikkim (section 80-IC) | 46 | 50 |
| 35 | Deduction of profits of undertakings set-up in Uttaranchal (section 80-IC) | 203 | 221 |
| 36 | Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC) | 383 | 417 |
| 37 | Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA) | 5 | 5 |
| 38 | Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Centre [IFSC] (section 80LA) | Nil | Nil |
| 39 | Deduction of profits of cooperative societies (section 80P) | 361 | 393 |
| | TOTAL | 4354 | 4743 |

C. Individual Taxpayers

Chapter VI-A of the Income-tax Act primarily provides for deduction on certain payments and deduction on certain incomes. Individual taxpayers are eligible to claim these deductions and have a wide range of tax preferences available to them. However, since 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 revenue foregone 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 20,67,345 returns filed electronically by individuals with the Income-tax Department till 31st December, 2009. The revenue foregone on account of the various tax benefits granted to individual taxpayers is presented in Table 7.

Based on the revenue foregone figures for financial year 2008-09, the revenue foregone during the financial year 2009-10 has been estimated. This estimation has been done by calculating the ratio of revenue foregone on each tax incentive in 2008-09 to the actual income tax collected in the year from individual taxpayers [Rs.1,20,004 crore] and then applying the same ratio to the estimated income tax collections from individuals in 2009-10 [Rs. 1,31,421 crore].

Apart from chapter VI-A, the other major tax expenditure on individual taxpayers in the financial year 2008-09 was on account of the higher basic exemption limits for senior citizens (individuals aged 65 years or more) and women (other than senior citizens).

The revenue foregone on account of higher basic exemption limits, as aforesaid, has been calculated by multiplying the revenue foregone per senior citizen and woman 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 total number of returns filed by individuals for financial year 2008-09. The total sample returns filed electronically with the Income-tax Department till 31st December, 2009 is 20,67,345.

The total number of returns filed by individuals for financial year 2008-09 is estimated to be 2,79,49,329. According to the sample returns, 6 per cent were filed by senior citizens and 26.3 per cent of the balance returns were filed by women (other than senior citizens). Thus, the number of senior citizens availing the higher exemption limit of Rs. 2,25,000 is 16,66,040. Similarly, the number of women [who are not senior citizens] availing the higher exemption limit of Rs. 1,80,000 is 73,45,824.

The estimates for 2009-10 have been done by assuming a 5 per cent growth in the number of returns filed by senior citizens and women for financial year 2009-10 over what was filed for financial year 2008-09. Further, the revenue foregone on account of each senior citizen and woman [who is not a senior citizen] has been calculated by taking into account the higher basic exemption limits [Rs. 2,25,000 and Rs. 1,80,000 respectively]. The resultant figures are Rs. 7,500 and Rs. 3,000 respectively. Thereafter, the revenue foregone on account of each such taxpayer has been multiplied with their estimated number.

Table 7 depicts the major tax expenditures on individual taxpayers in terms of revenue foregone during financial years 2008-09 and 2009-10.

Table 7: Major tax expenditure on individual taxpayers during the financial years 2008-09 [sample size – 3458645] and 2009-10 [sample size – 2067345]

| Sl. No. | Nature of incentive/deduction | Revenue Foregone (in Rs. Crore) [2008-09] | Projected Revenue Foregone (in Rs. Crore) [2009-10] |
|---------|--|---|---|
| 1 | Deduction on account of certain investments and payments (section 80C) | 26569 | 28946 |
| 2 | Deduction on account of contribution to certain pension funds (section 80CCC) | 160 | 174 |
| 3 | Deduction on account of contribution to the New Pension Scheme (section 80CCD) | 22 | 24 |
| 4 | Deduction on account of health insurance premium (section 80D) | 664 | 723 |
| 5 | Deduction on account of expenditure for medical treatment of a dependent who is disabled (section 80DD) | 58 | 63 |
| 6 | Deduction on account of expenditure for medical treatment of specified diseases (section 80DDB) | 23 | 25 |
| 7 | Deduction on account of interest on loan taken for higher education (section 80E) | 126 | 137 |
| 8 | Deduction on account of donations to charitable trusts and institutions (section 80G) | 313 | 341 |
| 9 | Deduction on account of rent paid for housing accommodation (section 80GG) | 273 | 297 |
| 10 | Deduction on account of donations for scientific research or rural development (section 80GGA) | 23 | 25 |
| 11 | Deduction on account of contributions given to political parties (section 80GGC) | 9 | 10 |
| 12 | 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) | 56 | 61 |

| Sl. No. | Nature of incentive/deduction | Revenue Foregone (in Rs. Crore) [2008-09] | Projected Revenue Foregone (in Rs. Crore) [2009-10] |
|---------|--|---|---|
| 13 | Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB) | 2 | 2 |
| 14 | 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) | 676 | 736 |
| 15 | Deduction of profits of undertakings set-up in North Eastern States, Sikkim, Uttaranchal and Himachal Pradesh (section 80-IC) | 697 | 759 |
| 16 | Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA) | 9 | 10 |
| 17 | Deduction of professional income of authors of text books in Indian languages (section 80QQA) | Nil | Nil |
| 18 | Deduction of royalty income of authors of certain books other than text books (section 80QQB) | 8 | 9 |
| 19 | Deduction of royalty income on patents (section 80RRB) | Nil | Nil |
| 20 | Deduction in case of a person with disability (section 80U) | 74 | 81 |
| 21 | Higher exemption limit for senior citizens | 1250 | 1362 |
| 22 | Higher exemption limit for women | 2204 | 2401 |
| | TOTAL | 33216 | 36186 |

The tax expenditure on account of investments in various savings instruments, repayment of principal 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. The revenue foregone on account of higher basic exemption limits for senior citizens and women are also significant. As regards profit-linked deductions, the highest tax expenditure is on account of section 80-IB of the Income-tax Act, 1961.

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, the various Finance Acts specify the rates at which these duties should be levied. The rates specified in various enactments are known as the "**tariff rates**" of excise duty. Central Government has been granted powers 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 prescribed in the Schedules. The rates prescribed by exemption notifications are known as the "**effective rates**".

The revenue foregone is defined to be the difference between duty that would have been payable but for the issue of the exemption notification and the actual duty paid in terms of the relevant notification -

- In cases where the tariff and effective rates of duty are levied in ad valorem rates, -
Revenue foregone= Value of goods X (Tariff rate of duty - Effective rate of duty)
- In cases where the tariff rate is on ad valorem basis but the effective duty is levied at specific rates under the terms of exemption notification, then -
Revenue foregone= (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 foregone is calculated accordingly
- In all the above cases, if the tariff rate of duty equals the effective rate, revenue foregone will be zero.

Besides the 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 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 duty foregone on account of issue of special exemption orders is not being calculated towards revenue foregone figures.

A beginning was made in the 2006-07 budget to estimate the duty foregone for the previous two financial years i.e. 2004-05 and 2005-06. The estimates were based on data gathered from periodic returns filed by the duty paying units as well as from data base maintained in software system 'SERMON' which captures data on the basis of entries made by field formations in 23 different zones of Central Excise and 4 Large Taxpayer Units [LTUs]. However, in absence of comprehensive computerization, it was found difficult to estimate the revenue foregone with a greater degree of accuracy. With increased levels of computerization and wider and improved data capture by SERMON, the revenue foregone figures for subsequent years have been determined with a greater degree of accuracy, compared to previous years. As the revenue foregone figures captured by SERMON do not include the amount of duty foregone due to the operation of area based exemptions scheme, the said information/data is collected separately from the jurisdictional Central Excise zones and is added to obtain the total revenue foregone.

The estimates for financial year 2008-09 were arrived at on the basis of SERMON data available for the period April - September, 2008, having revenue coverage of about 75%. The revenue coverage was extrapolated to 100% for arriving at revenue foregone figures for the first half of 2008-09. However, for calculating the revenue foregone figures for the period September - March, 2009, the usual assumption regarding continuation of same data pattern for the remaining year was dispensed with. This was on account of fact that as a measure to counter the general slowdown in economy due to sudden global recession during second half of 2008-09, the effective excise duty rates were cut across the board by 4 percentage points on 07.12.2008. Later, on 24.02.09, the mean excise duty rate of 10% was further reduced by 2 percentage points from 10% to 8%. Appropriate calculations were, therefore, made to adjust the impact of these significant changes in excise duty structure on the estimates of duty foregone.

The revised figure of duty foregone for 2008-09 is again based on SERMON data, which is available for the full year and has captured 68% of the revenue collection. The revised duty foregone has therefore been arrived at considering the same data spread for the balance 32% of collection. The duty foregone due to the operation of area based exemptions scheme has been obtained separately from the concerned Central Excise zones and added.

Accordingly, the revised revenue foregone for the financial year 2008-09 comes to Rs.1,35,496 crore as against the estimates of Rs.1,28,293 crore.

The revenue foregone estimate for the current financial year i.e. 2009-10 has also been calculated using the extrapolation method based on data for part of the year i.e. April-December, 2009.

Accordingly, the revenue foregone for the financial year 2009-10 is estimated at Rs.1,70,765 crore [Rs.1,64,883 crore + Rs.5,882 crore (towards area based exemption)].

The estimates of Rs.1,70,765 crore show a significant increase over last year's corresponding revised figure of Rs.1,35,496 crore. This is explained by the fact that while the tariff rate of duty continued at 16%, the effective duty rate of 10%, being levied on most excisable goods, was further reduced to 8% in February, 2009 as part of the third fiscal stimulus package. The rate of 8% has been maintained throughout 2009-10. Since there was no corresponding reduction in tariff rate, which continued at the earlier level of 16%, the overall duty foregone - the difference between tariff rate and effective rate - has shown an increasing trend in 2009-10 compared to previous year.

As for area-based exemptions, there are two types of schemes currently in operation - [i] based on refunds and [ii] outright exemption as in the case of Himachal Pradesh and Uttarakhand. In the case of refund-based exemptions, the revenue foregone is computed by aggregating the refunds actually sanctioned to the individual units or claimed by them during the year. With a reduction in the standard rate of Central Excise duty to 8% during the whole of 2009-10, it is evident that the quantum of refunds would come down. As for outright exemptions, the revenue foregone is calculated using the difference between the general effective rate and the duty actually paid (Nil). By the same logic, therefore, the revenue foregone in respect of the exemption schemes also reflects the downward trend.

The revenue foregone figures are given in Table 8 below.

Table 8: Tax expenditure under Excise duty regime

| Sl. No. | Details of Exemption | Revenue foregone (in Rs crore) | | |
|---------|--|--------------------------------|-----------------------|---------------|
| | | 2008-09 | | 2009-10 |
| | | Estimates | Revised (provisional) | Estimates* |
| 1. | Area based exemptions applicable in the North Eastern states, Uttaranchal, Himachal Pradesh, Jammu & Kashmir and Kutch district of Gujarat | 10327 | 10589 | 5882 |
| 2. | Others | 117966 | 125169 | 164883 |
| | Total | 128293 | 135496 | 170765 |

B. Customs duties

Customs duty is levied under Customs Act, 1962 as per the rates specified in the First Schedule to the Customs Tariff Act, 1975 known as "**tariff rates**". The Customs Tariff Act, 1975 also provides for levy of additional duty of customs (commonly referred to as countervailing duty or CV duty), which is levied at a rate equal to the duties of excise leviable on such goods if they were manufactured in India. Duties of excise are levied under the Central Excise Act as per the rates specified in the Schedule to the Central Excise Tariff Act, 1985 and various Finance Acts. The Central Government has been delegated powers under Section 25(1) of the Customs Act, 1962 to issue notification in public interest so as to prescribe duty rates lower than the tariff rates prescribed in the Schedule to the Customs Tariff Act. These rates prescribed by notification are known as the "**effective rates**".

The revenue foregone is thus defined to be the difference between duty that would have been payable but for the issue of the exemption notification and the actual duty paid in terms of the relevant notification. In other words,

Revenue foregone= Value X (Tariff rate of duty - Effective rate of duty)

Thus, if the tariff rate equals the effective rate, revenue foregone is zero.

The estimate of revenue foregone under various exemption notifications is based on the data generated from the Bills of Entry filed in the Indian Customs Electronic Data Interchange System (ICES) at various Electronic Data Interchange (EDI) locations. However, since the EDI system does not capture data in respect of imports through minor ports that either are outside EDI coverage or are effecting manual filing of Bills of entry, the EDI data available with us does not provide a complete picture of the customs revenue foregone.

The revenue foregone data takes into account the exemptions from basic customs duty, CV duty and also exemption notifications issued under Central Excise Act, 1944 which are relevant for levy of CV duty. It also takes into account exemptions from special CVD of 4%.

For the year 2008-09, gross customs revenue captured by EDI data was Rs.83,159 crore as against actual gross customs revenue collection of Rs.99,470 crore. Thus, the EDI data is capturing nearly 83% of the actual reported gross customs revenue collection for the year 2008-09. While EDI data for the year 2007-08 captured 82% of the actual gross customs revenue collection, the corresponding figure for the year 2006-07 was 83%. In effect, the revenue foregone figures are estimated from a fairly large sample.

The estimated revenue foregone for the year 2008-09, has been taken as provisional revenue foregone for the said period, as the relied upon data has not changed during this period. Thus the provisional duty foregone for the year 2008-09 on account of all the exemption notifications is Rs.2,25,752 crore.

In order to work out the estimated revenue foregone for the year 2009-10 (estimated), the same methodology was adopted. Thus, EDI data has been projected to arrive at the all India figures after appropriate adjustments, wherever required. Since EDI data does not adequately capture revenue on account of edible oils, beverage, minerals & ores, petroleum products/crude petroleum which are normally imported as bulk cargo through customs locations that are not on EDI (say minor ports), data on actual revenue realized from these items was collected separately. The total revenue realized as per the EDI data for the period April-September 2009 is Rs.33,222 crore, however once the actual revenue realized from these commodities was added to the available EDI data for the year 2009-10 (up to sept.2009), the coverage increased to Rs.35,705 crore or, nearly 91% of the total revenue.

After suitable adjustments to the data base, the revenue forgone figures for the period April 2009-September 2009 have been extrapolated for 12 months to yield a figure of Rs.2,49,021 crore for the entire year. The total revenue foregone in respect of customs duties has increased by about 10% over the previous year. The increase in revenue foregone is moderate compared to that registered in 2008-09 (47% over the previous year) because unlike the proceeding year when there were sharp reductions in the effective rates of customs duty in many revenue significant items such as crude petroleum, edible oils and steel etc; as well as the CVD impact of two stimulus packages, the year 2009-10 has been fairly stable in terms of rates of customs duties. The reductions effected in 2008-09 were continued throughout this year.

The customs duty foregone for the period 2008-09 and 2009-10 on account of major commodity groups and their share in overall duty foregone is given in Table 9 as under:

Table 9 : Contribution of major commodity groups contributing to revenue foregone

(in Rs. crore)

| Sector | 2008-09 | | 2009-10 | |
|--|------------------|-----------------------------------|------------------|-----------------------------------|
| | Revenue foregone | % Share in total revenue foregone | Revenue foregone | % Share in total revenue foregone |
| Crude oil and mineral oils | 47424 | 21 | 38820 | 15.59 |
| Machinery | 31262 | 13.8 | 40174 | 16.13 |
| Diamond, gold and Jewellery | 27649 | 12.2 | 39769 | 15.97 |
| Edible vegetable, fruits, cereals, edible oils | 26841 | 11.9 | 36537 | 14.67 |
| Primary metals and articles thereof | 14960 | 6.63 | 18010 | 7.23 |
| Chemicals and plastics | 15707 | 7 | 21403 | 8.59 |
| Textiles | 11085 | 4.9 | 9568 | 3.84 |
| Fertilisers | 14200 | 6.3 | 8010 | 3.22 |
| Salts and ores | 9726 | 4.3 | 3153 | 1.27 |
| Drugs | 3385 | 1.5 | 2747 | 1.10 |
| Total for major commodity groups | 202240 | 90 | 218191 | 88 |

The revenue foregone data for each of the chapters of Customs Tariff Act is given in Table 10 as under:

Table 10 : Estimates of major tax expenditure under the Customs duty regime

(in Rs. crore)

| Chapter | Brief Description of Goods | 2008-09 (Provisional) | 2009-10 (Estimated) |
|---------|---|--------------------------|------------------------|
| 1 | Live animals | 2 | 3 |
| 2 | Meat and edible meat offal | 4 | 8 |
| 3 | Fish and crustaceans, other aquatic invertebrates | 25 | 42 |
| 4 | Dairy Products | 52 | 147 |
| 5 | Other products of animal origin | 16 | 27 |
| 6 | Live trees and other plants | 6 | 5 |
| 7 | Edible vegetables, certain roots and tubers | 3601 | 4424 |
| 8 | Edible fruit and nuts | 1656 | 2586 |
| 9 | Coffee, tea, mate and spices | 621 | 855 |
| 10 | Cereals | 87 | 27 |
| 11 | Products of the milling industry | 21 | 59 |
| 12 | Oilseeds, grains, seeds, fruits | 214 | 362 |
| 13 | Lac, gums and resins | 163 | 227 |
| 14 | Vegetable plaiting materials | 1 | 1 |
| 15 | Animal or vegetable fats | 21497 | 29530 |
| 16 | Preparations of meat or fish | 11 | 21 |
| 17 | Sugar | 408 | 269 |
| 18 | Cocoa | 49 | 80 |
| 19 | Preparations of cereals | 29 | 42 |
| 20 | Preparation of vegetables | 22 | 34 |
| 21 | Miscellaneous edible preparations | 243 | 377 |
| 22 | Beverages and spirits | 229 | 631 |
| 23 | Residues and waste from food industry | 161 | 296 |
| 24 | Tobacco | 12 | 11 |
| 25 | Salt, sulphur earths and stone | 978 | 616 |
| 26 | Ores | 8748 | 2537 |
| 27 | Mineral fuels and mineral oils | 47424 | 38820 |
| 28 | Inorganic chemicals | 4879 | 4685 |
| 29 | Organic chemicals | 7700 | 10722 |
| 30 | Pharmaceutical products | 3385 | 2747 |
| 31 | Fertilizers | 14200 | 8010 |
| 32 | Tanning and dyeing extracts, pigments | 450 | 965 |
| 33 | Essential oils | 282 | 544 |
| 34 | Soap and washing preparations | 135 | 300 |
| 35 | Albuminoidal substances | 100 | 211 |
| 36 | Explosives, matches | 10 | 32 |
| 37 | Photography goods | 113 | 231 |
| 38 | Miscellaneous chemical products | 1657 | 2725 |
| 39 | Plastics | 3128 | 5996 |
| 40 | Rubber | 1316 | 2132 |
| 41 | Hide and skins and leather | 300 | 333 |
| 42 | Articles of leather | 43 | 76 |
| 43 | Fur skins | 3 | 4 |
| 44 | Wood | 1167 | 1430 |
| 45 | Cork | 2 | 2 |
| 46 | Manufactures of straw | 0 | 0 |
| 47 | Wood Pulp | 383 | 493 |
| 48 | Paper | 1426 | 1681 |
| 49 | Printed books, newspapers | 365 | 347 |

(in Rs. crore)

| Chapter | Brief Description of Goods | 2008-09 (Provisional) | 2009-10 (Estimated) |
|---------|---|--------------------------|------------------------|
| 50 | Silk | 453 | 640 |
| 51 | Wool | 293 | 320 |
| 52 | Cotton | 1183 | 1046 |
| 53 | Other vegetable fibres | 49 | 41 |
| 54 | Manmade filaments | 3764 | 4731 |
| 55 | Man made staple fibres | 408 | 601 |
| 56 | Wadding and non wovens | 34 | 53 |
| 57 | Carpets | 26 | 30 |
| 58 | Special woven fabrics | 4025 | 886 |
| 59 | Coated textile fabrics | 565 | 807 |
| 60 | Knitted fabrics | 164 | 264 |
| 61 | Knitted readymade garments | 23 | 30 |
| 62 | Woven garments | 60 | 52 |
| 63 | Made ups | 39 | 67 |
| 64 | Footwear | 169 | 233 |
| 65 | Head gear | 2 | 4 |
| 66 | Umbrellas | 16 | 20 |
| 67 | Feathers/artificial flowers | 12 | 13 |
| 68 | Articles of stone, plaster | 133 | 226 |
| 69 | Ceramic Products | 316 | 437 |
| 70 | Glass and glass ware | 208 | 371 |
| 71 | Precious stones, jewellery | 27649 | 39769 |
| 72 | Iron and steel | 8634 | 10494 |
| 73 | Articles of iron and steel | 3371 | 2972 |
| 74 | Copper and articles thereof | 654 | 903 |
| 75 | Nickel and articles thereof | 230 | 326 |
| 76 | Aluminum and articles thereof | 976 | 1487 |
| 78 | Lead and articles thereof | 172 | 484 |
| 79 | Zinc and articles thereof | 159 | 271 |
| 80 | Tin and articles thereof | 74 | 96 |
| 81 | Other base metals | 118 | 253 |
| 82 | Tools and implements | 411 | 444 |
| 83 | Miscellaneous articles of base metals | 160 | 282 |
| 84 | Machinery | 18567 | 21990 |
| 85 | Electrical machinery | 12695 | 18184 |
| 86 | Railways or tramways locomotives, rolling stocks etc. | 357 | 738 |
| 87 | Motor vehicles | 3010 | 3754 |
| 88 | Aircrafts | 2072 | 2533 |
| 89 | Ships, boats and floating structures | 2432 | 1075 |
| 90 | Optical/photographic instruments | 3404 | 4236 |
| 91 | Clocks and watches | 49 | 119 |
| 92 | Musical instruments | 9 | 11 |
| 93 | Arms and ammunitions | 166 | 397 |
| 94 | Furniture | 306 | 378 |
| 95 | Toys and games | 181 | 192 |
| 96 | Miscellaneous manufactured articles | 177 | 248 |
| 97 | Work of art, antiques | 27 | 26 |
| 98 | Project imports, baggage | 425 | 785 |
| | Total | 225752 | 249021 |

These figures include revenue foregone from the working of various export promotion schemes other than from drawback. The break-up of revenue foregone 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 are incentive schemes. The remaining are either exemption schemes or input tax neutralization schemes, which primarily accord input tax credit so as to offer a level playing field to our exporters in the international markets. In this sense, the revenue foregone from the various export promotion schemes (other than drawback) needs to be scaled down by the amount of revenue foregone from the various export promotions schemes falling in the category of incentive schemes. Sr. no. 15 of the Table 11 hereunder tabulates the amount of such revenue foregone.

Table 11: Revenue Foregone on account of Export Promotion Concessions

(in Rs. crore)

| S. No. | Name of the Scheme | 2008-09 (Provisional) | 2009-10 (Estimated) |
|--------|---|--------------------------|------------------------|
| 1 | Advance Licence Scheme | 12389 | 10682 |
| 2 | EOU/EHTP/STP | 13401 | 8015 |
| 3 | EPCG | 7833 | 5574 |
| 4 | DEPB Scheme | 7092 | 8806 |
| 5 | SEZ | 2324 | 3204 |
| 6 | DFRC | 111 | 43 |
| 7 | Duty Free Import Authorisation Scheme | 1268 | 1646 |
| 8 | Duty Free Entitlement Credit Certificate | 418 | 206 |
| 9 | Target plus schemes | 1220 | 265 |
| 10 | Vishesh Krishi and Gram Udyog Yojana (VKGUY) | 2059 | 3886 |
| 11 | Served from India Scheme | 531 | 526 |
| 12 | Focus Market/Product Scheme | 408 | 769 |
| 13 | TOTAL | 49053 | 43622 |
| 14 | Less revenue foregone on incentive schemes maintained at S.Nos. 8-12 | 4636 | 5652 |
| 15 | Revenue Foregone on account of input tax neutralisation or exemption schemes to be reduced from gross revenue foregone on account of customs duty | 44417 | 37970 |

These aforesaid estimates of revenue foregone do not include revenue foregone on account of ad hoc exemption orders issued under Section 25(2) of the Customs Act, 1962, that relate to circumstances of an exceptional nature.

The revenue foregone figures for financial years 2008-09 and 2009-10, in respect of both direct and indirect taxes, is presented in Table 12.

Table 12: Revenue Foregone in financial years 2008-09 and 2009-10 (in Rs. Crore)

| | Revenue Foregone in 2008-09 | Revenue Foregone as a per cent of Aggregate Tax Collection in 2008-09 | Revenue Foregone in 2009-10 | Revenue Foregone as a per cent of Aggregate Tax Collection in 2009-10 |
|---|--------------------------------|--|--------------------------------|--|
| Corporate Income-tax | 66901 | 11.08% | 79554 | 12.60% |
| Personal Income-tax | 37570 | 6.22% | 40929 | 6.48% |
| Excise Duty | 128293 | 21.25% | 170765 | 27.04% |
| Customs duty | 225752 | 37.39% | 249021 | 39.43% |
| Total | 458516 | 75.95% | 540269 | 85.56% |
| Less Export credit related [sl. no. 15 of table 11] | 44417 | 7.36% | 37970 | 6.01% |
| Grand Total | 414099 | 68.59% | 502299 | 79.54% |

Notes: (1) Aggregate Tax Collection refers to the aggregate of net direct and indirect tax collected by the Central Government.

(2) The figure of Aggregate Tax collection for 2008-09 is based on actuals and that for 2009-10 is based on revised estimates.

To conclude, the amount of revenue foregone continues to increase year after year. As a percentage of aggregate tax collection, revenue foregone remains high and shows an increasing trend as far as Corporate Income-tax is considered for the financial year 2008-09. In case of indirect taxes the trend shows a significant increase for the financial year 2009-10 due to reduction in customs and excise duties. Therefore, to reverse this trend an expansion in the tax base is called for.

APPENDIX

**Effective tax rate, inclusive of surcharge and education cess, of sample companies across industry
(financial year 2008-09) [sample size – 365509]**

| Sl. No | Sector | Industry | Number of Companies | Profit before tax (in Rs. crore) | Total tax payable (in Rs. crore) | Effective tax rate (in %) |
|--------|-------------------|--|---------------------|----------------------------------|----------------------------------|---------------------------|
| 1 | Manufacturing | Agro-based Industries | 8,515 | 5,887 | 1,197 | 20.3 |
| 2 | Manufacturing | Automobile and Auto parts | 3,555 | 13,878 | 3,247 | 23.4 |
| 3 | Manufacturing | Cement | 587 | 11,304 | 1,192 | 17.6 |
| 4 | Manufacturing | Diamond Cutting | 377 | 383 | 54 | 14.2 |
| 5 | Manufacturing | Drugs and Pharmaceuticals | 4,262 | 13,370 | 2,302 | 17.2 |
| 6 | Manufacturing | Electronics, including Computer Hardware | 2,233 | 4,796 | 1,320 | 27.5 |
| 7 | Manufacturing | Engineering goods | 8,161 | 15,004 | 4,073 | 27.1 |
| 8 | Manufacturing | Fertilizers, Chemicals and Paints | 3,319 | 21,984 | 3,024 | 13.8 |
| 9 | Manufacturing | Flour and Rice Mills | 1,124 | 395 | 105 | 26.8 |
| 10 | Manufacturing | Food Processing Units | 1,958 | 3,217 | 848 | 26.4 |
| 11 | Manufacturing | Marble and Granite | 1,639 | 663 | 163 | 24.6 |
| 12 | Manufacturing | Paper | 1,248 | 6,304 | 1,444 | 22.9 |
| 13 | Manufacturing | Petroleum and Petrochemicals | 589 | 36,266 | 6,259 | 17.3 |
| 14 | Manufacturing | Power and Energy | 2,576 | 57,048 | 12,532 | 22.0 |
| 15 | Manufacturing | Printing and Publishing | 2,163 | 2,383 | 685 | 28.8 |
| 16 | Manufacturing | Rubber | 850 | 483 | 104 | 21.6 |
| 17 | Manufacturing | Steel | 4,100 | 18,653 | 5,391 | 28.9 |
| 18 | Manufacturing | Sugar | 230 | 1,682 | 222 | 13.2 |
| 19 | Manufacturing | Tea and Coffee | 797 | 1,169 | 195 | 16.8 |
| 20 | Manufacturing | Textiles, Handlooms and Powerlooms | 8,290 | 9,162 | 816 | 8.9 |
| 21 | Manufacturing | Tobacco | 291 | 591 | 159 | 27.0 |
| 22 | Manufacturing | Tyre | 141 | 638 | 191 | 30.0 |
| 23 | Manufacturing | Vanaspati and Edible Oils | 567 | 1,176 | 240 | 20.5 |
| 24 | Manufacturing | Others | 43,757 | 97,447 | 24,571 | 25.2 |
| 25 | Trading | Chain Stores | 624 | 172 | 44 | 25.9 |
| 26 | Trading | Retailers | 8,213 | 1,850 | 504 | 27.3 |
| 27 | Trading | Wholesalers | 14,402 | 3,108 | 874 | 28.1 |
| 28 | Trading | Others | 53,516 | 22,917 | 5,855 | 25.6 |
| 29 | Commission Agents | General Commission Agents | 3,473 | 1,017 | 315 | 31.0 |
| 30 | Builders | Builders | 10,884 | 3,423 | 722 | 21.1 |
| 31 | Builders | Estate Agents | 2,314 | 1,228 | 282 | 23.0 |
| 32 | Builders | Property Developers | 18,634 | 15,964 | 2,202 | 13.8 |
| 33 | Builders | Others | 12,780 | 2,313 | 454 | 19.7 |
| 34 | Contractors | Civil Contractors | 6,040 | 9,579 | 2,490 | 26.0 |
| 35 | Contractors | Excise Contractors | 15 | 4 | 1 | 21.5 |
| 36 | Contractors | Forest Contractors | 6 | 1 | 0 | 2.6 |
| 37 | Contractors | Mining Contractors | 458 | 1,870 | 573 | 30.7 |
| 38 | Contractors | Others | 6,134 | 8,062 | 1,704 | 21.1 |
| 39 | Professionals | Chartered Accountants, Auditors, etc. | 64 | 6 | 1 | 30.2 |

| Sl. No | Sector | Industry | Number of Companies | Profit before tax (in Rs. crore) | Total tax payable (in Rs. crore) | Effective tax rate (in %) |
|--------|------------------------|--|---------------------|----------------------------------|----------------------------------|---------------------------|
| 40 | Professionals | Fashion Designers | 58 | 29 | 7 | 24.0 |
| 41 | Professionals | Legal Professionals | 163 | 36 | 12 | 33.0 |
| 42 | Professionals | Medical professionals | 935 | 147 | 39 | 26.8 |
| 43 | Professionals | Nursing Homes | 780 | 80 | 22 | 28.2 |
| 44 | Professionals | Specialty Hospitals | 366 | 410 | 98 | 24.0 |
| 45 | Professionals | Others | 3,717 | 1,662 | 478 | 28.8 |
| 46 | Service | Advertisement Agencies | 1,874 | 894 | 297 | 33.3 |
| 47 | Service | Beauty Parlours | 131 | 23 | 8 | 35.5 |
| 48 | Service | Consultancy Services | 9,853 | 9,490 | 1,680 | 17.7 |
| 49 | Service | Courier Agencies | 364 | 380 | 114 | 30.1 |
| 50 | Service | Computer Training, Educational and Coaching Institutes | 1,900 | 841 | 224 | 26.6 |
| 51 | Service | Forex Dealers | 485 | 23 | 6 | 27.6 |
| 52 | Service | Hospitality Services | 2,392 | 1,584 | 411 | 26.0 |
| 53 | Service | Hotels | 4,970 | 3,258 | 883 | 27.1 |
| 54 | Service | IT Enabled Services, BPO Service Providers | 6,493 | 19,568 | 2,571 | 13.1 |
| 55 | Service | Security Agencies | 845 | 294 | 102 | 34.8 |
| 56 | Service | Software Development Agencies | 8,166 | 26,030 | 3,072 | 11.8 |
| 57 | Service | Transporters | 2,991 | 3,122 | 685 | 22.0 |
| 58 | Service | Travel Agents and Tour Operators | 2,600 | 473 | 148 | 31.4 |
| 59 | Service | Others | 37,481 | 55,679 | 12,600 | 22.6 |
| 60 | Financial Service | Banking Companies | 246 | 74,323 | 24,792 | 33.4 |
| 61 | Financial Service | Chit Funds | 1878 | 97 | 28 | 29.5 |
| 62 | Financial Service | Financial Institutions | 284 | 7,285 | 2,074 | 28.5 |
| 63 | Financial Service | Financial Service Providers | 2,636 | 2,832 | 815 | 28.8 |
| 64 | Financial Service | Leasing Companies | 600 | 805 | 104 | 13.0 |
| 65 | Financial Service | Money Lenders | 401 | 684 | 216 | 31.6 |
| 66 | Financial Service | Non-Banking Financial Companies | 7,738 | 19,383 | 4,767 | 24.6 |
| 67 | Financial Service | Share Brokers, Sub-brokers, etc. | 3,458 | 3,630 | 1,158 | 31.9 |
| 68 | Financial Service | Others | 17,350 | 34,649 | 6,087 | 17.6 |
| 69 | Entertainment Industry | Cable T.V Productions | 243 | 138 | 44 | 31.9 |
| 70 | Entertainment Industry | Film Distribution | 283 | 498 | 151 | 30.3 |
| 71 | Entertainment Industry | Film Laboratories | 25 | 35 | 3 | 10.9 |
| 72 | Entertainment Industry | Motion Picture Producers | 357 | 221 | 73 | 33.3 |
| 73 | Entertainment Industry | Television Channels | 226 | 939 | 319 | 34.0 |
| 74 | Entertainment Industry | Others | 4,034 | 3,400 | 931 | 27.4 |
| | Total | | 3,65,509 | 6,68,373 | 1,52,212 | 22.8 |