GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:7033
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INCREASE IN TAX-GDP RATIO
Misra Shri Pinaki

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has plans to increase Tax-Gross Domestic Product (GDP) ratio;

(b) whether there is any improvement in the tax buoyancy in recent years and if so, the details thereof; and

(c): whether the Government undertakes review of tax exemptions provided in various sectors and if so, the details thereof and reactions thereto?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a)& (b): Yes, Madam. One of the objectives of tax policy is to enhance the tax-GDP ratio through the expansion of base and moderation or rates. According to the Fiscal Policy Strategy Statement 2012-13, during the fiscal consolidation period, the tax- GDP ratio improved significantly from 9.2 per cent in 2003-04 to 11.9 per cent in 2007-08. However,`due to the stimulus measures undertaken during the crisis period of 2008-09 and 2009-10 to insulate Indian economy from the adverse impact of global economic crisis and lower growth in economy, the gross tax revenue as percentage of GDP declined sharply to 9.7 per cent in 2009-10. The stimulus measures have helped in swift and broad based recovery, particularly in manufacturing and services sector during 2010-11. With the moderation in growth in 2011-12 and prevailing high inflation situation, government had to further reduce taxes/duty on petroleum products. During 2011-12, gross tax receipts as percentage of GDP is estimated to decline to 10.1 per cent from 10.3 per cent in 2010-11. However, with partial roll back of stimulus measures in indirect taxes, it is estimated that tax receipt as percentage of GDP would improve to 10.6 per cent in 2012-13 (BE).

(c): Review of exemptions is carried out from time to time to minimize their number and widen the tax base. As part of this exercise, in the Budget 2011-12, exemptions from central excise duty were withdrawn on 130 items on which State Governments were charging VAT. However, exemptions from Customs & Excise duties have been extended to various sectors on considerations such as industrial development of certain areas/regions, export promotion, promotion of critical industries, defence, promotion of small scale sectors and also social sectors like health, drinking water supply, etc. So far as direct taxes are concerned, a policy decision has been taken during recent budgetary exercises to move away from profit-linked deductions while moderating tax rates for all taxpayers. Instead, tax incentives in the form of investment-linked deductions have been introduced for some priority sectors. This policy is also reflected in the Direct Taxes Code Bill, 2010 wherein all profit-linked deductions have been phased out.