REVENUE MOBILIZATION MEASURES AND CURRENT TAX ISSUES – INDIA

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Government of India
• Taxation Powers in India’s federal structure

✓ Central Government:
  o Direct Taxes: (Income Tax, Corporation & Personal) Dividend Distribution Tax, Wealth Tax
  o Indirect Taxes: Central Excise, Customs, Service Tax
  o Transaction Tax: Securities Transaction Tax

✓ State Government
  o Value Added Tax
  o Excise on alcoholic liquor, luxury tax, entry tax, electricity duty, entertainment tax, stamp duty, property tax, professional tax, agricultural income tax.
• India’s GDP per capita (Dec. 2010):
  ✓ US$823
  ✓ US$3582 (in PPP terms)
• Tax GDP ratio (2010-11)
  ✓ Total 17-18% (approx) out of which
    o Central Government 10% (approx)
    o State Governments 7-8% (approx)
    o Social security contribution not included in tax figures
## Centre’s Tax Collections (approx)
(as percentage of GDP)

<table>
<thead>
<tr>
<th>Direct</th>
<th>Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td></td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td></td>
</tr>
<tr>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Excise</td>
<td>1.6%</td>
</tr>
<tr>
<td>Customs</td>
<td>1.6%</td>
</tr>
<tr>
<td>Service Tax</td>
<td>0.8%</td>
</tr>
</tbody>
</table>
Central and State Taxes

- State: 44%
- Centre: 56%

Central Taxes

- CIT: 40%
- PIT: 20%
- Excise: 16%
- Service tax: 8%
- Customs: 16%
• Revenue Mobilization Measures by Central Government (Direct Taxes)
  o Revenue foregone analysis and Phasing out of profit linked (sectoral as well as area based) deductions
  o Levy of Minimum Alternate Tax (MAT) on all companies
  o Increase in MAT rate while gradually bringing down the overall corporate tax rate
  o Levy of Alternate Minimum Tax (AMT) on Limited Liability Partnerships (LLP)
<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Corporate Tax Rate (%)</th>
<th>Rate of MAT (%)</th>
<th>Effective Corporate Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>33.6</td>
<td>11.2</td>
<td>20.55</td>
</tr>
<tr>
<td>2007-08</td>
<td>33.9</td>
<td>11.3</td>
<td>22.24</td>
</tr>
<tr>
<td>2008-09</td>
<td>33.9</td>
<td>11.3</td>
<td>22.78</td>
</tr>
<tr>
<td>2009-10</td>
<td>33.9</td>
<td>17.0</td>
<td>23.53</td>
</tr>
<tr>
<td>2010-11</td>
<td>33.2</td>
<td>19.9</td>
<td>24.10</td>
</tr>
<tr>
<td>2011-12</td>
<td>32.4</td>
<td>20.0</td>
<td>N.A.</td>
</tr>
</tbody>
</table>
• Revenue Mobilization Measures by Central Government (Direct Taxes) (Contd.)
  o Strengthening Transfer Pricing Regulations
  o Extending provisions of Tax Deduction at Source and Tax Collection at Source
  o Presumptive sale price for real estate transactions
  o Taxation of indirect transfers abroad where underlying asset is in India
• Direct Taxes Code Bill, 2010

✓ New provisions
  o General Anti Avoidance Rule (GAAR)
  o Companies residence to be based on place of effective management
  o Controlled Foreign Company (CFC) Rules
  o Branch Profit Tax (BPT) on Permanent Establishments
  o Advance Pricing Agreements
• Other measures

✓ Proposed introduction of nation wide Goods and Services Tax (GST)
✓ Third party reporting of financial transactions
✓ Use of computerized database to track financial transactions
✓ Strengthening tax information exchange with other countries, specifically tax havens
• Challenges

✓ Low incomes
✓ Informal cash economy
✓ Low organized sector employment
✓ High mobility of residence and capital for large businesses, multinational corporations (MNCs) and high net worth individuals (HNIs)
Thank You

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