



TIME SERIES DATA RELEASE BY CBDT - ECONOMY

NEWS: Release Details: The Income Tax Department, functioning under the Central Board of Direct Taxes (CBDT), recently published comprehensive time series data.

- **Coverage Period:** The dataset spans financial years from 2000-01 to 2023-24.
- **Dataset Components:** Comprises nine distinct datasets, providing disaggregated information on the number of taxpayers, taxes collected, and income tax return-related data.
- **Utility:** This data serves as a critical resource for policymakers in devising efficient tax policies and refining procedural frameworks.

WHAT'S IN THE NEWS?

Comparative Analysis: Personal Income Tax (PIT) vs. Corporate Tax (CT)

- **Analysis Period:** A detailed examination was conducted for the decade 2014-15 to 2023-24, which notably includes the three pandemic-affected financial years (2019-20 to 2021-22).
- **Growth Rates:**
 - **PIT Growth:** In nominal terms, PIT experienced a Compound Annual Growth Rate (CAGR) of 16.43%, nearly double the rate observed for CT.
 - **CT Growth:** Corporate Tax exhibited a nominal CAGR of 8.73% over the same period.
 - **Inflation-Adjusted Growth:** After adjusting for inflation using the GDP deflator, PIT's CAGR stood at 11.85%, while CT lagged significantly at 4.46%.

Shift in Tax Composition Over the Decade

- **PIT's Rising Share:** The share of PIT in the total direct tax collection increased substantially from 38.3% in 2014-15 to 53.4% in 2023-24.
- **CT's Declining Share:** Conversely, the share of CT dropped from 61.7% in 2014-15 to 46.6% in 2023-24, highlighting a structural shift in the composition of direct taxes.

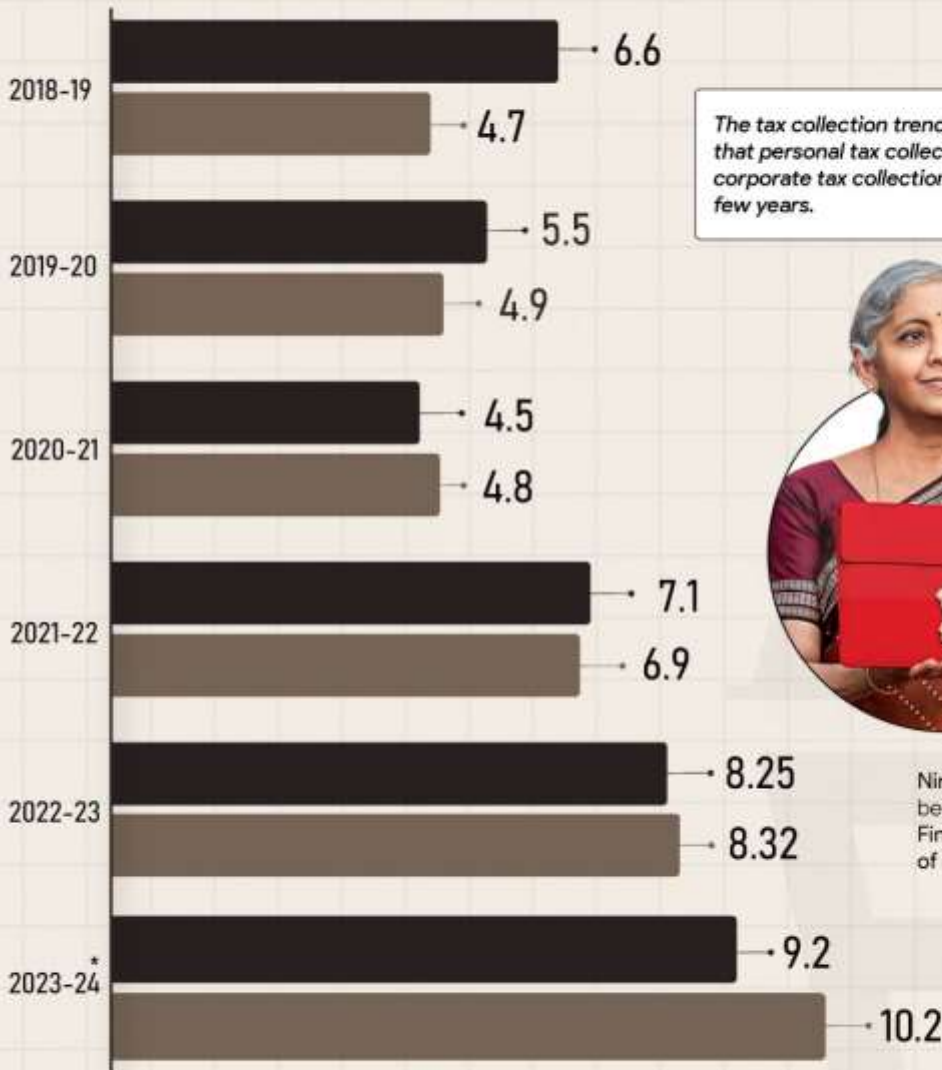
Changes in Tax-to-GDP Ratios

- **CT/GDP Ratio:** The ratio of Corporate Tax to GDP gradually declined from 3.44% in 2014-15 to 3.08% in 2023-24.
- **PIT/GDP Ratio:** On the other hand, the ratio of Personal Income Tax to GDP saw a consistent rise from 2.13% to 3.54% during the same period.

Key Findings and Implications

- **Increased PIT Contribution:** The data highlights that PIT has become a more dominant contributor to the direct tax pool compared to CT.
- **Inflation's Role:** Inflation significantly influences tax inflows, as evident from the disparity between nominal and real growth rates.

CORPORATE TAX VS PERSONAL TAX



The tax collection trends in India show that personal tax collection has surpassed corporate tax collection over the past few years.



Nirmala Sitharaman became the Finance Minister of India in 2019.

■ Corporate Tax ■ Personal Income Tax

* RE- Revised Estimates | Figures in Rs Lakh Crore

Source: CBDT, News and Media reports



FINSHOTS

Subscribe to finshots.in

Buoyancy Factor (BF) Analysis

- **Definition and Importance:** The Buoyancy Factor (BF) is a measure of how responsive tax revenue growth is to GDP growth. It is calculated as the ratio of the tax growth rate to the GDP growth rate.
- **Observed Ranges:**
 - **PIT BF:** Excluding the pandemic year 2020-21, PIT BF ranged from 0.65 to 2.65.

P.L. RAJ IAS & IPS ACADEMY | 1447/C, 3rd floor, 15th Main Road,
Anna Nagar West, Chennai-40. Ph.No.9445132221, 9445032221

Email: plrajmemorial@gmail.com Website: www.plrajasacademy.com

Telegram link: <https://t.me/plrajas2006> YouTube: P L RAJ IAS & IPS ACADEMY



- **CT BF:** In contrast, CT BF showed more volatility, ranging from -2.52 to 2.95.
- **PIT Outperformance:** With the exception of two financial years, PIT consistently demonstrated a higher BF than CT, indicating greater sensitivity of PIT collections to economic growth.

Impact of the Agriculture Sector

- **Current Tax Exemption:** The agriculture sector is currently exempt from direct taxation. However, it is included in GDP calculations, which lowers the overall direct tax-to-GDP ratio.
- **Revised Ratios:**
 - **CT/GVA:** When adjusted to exclude agriculture and allied sectors, the Corporate Tax to Gross Value Added (CT/GVA) ratio improves by 73 to 83 basis points, although it shows a declining trend over time.
 - **PIT/GVA:** The PIT/GVA ratio improves by 49 to 84 basis points when agriculture is excluded, following an increasing trend.

Case for Taxing Large Agriculturists

- **Potential Tax Base:** According to Agricultural Statistics at a Glance, there are 8,38,406 large farmland holdings (above 10 hectares), with an average holding size of 17.07 hectares.
- **High-Value Crops:** A growing number of these holdings are engaged in plantation and horticultural crops, which command premium prices in domestic and international markets.
- **Political Sensitivity:** While economically justifiable, taxing large agriculturists remains politically infeasible due to its contentious nature.

Addressing Income Inequality through Progressive Taxation

- **Proposal for Super-Rich Taxation:** Advocates taxing the super-rich at higher rates to mitigate the effects of growing income inequality.
- **Middle-Class Concerns:** The middle class, particularly salaried individuals and pensioners, should receive fairer treatment as they form a crucial segment of honest taxpayers supporting both ends of the income spectrum.

Recommendations to Boost Direct Tax Collection

- **Enhancing Tax Literacy:** Raising awareness about tax benefits and obligations to encourage compliance.
- **Simplified Tax Framework:** Streamlining tax laws and procedures to reduce complexity for taxpayers.
- **Digitalisation:** Leveraging technology for filing returns, tracking compliance, and grievance redressal.
- **Strict Enforcement:** Implementing faster and stricter penalties for tax evasion to deter non-compliance.
- **Employment Creation:** Generating 'decent' employment opportunities would expand the PIT base.



Role of Banks in Tax Collection

- **Commission-Based Model:** Banks currently receive commissions for collecting direct taxes on behalf of the government.
- **Incentive Increase:** The government should ensure these commissions are remunerative enough to encourage banks to allocate more branches for tax collection purposes.

Need for Enhanced Data Granularity

- **Current Limitation:** Although the time series data is comprehensive, there is room for improvement in granularity.
- **Recommendation:** The CBDT should publish more detailed datasets to enable nuanced analysis and informed decision-making for tax policy enhancements.