ANNEX-7

Statement of Revenue Impact of Tax Incentives under the Central Tax System: Financial Years 2019-20 and 2020-21

The taxation law and its administration are primarily aimed at generating revenue to fund the Government expenditure. The main variables determining the amount of revenue generated are the collective tax base and the effective tax rates. An elaborate array of measures that determine these two factors include special tax rates, exemptions, deductions, rebates, deferrals and credits. These measures are collectively called as 'tax incentives' or 'tax preferences'. They create an impact on Government earnings and also speak about a significant policy of the Government.

The tax incentives create tax preferences which have a consequential impact on revenue. It can also be perceived as an indirect subsidy to the preferred taxpayers and is referred to as ‘tax expenditures’. In a democratic setup, the tax policy is ought to be not only efficient but also sufficiently transparent. It requires an explicit presentation of tax incentives and the entailed program planning intended to address the specific policy goals. Further, transparent budgeting calls for inclusion of revenue impacts under the respective programme headings. These tax incentives creating such revenue impacts are inherent part of the spending programs of the tax statute.

The present statement is an analysis of the revenue implications of the tax incentives available under the Central Tax system. Such revenue implications of tax incentives were laid before the Parliament for the first time during Budget 2006-07 as Annex-12 of the Receipts Budget in the form of statement of Revenue Forgone. It was welcomed across all quarters and started the process of a constructive debate on whole range 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. In the Budget 2015-16, it has been termed more appropriately as the "Statement of Revenue Impact of Tax Incentives under the Central Tax System", as it actually involves an analysis of revenue impact. In Budget 2015-16 and 2016-17, it was made part of Receipt Budget as Annexure-15, while in Budget 2017-18, it was Annexure-13. In the Budgets 2018-19, 2019-20, 2020-21and 2021-22, it was part of Receipt Budget as Annexure-7.

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 2019-20, the most recent year for which data is available. It is based on the returns filed for the Assessment year 2020-21. An attempt has also been made to project the revenue impact for the financial year 2020-21on the basis of the tax expenditure figures of the financial year 2019-20.

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 behavior 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 development of certain sectors. In some cases, the economic and social activities which are incentivized 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. 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. Besides, details of entities engaged in charitable activities have also been provided separately under the head ‚Charitable Entities'.

Financial Year (FY) 2021-22, like FY 2020-21 has also been an extraordinary year during which world economies including India have been under the effects of COVID-19 pandemic. On consideration of difficulties reported by the taxpayers and other stakeholders in electronic filing of Income-tax returns and various reports of audit under the provisions of the Income-tax Act and with a view to ease the compliance burden of the taxpayers, the due dates for filing of income tax returns for assessment year (AY) 2021-22, which was July 31, 2021 under sub-section (1) of section 139 of the Act, was initially extended to September 30, 2021 vide Circular No. 9 of 2021 dated May 20, 2021, and then further extended to December 31, 2021 in case of non-corporate taxpayer as well as taxpayers who are not required to get their books of account audited and to March 15, 2022 in case of corporate taxpayers as well as taxpayers who are required to get their books of account audited under section 44AB of the Income-tax Act. Since the due date for furnishing of return has been extended for a significant number of taxpayers, the revenue impact of various incentives during financial year (FY) 2020-21, which is based substantially on the returns of auditable cases and corporate entities filed for AY 2021-22, cannot be ascertained at this point in time. Accordingly, revenue impact of various tax incentives for FY 2019-20 based on all the returns filed for AY 2020-21 [including return filed under sub-section (4) and (5) of section 139 of the Income-tax Act] upto 31.05.2021 is presented in this statement. On similar lines, in the Receipt Budget for 2021-22, the statement was based on returns filed for FY 2018-19. Revenue impact of various tax incentives for FY 2020-21 is projected by taking the average GDP growth rate as estimate for FY 2020-21.

A. Corporate Sector

Large businesses are mainly organized as companies. The Income-tax Department has received 917,494 corporate returns electronically up to 31st May, 2021 for the financial year 2019-20 [i.e. assessment year 2020-21]. Every company is required to file its return of income electronically. These companies reported corporate tax liability of Rs.4,01,778.77 crore [inclusive of surcharge and education cess] for their income of financial year 2019-20. They also reported Rs.51,243.03 crore as Dividend Distribution Tax[1] payable during the financial year 2019-20. They also reported Rs.1,191.94 crore as tax on buy-back of shares.

For the purposes of estimating the tax expenditure, data pertaining to these 917,494 companies 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:-

- 4,34,051 companies (47.31 per cent) reported Rs.17,82,881 crore as profits before taxes and a total income[2] (taxable income) of Rs.13,40,392.03 crore.
- 4,46,358 companies (48.65 per cent) reported Rs.11,73,485.60 crore as losses.
- 37,085 companies (4.04 per cent) reported Nil profit.

The **effective tax rate[3] of the entire base of companies reporting profits was 22.54 per cent** for financial year 2019-20 [as against the rate of **27.81** per cent reported in the financial year 2018-19] while the statutory tax rate was 31.20 per

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[1] *Through Finance Act, 2020, Dividend Distribution Tax has been discontinued and from 1st April, 2020, dividend is being taxed in the hands of shareholders.*

[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.*

cent in case of companies having income up to Rs. one crore, 33.38 per cent in the case of companies having income up to Rs. 10 crore and 34.94 per cent in the case of companies having income exceeding Rs.10 crore. Further, for existing companies which opted for the new concessional tax regime (lower tax rate without deductions and exemptions) under section 115BAA of the Income-Tax Act, the statutory tax rate was 25.17 per cent. Companies with profits before taxes (PBT hereafter) of Rs.500 crore and above, accounted for a total of 58.46 per cent of the total PBT and a total of 52.37per cent of the total corporate income-tax liability. The effective rate of 22.54 per cent for the entire base of companies reporting profits is lower than the effective tax rate of 27.81 per cent in the financial year 2018-19. The significant reduction in effective tax rate is primarily due to the fact that a significant number of companies with higher profits have shifted to the new tax regime provided for existing companies under section 115BAA.

The effective tax rate of companies with PBT greater than Rs.500 crore is 20.19 per cent, which is lower than all the companies having profit before taxes below Rs. 500 crore. This highlights that the larger companies are availing the higher deductions and incentives or have shifted to the new regime of lower tax rate of 22 per cent plus cess and surcharge. This is further corroborated by the higher ratio of total income to PBT in smaller companies. In case of companies having PBT in range of rupees 0-1 crore, the ratio is 94.02 per cent while in case of companies having PBT greater than rupees 500 crore, it is 69.05 per cent. A lower ratio indicates that the larger companies are availing higher deduction and incentives as compared to smaller companies

Table 1: Profile of companies across range of profits before taxes (Financial Year 2019-20) (No. of companies – 9, 17,494)

S. 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 %)	Ratio of Tax to Total Income (in %)	Effective tax rate (in %) [Tax to Profit ratio]
1	Less than Zero	4,46.358	0.00	1.51	1.57	0.00	27.79	0.00
2	Zero	37,085	0.00	9.59	3.87	0.00	10.75	0.00
3	Rs. 0-1 Crore	3,81,032	2.62	2.91	2.91	94.02	26.71	25.11
4	Rs. 1-10 Crore	41,872	7.14	7.48	7.55	88.56	26.91	23.83
5	Rs. 10-50 Crore	7,913	9.52	9.55	9.84	84.77	27.47	23.28
6	Rs. 50-100 Crore	1,391	5.52	5.21	5.38	79.79	27.55	21.98
7	Rs. 100-500 Crore	1,410	16.74	16.03	16.50	80.98	27.43	22.21
8	Greater than Rs. 500 Crore	433	58.46	47.73	52.37	69.05	29.23	20.19
	All Companies	**9,17,494**	**100**	**100**	**100**	**84.57**	**26.65**	**22.54**

Table 2 profiles the sample companies across effective tax rates. It is noted that 5,77,093 companies with average effective tax rates up to 20 per cent accounted for 36.95 per cent of total profits before taxes, 14.84 per cent of total taxable income and 19.2 per cent of total taxes. In other words, a large number of companies (5, 77,093 i.e. 62.90 per cent) contributed a disproportionately lower amount of taxes in relation to their profits. Interestingly, 48,858 companies accounting for 6.90 per cent of the total profits and 15.62 per cent of the total taxes had an effective tax rate closer to the average statutory rate of 34.58 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 companies across range of Effective tax rates*
(Financial Year 2019-20) [Number of companies – 9, 17,494]

S. No.	Effective Tax Rate (in %)	Number of Companies	Share in Profit before Taxes (in %)	Share in Total income (in %)	Share in total tax liability (in %)
1	Less Than Zero and Zero	4,78,779	7.92	1.67	1.64
2	0-20	98,314	29.03	13.17	17.56
3	20-25	46,109	22.63	25.15	23.89
4	25-30	1,82,772	28.38	38.15	34.93
5	30-33	25,577	5.13	6.74	6.37
6	>33	48,858	6.90	15.12	15.62
7	Indeterminate (PBT = 0)	37,085	0.00	0.00	0.00
	Total	**9,17,494**	**100**	**100**	**100**

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

Table 3 compares the effective tax rate of public companies (Public Sector Units only) with that of private companies. While the effective rate is lower than the statutory rate for both categories, the private sector companies pay a larger proportion of their profits as tax than the public sector companies.

Table 3: Effective tax rate* of companies in the public and private sectors
(Financial Year 2019-20) (Number of Companies – 9, 17,494)

S. No.	Sector	Number of Companies	Share in total Profits (in %)	Share in total tax liability (in %)	Effective tax rate (in %) [Tax to Profit ratio]
1	Public #	206	15.94	12.97	18.33
2	Private	9,17,288	84.06	87.03	23.33
	All Companies	**9,17,494**	**100**	**100**	**22.54**

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

Based on the information given by the assessee companies (as Public Sector Units) in their respective returns.

Table 4 shows a comparison between the effective tax rate of the manufacturing sector and the other sectors in respect of the companies. The non-manufacturing sectors have a higher effective tax rate of 22.83 per cent as compared to manufacturing sector at 21.95 per cent. Both the sectors have an effective tax rate that is well below the average statutory rate of 34.58 per cent.

Table 4: Effective tax rate* of companies in the manufacturing and non-manufacturing sectors (Financial year 2019-20) [Number of companies– 9,17,494]

S. No.	Sector	Number of Companies	Share in total Profits (in %)	Share in total tax liability (in %)	Effective tax rate (in %) [Tax to Profit ratio]
1	Manufacturing	1,36,909	33.48	32.60	21.95
2	Non-manufacturing	7,80,585	66.52	67.40	22.83
	All Companies	**9,17,494**	**100**	**100**	**22.54***

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

Table 5 gives details of the major tax expenditures on corporate taxpayers in terms of the tax expenditure during the financial year 2019-20 and projection for the financial year 2020-21. The analysis is based on the corporate returns filed up to 31st May, 2021, which includes all the returns filed for AY 2020-21. The revenue impact of each tax concession availed by these companies has been calculated by applying the weighted average statutory corporate tax rate of 34.59 per cent [4]on the amount of each deduction. The revenue impact of accelerated depreciation, deduction/ weighted deduction for expenditure on scientific research 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 weighted average corporate tax rate of 34.59 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 2019-20, at the rate of 18.5 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 liability. 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 2019-20, the tax expenditure for the financial year 2020-21has been projected by multiplying the tax expenditure on each tax incentive in the financial year 2019-20 by the average GDP growth for four years [FYs 2016-17, 2017-18, 2018-19 and 2019-20].The average GDP growth rate was calculated to be 9.75%.

Table 5 depicts major tax expenditures on corporate taxpayers in terms of tax expenditure during the financial year 2019-20 and projection for the financial year 2020-21.

Table 5: Revenue Impact of Major Tax Incentives for corporate taxpayers (Financial years 2019-20 and 2020-21) [Number of companies - 9,17,494]

S. No.	Nature of Incentive	Revenue Impact (In Rs. Crore) [2019-20]	Projected Revenue Impact (in Rs. crore) [2020-21]
1	Deduction of export profits of units located in SEZs (section 10AA)	21,562.47	23,664.81
2	Accelerated Depreciation (section 32)	35,418.38	38,871.67
3	Deduction/weighted deduction for expenditure on scientific research (Section 35(1), (2AA) & (2AB))	6,354.63	6,974.21
4	Deduction in respect of specified business (section 35AD)	2,305.60	2,530.40

4 Average statutory tax rate has been worked out after taking a weighted average of the tax rate of 31.20 per cent in the case of companies having total income upto Rs. 1 crore, of 33.38 per cent in the case of companies having total income upto Rs.10 crore and 34.94 per cent in the case of companies having total income exceeding Rs.10 crore.

S. No.	Nature of Incentive	Revenue Impact (In Rs. Crore) [2019-20]	Projected Revenue Impact (in Rs. crore) [2020-21]
5	Deduction on account of donations to charitable trusts and institutions (section 80G)	4,193.83	4,602.73
6	Deduction on account of contributions to political parties (section 80GGB)	1,159.91	1,273.01
7	Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA)	4,967.76	5,452.12
8	Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA)	401.18	440.30
9	Deduction of profits of undertakings engaged in providing telecommunication services (section 80-IA)	2.12	2.33
10	Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA)	15,607.96	17,129.74
11	Deduction of profits of undertaking engaged in revival of power plant (section 80-IA)	80.85	88.73
12	Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)	924.87	1,015.04
13	Deduction of profits of industrial undertakings located in Jammu & Kashmir (80-IB)	18.33	20.12
14	Deduction of profits of industrial undertakings located in industrially backward States other than Jammu & Kashmir (section 80-IB)	6.53	7.17
15	Deduction of profits of industrial undertakings derived from production of mineral oil and natural gas (section 80-IB)	696.19	764.07
16	Deduction of profits of industrial undertakings derived from housing projects (section 80-IB)	11.08	12.16
17	Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB)	2.97	3.26
18	Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB)	17.33	19.02
19	Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB)	183.10	200.95
20	Deduction of profits of industrial undertakings derived from hospital in rural areas (section 80-IB)	2.43	2.67
21	Deduction of profits and gains from housing projects (section 80-IBA)	209.49	229.92
22	Deduction of profits of undertakings set-up in North Eastern States (section 80-IC)	1,328.65	1,458.19
23	Deduction of profits of undertakings set-up in Sikkim (section 80-IC)	3,248.36	3,565.08
24	Deduction of profits of undertakings set-up in Uttarakhand (section 80-IC)	372.86	409.21
25	Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC)	91.96	100.93
26	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	6.91	7.58
27	Deduction in respect of employment of new workmen (section 80JJAA)	1,921.84	2,109.22
28	Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Center (section 80-LA)	304.95	334.68
	Total	**1,01,402.54**	**1,11,289.29**
	Less: Additional Tax Liability on account of MAT	**25,810.85**	
	Reduced By MAT credit claimed	**18,518.14**	
	Net Additional Tax due to MAT	**7,292.71**	**8,003.75**
	Total Revenue Forgone	**94,109.83**	**1,03,285.54**

While the projected tax expenditure figure for financial year 2019-20 (exclusive of additional tax due to MAT payment) was estimated in the last year's statement to be Rs.1,16,260.68 crore, it has now been actually calculated at Rs.1,01,402.54 crore. Taking into account, the additional tax collected as a result of MAT, the actual revenue impact of tax incentives is slightly lower at Rs.94,109.83 crore against the tax expenditure of Rs. 99,842.06 crore projected in last year statement. Accelerated depreciation is the head under which the highest amount of tax incentive (Rs.35,418.38 crore) has been given. Across various sectors, deductions availed by units located in SEZ (S. No. 1), undertakings engaged in generation, transmission and distribution of power (S. No.10), undertakings engaged in development of infrastructure facilities (S. No. 7), specified business (S. No. 4) and deductions on scientific research (S. No. 3) accounted for a significant portion of the total tax incentive. The deduction on account of donations to charitable trusts and institutions have increased in F.Y. 2019-20 (Rs. 4193.83 crore) as compared in F.Y. 2018-19 (Rs. 2,473.46) as it also includes the donations made upto a specified date in the next financial year, which was allowed in F.Y. 2019-20 on account of COVID-19 pandemic.

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 Mining and agglomeration of hard coal is17.80 per cent. Similarly, manufacture of steel products and Production, collection and distribution of electricity are also having a lower tax rate of 11.87 and 14.37 per cent respectively which is lower than the effective tax rate. Some of the other sectors which are having lower tax rates as compared to the effective tax rates are purchase, sale and letting of leased buildings (residential and non-residential) (8.44 per cent), air transport (5.60 per cent), other agriculture, animal husbandry and forestry (12.78 per cent), other essential commodity services (11.43 per cent).

Further in an effort to establish a globally competitive business environment for certain domestic companies, attract fresh investment, create employment opportunities and give an impetus to the overall economy, Section 115BAA and 115BAB had been inserted to the Act through Taxation Laws (Amendment) Act, 2019 (TLAA). It provides for a concessional tax rate of 22% for existing domestic companies, and of 15% for newly incorporated domestic companies which make fresh investment by 31st March,2023 for manufacturing, production, research or distribution of such article or thing manufactured. This concession is subject to certain conditions including that they do not avail of any specified incentive or deductions. It has also been provided that the domestic companies opting for the concessional taxation regime shall not be required to pay any Minimum Alternate Tax (MAT).

An analysis of the impact of this concessional tax incentive (made in Table 5.1) shows that out of the corporate returns in the financial year 2019-20, 1,45,448 have opted for the concessional tax rate under section 115BAA, involving a total income of Rs.9,33,429.91 Crores and 1,244 have taken the option under section 115BAB of the Act, involving a total income of Rs. 35.13 Crores. Thus, 15.85% of the companies having 62.01% of the total income have opted for the new tax scheme under section 115BAA and 0.14 % companies opted for taking benefit under section 115BAB of the Act. It reflects an encouraging trend towards adoption of the new concessional tax regime by the companies and a simultaneous move away from the deduction and exemption regime.

Table 5.1: Comparison of companies opting for the concessional tax regime and those under earlier tax regime (Financial Year 2019-20)

S. No.	Slabs of Total Income (in crores)	Number of Companies (under 115BAA)	Number of Companies (under 115BAB)	Number of Companies (under earlier tax rate of 30% plus surcharge and cess)	Total Income (under 115BAA) (in crores)	Total Income (under 115BAB) (in crores)	Total Income (under earlier tax rate of 30% plus surcharge and cess) (in crores)
1	Less Than Zero and Zero	44,067	981	4,83,002	-	-	-
2	0-1	74,948	256	2,48,934	13,792.48	24.69	28,561.38
3	1-10	19,642	7	19,400	63,106.44	10.44	57,498.13
4	10-50	4,742	-	3,060	1,04,060.15	-	64,506.88
5	50-100	849	-	463	59,812.06	-	32,727.46
6	100-500	954		440	201,569.09	-	92,647.91
7	>500	246		130	4,91,089.68	-	2,95,778.13
	Total	**1,45,448**	**1,244**	**7,55,429**	**9,33,429.91**	**35.13**	**5,71,719.89**

B. Non-Corporate Sector [Firms/ AOPs/ BOI setc.]

Apart from the corporate sector, large business is also organized 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 15,79,898 returns filed electronically upto 31st May,2021 for income of the financial year 2019-2020. For the purposes of calculating the tax expenditure, data pertaining to these 15,79,898 Firms/ AOPs/ BOIs was culled out from the database.

The data was analyzed and the following facts emerged:-

- The entire firms/ AOPs/ BOIs reported Rs.2,32,804.18 crore as profits before taxes and declared a total income (taxable income) of Rs.2,12,143.26 crores. Losses were reported by about 3,07,035 returns which is 19.43 per cent of the total.
- These firms/ AOPs/ BOIs reported Rs. 64,269.81crore as income-tax payable [inclusive of surcharge and cess] for the financial year 2019-20.

The revenue impact of each tax concession claimed by the firms/ AOPs/ BOIs has been calculated by applying the income tax rate of 33.72 per cent (weighted average rate calculated taking rate of 31.20 per cent for firms having income less than one crore and 34.94 per cent for firms having income more than one crore with the gross tax payable falling in each tax rate slab) on the amount of each deduction. The tax expenditure on account of accelerated depreciation; deduction/ weighted deduction for expenditure on scientific research has been calculated by first determining the difference between the depreciation/ deduction debited to the profit and loss accounts by firms/ AOPs/ BOIs and the depreciation/ deduction allowable under the Income-tax Act. Thereafter, the income tax rate of 33.72 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 2019-20, the revenue impact for the financial year 2020-21 has been projected. The estimation for 2020-21 has been made by multiplying the tax expenditure on each tax incentive in the financial year 2019-20 by the average GDP growth for four years [FYs 2016-17, 2017-18, 2018-19 and 2019-20]. The average GDP growth rate was calculated to be 9.75%.

Table 6 depicts the major tax expenditures on non-corporate taxpayers in terms of tax expenditure during the financial year 2019-20 and projection for the financial year 2020-21. Like financial year 2018-19, the highest tax expenditure continues to be on account of deduction of profits of cooperative societies which accounts for 55.48 per cent of the total revenue impact as compared to 54.27 per cent in last financial year. The tax expenditure on account of accelerated depreciation and units setup in SEZs (under section 10AA) were 8.17 per cent and 14.31 per cent of the total revenue forgone, respectively.

The total tax expenditure for non-corporate sector, i.e. Firms/ AOPs/ BOIs for the financial year 2019-20 is worked out to be Rs.8,043.07 crore.

Table 6: Revenue Impact of Major Tax Incentive for non-corporate taxpayers [Firms/ AOPs/ BOIs]

Financial years 2019-20 and 2020-21

S. No.	Nature of Incentive	Revenue Impact (In Rs. Crore) [2019-20]	Projected Revenue Impact (in Rs. Crore) [2020-21]
1	Deduction of export profits of units located in SEZs (Section 10AA)	1,151.30	1,263.55
2	Accelerated Depreciation (section 32)	656.80	720.84
3	Deduction/weighted deduction for expenditure on scientific research (Section 35(1), (2AA) & (2AB))	16.56	18.17
4	Deduction in respect of specified business (section 35AD)	41.73	45.80
5	Deduction on account of donations to charitable trusts and institutions (section 80G)	154.70	169.78
6	Deduction on account of contributions to political parties (section 80GGC)	42.50	46.64
7	Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA)	168.12	184.51
8	Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA)	42.03	46.13

S. No.	Nature of Incentive	Revenue Impact (In Rs. Crore) [2019-20]	Projected Revenue Impact (in Rs. Crore) [2020-21]
9	Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA)	391.08	429.21
10	Deduction of profits of undertaking engaged in revival of power plant (section 80-IA)	3.46	3.80
11	Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)	225.06	247.00
12	Deduction of profits of industrial undertakings located in Jammu & Kashmir (80-IB)	4.57	5.02
13	Deduction of profits of industrial undertakings derived from housing projects (section 80-IB)	58.31	64.00
14	Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB)	0.57	0.63
15	Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB)	7.22	7.92
16	Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB)	47.01	51.59
17	Deduction of profits and gains from housing projects (section 80-IBA)	263.13	288.79
18	Deduction of profits of undertakings set-up in North Eastern States (section 80-IC)	190.53	209.11
19	Deduction of profits of undertakings set-up in Sikkim (section 80-IC)	25.35	27.82
20	Deduction of profits of undertakings set-up in Uttarakhand (section 80-IC)	26.83	29.45
21	Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC)	14.97	16.43
22	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	10.70	11.47
23	Deduction in respect of employment of new workmen (section 80JJAA)	36.87	40.46
24	Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Center (section 80-LA)	0.85	0.93
25	Deduction in respect of profits of cooperative societies (section 80P)	4,462.82	4,897.94
	Total	**8,043.07**	**8,827.27**

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 type of deductions. The 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 calculated on the basis of various claims for tax preferences in the **6,30,85,608** returns filed electronically by individuals with the Income-tax Department till 31st May, 2021.The total revenue forgone has been incremented by 2% to take into consideration miniscule fragment of physical returns. Based on the tax expenditure figures for financial year 2019-20, the tax expenditure for the financial year 2020-21 has been projected by multiplying the tax expenditure on each tax incentive in the financial year 2019-20 by the average GDP growth for four years [FYs 2016-17, 2017-18, 2018-19 and 2019-20]. The average GDP growth rate was calculated to be 9.75%.

For computing the tax expenditure for FY 2019-20, two significant changes made by Finance Act, 2019 have been taken into account, namely: -

i. Increase in limit of maximum amount of rebate under section 87A from Rs.2,500 to Rs.12,500 *vide* Finance Act, 2019.

ii. Increase in surcharge for high net worth individuals *vide* Finance (No.2) Act, 2019-

- individuals having income above 50 lakh but not exceeding 1 crore have to pay a surcharge of 10%,
- individuals having income above 1crore but not exceeding 2 crore have to pay a surcharge of 15%,
- individuals having income above 2 crore but not exceeding 5 crore, have to pay a surcharge of 25%, and
- individuals having income exceeding 5 crore have to pay a surcharge of 37%.

Based on the figures of total **6,30,85,608** returns of income filed for F.Y. 2019-20 (AY 2020-21), the tax expenditure for the entire population of taxpayers has been prepared. Some of the significant findings are as under:-

(i) Impact of higher basic exemption limits, (Sl. No. 26 and 27 of Table 7), has been calculated by multiplying the tax expenditure per senior citizen and very senior citizen with their respective numbers. According to the data of these returns, 11.33 per cent of the returns were filed by senior citizens and 0.71 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. Rs.3,00,000) as compared to the general exemption limit of Rs.2,50,000 and applying the lowest tax rate of 5 per cent (plus cess) on the difference.

(ii) In case of individuals, the maximum tax expenditure is on account of claim of deduction for investments in certain instruments as per section 80C of the Act.

(iii) The other major tax expenditure on individual taxpayers in the financial year 2019-20 is on account of rebate under section 87A amounting to Rs.26,609.76 crores

As detailed above, **Table 7** depicts the revenue impact of major tax incentives for individual/ HUF taxpayers, in terms of tax expenditure, during the financial year 2019-20 and projection for financial year 2020-21.

Table 7: Revenue Impact of major tax Incentives for individual / HUF taxpayers financial years 2019-20 and 2020-21

S. No.	Nature of Incentive	Revenue Impact (In Rs. Crore) [2019-20]	Projected Revenue Impact (in Rs. Crore) [2020-21]
1	Deduction on account of certain investments and payments (section 80C)	80,456.51	88,301.02
2	Deduction on account of contribution to certain pension funds (section 80CCC)	294.26	322.95
3	Deduction on account of contribution to the New Pension Scheme (section 80CCD)	6,169.75	6,771.30
5	Deduction on account of health insurance premium (section 80D)	5,466.95	5,999.98
6	Deduction on account of expenditure for medical treatment of a dependent who is disabled (section 80DD)	825.84	906.36
7	Deduction on account of expenditure for medical treatment of specified diseases (section 80DDB)	1,054.52	1,157.33
8	Deduction on account of interest on loan taken for higher education (section 80E)	935.90	1,027.15
9	Deduction on account of interest on loan for residential house property (section 80EE)	289.57	317.80
10	Deduction on account of donations to charitable trusts and institutions (section 80G)	1,177.84	1,292.68
11	Deduction on account of rent paid for housing accommodation (section 80GG)	1,815.30	1,992.30
12	Deduction on account of donations for scientific research or rural development(section 80GGA)	11.85	13.00

S. No.	Nature of Incentive	Revenue Impact (In Rs. Crore) [2019-20]	Projected Revenue Impact (in Rs. Crore) [2020-21]
13	Deduction on account of contributions given to political parties (section 80GGC)	544.53	597.62
14	Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks, generation of power, and providing telecommunication services (section 80-IA)	84.49	92.73
15	Deduction of profits of undertakings engaged in development of SEZs pursuant to SEZ Act, 2005 (section 80-IAB)	0.05	0.05
16	Deduction of profits and gains from housing projects (section 80-IBA)	96.66	106.08
17	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 area (80-IB)	19.78	21.71
18	Deduction of profits of undertakings set-up in North Eastern States, Sikkim, Uttaranchal and Himachal Pradesh (section 80-IC)	34.16	37.49
19	Deduction of profits from business of collecting and processing of bio- degradable waste (section 80JJA)	5.08	5.57
20	Deduction in respect of employment of new workmen (section 80JJAA)	11.87	13.02
21	Deduction of royalty income of authors of certain books other than text books (section 80QQB)	10.94	12.01
22	Deduction of royalty income on patents (section 80RRB)	0.49	0.54
23	Deduction on account of interest in savings account (section 80TTA)	1,371.39	1,505.10
24	Deduction in case of a person with disability (section 80U)	518.74	569.32
25	Rebate u/s 87A	26,610	29,204.48
26	Higher exemption limit for senior citizens	1858.09	2,039.25
27	Higher exemption limit for super senior citizens	579.14	635.61
	Total	**155,429.45**	**1,70,583.82**

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, deduction on account of health insurance premium (section 80D) and contribution to New Pension Scheme. 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 31st May, 2021 during the financial year 2018-19 is 2,24,839. The total amount applied by such entities for charitable and religious purposes in India is Rs.7,86,379.33 crores.

Appendix

Effective tax rate, inclusive of surcharge and education cess, of companies across Industry (Financial year 2019-20) (Number of companies – 9, 17,494)

S. No.	Sector	Sub-Sector	Number of Companies	Profit before tax (in Rs. crore)	Total Tax (in Rs. crore)	Effective tax rate (in %)
1	Agriculture, Animal Husbandry & Forestry	Agricultural and animal husbandry services	4,922	1,153.59	233.48	20.24
2	Agriculture, Animal Husbandry & Forestry	Raising of poultry and production of eggs	631	496.35	124.78	25.14
3	Agriculture, Animal Husbandry & Forestry	Growing and manufacturing of tea	1,110	877.61	188.79	21.51
4	Agriculture, Animal Husbandry & Forestry	Others including non-classified	8,359	2,835.8	362.3	12.78
5	Fish Farming	Fish farming	283	54.14	13.49	24.91
6	Fish Farming	Services related to marine and fresh water fisheries, fish hatcheries and fish farms	93	23.78	5.82	24.49
7	Fish Farming	Others	388	192.2	48.3	25.12
8	Mining & Quarrying	Extraction of crude petroleum and natural gas	136	23,923.12	10,163.04	42.48
9	Mining & Quarrying	Mining and agglomeration of hard coal	163	37,955.08	6,755.72	17.80
10	Mining & Quarrying	Mining of nonferrous metal ores, except uranium and thorium ores	49	8,668.44	2,107.77	24.32
11	Mining & Quarrying	Mining of iron ores	220	7,017.83	1,731.27	24.67
12	Mining & Quarrying	Others	3,639	6,490.98	1,849.28	28.49
13	Manufacturing	Manufacture of refined petroleum products	337	47,115.12	7,540.81	16.01
14	Manufacturing	Manufacture of pharmaceuticals, medicinal chemicals and botanical products	6,042	69,524.51	13,492.73	21.41
15	Manufacturing	Manufacture of motor vehicles	389	32,754.08	8,478.18	26.82
16	Manufacturing	Manufacture of parts & accessories of motor vehicles & engines	3,203	24,410.24	5,918.90	24.25
17	Manufacturing	Manufacture of steel products	3,975	47,563.70	5,645.50	11.87
18	Manufacturing	Manufacture of other chemical products	3,902	28,931.38	7,084.95	24.49
19	Manufacturing	Manufacture of tobacco products	337	21,355.79	7,084.95	23.70
20	Manufacturing	Manufacture of textiles (other than by handloom)	8,732	16,294.99	3,552.69	21.80
21	Manufacturing	Manufacture of electrical machinery and apparatus	2,260	12,404.04	2,035.61	16.41
22	Manufacturing	Manufacture of cement, lime and plaster	680	19,439.07	3,941.50	20.28
23	Manufacturing	Manufacture of other food products	3,908	17,924.58	4,443.11	24.79
24	Manufacturing	Manufacture of Radio, Television communication equipment and, apparatus	267	5,444.55	1,623.13	29.81
25	Manufacturing	Manufacture of soap and detergents	298	1,585.03	392.74	24.78

S. No.	Sector	Sub-Sector	Number of Companies	Profit before tax (in Rs. crore)	Total Tax (in Rs. crore)	Effective tax rate (in %)
26	Manufacturing	Manufacture of fertilizers and nitrogen compounds	1,034	7,874.98	1,353.13	17.18
27	Manufacturing	Manufacture of rubber products	1,116	6,489.91	1,609.52	24.80
28	Manufacturing	Manufacture of paints, varnishes and similar coatings	730	6,587.98	1,659.47	25.19
29	Manufacturing	Manufacture of plastic products	3,126	5,546.69	1,391.45	25.19
30	Manufacturing	Manufacture of paper and paper products	2,581	5,788.62	1,399.36	24.17
31	Manufacturing	Manufacture of engines and turbines	214	2,990.30	766.04	25.62
32	Manufacturing	Others including non-classified	93,778	2,16,800.9	51,889.9	23.93
33	Electricity, Gas & Water	Production, collection and distribution of electricity	5,021	76,496.05	11,269.56	14.37
34	Electricity, Gas & Water	Manufacture and distribution of gas	273	11,646.41	2,521.70	21.65
35	Electricity, Gas & Water	Collection, purification and distribution of water	149	107.53	24.79	23.06
36	Electricity, Gas & Water	Other essential commodity service n.e.c	2,183	944.78	107.99	11.43
37	Construction	Construction and maintenance of roads, rails, bridges, tunnels, ports, harbour, runways etc.	5,041	28,898.36	6,035.83	20.89
38	Construction	Building of complete constructions or parts civil contractors	18,525	13,938.12	3,161.09	22.68
39	Construction	Others including non-classified	48,138	30,755.7	7,194.1	22.27
40	Real Estate & Rental Services	Developing and subdividing real estate into lots	9,239	5,401.40	1,155.61	21.39
41	Real Estate & Rental Services	Operating of real estate of self-owned buildings(residential and non-residential)	3,444	5,579.40	1,104.71	19.80
42	Real Estate & Rental Services	Purchase, sale and letting of leased buildings(residential and non-residential)	6,001	8,661.29	730.93	8.44
43	Real Estate & Rental Services	Real estate activities on a fee or contract basis	6,117	1,597.91	388.27	24.30
44	Real Estate & Rental Services	Other real estate/renting services n.e.c	36,608	17,313.97	2,587.91	14.95
45	Renting of Machinery	Renting of Machinery	2,116	815.24	171.58	21.05
46	Wholesale & Retail Trade	Sale of motor parts and accessories wholesale and retail	1,354	911.46	242.01	26.55
47	Wholesale & Retail Trade	Wholesale of electronic parts & equipment	3,216	4,594.08	1,172.52	25.52
48	Wholesale & Retail Trade	Retail sale of textiles, apparel, footwear, leather goods	5,174	3,439.99	962.38	27.98
49	Wholesale & Retail Trade	Wholesale and retail sale of motor vehicles	3,417	2,398.85	543.83	22.67
50	Wholesale & Retail Trade	Wholesale of other machinery, equipment and supplies	2,717	2,014.49	551.41	27.37
51	Wholesale & Retail Trade	Others including non-classified	1,54,773	74,116.6	16,342.4	22.05
52	Hotels, Restaurants & Hospitality Services	Hotels, Restaurants & Hospitality Services	19,313	6,889.71	1,526.97	22.16

S. No.	Sector	Sub-Sector	Number of Companies	Profit before tax (in Rs. crore)	Total Tax (in Rs. crore)	Effective tax rate (in %)
53	Transport & Logistics Services	Air transport	389	1,326.73	74.26	5.60
54	Transport & Logistics Services	Freight transport by road	3,874	2,774.45	679.38	24.49
55	Transport & Logistics Services	Others including non-classified	16,697	16,529.5	3,995.2	24.17
56	Post & Telecommunication Services	Post & Telecommunication Services	2,534	32,564.77	5,062.30	15.55
57	Financial Intermediation Services	Commercial banks, saving banks and discount houses	320	1,36,232.15	37,320.40	27.39
58	Financial Intermediation Services	Commercial loan activities	2,295	30,489.37	7,301.47	23.95
59	Financial Intermediation Services	Housing finance activities	187	31,469.51	4,800.46	15.25
60	Financial Intermediation Services	Others including non-classified	46,992	1,96,055.79	40,823.93	20.82
61	Computer & Related	Software development Services	22,890	1,55,199.93	35,978.60	23.18
62	Computer & Related Services	Other IT enabled services	22,572	50,717.52	12,970.24	25.57
63	Computer & Related Services	BPO services	2,361	6,434.07	1,763.35	27.41
64	Computer & Related Services	Others	15,235	9,711.94	2,459.01	25.32
65	Research & Development	Research & Development	1,730	1,349.69	310.37	23.00
66	Professions	Engineering and technical consultancy	4,219	6,203.28	1,831.98	29.53
67	Professions	Business and management consultancy activities	6,863	4,360.78	1083.15	24.84
68	Professions	Advertising	2,423	1,640.50	384.60	23.44
69	Professions	Architectural profession	1,009	261.91	70.57	26.94
70	Professions	Others including non-classified	22,943	4,312.00	1,138.79	26.41
71	Education Services	Coaching centers and tuitions	2,857	808.07	200.26	24.78
72	Education Services	Primary education	616	261.08	59.95	22.96
73	Education Services	Others including non-classified	8,055	1,659.95	443.03	26.69
74	Health Care Services	Specialty and super specialty hospitals	1,966	4,158.73	1,032.90	24.84
75	Health Care Services	Diagnostic centers	1,468	1,239.66	325.30	26.24
76	Health Care Services	Other healthcare services	3,068	991.50	282.32	28.47
77	Health Care Services	General hospitals	2,160	1,595.43	368.58	23.10
78	Health Care Services	Others	8,112	2,103.72	548.68	26.09
79	Social & Community Work	Social & Community Work	2,756	114.34	27.38	23.95
80	Culture & Sport	Television channels broadcast	484	5,616.93	1,718.13	30.59
81	Culture & Sport	Motion picture production	1,363	1,876.19	239.80	12.78
82	Culture & Sport	Others including non-classified	4,737	3,127.54	792.16	28.71
83	Other Services	Other Services	2,14,547	88,655.28	25,336.26	28.58
84	Extra Territorial Organisations & Bodies	IMF, World Bank, European Commission	51	2.84	0.79	27.94
		Total	**9,17,494**	**17,82,881.23**	**4,01,778.77**	**22.54**

n.e.c. not elsewhere classified

Statement of Revenue Impact of Tax Incentives for Customs Duty for the period 2020-21 and 2021-22 (Estimated)

Customs duty on goods 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). Export duty is also levied on certain items at rates specified in the Second Schedule to the Customs Tariff Act, 1975.

2.1 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 delegates 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] to prescribe duty rates lower than the Tariff rates, through notifications. The rates, prescribed through such exemption notifications, are referred to as "effective rates".

2.2 Further, exemption notifications issued by the Government can be broadly classified into two types:-

(i) Conditional exemption notifications; and

(ii) Unconditional exemption notifications.

2.3 Unconditional exemptions prescribe general effective rates of duty for a commodity. This rate applies to all imports of that commodity, without any conditions. **In other words, such unconditional exemptions in effect prescribe MFN rate for a commodity.**

2.4 Conditional exemptions, on the other hand, prescribe effective rates under certain specific circumstances, as against the higher tariff rate or the MFN rate, as discussed above. Such conditional notifications are for specified purposes, for example, to promote domestic manufacturing, defence procurements, etc. In such cases, only those imports, which fulfil 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/ MFN rate.

2.5 **Duty Free imports under export schemes:** Certain exemptions have been provided for procurements of raw materials and inputs that go into the export goods. As such, these exemptions only provide for tax neutralization to exports for zero rating of exports. These concessions, being aimed at zero rating of exports, do not effectively result in revenue foregone on account of BCD concessions.

2.6 **Export linked remissions or incentives provided through scrip route:** There are certain scheme that allows for remissions or incentives to exporters. A remission to export goods is allowed in lieu of certain embedded taxes or levies of States and Centre. Schemes like RoDTEP and RoSCTL are of such nature. There are other schemes, which are in the nature of incentives. Examples of such schemes are MEIS, SEIS etc. Under these schemes, credit in the form of freely tradable scrips is allowed. This credit can be set off against any payment of Basic Customs Duty (BCD) on imports. The usage of scrip for payment of BCD was till last year taken as revenue foregone. However, in changed accounting practice, considering the real nature, the duty paid through scrip is now accounted as revenue and the duty credit so allowed to exporter is counted as expenditure. The revised practice has been adopted in this Financial Year.

3. **FTA:** India has entered into Free Trade Agreements, Comprehensive Economic Partnership Agreements and Comprehensive Economic Co-operation Agreements with a number of countries or group of countries. Similarly, India is also a signatory to the Information Technology Agreement I. Under this agreement, India has bound itself for lower rate/exemption on the specified goods as covered under such agreement. These preferential tariffs are also prescribed through notifications issued under section 25 of the Customs Tariff Act, 1962. **Such preferential tariffs extended as part of sovereign commitments, are also general applicable rate for imports covered by such agreements.**

4. **Therefore, as explained above, since the unconditional exemptions and exemptions extended towards sovereign commitments in effect prescribe MFN rates (effective rate) for the commodity concerned, a more appropriate estimation of the revenue impact of tax concessions would be the revenue foregone on account of conditional exemptions only.**

5. **Revenue impact assessment for the Year 2020-21 and 2021-22 (Estimated):** 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. Extrapolation has been made to arrive at revenue foregone on account of imports not captured in ICES (ICES constitutes about **95%** of total imports) for the period F.Y. 2020-21 and F.Y. 2021-22 (estimated).

6.1 Based on the above stated methodology, the revenue impact of tax concessions on customs side for the year 2020-21 and 2021-22 (Estimated) works out as under:

Table I: Revenue Impact of Tax concessions on account of Basic Customs Duty

(Rs Crore)

S.No.	Name of the Scheme	Formula	Revenue Impact (2020-21)	Revenue Impact (2021-22) (Estimated)
A.	On account of BCD collection at different rates less than Tariff rate as per EDI data	-	2,19,474	3,33,266
B.	On account of unconditional/technical BCD exemptions as per EDI data	-	1,26,637	2,31,471
C.	On account of FTA/PTA/CECA/CEPA as per EDI data (Refer Table II)	-	64,502	68,851
D.	On account of conditional BCD exemptions- EDI locations (Refer Table III)	-	28,335	32,944
E.	**Revenue foregone of Conditional BCD exemptions– EDI + non-EDI locations.**	**Dx100/f***	**29,826**	**34,678**
F.	Revenue impact on account of input tax neutralization scheme (Refer Table IV)	-	79,841	49,261
G.	**Revenue impact on account of export linked incentive schemes** (Refer Table IV)	**-**	**32,947**	*****
H.	**Net Duty Foregone (on account of Customs tariff concessions)**	**E+G**	**62,773**	**34,678**

Source: DG(sys), CBIC & PrCCA

[#] f is extrapolation factor which is equal to 95% each for the year 2020-21 and 2021-22 (Estimated) to include imports not captured in ICES.
**(Refer para 2.6)*

6.2 Details of Revenue impact on account of FTA/PTA/CEPA/CECA as per EDI data for the Year 2020-21 and 2021-22 (Estimated) (refer Sr.No. C in Table I above) is as under:

Table II: Revenue Impact on account of FTA/PTA/CEPA/CECA

(Rs Crore)

S.No.	FTA/PTA/CEPA/CECA Country/Region	Revenue Impact (2020-21)	Revenue Impact (2021-22) (Estimated)
1	On account of concessional rate of customs duty for specified goods imported from ASEAN	35,259	24,348
2	On account of concessional rate of customs duty for specified goods imported from Korea	6,173	8,713
3	On account of concessional rate of customs duty for imports from Japan	4,810	7,539
4.	On account of concessional rate of customs duty for imports from Malaysia	1,330	873
5.	On account of concessional rate of customs duty for imports from South Asian Free Trade Area, other Preferential Trade Agreement, Concessions to Least Developed Countries etc.	15,403	25,163
6.	Others	1,527	2,216
	Total	**64,502**	**68,851**

Source: DG(sys), CBIC

6.3 Details of Revenue impact on account of conditional BCD exemptions as per EDI data for the Year 2020-21 and 2021-22 (Estimated) (refer Sr.No. D in Table I above) is as under: -

Table III: Revenue Impact on account of conditional BCD exemptions

(Rs Crore)

S.No.	Head	Revenue Impact (2020-21)	Revenue Impact (2021-22) (Estimated)
1	On account of exemption to specified goods used in manufacturer of mobile phones (notification No. 57/2017-Customs)	6,779	3,962
2	On account of BCD exemptions to Mineral Fuels, mineral oils etc (notification No. 52/2017-Customs)	388	1,683
3	On account of BCD exemption to manufacture ITA Bound Goods (notification No. 24/2005-Customs and 25/2005-Customs)	437	584
4	On account of exemption to research equipment imported by public funded or Govt. Department. etc. (notification No. 51/1996-Customs)	252	210
5	On account of exemption and effective rates of Customs Duty for other items (other than those mentioned at Sr. No. 1 to 4)	20,480	26,505
	TOTAL (EDI)	**28,335**	**32,944**
	TOTAL (EDI + Non EDI)	**29,826**	**34,678**

Source: DG(sys), CBIC

6.4 Details of Revenue impact on account of Export promotion schemes as per EDI data for the 2020-21 and 2021-22 (Estimated) (refer Sr. No. F and G in Table I above) is as under: -

Table IV: Revenue Impact on account of Export Promotion Schemes

(Rs Crore)

S.No.	Name of the Scheme	Revenue Impact (2020-21)	Revenue Impact (2021-22) (Estimated)
1	Advanced Authorisation Scheme	13,613#	11,704
2	EOU/EHTP/STP	5,825#	6,574
3	EPCG	2,322#	2,862
4	SEZ	24,506	27,511
5	Duty Free Import Authorisation Scheme	628#	610
6	Merchandise Exports from India Scheme	19,267#	*
7	Rebate of State and Central Taxes Levies	8,136#	*
8	Service Export Incentive Scheme	5,260#	*
9	Focus Market/Product Scheme	62#	*
10	Duty Free Credit Entitlement Certificate	34#	*
11	Target Plus Scheme	188#	*
12	Total	79,841	49,261
13	**Revenue impact on account of input tax neutralization or exemption schemes (S. No. 1 to 5 above)**	**46,894**	**49,261**
14	**Revenue impact on export linked incentive schemes maintained at (S. No. 6 to 11 above)**	**32,947**	*

Source: DG(sys), CBIC

 # Actuals for 2020-21
**Refer para 2.6*