ANNEX-7

Statement of Revenue Impact of Tax Incentives under the Central Tax System: Financial Years 2016-17 and 2017-18

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. Further, 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 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. From the year 2015-16 onwards, 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 2016-17, the most recent year for which data is available. An attempt has also been made to project the revenue impact for the financial year 2017-18 on the basis of the tax expenditure figures of the financial year 2016-17.

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 in case of removal of 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 incentivised by such indirect subsidy 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, 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 separately in respect of, Corporate Sector; Non-Corporate Sector (Firms, Association of Persons, Body of Individuals etc.); and Individuals/ HUF Taxpayers. Details of entities engaged in activities having charitable or social purpose have also been provided separately under the head “Charitable Entities”. 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 6,08,836 corporate returns electronically up to 30th November, 2017 for the financial year 2016-17 [i.e. assessment year 2017-18]. 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 2017-18. These companies reported corporate tax liability of ₹ 3,96,973.07 crores [inclusive of surcharge and education cess] for their income of financial year 2016-17. They also reported ₹ 41,443.08 crore as Dividend Distribution Tax payable during the financial year 2016-17.

For the purposes of estimating the tax expenditure, data pertaining to these 6,08,836 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:-

- 3,30,730 companies (54.32 per cent) reported ₹ 14,76,399 crores as profits before taxes and a total income (taxable income)[2] of ₹ 10,10,993 crore.
- 2,60,194 companies (42.74 per cent) reported ₹ 6,34,283.38 crores as losses.
- 17,912 companies (2.94 per cent) reported Nil profit.

The **effective tax rate[3] of the entire sample was 26.89 per cent[4]** [as against the rate of **28.24** per cent reported in the financial year 2015-16] while the statutory tax rate was 30.90 per cent in case of companies having income up to ₹ one crore, 33.06 per cent in the case of companies having income up to ₹ 10 crore and 34.61 in the case of companies having income exceeding ₹ 10 crore resulting in an average statutory rate of 34.38 per cent[5]. Companies with profits before taxes (PBT hereafter) of ₹ 500 crore and above, accounted for a total of 61.17 per cent of the total PBT and a total of 54.45 per cent of the total corporate income tax liability. However, their effective tax rate was 23.94 per cent, while the effective tax rate was 29.43 per cent for companies with PBT up to ₹ one crore. This rate of effective tax of 29.43 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 and the levy of Minimum Alternate Tax (MAT hereafter) on companies. The effective rate of 26.89 per cent for the entire sample, is lower than the effective tax rate of 28.24 per cent in the financial year 2015-16.

1. *The sample size for financial year 2015-16 was 5,97,884.*
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 29.69 per cent.*
5. *Average statutory tax rate has been worked out taking a weighted average of the tax rate of 30.90 per cent in the case of companies having total income upto ₹ 1 crore, of 33.06 per cent in the case of companies having total income upto ₹ 10 crore and 34.61 per cent in the case of companies having total income exceeding ₹ 10 crore.*

The ratio of total income to PBT is much higher (89.42 per cent) for companies with PBT up to ₹ one crore than that for the total sample (76.08 per cent). This is also reflected by the average effective tax rate of 29.43 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 2016-17) (Sample size - 6,08,836)

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	2,60,194	0.00	0.69	0.65	0.00	0.00
2.	Zero	17,912	0.00	9.31	3.11	0.00	0.00
3.	Rs 0-1 Crore	2,90,250	2.55	3.00	2.79	89.42	29.43
4.	Rs 1-10 Crore	31,941	6.63	7.34	7.20	84.16	29.20
5.	Rs 10-50 Crore	5,997	8.74	8.92	9.42	77.64	29.00
6.	Rs 50-100 Crore	1,110	5.29	5.17	5.53	74.46	28.11
7.	Rs 100-500 Crore	1,097	15.63	15.33	16.84	74.62	28.98
8.	More than Rs 500 Crore	335	61.17	50.25	54.45	62.51	23.94
	All Companies	**6,08,836**	**100**	**100**	**100**	**76.08**	**26.89**

Table 2 profiles the sample companies across effective tax rates. It is noted that 3,45,566 companies with average effective tax rates up to 20 per cent accounted for 24.17 per cent of total profits before taxes, 9.39 per cent of total taxable income and 10.14 per cent of total taxes. In other words, a large number of companies (3,45,566 i.e. 56.76 per cent) contributed a disproportionately lower amount of taxes in relation to their profits. Interestingly, 39,121 companies accounting for 6.44 per cent of the total profits and 16.10 per cent of the total taxes, had an effective tax rate approximately equal to the average statutory rate of 34.38 per cent. 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 2016-17) (Sample size - 6,08,836)

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	2,75,176	3.61	0.76	0.67
2.	0-20	70,390	20.57	8.63	9.47
3.	20-25	24,619	28.00	17.99	23.49
4.	25-30	78,022	11.27	12.77	11.95
5.	30-33	1,03,596	30.12	43.75	39.61
6.	>33	39,121	6.44	16.10	14.81
7 .	Indeterminate (PBT = 0)	17,912	0.00	0.00	0.00
	Total	**6,08,836**	**100**	**100**	**100**

* 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 2016-17) (Sample size - 6,08,836)

Sl. No.	Sector	Number of Companies	Share in Total Profits (in %)	Share in Total Tax Liability (in %)	Effective Tax Rate (in %)
1.	Public#	215	19.59	18.57	25.48
2.	Private	6,08,621	80.41	81.43	27.23
	Total	**6,08,836**	**100.00**	**100.00**	**26.89**

* 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 28.73 per cent as compared to manufacturing sector 24.75 per cent. Both the sectors have an effective tax rate that is well below the average statutory rate of 34.38 per cent.

Table 4: Effective tax rate* of sample companies in the manufacturing and service sectors (Financial Year 2016-17) (Sample size - 6,08,836)

Sl. No.	Sector	Number of Companies	Share in Total Profits (in %)	Share in Total Tax Liability (in %)	Effective Tax Rate (in %)
1.	Manufacturing	1,24,205	46.32	42.64	24.75
2.	Service	4,84,631	53.68	57.36	28.73
	Total	**6,08,836**	**100.00**	**100.00**	**26.89**

* 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 2016-17 and 2017-18. The analysis is based on the corporate returns filed up to 30th November 2017, which constitute 90 per cent of the expected returns in the financial year 2017-18. As 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, 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 34.38 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 34.38 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 MAT on companies under the tax statute fastens a liability (for the financial year 2016-17, at the rate of 20.9 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 15 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 2016-17, the tax expenditure for the financial year 2017-18 has been projected. The estimation for 2017-18 has been made by multiplying the tax expenditure on each tax incentive in the financial year 2016-17 by the corporate tax growth in 2017-18 as per revised estimates. However, considering the fact that the depreciation rates have been rationalised by restricting it to 40 per cent and deduction/ weighted deduction for expenditure or scientific research is being phased out from financial year 2017-18, the estimates have been reduced by 12 per cent after normal scaling up. Further, as the deduction under section 35AC has been discontinued, no projection in respect of section 35AC has been made.

Table 5 depicts major tax expenditures on corporate taxpayers in terms of tax expenditure during the financial year 2016-17 and projection for the financial year 2017-18.

Table 5: Revenue Impact of Major Tax Incentives for corporate taxpayers during financial years 2016-17 and 2017-18 (Sample size 6,08,836)

Sl. No.	Nature of Incentive	Revenue Impact (in ₹ Crore) [2016-17]	Projected Revenue Impact (in ₹ Crore) [2017-18]
1.	Deduction of export profits of units located in SEZs (section 10AA)	19,695.99	21,882.02
2.	Accelerated Depreciation (section 32)	66,350.44	64,868.81
3.	Deduction/weighted deduction for expenditure on scientific research (section 35 (1), (2AA) &(2AB))	11,263.91	11,012.39
4.	Deduction for expenditure on eligible projects or schemes for the social and economic uplift of the public (section 35AC)	299.13	-
5.	Deduction in respect of specified business (section 35AD)	1,725.82	1,917.37
6.	Deduction on account of donations to charitable trusts and institutions (section 80G)	1,434.32	1,593.51
7.	Deduction on account of contributions to political parties (section 80GGB)	103.07	114.51
8.	Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA)	6,944.90	7,715.71
9.	Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA)	290.22	322.43
10.	Deduction of profits of undertakings engaged in providing telecommunication services (section 80-IA)	275.04	305.56

Sl. No.	Nature of Incentive	Revenue Impact (in ₹ Crore) [2016-17]	Projected Revenue Impact (in ₹ Crore) [2017-18]
11.	Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA)	11,688.31	12,985.58
12.	Deduction of profits of undertaking engaged in revival of power plant (section 80-IA)	151.73	168.57
13.	Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)	1,676.62	1,862.71
14.	Deductions of profits of eligible start-ups (section 80-IAC)	0.26	0.29
15.	Deduction of profits of industrial undertakings located in Jammu & Kashmir (section 80-IB)	143.50	159.42
16.	Deduction of profits of industrial undertakings located in industrially backward States other than Jammu & Kashmir (section 80-IB)	4.95	5.50
17.	Deduction of profits of industrial undertakings located in backward districts (section 80-IB)	0.87	0.96
18.	Deduction of profits of industrial undertakings derived from production of mineral oil and natural gas (section 80-IB)	1,876.22	2,084.46
19.	Deduction of profits of industrial undertakings derived from housing projects (section 80-IB)	65.27	72.51
20.	Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB)	16.45	18.28
21.	Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB)	31.37	34.85
22.	Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB)	278.81	309.76
23.	Deduction of profits of industrial undertakings derived from hospital in rural area (section 80-IB)	1.69	1.88
24.	Deductions of profits of undertakings engaged in developing and building housing projects (section 80-IBA)	26.93	29.92
25.	Deduction of profits of undertakings set-up in North Eastern States (section 80-IC)	804.72	894.04
26.	Deduction of profits of undertakings set-up in Sikkim (section 80-IC)	2,094.08	2,326.50

Sl. No.	Nature of Incentive		Revenue Impact (in ₹ Crore) [2016-17]	Projected Revenue Impact (in ₹ Crore) [2017-18]
27.	Deduction of profits of undertakings set-up in Uttarakhand (section 80-IC)		1,886.52	2,095.90
28.	Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC)		645.36	716.99
29.	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)		43.25	48.05
30.	Deduction in respect of employment of new workmen (section 80JJAA)		294.71	327.42
31.	Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Centre [IFSC](section 80LA)		69.04	76.70
32.	Deduction in respect of hotels ,convention centres in specified areas (section 80-ID)		0.90	1.00
	Total		**1,30,184.41**	**1,33,953.59**
	Less Additional Tax Liability on account of MAT	51,186.09		
	Reduced By MAT credit claimed	7,146.49		
	Net Additional Tax due to MAT	44,039.60	44,039.60	48,927.48
	Total Revenue Foregone		**86,144.82**	**85,026.11**

While the projected tax expenditure figure for financial year 2016-17 (exclusive of additional tax due to MAT payment) was estimated in the last year's statement to be ₹ 1,25,118.5 crores, it has now been actually calculated at ₹ 1,30,184.41 crore. Taking into account, the additional tax collected as a result of MAT, the actual revenue impact of tax incentives is higher at ₹ 86,144.82 crores against the tax expenditure of ₹ 83,492.03 crores projected in last year statement. Accelerated depreciation is the head under which the highest amount of tax incentive (₹ 66,350.44 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 production of mineral oil and natural gas accounted for a significant 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 Trading (Others) and Steel sector is at 12.12 per cent and 17.87 per cent respectively. Similarly, the effective tax rate for Sugar sector at 18.04 per cent is lower than average effective tax rate.

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

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 8,86,571 returns filed electronically upto 30th November, 2017 for income of the financial year 2016-17. For the purposes of estimating the tax expenditure, data pertaining to these 8,86,571 Firms/ AOPs/ BOIs was culled out from the database. They account for a substantial part of the tax paid by the universe of Firms/ AOPs/ BOIs in the financial year 2016-17.

The data was analysed and the following facts emerged:-

- The sample firms/ AOPs/ BOIs reported ₹ 4,51,334.16 crore as profits before taxes and declared a total income (taxable income) of ₹ 1,14,507.02 crores. Losses were reported by about 1,21,520 returns which is 13.71 per cent of the sample.

- These sample firms/ AOPs/ BOIs reported ₹ 37,894.08 crore as income tax payable [inclusive of education cess] for the financial year 2016-17.

The revenue impact of each tax concession claimed by the sample firms/ AOPs/ BOIs has been calculated by applying the income tax rate of 31.00 per cent (weighted average rate calculated taking rate of 30.90 per cent for firms having income less than one crore and 34.61 per cent for firms having income more than one crore) 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 31.00 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 the financial year 2016-17, the revenue impact for the financial year 2017-18 has been estimated. The estimation for 2017-18 has been done by calculating the ratio of income tax collections as per the Revised Estimates in 2017-18 to the actual income-tax collected in the year 2016-17 and then applying the same ratio to the tax expenditure on account of each tax incentive in 2016-17. However, considering the fact that the depreciation rates have been rationalised by restricting it to 40 per cent and deduction/ weighted deduction for expenditure or scientific research is being phased out from financial year 2017-18, the estimates have been reduced by 12 per cent after normal scaling up. Further, as the deduction under section 35AC has been discontinued, no projection in respect of section 35AC has been made.

Table 6 depicts the major tax expenditures on non-corporate taxpayers in terms of tax expenditure during the financial years 2016-17 and 2017-18. Like financial year 2015-16, the highest tax expenditure continues to be on account of deduction of profits of cooperative societies which accounts for 43.14 per cent of the total revenue impact. The tax expenditure on account of deduction of profits derived by undertakings in North Eastern States, Sikkim, Himachal Pradesh and Uttarakhand was 7.64 per cent of the total revenue forgone.

The total tax expenditure for non-corporate sector, i.e., Firms, AOPs/ BOIs for the financial year 2016-17 is worked out to be ₹ 4,847.28 crore. Table 6 depicts the major tax expenditures on non-corporate taxpayers in terms of tax expenditure during the financial years 2016-17 and 2017-18.

Table 6: Revenue Impact of Major Tax Incentives for non-corporate (Firms/ AOPs/ BOIs) taxpayers during the financial years 2016-17 and 2017-18

Sl. No.	Nature of Incentive	Revenue Impact (in ₹ Crore) [2016-17]	Projected Revenue Impact (in ₹ Crore) [2017-18]
1.	Deduction of export profits of units located in SEZs (section 10AA)	360.59	461.70
2.	Accelerated Depreciation (section 32)	1,278.66	1,440.73
3.	Deduction/weighted deduction for expenditure on scientific research (section 35 (1), (2AA) &(2AB))	8.22	9.27
4.	Deduction for expenditure on eligible projects or schemes for the social and economic uplift of the public (section 35AC)	10.57	-
5.	Deduction is respect of specified business (section 35AD)	57.61	73.76
6.	Deduction on account of donations to charitable trusts and institutions (section 80G)	93.12	119.23
7.	Deduction on account of contributions to political parties (section 80GGC)	5.57	7.13

Sl. No.	Nature of Incentive	Revenue Impact (in ₹ Crore) [2016-17]	Projected Revenue Impact (in ₹ Crore) [2017-18]
8.	Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA)	118.97	152.33
9.	Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA)	12.60	16.14
10.	Deduction of profits of undertakings engaged in providing telecommunication services (section 80-IA)	0.93	1.20
11.	Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA)	262.18	335.69
12.	Deduction of profits of undertaking engaged in revival of power plant (section 80-IA)	2.89	3.70
13.	Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)	30.56	39.12
14.	Deduction of profits of industrial undertakings located in Jammu & Kashmir (section 80-IB)	14.54	18.62
15.	Deduction of profits of industrial undertakings located in industrially backward States other than Jammu & Kashmir (section 80-IB)	0.14	0.18
16.	Deduction of profits of industrial undertakings located in backward districts (section 80-IB)	0.56	0.71
17.	Deduction of profits of industrial undertakings derived from housing projects (section 80-IB)	89.92	115.14
18.	Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB)	4.19	5.36
19.	Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB)	2.18	2.80
20.	Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB)	20.61	26.38
21.	Deductions of profits of undertakings engaged in developing and building housing projects (section 80-IBA)	1.15	1.47
22.	Deduction of profits of undertakings set-up in North Eastern States (section 80-IC)	98.57	126.21
23.	Deduction of profits of undertakings set-up in Sikkim (section 80-IC)	37.88	48.50
24.	Deduction of profits of undertakings set-up in Uttarakhand (section 80-IC)	95.49	122.26
25.	Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC)	138.50	177.34
26.	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	4.20	5.38

Sl. No.	Nature of incentive/deduction	Revenue Impact (in ₹ Crore) [2016-17]	Projected Revenue Impact (in ₹ Crore) [2017-18]
27.	Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Centre [IFSC] (section 80LA)	5.95	7.62
28.	Deduction in respect of hotels, convention centres in specified areas (section 80-ID)	0.52	0.67
29.	Deduction in respect of profits of cooperative societies (section 80P)	2,090.40	2,676.56
	Total	**4,847.28**	**5,995.22**

C. Individual/ HUF 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 more than 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 **3,14,44,307** returns filed electronically by individuals with the Income-tax Department till 30th November 2017. Apart from deductions under Chapter VI-A, the other major tax expenditure on individual taxpayers in the financial year 2016-17 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 **3,14,44,307** returns of income, the tax expenditure for the entire population of taxpayers has been estimated as under:-

(i) The revenue impact of higher basic exemption limits, as aforesaid (Sl. No. 24 and 25 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 2016-17. The total sample returns filed electronically with the Income-tax Department till 30th November, 2017 is **3,14,44,307**. The total number of returns filed by individuals/ HUFs for financial year 2016-17 is estimated to be 4,12,93,887 by assuming a growth rate of 5 per cent over the estimate of returns filed for the financial year 2015-16 which was 3,93,27,511. According to the sample returns, 11.78 per cent of the returns were filed by senior citizens and 0.68 per cent of the returns were filed by very senior citizens. Further, the revenue impact of 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 taxpayers above the general exemption limit of ₹ 2,50,000 and taking the rate of 5 per cent applicable for the income between ₹ 2.5 and ₹ 5 Lakhs for the financial year 2017-18.

(ii) Specifically, in the case of deduction under sections 80-IA, 80-IAB, 80-IB, 80-IC and 80-ID (Sr. No. 13 to 17 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 financial year 2016-17 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) firstly, 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, and

(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 2016-17.

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 2016-17, the tax expenditure for the financial year 2017-18 has been estimated. The estimation for 2017-18 has been done by calculating the ratio of the personal income tax collections as per the revised estimates for 2017-18 to the actual personal income-tax collected in the year 2016-17 and then applying the same ratio to the tax expenditure on account of each tax incentive in 2016-17. In case of revenue impact of rebate under section 87A, the projection is based on assumption of decrease in rebate under this section from existing ₹ 5,000 to ₹ 2,500 and allowance of the same up to income of ₹ 3.5 lakhs only instead of ₹ 5 lakhs and annual growth rate of 5 per cent in total number of taxpayers. Further, as the deduction under section 80CCG has been grandfathered, there would be no fresh claim in the financial year 2017-18, the projected revenue impact under this section has been calculated by reducing it by 10 per cent.

As detailed above, **Table 7** depicts the revenue impact of major tax incentives for individual/ HUF tax payers, in terms of tax expenditure, during the financial years 2016-17 and 2017-18.

Table 7: Revenue Impact of major tax Incentives for individual/ HUF taxpayers during the financial years 2016-17 and 2017-18

Sl. No.	Nature of Incentive/ Deduction	Revenue Impact (in ₹ Crore) [2016-17]	Projected Revenue Impact (in ₹ Crore) [2017-18]
1.	Deduction on account of certain investments and payments (section 80C)	45007.90	58932.86
2.	Deduction on account of contribution to certain pension funds (section 80CCC)	204.77	268.12
3.	Deduction on account of contribution to the New Pension Scheme (section 80CCD)	1493.17	1955.14
4.	Deduction on account of investment in RGESS(section 80CCG)	8.23	7.41
5.	Deduction on account of health insurance premium (section 80D)	1792.39	2346.94
6.	Deduction on account of expenditure for medical treatment of a dependent who is disabled (section 80DD)	406.37	532.10
7.	Deduction on account of expenditure for medical treatment of specified diseases (section 80DDB)	223.36	292.46
8.	Deduction on account of interest on loan taken for higher education (section 80E)	528.97	692.63
9.	Deduction on account of donations to charitable trusts and institutions (section 80G)	461.29	604.01
10.	Deduction on account of rent paid for housing accommodation (section 80GG)	434.56	569.01
11	Deduction on account of donations for scientific research or rural development (section 80GGA)	52.12	68.24
12	Deduction on account of contributions given to political parties (section 80GGC)	77.98	102.10
13	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)	63.33	82.92

Sl. No.	Nature of Incentive/ Deduction	Revenue Impact (in ₹ Crore) [2016-17]	Projected Revenue Impact (in ₹ Crore) [2017-18]
14	Deduction of profits of undertakings engaged in development of SEZs pursuant to SEZ Act, 2005 (section 80-IAB)	0.58	0.76
15	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)	22.70	29.73
16	Deduction of profits of undertakings set-up in North Eastern States, Sikkim, Uttarakhand and Himachal Pradesh (section 80-IC)	103.70	135.78
17	Deduction in respect of hotels, convention centres in specified areas (section 80-ID)	0.04	0.05
18	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	6.06	7.94
19	Deduction of royalty income of authors of certain books other than text books (section 80QQB)	11.98	15.69
20	Deduction of royalty income on patents (section 80RRB)	1.61	2.11
21	Deduction on account of interest in savings account (section 80TTA)	954.28	1249.52
22	Deduction in case of a person with disability (section 80U)	269.39	352.73
23	Rebate (section 87A)	10078.59	6598.40
24	Higher exemption limit for senior citizens	2090.84	1368.86
25	Higher exemption limit for very senior citizens	553.73	362.52
	Total	**64,847.93**	**76,581.41**

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-IA and section 80-IC of the Income-tax Act.

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 income tax return. The total number of electronically filed returns of such entities till 30th November, 2017, during the financial year 2017-18 is 1,37,869. The total amount applied by such entities for charitable and religious purposes in India is ₹ 3,33,972.41 crores.

APPENDIX

Effective tax rate, inclusive of surcharge and education cess, of sample companies across Industry (Financial Year 2016-17) (Sample size 6,08,836)

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	10,064	13,347.14	3,317.69	24.86
2.	Manufacturing Industry	Automobile and Auto Parts	4,630	67,077.94	18,880.26	28.15
3.	Manufacturing Industry	Cement	606	13,359.53	2,771.08	20.74
4.	Manufacturing Industry	Diamond Cutting	454	2,927.42	790.47	27.00
5.	Manufacturing Industry	Drugs and Pharmaceuticals	5,654	54,701.35	13,290.65	24.30
6.	Manufacturing Industry	Electronics including Computer Hardware	2,441	15,620.72	5,033.96	32.23
7.	Manufacturing Industry	Engineering Goods	9,671	42,812.63	12,217.87	28.54
8.	Manufacturing Industry	Fertilizers, Chemicals, Paints	3,802	26,872.54	7,516.88	27.97
9.	Manufacturing Industry	Flour and Rice Mills	1,512	1,131.36	313.41	27.70
10.	Manufacturing Industry	Food Processing Units	3,436	10,003.65	3,082.41	30.81
11.	Manufacturing Industry	Marble and Granite	1,976	617.92	193.02	31.24
12.	Manufacturing Industry	Paper	1,329	3,569.73	798.39	22.37
13.	Manufacturing Industry	Petroleum and Petrochemicals	629	1,33,861.41	28,506.84	21.30
14.	Manufacturing Industry	Power and Energy	5,834	56,465.46	12,447.69	22.04
15.	Manufacturing Industry	Printing and Publishing	2,527	6,597.47	2,242.88	34.00
16.	Manufacturing Industry	Rubber	885	1,068.95	315.29	29.50
17.	Manufacturing Industry	Steel	4,066	18,542.49	3,313.79	17.87
18.	Manufacturing Industry	Sugar	326	5,222.69	942.04	18.04
19.	Manufacturing Industry	Tea, Coffee	1,034	1,704.15	427.34	25.08
20.	Manufacturing Industry	Textiles, Handloom, Power looms	9,485	15,768.28	3,977.42	25.22
21.	Manufacturing Industry	Tobacco	259	17,548.90	5,600.44	31.91
22.	Manufacturing Industry	Tyre	133	6,918.55	1,688.75	24.41
23.	Manufacturing Industry	Vanaspati and Edible Oils	589	2,751.76	675.90	24.56
24.	Manufacturing Industry	Others	52,863	1,65,347.71	40,920.81	24.75
25.	Trading	Chain Stores	657	1,569.91	519.84	33.11
26.	Trading	Retailers	18,102	8,336.42	2,403.49	28.83
27.	Trading	Wholesalers	26,342	13,925.19	4,576.37	32.86
28.	Trading	Others	89,195	80,227.80	9,720.88	12.12
29.	Commision Agents	General Commision Agents	3,961	1,068.32	300.33	28.11
30.	Builders	Builders	19,349	8,015.24	2,243.04	27.98
31.	Builders	Estate Agents	3,502	402.60	81.52	20.25
32.	Builders	Property Developers	27,703	17,155.98	4,140.69	24.14
33.	Builders	Others	18,916	4,431.03	1,102.08	24.87
34.	Contractors	Civil Contractors	11,047	17,320.15	5,097.20	29.43
35.	Contractors	Excise Contractors	27	8.07	2.34	28.99
36.	Contractors	Mining Contractors	830	3,786.41	1,665.85	44.00
37.	Contractors	Others	11,892	9,109.51	2,478.13	27.20
38.	Professionals	Charted Accountants, Auditors, etc.	94	7.80	2.64	33.83

Sl. No	Sector	Industry	Number of Companies	Profit before tax (in ₹ crore)	Total tax (in ₹ crore)	Effective tax rate
39.	Professionals	Fashion Designers	90	40.20	10.24	25.48
40.	Professionals	Legal Professionals	364	36.61	10.49	28.66
41.	Professionals	Medical Professionals	2,037	537.42	165.49	30.79
42.	Professionals	Nursing Homes	1,077	378.60	117.41	31.01
43.	Professionals	Specialty Hospitals	1,443	1,627.39	487.46	29.95
44.	Professionals	Others	6,172	1,190.54	379.76	31.90
45.	Service Sector	Advertisement Agencies	3,155	2,370.86	788.22	33.25
46.	Service Sector	Beauty Parlours	355	47.67	9.99	20.95
47.	Service Sector	Consultancy Services	19,910	9,847.07	3,648.89	37.06
48.	Service Sector	Courier Agencies	570	607.99	249.85	41.09
49.	Service Sector	Computer Training/ Educational and Coaching Institutes	3,875	1,284.44	411.41	32.03
50.	Service Sector	Forex Dealers	995	161.89	43.27	26.73
51.	Service Sector	Hospitality Services	5,342	1,900.68	575.77	30.29
52.	Service Sector	Hotels	6,987	2,989.36	828.83	27.73
53.	Service Sector	IT enabled services, BPO service Provides	17,544	57,982.56	17,158.68	29.59
54.	Service Sector	Security Agencies	2,179	777.88	271.06	34.85
55.	Service Sector	Software development Agencies	14,158	1,04,783.02	25,899.87	24.72
56.	Service Sector	Transporters	4,842	8,859.08	2,339.97	26.41
57.	Service Sector	Travel Agents, Tour Operators	4,898	1,235.58	407.83	33.01
58.	Service Sector	Others	79,377	92,878.52	30,143.79	32.46
59.	Financial Service Sector	Banking Companies	245	1,10,060.94	47,647.94	43.29
60.	Financial Service Sector	Chit Funds	2,735	503.13	169.39	33.67
61.	Financial Service Sector	Financial Institutions	620	6,796.30	2,657.95	39.11
62.	Financial Service Sector	Financial Service Providers	2,574	16,814.20	4,880.71	29.03
63.	Financial Service Sector	Leasing Companies	517	2,885.56	619.65	21.47
64.	Financial Service Sector	Money Lenders	303	183.88	48.77	26.52
65.	Financial Service Sector	Non-Banking Finance Companies	8,501	71,610.57	23,221.24	32.43
66.	Financial Service Sector	Share Brokers, Sub-brokers, etc.	3,487	10,759.58	2,847.84	26.47
67.	Financial Service Sector	Others	15,524	45,499.63	12,946.49	28.45
68.	Entertainment Industry	Cable Television Productions	372	199.66	62.22	31.17
69.	Entertainment Industry	Film Distribution	321	2,103.15	452.65	21.52
70.	Entertainment Industry	Film Laboratories	36	19.55	5.27	26.98
71.	Entertainment Industry	Motion Picture Producers	692	1,146.41	400.85	34.97
72.	Entertainment Industry	Television Channels	375	3,705.90	1,023.02	27.61
73.	Entertainment Industry	Others	4,606	4,675.78	1,251.51	26.77
74.	Others	Others	36,736	60,692.80	11,189.66	18.44
	Total		**6,08,836**	**14,76,399**	**3,96,973**	**26.89**

Statement of Revenue Impact of Tax Incentives for Indirect Taxes for the period 2016-17 and 2017-18

Indirect Taxes

A. Customs duties

1.1 Customs duty is levied under the Customs Act, 1962 at rates specified in the First Schedule to the Customs Tariff Act, 1975 (commonly referred to as basic customs duty - BCD). 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-

(a) Additional duty of customs [sub-section (1) of section 3] (commonly referred to as countervailing duty or CV duty), and

(b) Additional duty of customs [sub-section (5) of section 3] (commonly referred to as SAD) levied at a rate of 4%.

1.2 These rates specified against individual tariff lines in the Customs Tariff Act, 1975 are commonly known as **"tariff rates"**. Further, the Customs Act, 1962 or the Finance Acts concerned delegate powers to the Central Government [under Section 25(1) of the Customs Act, 1962, which is also made applicable to duties levied under various Finance Acts], through notifications, to prescribe duty rates lower than the Tariff rates. The rates, prescribed through such exemption notifications, are referred to as **"effective rates"**.

1.3 Further, exemption notifications issued by the Government can be broadly classified into two types,

(a) Conditional exemption notifications; and

(b) Unconditional exemption notifications.

1.4 Unconditional exemptions prescribe effective rates of duty for a commodity, applicable to all imports of that commodity, without any conditions. In such cases, the tariff rates lose their significance, as all the imports of that commodity come at such prescribed effective rate. In other words, such unconditional exemptions in effect prescribe *de facto* Tariff Rates for the commodity concerned.

1.5 Moreover, India has entered into Free Trade Agreements, Comprehensive Economic Partnership Agreements, Comprehensive Economic Co-operation Agreements with a number of countries or group of countries, wherein in exchange of tariff concessions on Indian exports to such countries or group of countries, India has bound itself to similar tariff concessions on imports from such countries or group of countries. Similarly, India is also a signatory to the Information Technology Agreement-I [ITA-I], wherein India has bound itself to Nil tariffs on specified goods. These preferential tariffs are also prescribed through notifications issued under section 25 of the Customs Tariff Act, 1962. As these preferential tariffs are extended, as part of sovereign commitments, they are also to be taken as *de-facto* tariff rates for such imports.

1.6 Conditional exemptions, on the other hand, prescribe effective rates under certain specified circumstances, as against the higher tariff rate or the *de-facto* tariff rate, as discussed above. In such cases, only those imports, which full fill conditions prescribed for such rates, are eligible for such effective rates. As such, these exemptions result in revenue foregone vis-à-vis the relevant tariff rate or the *de-facto* tariff rate, as the case may be.

1.7 Till 2016-17 Budget, revenue impact of tax incentives on customs side was estimated by taking into consideration the effective rate prescribed under any exemption notification, that is both conditional or unconditional, vis-à-vis the tariff rates prescribed under the First Schedule of the Customs Tariff Act, 1975 or under the Finance Act concerned, following the formula as under, -

a) 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)

b) 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)

c) 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.

1.8 However, this methodology resulted in over estimation of revenue impact of tax incentives, as it treated both unconditional and conditional exemptions alike. As explained above, since the unconditional exemptions and exemptions extended towards sovereign commitments in effect prescribe *de facto* tariff rates, a more appropriate estimation of the revenue impact of tax incentives would be the revenue foregone on account of conditional exemptions only.

1.9 Accordingly, the analysis hereinafter considers such unconditional rates or preferential tariffs as de-facto tariff rates for the purposes of estimating revenue impact of tax incentives. This has been the methodology adopted since Budget 2017-18.

1.10 In addition, there are certain technical exemptions, such as those for re-imports of Indian origin goods, temporary imports for display, exhibitions, fairs, specific events, etc., imports of replacements under warranty, exemption to containers, exemption to goods sent for execution of approved projects, goods used in Antarctica expedition, etc. The revenue impact of these notifications has also been excluded for estimating the revenue impact of tax incentives.

1.11 World over exports are zero rated. India also zero rates its exports. There are many ways for zero rating exports, including extending exemptions on procurements of raw materials and inputs for or against exports. These also include notifications issued to implement the Foreign Trade Policy provisions. As such, these exemptions only provide for tax neutralization to exporters, to ensure that we do not export taxes. The revenue impact from these schemes has also been excluded while estimating the revenue impact of tax incentives.

1.12 Accordingly, the estimates of revenue impact of tax incentives on customs side do not include the, -

(a) revenue implications of unconditional BCD, CVD and SAD exemptions, including those exemptions where the conditional rate is same as general unconditional rate;

(b) revenue implications of preferential tariffs under various FTAs/CEPAs/CECAs;

(c) revenue implications of technical exemptions, such as exemptions on re-imports, temporary imports, etc.; and

(d) revenue implication of tax neutralization notifications for exports.

1.13 Estimate of total revenue impact under various exemption notifications is based on the data generated from the Bills of Entry filed by the 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 extrapolation is made to arrive at the total revenue impact of tax incentives. Total revenue impact estimates also take into account the exemptions from BCD and CV duty and also exemption notifications issued under the Central Excise Act, 1944, which have a bearing on CVD to be paid.

1.14 As per the new methodology, the revenue implication of tax incentives on the customs side is calculated as below, -

(a) revenue impact of all exemptions for various chapters calculated based on EDI data (after making corrective adjustments);

(b) from such estimates, the revenue impact of tax incentives captured in the EDI on account of certain duties, which are no longer levied viz. the Additional Duty on Goods of Special Importance [GSI] (exempt from March, 2006), the Additional Duty on Textiles and Textile Articles [TTA] (exempt from July, 2004) and Special Excise Duty [SED] (exempt from March, 2006) are deducted;

(c) from the estimate arrived at (b) above, the total BCD and CVD foregone on account of unconditional exemptions (including FTAs/PTAs/ITA etc.) is deducted;

(d) from such estimates the revenue foregone on account of technical exemptions, like those for re-import or re-exports are deducted;

(e) these estimates are then extrapolated to reflect both EDI and non-EDI clearances.

(f) from such estimates at (d) above, the revenue foregone on account of input tax neutralization schemes is deducted to arrive at the final revenue impact of tax incentives.

1.15 Above methodology has been adopted for calculation of duty forgone on account of basic customs duty [BCD] for the year 2017-18. In this regard it is to state that with implementation of GST, CVD and SAD exemptions have been withdrawn with effect from 01.07.2017. Hence, the impact of tax incentives on customs side for the financial year 2017-18 covers duty foregone on account of BCD only. Duty forgone on account of CVD and SAD exemptions till June 2017 and IGST have also been not included for the year financial year 2017-18.

1.16 Based on the above methodology, the revenue impact of tax incentives on customs side for the year financial years 2016-17 and 2017-18 works out as under:

a) For 2016-17, EDI captured 96.3% of the actual reported gross customs revenue. As per EDI data, the total customs revenue impact of tax incentives for 2016-17 (after making corrective adjustments) works out to Rs. 3,20,481 crore. After deducting the revenue impact of unconditional BCD and CVD exemptions, technical exemptions and FTAs/CEPAs/CECAs, the revenue impact of tax incentives for 2016-17 comes to Rs.1,28,788 crore. Extrapolation of this for details not captured by EDI, the customs revenue impact for the whole year 2016-17 comes to Rs 1,33,707 crore.

b) For 2017-18 [April 2017 to September 2017], the EDI captured 91.20% of the gross customs revenue. As per EDI data, the total estimated customs revenue impact of tax incentives [on account of basic customs duty] for 2017-18 (after making corrective adjustments) comes to Rs. 1,97,712 crore. After reducing the revenue impact of unconditional BCD and exemptions for FTAs/CEPAs/CECAs, the estimated revenue impact of tax incentives [on account of BCD] for 2017-18 comes to Rs. 51,676 crore. After extrapolation, for data not captured by EDI, the estimated customs revenue impact [on account of BCD only, since with effect from 1st July, 2017 CVD and SAD are subsumed in GST] for the year 2017-18 comes to Rs. 56,683 crore.

1.17 These estimates, however, include revenue impact of tax incentives of various export promotion schemes other than from drawback. The break-up of revenue impact from individual export promotion schemes is given below. Out of these schemes, Duty Free Entitlement Credit Certificate, Target Plus, Vishesh Krishi and Gram Udyog Yojana (VKGUY), Served from India, Focus Market / Product and Merchandise exports from India Scheme (MEIS) 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 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 of these schemes has been excluded while estimating revenue impact of tax incentives on the customs side, as indicated in **Table 8** hereunder.

Table 8 : Revenue impact on account of Export Promotion Concessions

(Rs in Crore)

S.No.	Name of the Scheme	2016-17	2017-18 (Annualised)
1	Advance Licence Scheme	29,339	10,679
2	EOU/EHT/STP	9,073	3,400
3	EPCG	9,850	2,300
4	DEPB Scheme	16	3
5	SEZ	9,877	3,567
6	DFRC	0.33	0
7	Duty Free Import Authorisation Scheme	452	354
8	Duty Free Entitlement Credit Certificate	251	183
9	Target plus schemes	530	0
10	Vishesh Krishi and Gram Udyog Yojana	213	20
11	Service Export Incentive Scheme	772	1,809
12	Focus Market/Product Scheme	3,861	461
13	Merchandise Exports from India Scheme	12,746	13,937
	TOTAL	**76,980**	**36,710**
14	Less revenue impact on incentive schemes maintained at S. Nos. 8 to 13	18,373	16,408
15	Revenue impact on account of input tax neutralization or exemption schemes to be reduced from gross revenue impact on account of customs duty	58,607	20,302

1.18 These aforesaid estimates or 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.

1.19 Table below summarize the calculations for determining the revenue impact of tax incentives under customs duty regime during **2016-17**

S. No.	Head	Formula	Amount (Rs crore)
A	Net revenue impact of tax incentives as per EDI data (after making corrective adjustments)	-	3,20,481
B	Revenue impact on account of unconditional BCD exemptions including FTAs/CEPAs/CECAs	-	1,53,976
C	Revenue impact on account of unconditional CVD exemptions	-	35,117
D	Revenue impact on account of unconditional SAD exemptions	-	2,600
E	Revenue impact on account of total unconditional exemptions	B+C+D	1,91,693
F	Revenue impact of tax incentives as per EDI data [conditional exemptions]	A-E	1,28,788
G	Extrapolating to cover both EDI and non-EDI locations	Fx100/f*	1,33,707
H	Net duty foregone on account of input tax neutralization schemes	-	58,607
I	**Final revenue impact of tax incentives**	G-H	**75,100**

* **f** is the extrapolation factor to cover non-EDI data. The EDI has captured 96.30% of the actual reported gross customs revenue collection in 2016-17.

1.20 Table below summarize the calculations for determining the estimated revenue impact of tax incentives [on account of BCD only] under customs duty regime during **2017-18**

S. No.	Head	Formula	Amount (Annualized based on data from April to Sept 2017) Rs crore
A.	Net revenue impact of tax incentives on account of BCD as per EDI data (after making corrective adjustments)	—	1,97,712
B.	Revenue impact on account of unconditional BCD exemptions including FTAs/CEPAs/CECAs	—	146036
C.	Revenue impact of tax incentives [on account of BCD] as per EDI data	A-B	51,676
D.	Extrapolation to cover both EDI and non-EDI locations.	Cx100/f*	56,683
E.	Net duty foregone on account of input tax neutralization schemes	—	20,302
F.	**Actual Duty Foregone**	D-E	**36,381**

* **f** is the extrapolation factor to cover non-EDI data. The EDI has captured 91.20% of the actual reported gross customs revenue collection in 2017-18.

1.21 Revenue implication of preferential rates under Free Trade Agreement [FTA] notifications (BCD only) [excluding ITA] during 2016-17 and 2017-18 are as under:

Rs. crore

S.No.	FTA notification	2016-17	2017-18 (Annualized)
1.	Effective rate of duty for specified goods imported from ASEAN	5,738	8,845
2.	Effective rate of duty for specified imports from Korea	3,470	8,872
3.	Concessional rate of duty for imports from Japan	1,988	2,678
4.	Exemption to specified goods imported from Nepal	713	612
5.	Effective rate of duty for specified imports from Malaysia	664	956
6.	Exemption to import of specified goods from Thailand	473	579
7.	Effective rate of duty for specified imports from Singapore	452	581
8.	Others	530	636
9	**Total**	**14,028**	**23,759**

Amount in columns 3 and 4 are after extrapolation by factor of 96.30% and 91.20% to cover non-EDI data for the year 2016-17 and 2017-18 respectively.

1.23 Revenue impact of tax incentives during 2016-17 and Revenue impact of tax incentives during 2017-18 are not comparable, as that during 2016-17, the revenue impact of tax incentives is on account of BCD, CVD and SAD, whereas the estimate of revenue impact of tax incentives during 2017-18 is on account of BCD only [CVD and SAD having been subsumed in GST, with effect from 1st July, 2017].

B. **Central Excise**

2.1 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 also specify the rate at which the excise duty is levied on specified goods. These rates specified in various enactments are commonly referred to as **"Tariff rates"** of excise duty.

2.2 As in case of Customs, the Central Excise Act, 1944 or the Finance Acts concerned also delegate powers to the Central Government [under Section 5A (1) of the Central Excise Act, 1944, which is also made applicable to duties levied under various Finance Acts], through notifications, to prescribe duty rates lower than the Tariff rates. The rates, prescribed through notifications, are commonly referred to as **"effective rates"**.

2.3 As in the case of customs, the central excise exemption notifications can also be broadly classified into two types,

(a) Conditional exemption notifications; and

(b) Unconditional exemption notifications.

2.4 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 taken into consideration for estimating the revenue impact of tax incentives figures.

2.5 Till 2016-17 Budget, revenue impact of tax incentives on central excise side was also estimated by taking into consideration the effective rate prescribed under any exemption notification, whether conditional or unconditional, vis-à-vis the tariff rates prescribed under the First Schedule of the Customs Tariff Act, 1975 or under the Finance Act concerned, following the formula as under, -

(a) 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)

(b) 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)

(c) 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.

2.6 In 2017-18 Budget, the methodology to calculate the revenue impact of tax incentives on the Central Excise was also modified, considering rates prescribed under unconditional notifications as *de facto* tariff rates. The same methodology has been adopted for arriving final revenue impact of tax incentives in central excise for the year 2016-17. As excise duty [except that on tobacco products, crude petroleum oil, natural gas, petrol and diesel] has been subsumed in GST, the revenue impact of tax incentives for excise is being discontinued from 2017-18 onwards.

2.7 Automation of Central Excise & Service Tax (ACES) system is in operation in all the Central Excise formations. However, the ACES data does not capture details, where all goods manufactured by a manufacturer are fully exempt from excise duty, and to that extent the estimates of revenue forgone based on this data result in under estimates of revenue impact of tax incentives. Estimate of total revenue impact of tax incentives in central excise is based on ACES data, which essentially captures the data contained in returns filed by assessees. The revenue impact due to the operation of area based exemption schemes has been obtained separately from the Central Excise Zones concerned.

2.8 Two types of area-based exemptions were in operation during 2016-17, namely, –

(a) Based on refund mechanism (for the North East Region and J & K), and

(b) Outright exemption (for Himachal Pradesh and Uttarakhand).

In case of exemption operating through refund-based mechanism, revenue impact of tax incentives is computed by aggregating the refunds actually sanctioned to the individual units or claimed by them during the year. For outright exemptions, revenue impact is calculated using the difference between the general effective rate and the duty actually paid at Nil rate on value added by units availing such exemption.

2.9 Accordingly, the total revenue impact of tax incentives for the financial year 2016-17 comes to Rs.1,71,824 crore, Rs. 48,191 crore on account of conditional exemptions, Rs. 1,00,660 crore on account of unconditional exemptions and Rs. 22,973 crore on account of area based exemptions. After reducing the revenue impact of unconditional excise duty exemptions, the revenue impact of tax incentives for 2016-17 comes to Rs. 71,164 crore.

3. The revenue impact of indirect taxes is summarized as under:

Revenue impact of tax incentives (Indirect Taxes) in financial years 2016-17 and 2017-18

Rs. crore

	Revenue impact of tax incentives in 2016-17	**Revenue impact of tax incentives in 2017-18 (Estimated)**
Customs Duty	75,100	36,381
Central Excise Duty	71,164	-
Total	**1,46,264**	**36,381**

4. The revenue impact of exemptions under GST would be provided from Budget 2019-20 onwards.