ANNEX - 12

Tax Expenditure under the Central Tax System: Financial Year 2004-05

The main objective of any tax system is to raise revenues necessary 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 faced 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.

This document seeks to list the revenue impact of tax incentives or tax subsidies that are a part of the tax system of the Central Government. In order to determine the tax expenditures, it is necessary to establish a "benchmark" tax structure that applies the relevant tax rates to a broadly defined tax base - e.g. personal income, business income, imports or production. Tax expenditures are then measured as deviations from this benchmark. Reasonable differences of opinion exist about what should be considered a normal part of the tax system and hence about what should be considered tax expenditure. This issue has been addressed by attempting to estimate the revenue loss only in respect of major items of tax preferences over which there is no ambiguity. The estimates are for financial year 2004-05, the last year for which the data are available.

In general, the estimates of 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, incentives, weighted deductions and similar measures. The estimates are based on the short term impact analysis. They are developed assuming that the underlying tax base would not be affected by removal of such measures. To the extent 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.

(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. Strictly, the interactive compounded 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 the methodology adopted to estimate each of the tax preferences are indicated in the relevant section.

Direct taxes

The Income-tax Act, inter-alia, provides for tax preferences to promote savings by individuals, exports, balanced regional development, creation of infrastructure facilities, scientific research and development, and co-operative sector and accelerated depreciation for capital investment. Most of these tax benefits can be availed of by both corporate and non-corporate taxpayers.

The last exhaustive list of incentives under the Income-tax Act appeared in the Report of the Advisory Group on Tax Policy and Tax Administration for the Tenth Plan, Planning Commission, May 2001, Appendix 4.1. While some of those incentives have since been rescinded, others have been enacted. Here it is attempted to estimate the tax expenditures on the major items.

a. Corporate sector

Since large business is organized as companies, the tax expenditure on companies is large. For the purposes of estimating the tax expenditure, a list of about 9000 companies from the database of Centre for Monitoring the Indian Economy (CMIE) was sent to the field formations seeking tax-related information in respect of the financial year 2003-04 (assessment year 2004-05). Information was received in respect of about 2600 companies on random basis, from different tax centres in Mumbai, Delhi, Ahmedabad, Chennai, Bangalore and Pune. This tax-related information was plotted against the financial results of these companies. After cleaning the data of inconsistencies, the sample size was reduced to 1689 companies from different sectors. These sample companies reported Rs 1,02,325 crores as profits before taxes (excluding losses reported by companies) but declared a total income (hereafter referred to as "taxable income") of Rs 50,735 crores only. These companies paid Rs. 19,816 crores as corporate tax during the financial year 2003-04. Therefore, the sample companies account for 30.14 percent of voluntary tax payment of Rs. 65,753 crores (i.e., aggregate of tax deduction at source and advance tax) during the year.

Table 1 profiles the sample companies across profit range. Companies with profits above Rs. 500 crores accounted for 73.5 per cent of the total profits of the sample companies but their share in the total taxes was only 60.70 per cent at an effective tax rate of 15.99 per cent. This was substantially lower than the effective tax rate of 19.37 per cent for the sample companies and the statutory tax rate of 35.875 per cent. Further, 593 companies with profits less than or equal to zero contributed 9.23 per cent of the total taxes.

TABLE - 1: Profile of sample companies across profit range

Sl.No.	Profits before tax	Number of companies	Share in total profits	Share in total taxes	Effective rate of tax
1.	Less than Zero	380	0	7.54	Infinity
2.	Zero	213	0	1.84	Infinity
3.	0 - 5 lakhs	52	0.001	0.09	13.32
4.	5 lakhs - 10 lakhs	33	0.002	0.003	24.90
5.	10 lakhs - 25 lakhs	68	0.01	0.01	16.90
6.	25 lakhs - 50 lakhs	74	0.03	0.05	40.62
7.	50 lakhs - 1 crore	90	0.06	0.14	41.44
8.	1 crore - 5 crore	269	0.644	0.78	23.39
9.	5 crore - 10 crore	104	0.73	0.90	24.06
10.	10 crore - 25 crore	148	2.34	2.66	22.04
11.	25 crore - 50 crore	88	3.10	4.14	25.86
12.	50 crore - 100 crore	66	4.70	4.34	17.89
13.	100 crore - 500 crore	65	14.87	16.79	21.86
14.	Above 500 crores	39	73.50	60.70	15.99
15.	All Sample Companies	1689	100	100	19.37

Table 2 profiles the sample companies across effective tax rate. Companies within average effective rate of less than 20 per cent accounted for 55.8 per cent of the total income but only 19.95 per cent of the total taxes paid by all the sample companies. In other words, a large number of companies contributed disproportionately lower amount in taxes in relation to their profits. Further, 534 companies comprising 8.8 per cent of the total income contributed 30.77 per cent of the total taxes. 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 effective tax rate

Sl.No.	Effective tax rate	Number of companies	Share in total income	Share in total taxes
1.	Less than or equal to 0	327	4.1	0.0
2.	0 - 5	145	16.2	2.26
3.	5 - 10	205	24.5	8.98
4.	10 - 15	78	6.7	4.61
5.	15 - 20	63	4.3	4.10
6.	20 - 25	77	16.0	17.99
7.	25 - 30	103	7.4	10.69
8.	30 - 35	113	8.2	13.66
9.	35 - 36.59	44	3.7	6.94
10.	>36.59	150	8.8	21.39
11.	Indeterminable	384	0.0	9.38
	TOTAL	**1689**	**100**	**100**

The tax foregone on each tax concession/preference claimed by the sample companies has been estimated by applying the corporate tax rate of 36.59 per cent on the amount of deduction. The ratio of tax foregone to actual tax paid by the sample companies has been separately computed for each tax concession/preference and applied to the total voluntary tax payments by all corporate tax payers to estimate the total tax foregone on each such tax concession/preference.

The tax foregone in respect of export profits has been computed through an indirect method. The revenue foregone on exports from Software Technology Parks, 100 percent EOUs and Special Economic Zones is estimated in the manner detailed below:—

(i) **Software Technology Parks -** The tax return data of sample companies have been used to estimate the profit margin on exports by units located in software technology parks. Such profits are estimated in the range of 27 percent to 30 percent. However, keeping in view the profit margin of the sample companies, the profit-margin on exports from this sector is assumed to be 25 percent. This profit ratio has been applied to the total exports of software and information technology services during the financial year 2004-05 (figures for which have been obtained from NASSCOM sources) to estimate the aggregate profits from the total exports of software and IT services. The revenue foregone has been estimated by applying the tax rate of 36.59 percent for the relevant year to such aggregate profits.

(ii) **Special Economic Zones -** The estimate of revenue foregone on account of export profits derived by units located in Special Economic Zones is based on the same method as adopted in the case of Software Technology Parks. However, the profit from exports from the Special Economic Zones has been estimated to be 20%. The export figures for financial year 2004-05 have been taken from the website www.sezindia.nic.in.

(iii) **Export Oriented Units -** The estimate of revenue foregone on account of export profits derived by 100% Export Oriented Units is based on the same method as adopted in the case of Special Economic Zones.

Section 80-IA of the Income-tax Act, 1961 provides for deduction in respect of profits derived from development of infrastructure facilities, SEZs and Industrial Parks, generation of power, and providing telecommunication services. Similarly, section 80-IB of the Income-tax Act, 1961 provides for deduction in respect of profits derived from housing projects, production of mineral oil, development of scientific research, integrated business of handling, storage and transportation of food grains, and industries set up in backward areas. The revenue foregone on account of these tax benefits has been estimated separately by adopting the proportionate assignment method described above. The same method has been adopted for estimating revenue foregone on account of section 80-IC.

The Income-tax Act, 1961 provides for depreciation calculated on the written down value at accelerated rates. These rates are substantially higher than what is permissible under the Companies Act, 1956. Consequently, in terms of the accounting standards prescribed by the Institute of Chartered Accountants of India, every company is required to report its deferred tax liability. The revenue foregone on account of accelerated depreciation has been computed by applying the ratio of the deferred tax liability to actual tax paid by the sample companies, to the total voluntary tax payments by all corporate taxpayers during 2004-05.

Section 35(2AB) of the Income-tax Act, 1961 provides for a weighted deduction of 150 per cent for both capital and revenue expenditure incurred on scientific research and development in certain specified sectors. The expenditure on scientific research and development by the sample companies is Rs. 500 crores towards capital expenditure and Rs. 2183 crores towards revenue expenditure during the financial year 2004-05. The total deduction allowable under section 35 (2AB) in respect of such expenditure is Rs. 4025 crores. Ordinarily, depreciation at an estimated rate of 15 per cent on capital expenditure on scientific research and development and 100 per cent in respect of revenue expenditure would have been allowable. Therefore, the deduction under the Income-tax Act is higher by Rs. 1767 crores, thereby conferring a tax benefit of Rs. 634 crores to the sample companies. The ratio of this tax benefit to the actual taxes paid has been applied to the total voluntary payments made by the corporate sector in the year 2004-05 and further scaled back by 25 per cent to adjust for sample bias, if any, to determine the amount of revenue foregone.

Table 3 lists the major tax expenditure (in terms of revenue loss) on the corporate taxpayers during the financial year 2004-05.

Table-3 : Major tax expenditure on corporate tax payers during financial year 2004-05

S.No.	Nature of Incentive/deduction	Revenue foregone (Rs. in crs.)
1.	Export profits of software producing units located in Software Technology Parks (section 10A)	7080
2.	Export profits of units located in Special Economic Zones, including Export Processing Zones and Free Trade Zones (section 10A)	1340
3.	Export profits of units located in Export Oriented Units (section 10B)	2320
4.	Profits derived from development of infrastructure facilities, SEZs and Industrial Parks, generation of power, providing telecommunication services (section 80-IA)	5832
5.	Profits derived from housing projects, production of mineral oil, development of scientific research, integrated business of handling, storage and transportation of food grains, industries set up in backward areas (section 80-IB)	11523
6.	Profits derived by units set up in Special category States like North-Eastern States, Uttaranchal, Himachal Pradesh and Jammu and Kashmir (section 80-IC)	362
7.	Accelerated depreciation (section 32)	27077
8.	Weighted deduction for scientific research and development [section 35(2AB)]	2318
	TOTAL	**57852**

There are a number of other deductions available to the corporate sector. In particular, these deductions relate to—

(i) donations to charitable trusts and institutions (section 80G)

(ii) donations to institutions, universities or colleges, for the purposes of scientific or social science or statistical research [section 35(1)]

(iii) donations to political parties (section 80GGB);

(iv) expenditure on projects or schemes for promoting the social and economic welfare of, or the uplift of, the public, and recommended by the National Committee;

(v) concessional tax regime for shipping industry.

The information relating to revenue foregone in respect of the aforesaid tax preferences is currently not available and, therefore, cannot be furnished in this report.

b. Co-operative sector

Section 80 P of the Income-tax Act allows a deduction of the whole of the amount of profits and gains of a co-operative society attributable to the activity of carrying on the business of banking or providing credit facilities to its members. The three broad categories of co-operative banks availing of this deduction are:—

- Urban Co-operative Banks
- State Co-operative Banks
- Central Co-operative Banks

The Directorate of Income Tax (Research) carried out a study on the revenue implication of deduction under section 80 P in the case of Urban Cooperative Banks and brought out its findings in a report in March 2002. The report concluded that the revenue loss on account of allowing this deduction to Urban Co-operative Banks amounted to Rs. 872 crore in F.Y 1999-2000 and Rs. 982 crore in F.Y 2000-01. The revenue loss calculated for all Urban Co-operative Banks is equivalent to 20 per cent of the gross income of Scheduled Urban Co-operative Banks (UCBs).

Assuming that the ratio of incomes of scheduled and unscheduled UCBs remained unchanged, the revenue loss on account of this deduction for all UCBs has been worked out at 20% of the income of Scheduled UCBs for F.Y 2004-05.

In the case of State Co-operative Banks, the revenue loss has been worked out by calculating the revenue loss in the case of Scheduled UCBs as a percentage of the income of Scheduled UCBs and then applying the same percentage to the income of such State Co-operative Banks. For Central Co-operative Banks also the same methodology has been adopted.

The income of Scheduled UCBs for F.Y 2004-05 has been taken from the Report of the Reserve Bank of India. For State and Central Cooperative Banks, the income for 2004-05 was not available. However, the incomes for 2002-03 and 2003-04 were available in the same report and the income for 2004-05 has been estimated by following the trend of the previous two years. Accordingly, the gross revenue loss in F.Y. 2004-05, on account of deduction under section 80 P, has been estimated at Rs. 1534 crores (Table 4).

Table-4: Tax expenditure on co-operative taxpayers during financial year 2004-05

S.No.	Nature of Incentive/deduction	Revenue foregone (Rs. in crs.)
1.	Profits of cooperative banks other than primary agricultural credit societies, from banking activities.	1534
2.	Profits of primary agricultural credit societies from banking activities.	N.A.
3.	Profits of other primary cooperative societies from milk, marketing of agricultural produce, etc.	N.A.
	TOTAL	**1534**

c. Individual taxpayers

The task force on direct taxes set up by the Government on 6th September, 2002, had constructed a typical tax payer profile for different income groups based on income-tax return data of 9.25 lakh individual tax payers from the city of Mumbai, which accounts for 35 per cent of the country's direct tax collections. The data related to four assessment years: 1998-99, 1999-2000, 2000-01 and 2001-02. The sample data for the four years was segregated into two categories, i.e. salaried and non-salaried taxpayers. For every income group and category, a typical taxpayer profile for each of the four assessment years was separately obtained. Thereafter, the four-year average of such profiles for each income group was determined to obtain a typical taxpayer profile for all income groups for the purposes of revenue estimation. The typical tax payer profile developed by the task force on direct taxes, has been adjusted to reflect subsequent changes in the tax legislation. The tax expenditure on the individual taxpayers during the financial year 2004-05, has been estimated on the basis of the adjusted profile during the relevant year. Table 5 lists the major tax expenditure (in terms of revenue loss) on the non-corporate tax payers during the financial year 2004-05.

Table-5: Major tax expenditure on non-corporate tax payers during the financial year 2004-05

S.No.	Nature of Incentive/deduction	Revenue foregone (Rs. in crs.)
1.	Tax rebate for investment in specified savings instruments.	6568
2.	Tax rebate for senior citizens.	1446
3.	Tax rebate for women.	2121
4.	Interest income on securities, deposits with banks, etc.	1560
	TOTAL	**11695**

Indirect Taxes

a. Excise duty

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 excise duty should be levied. The rates specified in various enactments are known as the 'tariff rates' of excise duty. Government has been delegated powers under Section 5A(1) of the Central Excise Act, 1944 to issue notifications in public interest to prescribe duty rates lower than what are prescribed in the Schedule. These rates prescribed by notifications are known as the 'effective rates'.

Accordingly, the revenue foregone is the difference between duty that would have been payable but for the issue of the notification, and the actual duty paid in terms of the relevant notification. Therefore:

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

Duty foregone is, thus, zero if the tariff rate is equal to the effective rate.

information relating to the value of clearances has been obtained from periodic returns filed by the duty paying units in respect of clearances made by them, and the duty paid. However, the data are not comprehensive.

Units which make only exempted goods are not registered, and are not required to file any returns with the department. As such, no data are available in respect of clearances by such units. To this extent the revenue foregone is underestimated. However, units which make both dutiable and exempted goods file returns in respect of clearances of exempted goods also. In respect of such units, it has been possible to work out the revenue foregone even in respect of exempted items. Therefore, the data relating to duty foregone cover the following:

- Duty foregone on items which attract a non zero effective duty prescribed under a notification; and
- Duty foregone on a fully exempted good, if the unit manufacturing such goods also makes dutiable goods.

The data generated by the excise department are captured by SERMON, a system that compiles returns received from the Commissionerates. In 2004-05, SERMON data captured gross revenue of Rs. 95,048 crore representing 93 per cent of the actual gross revenue collection of Rs. 104,427 crore. This has been blown up to 100 per cent by assuming that the same pattern of coverage also applies to the remaining 7 per cent. The duty-foregone statement, therefore, has been inflated proportionately to estimate the total revenue foregone. Subject to the limitations discussed above, excise duty foregone during 2004-05 on account of exemption notifications is estimated at Rs.12,431 crore.

Obviously, the revenue foregone is understated for the reasons mentioned above. From other sources, information has been collected to estimate the revenue foregone in respect of certain major exemptions (Table 6).

Table; 6: Estimate of major tax expenditure under the excise duty regime

S.No.	Details of Exemption	Estimated revenue foregone (Rs. in crores)
1.	Small Scale Industries Exemption[1]	11,316
2.	Fertilizers [2]	4,000
3.	Area based exemptions applicable in North Eastern States, J&K, Uttaranchal, Himachal Pradesh and Kuchchh District of Gujarat. [3]	1,502
4.	50% exemption from all duties of excise for North East Oil refineries.	1,200
	TOTAL	**18018**

Notes

1. As per a Study conducted by the National Institute of Public Finance & Policy (NIPFP).
2. Estimated on the basis on Crisil Research & Information Services Limited data bank. During 2004-05 sales turnover of 14 major fertilizer Companies was about Rs. 25,573 crore.
3. On the basis of Department records.

The estimates of revenue foregone presented in Table 6 do not include revenue foregone on account of ad hoc exemption orders issued under Section 5A (2) of the Central Excise Act, 1944, that tend to relate to circumstances of an exceptional nature.

b. Customs duty

Customs duty is levied as per the rates specified in the Schedule to the Customs Tariff Act, 1975. 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. As already indicated, these duties of excise are levied under various Finance Acts, which specify the rates at which they should be levied. The rates specified in various enactments are known as the 'tariff rates'. The Central Government has been delegated powers under Section 25A(1) of the Customs Act, 1962 to issue notification in public interest to prescribe duty rates lower than what are prescribed in the Schedule. These rates prescribed by notifications are known as the 'effective rates'.

In the context of customs duty, the revenue foregone is the difference between duty that would have been payable but for the issue of the notification, and the actual duty paid in terms of the relevant notification. In sum:

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

Duty foregone is, thus, zero if tariff rate is equal to the effective rate.

The estimate of the revenue foregone for 2004-05 on account of issue of various exemption notifications, is based on the data generated from bills of entry filed in the Indian Customs Electronic Data Interchange System (ICES) at 20 Electronic Data Interchange (EDI) locations. The EDI data, however, are not complete, as certain ports fall outside EDI. Besides, the EDI data did not capture bills of entry in respect of imports by EOUs, warehouse bills of entry, and where manual bills of entry are filed in EDI locations.

The revenue foregone takes into account exemptions from basic customs duty, CV duty and also exemption notifications issued under the Central Excise Tariff Act, 1985, which are relevant for levy of CV duty. Though, generally, the tariff rates should be taken into account for working out the revenue foregone, some exceptions have been made because of the software used by the ICES.

In the case of industrial goods (non-agricultural goods), the peak effective rate was generally 20% upto 28.2.2005 and 15% from 1.3.2005 onwards. Though with effect from 1.3.2005, the peak rate was generally put as the tariff rate, this was not so during the period 1.4.2004 to 28.2.2005. For the purpose of revenue foregone for industrial tariff in general, this peak effective rate has been deemed to be the tariff rate. To illustrate,

Case 1: Tariff rate was 30 per cent. Notification No. 5/2004 prescribes a universal effective rate of 20 per cent for non-agricultural goods. Goods were imported at 20 per cent under this universal effective rate. The revenue foregone has been taken as Nil.

Case 2: Tariff rate was 30 per cent. A lower universal effective rate (5 per cent) has been prescribed for some industrial goods. Revenue foregone has been calculated as Value X (20 per cent - 5 per cent) or Value X (15 per cent - 5 per cent), depending on whether 20 per cent or 15 per cent was the prevailing peak rate.

However, for agricultural items, the revenue foregone has been calculated with reference to the tariff rate.

For 2004-05, gross customs revenue captured by EDI data is Rs. 35,364 crore as against actual gross revenue collection of Rs. 58,867 crore. EDI data thus represents about 60% of actual reported gross revenue collection for 2004-05. Therefore, the revenue foregone estimates are based on a fairly large sample.

EDI data have been blown up to work out the estimated revenue foregone for the year 2004-05, with appropriate adjustments wherever required. It has been seen that EDI data coverage is particularly low for edible oils and petroleum crude and products, as the major imports of these commodities were through ports, which were not under EDI at the relevant time. Data on actual revenue realized from petroleum and edible oils have been collected separately. When the actual revenue from these two commodities is added to EDI data, the coverage went up to Rs.49655 crore or about 84% of the total revenue. This still leaves a shortfall of about 16% from the actual revenue. In the absence of any other data, it has been assumed that composition of import of goods giving the balance revenue was unchanged and was the same as per the EDI data. After suitable inflation of the data base, the duty foregone on account of all exemption notifications is estimated at Rs. 92,561 crore. The revenue foregone data for each of the chapters of Customs Tariff Act is presented in Table 7.

Table 7. Estimates of major tax expenditure under the Customs duty

Chapter	Brief Description of Goods	Estimated revenue foregone (Rs. in crores)
1	Live animals	3
2	Meat and edible meat offal	0
3	Fish and crustaceans, other aquatic invertebrates	8
4	Dairy Products	16
5	Other products of animal origin	9
6	Live trees and other plants	2
7	Edible vegetables, certain roots and tubers	625
8	Edible fruit and nuts	1021
9	Coffee, tea, mate and spices	208
10	Cereals	1
11	Products of the milling industry	5
12	Oilseeds, grains, seeds, fruits	52
13	Lac, gums and resins	35
14	Vegetable plaiting materials	1
15	Animal or vegetable fats	7545
16	Preparations of meat or fish	0
17	Sugar	1096
18	Cocoa	8
19	Preparations of cereals	33
20	Preparations of vegetables	8
21	Misc edible preparations	49
22	Beverages and spirits	54
23	Residues and waste from food industry	105
24	Tobacco	3
25	Salt, sulphur earths and stone	167
26	Ores	102
27	Mineral fuels and mineral oils	13725
28	Inorganic chemicals	814
29	Organic chemicals	3238
30	Pharmaceutical products	505
31	Fertilizers	627
32	Tanning and dyeing extracts, pigments	345
33	Essential oils	96
34	Soap and washing preparations	73
35	Albuminoidal substances	38
36	Explosives, matches	6

Chapter	Brief Description of Goods	Estimated revenue foregone (Rs. in crores)
37	Photography goods	167
38	Miscellaneous chemical products	712
39	Plastics	1194
40	Rubber	458
41	Hide and skins and leather	277
42	Articles of leather	12
43	Furskins	3
44	Wood	101
45	Cork	0
46	Manufactures of straw	0
47	Wood Pulp	229
48	Paper	673
49	Printed books, newspapers	393
50	Silk	341
51	Wool	262
52	Cotton	1193
53	Other Vegetable fibres	63
54	Man made filaments	3023
55	Man made staple fibres	554
56	Wadding and non wovens	64
57	Carpets	18
58	Special woven fabrics	577
59	Coated textile fabrics	370
60	Knitted fabrics	139
61	Knitted ready made garments	10
62	Woven garments	25
63	Made ups	119
64	Footwear	38
65	Head gear	1
66	Umbrellas	8
67	Feathers/artificial flowers	1
68	Articles of stone, plaster	53
69	Ceramic products	128
70	Glass and glass ware	154
71	Precious stones, jewellery	15024
72	Iron and steel	6866
73	Articles of iron and steel	901
74	Copper and articles thereof	276
75	Nickel and articles thereof	150
76	Aluminum and articles thereof	409
78	Lead and articles thereof	83
79	Zinc and articles thereof	179
80	Tin and articles thereof	25
81	Other base metals	75
82	Tools and implements	201
83	Miscellaneous articles of base metals	78
84	Machinery	8660
85	Electrical machinery	12385
86	Railways or tramways locomotives, rolling stocks etc.	145
87	Motor vehicles	1183
88	Aircrafts	219
89	Ships, boats and floating structures	452
90	Optical/photographic instruments	2435
91	Clocks and watches	26
92	Musical instruments	3
93	Arms and ammunitions	178
94	Furniture etc	76
95	Toys and games	63
96	Miscellaneous manufactured articles	164
97	Works or art, antiques	0
98	Project imports, baggage	317
	TOTAL	**92,561**

The above figures of revenue foregone do not exclude all export-related input taxes. This information was calculated separately on the basis of returns received from the Commissionerates. The figures are as under (Table 8), and are included in the overall figure of Rs.92,561 crore. Most items in Table 8 may not, therefore, be termed incentive schemes, since they largely represent input tax credit that has to be allowed in order to offer a level playing field to our exporters in international markets. In this sense, the revenue foregone from customs duties - Rs.92,561 crore - should be scaled down somewhat.

Table 8. Export-linked Drawbacks

S.No.	Scheme	Revenue foregone (Rs. in crores)
1	Duty Entitlement Pass Book (DEPB)	9671
2	Quantity Based Advance License (QBAL)	8851
3	100 per cent Export Oriented Units (EOUs)	6826
4	Export Promotion Capital Goods Scheme (EPCG)	4710
5	Special Economic Zone (SEZs)	1314
6	Value Based Advance License (VBAL)	1264
7	Special Imprest Licence (SIL)	1152
8	Export Processing Zones (EPZs) / Software Technology Parks (STPs)	852
9	Duty Free Replenishment Certificate (DFRC)	783
10	PASS BOOK	5
	TOTAL	**35430**

The above does not include revenue foregone on account of exemption notifications issued under Section 25(2) of the Customs Act, 1962.

Conclusion

In the absence of a well organized institutional mechanism and comprehensive computerisation, it has not been possible to estimate revenue loss associated with all tax preferences. However, an attempt has been made, in this first year of publication of this document, to take a broad approach and include estimates of the revenue loss associated only with the major tax preferences. As computerisation of the management systems of the income-tax department and customs and central excise department progress, it will significantly improve the government's ability to refine these estimates.

Given the above caveats, the estimated overall revenue foregone is as shown in Table 9.

Table 9. Revenue Foregone

(Financial Year 2004-05)

	Rs. in cr.
Corporate income tax	57852
Personal income tax	11695
Co-operative sector related	1534
Excise duty (i) Exemptions (other than through notifications)	18018
(ii) Exemption notifications	12431
Customs duty	92561
Total	194091
- *Export credit related*	- 35430
TOTAL	**158661**