ANNEX-13

Statement of Revenue Impact of Tax Incentives under the Central Tax System: Financial Years 2015-16 and 2016-17.

The primary objective of any tax law and its administration is to raise revenue for the purpose of funding Government expenditure. The amount of revenue raised is primarily dependent upon the collective tax base and the effective tax rates. The determinants of these two factors are a range of measures which include special tax rates, exemptions, deductions, rebates, deferrals and credits. These measures are collectively called as ‘tax incentives’ or ‘tax preferences’. They have an impact on Government revenues and also reflect a significant policy of the Government.

The tax policy provides specific tax incentives which give rise to tax preferences. Such preferences have a definite revenue impact and can also be viewed as an indirect subsidy to preferred tax payers, also referred to as ‘tax expenditures’. It is often argued that tax policy should not only be efficient but also transparent. This means that programme planning which requires specific policy objectives to be addressed using incentives having revenue impact, should be explicit and transparent budgeting calls for inclusion of such indirect outlays (or revenue impacts) under the respective programme headings. Tax incentives resulting in any form of revenue impact per se are spending programs embedded in the tax statute.

The present statement is an analysis of the revenue impact of the tax incentives available under the Central Tax system. Such revenue impact of tax incentives was laid before Parliament for the first time during Budget 2006-07 as Annex-12 of the Receipts Budget 2006-07 by way of a statement of Revenue Foregone. It was well received by all quarters and gave rise to a constructive debate on the entire gamut 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. From the year 2015-16 onwards, it has been termed more appropriately as the “Statement of Revenue Impact of Tax Incentives under the Central Tax System”, since what is actually being analysed is the revenue impact.

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 2015-16, the most recent year for which data is available. However, an attempt has also been made to estimate the revenue impact which would be there during financial year 2016-17 on the basis of the tax expenditure figures of the financial year 2015-16.

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 that would be realised by removing 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 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 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 promotion of certain sectors. In some cases, the economic and social activities which are incentivized by such indirect subsidy by way of tax expenditure 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 and 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 in respect of the aforesaid sectors separately for : (A) Companies ; (B) Firms , Association of Persons, Body of Individuals etc and; (C) Individuals and HUFs. Details of entities engaged in activities having a charitable or a social purpose has also been given in Part (D). 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.

A. Corporate Sector

Large business is mainly organised as companies. The Income-tax Department has received 5,97,884 corporate returns electronically up to 30.11.2016 for the financial year 2015-16 [i.e. assessment year 2016-17]. Every company is required to file its return of income electronically. These returns constitute about 90% of the total corporate returns expected in financial year 2016-17. These companies reported corporate tax liability of Rs. 3,57,968.36 crores [inclusive of surcharge and education cess] for their income of financial year 2015-16. They also reported Rs. 39,202.27 crore as Dividend Distribution Tax payable during the financial year 2015-16.

For the purposes of estimating the tax expenditure, data pertaining to these 5,97,884 companies[1] 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:-

- 321770 companies (53.82 %) reported Rs 12,67,408 crores as profits before taxes and a total income (taxable income)[2] of Rs 9,04,242 crore for the financial year 2015-16.
- 2,58,096 companies (43.17 %) reported Rs. 5,91,819.12 crores as losses.
- 18018 companies (3.01%) reported Nil profit.

The **effective tax rate[3] of the entire sample was 28.24 per cent[4]** [as against the rate of **24.67** per cent reported in 2014-15] while the statutory tax rate was 33.06 per cent in the case of companies having income up to Rs. 10 crore and of 34.6 in the case of companies having income exceeding Rs. 10 crore resulting in an average statutory rate of 34.47[5] . Companies with profits before taxes [PBT hereafter] of Rs. 500 crore and above, accounted for a total of 58.97 percent of the total PBT and a total of 54.08 per cent of the total corporate income tax liability. However, their effective tax rate was 25.90 per cent, while the effective tax rate was 30.26 per cent for companies with PBT up to Rs. one crore. This rate of effective tax of 30.26 per cent for smaller companies , which is close to the statutory rate in companies, is the result of the gradual phasing out of profit linked deductions. The effective rate for the entire sample of 28.24 per cent, is however, higher than the effective rate of 24.67 per cent in the F.Y 2014-15 . This is due to gradual phasing out of various profit linked deductions and the levy of Minimum Alternate Tax on companies.

The ratio of total income to PBT is much higher (91.47per cent) for companies with PBT up to one crore rupees than that for the total sample (78.11 per cent). This is also reflected by the average effective tax rate of 30.26 per cent, being much higher for smaller companies. This indicates lesser deviance from PBT in the case of relatively smaller companies as compared to larger companies and that higher tax concessions are being availed by the larger companies.

Table 1: Profile of sample companies across range of profits before taxes (Financial Year 2015-16) (Sample size – 597884)

Sl. 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 %)	Effective Tax Rate (in %) [Profit to tax ratio]
1.	Less than Zero	2,58,096	0	1.36	1.37		
2.	Zero	18,018	0	7.30	2.55		
3.	Rs 0-1 Crore	2,85,322	2.78	3.26	2.98	91.47	30.26
4.	Rs 1-10 Crore	28,667	6.84	7.29	7.13	83.25	29.44
5.	Rs 10-50 Crore	5,497	9.31	9.39	9.56	78.75	29.00
6.	Rs 50-100 Crore	1,002	5.52	5.40	5.57	76.40	28.47
7.	Rs 100-500 Crore	984	16.58	15.87	16.77	74.78	28.57
8.	Greater than Rs 500 Crore	298	58.97	50.13	54.08	66.41	25.90
9.	**All Companies**	**5,97,884**	**100**	**100**	**100**	**78.11**	**28.24**

1 *The sample size for financial year 2014-15 was 582889.*

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.*

4 *Effective tax rate including dividend distribution tax was 31.33 percent.*

5 *Average statutory tax rate has been worked out taking a weighted average of the tax rate of 33.06% in the case of companies having total income upto Rs. 10 crore and 34.6% in the case of companies having total income exceeding Rs. 10 crore.*

Table 2 profiles the sample companies across effective tax rates. It is noted that 3,39,254 companies with average effective tax rates up to 20 per cent accounted for 12.77 per cent of total profits before taxes, 16.46 per cent of total taxable income and 5.24 per cent of total taxes. In other words, a large number of companies (3,39,254 i.e. 56.74 percent of the total companies contributed a disproportionately lower amount of taxes in relation to their profits. Interestingly, 46,432 companies accounting for 6.51 percent of the total profits and 13.29 percent of the total taxes, had an effective tax rate approximately equal to the average statutory rate of 34.47 %. 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 sample companies across range of Effective tax rates*
(financial year 2015-16) [sample size – 5,97,884]

Sl. No.	Effective tax rate (in %)	Number of Companies	Share in Total profits (in %)	Share in Total Income (in %)	Share in Total Tax liability (in %)
1.	Less Than Zero and Zero	2,73,176	2.92	1.51	1.40
2.	0-20	66,078	9.85	14.95	3.84
3.	20-25	21,241	33.89	8.81	26.87
4.	25-30	27,306	10.23	11.10	10.28
5.	30-33.	1,45,633	36.60	50.34	45.63
6.	>33.	46,432	6.51	13.29	11.98
7.	Indeterminate (PBT = 0)	18,018	0.00	0.00	0.00
	TOTAL	**5,97,884**	**100**	**100**	**100**

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

Table 3 compares the effective tax rate of public companies [PSUs only] with that of private companies. While the rate is lower than the statutory rate for both categories, the private sector companies pay a slightly larger proportion of their profits as tax than the public sector companies.

Table 3: Effective tax rate* of sample companies in the public and private sectors
(financial year 2015-16) [sample size – 5,97,884]

Sl. No.	Sector	Number of Companies	Share in total profits (in %)	Share in total tax liability (in %)	Effective tax rate (in %)
1	Public	216#	18.75	18.25	27.49
2	Private	5,97,668	81.25	81.75	28.42
	Total	**5,97,884**	**100.00**	**100.00**	**28.24**

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

Based on the information given by the assessee companies (as PSU) in their respective returns

Table 4 shows a comparison between the effective tax rate of the manufacturing sector and the service sector in respect of the sample companies. The service sector has a higher effective tax rate of 30.34 per cent as compared to manufacturing sector 25.86 per cent. Both the sectors have an effective tax rate that is well below the average statutory rate of 34.47per cent.

Table 4: Effective tax rate* of sample companies in the manufacturing and service sectors

(financial year 2015-16) [sample size – 5,97,884]

Sl. No.	Sector	Number of Companies	Share in total profits (in %)	Share in total tax liability (in %)	Effective tax rate (in %)
1	Manufacturing	1,24,063	46.73	42.78	25.86
2	Service	4,73,821	53.27	57.22	30.34
3	Total	5,97,884	100.00	100.00	28.24

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

Table 5 gives details of the major tax expenditures on corporate tax payers in terms of the tax expenditure during the financial year 2015-16 and 2016-17. The analysis is based on the corporate returns filed up to 30th Nov 2016, which constitute 90% of the expected returns in the financial year 2016-17. However, the due date for filing of returns by all companies is on or before 30th November and most of the tax concessions analysed require the return to be filed before the due date for the purpose of claim of such incentive. Therefore, the tax expenditure from the data sample has not been scaled up in any manner. The revenue impact of each tax concession availed by these companies has been calculated by applying the average statutory corporate tax rate of 34.47 per cent on the amount of each deduction. The revenue impact of accelerated depreciation, deduction/weighted deduction for expenditure on scientific research, and deduction for expenditure on eligible projects/schemes for social and economic uplift of the public, 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 average corporate tax rate of 34.47 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 Minimum Alternate Tax (MAT) on companies under the tax statute fastens a liability (for 2015-16, at the rate of 20.99 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 10 years) in a subsequent year in which the normal tax liability is in excess of MAT. 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 2015-16, the tax expenditure for the financial year 2016-17 has been projected. The estimation for 2016-17 has been made by multiplying the tax expenditure on each tax incentive in 2015-16 by the corporate tax growth in 2016-17 as per revised estimates.

Table 5 depicts major tax expenditures on corporate taxpayers in terms of tax expenditure during the financial year 2015-16 and projection for the financial year 2016-17.

Table 5: Revenue Impact of Major Tax Incentive for corporate tax payers during financial years 2015-16 and 2016-17 [sample size - 597884]

Sl. No.	Nature of incentive	Revenue Impact (in ₹ Crore) [2015-16]	Projected Revenue Impact (in ₹ Crore) [2016-17]
1.	Deduction of export profits of units located in SEZs (section 10A and 10AA)	18864.3	20492.6
2.	Accelerated Depreciation (section 32)	50027.0	54345.3
3.	Deduction/weighted deduction for expenditure on scientific research (section 35 (1), (2AA) &(2AB))	10107.4	10979.8
4.	Deduction for expenditure on eligible projects or schemes for the social and economic uplift of the public (section 35AC)	359.0	390.0
5.	Deduction in respect of specified business (section 35AD)	1236.7	1343.5
6.	Deduction on account of donations to charitable trusts and institutions (section 80G)	1275.9	1386.0
7.	Deduction on account of donations for scientific research or rural development (section 80GGA)	8.7	9.4
8.	Deduction on account of contributions to political parties (section 80GGB)	13.9	15.1
9.	Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA)	5064.9	5502.1
10.	Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA)	403.5	438.4
11.	Deduction of profits of undertakings engaged in providing telecommunication services (section 80-IA)	1233.2	1339.7
12.	Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA)	11416.0	12401.4

Sl. No.	Nature of incentive	Revenue Impact (in ₹ Crore) [2015-16]	Projected Revenue Impact (in ₹ Crore) [2016-17]
13.	Deduction of profits of undertaking engaged in revival of power plant (section 80-IA)	205.4	223.2
14.	Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)	1949.8	2118.1
15.	Deduction of profits of industrial undertakings located in Jammu & Kashmir (section 80-IB)	190.8	207.3
16.	Deduction of profits of industrial undertakings located in industrially backward States other than Jammu & Kashmir (section 80-IB)	40.0	43.5
17.	Deduction of profits of industrial undertakings located in backward districts (section 80-IB)	3.1	3.4
18.	Deduction of profits of industrial undertakings derived from development of scientific research (section 80-IB)	14.9	16.2
19.	Deduction of profits of industrial undertakings derived from production of mineral oil and natural gas (section 80-IB)	5985.7	6502.4
20.	Deduction of profits of industrial undertakings derived from housing projects (section 80-IB)	56.9	61.8
21.	Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB)	7.7	8.4
22.	Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB)	27.6	30.0
23.	Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB)	253.0	274.9
24.	Deduction of profits of industrial undertakings derived from hospital in rural area (section 80-IB)	2.9	3.2
25.	Deduction of profits of undertakings set-up in North Eastern States (section 80-IC)	891.3	968.3
26.	Deduction of profits of undertakings set-up in Sikkim (section 80-IC)	1444.7	1569.4
27.	Deduction of profits of undertakings set-up in Uttaranchal (section 80-IC)	2931.3	3184.3
28.	Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC)	1057.8	1149.1
29.	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	12.7	13.8
30.	Deduction in respect of employment of new workmen (section 80JJAA)	63.1	68.5
31.	Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Centre [IFSC] (section 80LA)	26.7	29.0
32.	Deduction in respect of hotels ,convention centres in specified areas (section 80-ID)	0.5	0.6
33.	Total	1,15,176.5	1,25,118.5
34.	**Less Additional Tax Liability on account of MAT = 45,591.80**		
	Reduced By MAT credit claimed = 7,273.00		
	Net Additional Tax due to MAT = 38, 318.80	38,318.80	41626.44
	Total Revenue Foregone	76,857.70	83,492.03

While the projected tax expenditure figure for 2015-16 (exclusive of additional tax due to MAT payment) was estimated in the last year's statement to be Rs 1,06,362.76 crores , it has now been actually calculated at Rs. 1,15,176.50 crore. Taking into account, the additional tax collected as a result of MAT, the actual revenue impact of tax incentives is higher at Rs 76,857.70 crores against the projected tax expenditure of Rs 68,710.98 crores. Accelerated depreciation accounts for the head under which the highest amount of tax incentive (Rs. 50,027 crore) has been given. Across various sectors, deductions availed by units located in SEZ, undertakings engaged in generation, transmission and distribution of power, undertakings engaged in development of infrastructure facilities and for scientific research accounted for a substantive portion of the total tax incentive.

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 the sugar and the cement sector is at 19.3 per cent and 21.4 per cent respectively. Similarly the effective tax rate of leasing companies is lower than average at 21.6 percent.

B. Non-Corporate [Firms/AOPs/BOIs] Sector

Apart from the corporate sector, large business is also organised 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 7,91,531 returns filed electronically upto 30th November for income of the financial year 2015-16. For the purposes of estimating the tax expenditure, data pertaining to these 7,91,531 firms/AOPs/BOIs was culled out from the database of the Income-tax Department. They account for a substantial part of the tax paid by the universe of firms/AOPs/BOIs in financial year 2015-16.

The data was analysed and the following facts emerged:-

- The sample firms/AOPs/BOIs reported Rs. 1,33,478.62 crore as profits before taxes and declared a total income (taxable income) of Rs. 94,974.39 crores for the financial year 2015-16. Losses were reported by about 1,05,771 returns which is 13.36 per cent of the sample.
- These sample firms/AOPs/BOIs reported Rs. 31,969.74 crore as income tax payable [inclusive of education cess] for the financial year 2015-16. The effective tax rate[6] in their case works out to 23.95 per cent.

The revenue impact of each tax concession claimed by the sample firms/AOPs/BOIs has been calculated by applying the income tax rate of 33.60 per cent (weighted average rate calculated taking rate of 30.6% for firms having income less than 1 crore and 34.6% for firms having income more than 1 crore) on the amount of each deduction. The tax expenditure on account of accelerated depreciation; deduction/weighted deduction for expenditure on scientific research; and deduction for expenditure on eligible projects/schemes for social and economic uplift of the public 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 33.60 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 financial year 2015-16, the revenue impact for the financial year 2016-17 has been estimated. The estimation for 2016-17 has been done by calculating the ratio of income tax collections as per the Revised estimates in 2016-17 to the actual income-tax collected in the year 2015-16 and then applying the same ratio to the tax expenditure on account of each tax incentive in 2015-16. **Table 6** depicts the major tax expenditures on non-corporate taxpayers in terms of tax expenditure during the financial years 2015-16 and 2016-17. The highest tax expenditure is on account of deduction of profits of cooperative societies which accounts for 44.76 per cent of the total revenue impact in this sector. The tax expenditure on account of deduction of profits derived by undertakings in North Eastern States, Sikkim, Himachal Pradesh and Uttarakhand was 14.43 per cent of the total revenue forgone.

The total tax expenditure for non-corporate sector i.e. firms, AOPs/BOIs for Financial year 2015-16 is worked out to be Rs 4779.9 crore. **Table 6** depicts the major tax expenditures on non-corporate taxpayers in terms of tax expenditure during the financial years 2015-16 and 2016-17.

Table 6: Revenue Impact of Major Tax Incentive for non-corporate [Firms/AOPs/BOIs] tax payers during financial years 2015-16 and 2016-17 [sample size – 7,91,531]

Sl. No.	Nature of incentive/deduction	Revenue Impact (in ₹ Crore) [2015-16]	Projected Revenue Impact (in ₹ Crore) [2016-17]
1.	Deduction of export profits of units located in SEZs (section 10A and 10AA)	387.6	421.0
2.	Accelerated Depreciation (section 32)	780.9	848.3
3.	Deduction/weighted deduction for expenditure on scientific research (section 35 (1), (2AA) &(2AB))	11.8	12.8
4.	Deduction for expenditure on eligible projects or schemes for the social and economic uplift of the public (section 35AC)	13.8	15.0

6 Effective tax rate in case of firms/AOPs/BOIs is the ratio of total taxes [including education cess] to the total profits before taxes [PBT] and expressed as a percentage.

Sl. No.	Nature of incentive/deduction	Revenue Impact (in ₹ Crore) [2015-16]	Projected Revenue Impact (in ₹ Crore) [2016-17]
5.	Deduction is respect of specified business 35AD	109.4	118.8
6.	Deduction on account of donations to charitable trusts and institutions (section 80G)	105.3	114.4
7.	Deduction on account of contributions to political parties (section 80GGC)	4.0	4.4
8.	Deduction of profits of undertakings engaged in development of infrastructure facilities (section 80-IA)	41.9	45.6
9.	Deduction of profits of undertakings engaged in development of SEZs and Industrial Parks (section 80-IA)	75.9	82.5
10.	Deduction of profits of undertakings engaged in providing telecommunication services (section 80-IA)	0.2	0.2
11.	Deduction of profits of undertakings engaged in generation, transmission and distribution of power (section 80-IA)	175.0	190.1
12.	Deduction of profits of undertaking engaged in revival of power plant (section 80-IA)	12.3	13.3
13.	Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)	26.3	28.5
14.	Deduction of profits of industrial undertakings located in Jammu & Kashmir (section 80-IB)	31.3	34.0
15.	Deduction of profits of industrial undertakings located in industrially backward States other than Jammu & Kashmir (section 80-IB)	0.5	0.6
16.	Deduction of profits of industrial undertakings located in backward districts (section 80-IB)	0.9	0.9
17.	Deduction of profits of industrial undertakings derived from housing projects (section 80-IB)	136.6	148.4
18.	Deduction of profits of industrial undertakings derived from operating a cold chain facility (section 80-IB)	2.8	3.1
19.	Deduction of profits of industrial undertakings derived from integrated business of handling, storage and transportation of food grains (section 80-IB)	2.0	2.2
20.	Deduction of profits of industrial undertakings derived from processing, preservation and packaging of fruits and vegetables (section 80-IB)	26.6	28.9
21.	Deduction of profits of undertakings set-up in North Eastern States (section 80-IC)	76.4	83.0
22.	Deduction of profits of undertakings set-up in Sikkim (section 80-IC)	175.0	190.1
23.	Deduction of profits of undertakings set-up in Uttaranchal (section 80-IC)	138.8	150.8
24.	Deduction of profits of undertakings set-up in Himachal Pradesh (section 80-IC)	299.5	325.3
25.	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	4.7	5.1
26.	Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Centre [IFSC] (section 80LA)	0.4	0.4
27.	Deduction in respect of hotels, convention centres in specified areas 80-ID	0.4	0.4
28.	Deduction in respect of profits of cooperative societies (Section 80P)	2139.6	2324.3
	Total	**4779.9**	**5850.1**

(C) Individual 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 types of deductions.

The estimate of revenue impact of 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 estimated on the basis of various claims for tax preferences in the **2,61,21,246** returns filed electronically by individuals with the Income-tax Department till 30th November 2016. Apart from deductions under Chapter VI-A, the other major tax expenditure on individual taxpayers in the financial year 2015-16 was on account of the higher basic exemption limit of Rs 3,00,000 for senior citizens (individuals aged 60 years or more) , and enhanced exemption limit of Rs 5,00,000 for very senior citizens (individuals aged eighty years or more).

Based on the figures of the sample of **2,61,21,246 r**eturns of income, the tax expenditure for the entire population of tax payers has been estimated as under:-

(i) The revenue impact of higher basic exemption limits, as aforesaid (Sl. No. 24 and 25 of table 7), has been calculated by multiplying the tax expenditure per senior citizen and very senior citizen with their respective numbers. Their respective numbers have been estimated by calculating the percentage of sample returns filed by them. Thereafter, this percentage has been applied to the estimate of total number of returns filed by individuals for financial year 2015-16. The total sample returns filed electronically with the Income-tax Department till 30th November 2016 is 2,61,21,246. The total number of returns filed by individuals/HUFs for financial year 2015-16 is estimated to be 3,93,27,511 by assuming a growth rate of 5 percent over the estimate of returns filed for the financial year 2014-15 which was 3,74,54,773. According to the sample returns**,** 11.04% per cent of the returns were filed by senior citizens and 0.65 per cent of the returns were filed by very senior citizens. Further, the revenue impact of a 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 10 per cent (plus cess) on the difference. The tax expenditure for each senior citizen is Rs 5,150. For a very senior citizen the exemption limit is Rs 5,00,000 and the tax computed on such income amounting to Rs 25,750 (inclusive of cess) is payable by an individual who is below the age of sixty years. This has been taken to be the revenue impact for each very-senior citizen. Thereafter, the tax expenditure on account of each such taxpayer (senior citizen and very-senior citizen) has been projected on the total estimate of the number of such tax payers above the general exemption limit of Rs.2,50,000.

(ii) Specifically, in the case of deduction under sections 80-IA, 80-IAB, 80-IB, 80-IC and 80-ID (Sr. No. 13 to 17 of table 7) the revenue impact or tax expenditure has been calculated on the assumption that the actual figure reflect the total claims made by individuals under these sections as all tax audited returns for income of F.Y. 2015-16 were subject to compulsory e-filing.

(iii) In all other cases, the tax expenditure for the entire population of taxpayers is worked out by-

(a) First calculating the average tax expenditure for a particular incentive per taxpayer for each income slab which has a separate tax rate in the sample returns.

(b) Secondly, multiplying the average tax expenditure for each incentive by the estimated number of individual taxpayers in that income slab in the total number of returns filed by individuals for financial year 2015-16 .

This gives the tax expenditure for that income slab for a particular incentive. The sum of the tax expenditure for all the slabs gives the tax expenditure for the entire population on account of the particular tax incentive.

(iv) Based on the tax expenditure figures for financial year 2015-16, the tax expenditure for the financial year 2016-17 has been estimated. The estimation for 2016-17 has been done by calculating the ratio of the personal income tax collections as per the revised estimates for 2016-17 to the actual personal income-tax collected in the year 2015-16 and then applying the same ratio to the tax expenditure on account of each tax incentive in 2015-16 .In case of Revenue impact of rebate u/ s 87A, the projection is based on assumption of increase in rebate u/s 87A from existing rupees 2000 to rupees 5000 and annual growth rate of 5 % in total number of taxpayers.

As detailed above, Table 7 depicts the revenue impact of major tax incentives for individual/HUF tax payers, in terms of tax expenditure, during the financial years 2015-16 and 2016-17.

Table 7 : **Revenue Impact of major tax Incentives for individual/HUF tax payers during financial years 2015-16 and 2016-17**

Sl. No.	Nature of incentive/deduction	Revenue Impact (in ₹ Crore) [2015-16]	Projected Revenue Impact (in ₹ Crore) [2016-17]
1.	Deduction on account of certain investments and payments (section 80C)	45184.4	55299.25
2.	Deduction on account of contribution to certain pension funds (section 80CCC)	204.5	250.26
3.	Deduction on account of contribution to the New Pension Scheme (section 80CCD)	897.6	1098.54

Sl. No.	Nature of incentive/deduction	Revenue Impact (in ₹ Crore) [2014-15]	Projected Revenue Impact (in ₹ Crore) [2015-16]
4.	Deduction on account of investment in RGESS(section 80CCG)	10.1	12.35
5.	Deduction on account of health insurance premium (section 80D)	1559.9	1909.08
6.	Deduction on account of expenditure for medical treatment of a dependent who is disabled (section 80DD)	338.1	413.75
7.	Deduction on account of expenditure for medical treatment of specified diseases (section 80DDB)	190.8	233.49
8.	Deduction on account of interest on loan taken for higher education (section 80E)	503.8	616.57
9.	Deduction on account of donations to charitable trusts and institutions (section 80G)	486.3	595.15
10.	Deduction on account of rent paid for housing accommodation (section 80GG)	230.3	281.84
11.	Deduction on account of donations for scientific research or rural development (section 80GGA)	47.9	58.61
12.	Deduction on account of contributions given to political parties (section 80GGC)	66.1	80.96
13.	Deduction of profits of undertakings engaged in development of infrastructure facilities, SEZs and Industrial Parks, generation of power, and providing telecommunication services (section 80-IA)	48.3	59.12
14.	Deduction of profits of undertakings engaged in development of SEZs pursuant to SEZ Act, 2005 (section 80-IAB)	0.2	0.30
15.	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 areas (section 80-IB)	40.3	49.36
16.	Deduction of profits of undertakings set-up in North Eastern States, Sikkim, Uttaranchal and Himachal Pradesh (section 80-IC)	122.0	149.31
17.	Deduction in respect of hotels, convention centres in specified areas (section 80-ID)	0.2	0.24
18.	Deduction of profits from business of collecting and processing of bio-degradable waste (section 80JJA)	6.3	7.68
19.	Deduction of royalty income of authors of certain books other than text books (section 80QQB)	11.2	13.66
20.	Deduction of royalty income on patents (section 80RRB)	1.4	1.75
21.	Deduction on account of interest in savings account (section 80TTA)	864.4	1057.90
22.	Deduction in case of a person with disability (section 80U)	255.5	312.75
23.	Rebate u/s 87A	3139.97	8242.42
24.	Higher exemption limit for senior citizens	2332.9	2855.10
25.	Higher exemption limit for very senior citizens	477.6	584.54
	Total	**57,020.1**	**74,183.97**

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 and deduction on account of health insurance premium (section 80D). 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-IB and section 80-IC of the Income-tax Act, 1961.

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 an income tax return. The total number of electronically filed returns of such entities till 30th November 2016, during the financial year 2016-17 is 1,31,705 . The total amount applied by such entities for charitable and religious purposes in India is Rs 2,67,533.7 crores.

Statement of Revenue Impact of Tax Incentives for Indirect Taxes for the period 2015-16 and 2016-17

A. Customs duties

1.1 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).On exports, export duty is levied under the Customs Act, 1962 at rates specified in the Second Schedule to the Customs Tariff Act, 1975. In addition, the Customs Tariff Act, 1975 also provides for levy of-

a) Additional duty of customs [sub-section (1) of section 3] (commonly referred to as countervailing duty or CV duty), and

b) Additional duty of customs [sub-section (5) of section 3] (commonly referred to as SAD) levied at a rate of 4%.

1.2 These rates specified against individual tariff lines in the Customs Tariff Act, 1975 or any other Act are commonly known as “tariff rates”. Further, the Customs Act, 1962 or the Customs Tariff Act, the Finance Act concerned delegate 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], through notifications, to prescribe duty rates lower than the tariff rates. The rates, prescribed through such exemption notifications, are referred to as “effective rates”.

1.3 Further, exemption notifications issued by the Government can be broadly classified into two types,

a. Conditional exemption notifications; and

b. Unconditional exemption notifications.

1.4 Unconditional exemptions prescribe effective rates of duty for a commodity, applicable to all imports of that commodity, without any conditions. In such cases, the tariff rates lose their significance, as all the imports of that commodity come at such prescribed effective rate. In other words, such unconditional exemptions in effect prescribe *de facto* tariff rates for the commodity concerned.

1.5 Conditional exemptions, on the other hand, prescribe effective rates under certain specific circumstances, as against the higher tariff rate or the *de-facto* tariff rate, as discussed above. Such conditional notifications are for specified purposes, for example, to promote domestic manufacturing. In such cases, only those imports, which full fill 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 rate or the *de-facto* tariff rate, as the case may be.

1.6 India has entered into Free Trade Agreements (FTAs), Comprehensive Economic Partnership Agreements (CEPAs), Comprehensive Economic Co-operation Agreements (CECAs) with a number of countries or group of countries, wherein in exchange of tariff concessions on Indian exports to such countries or group of countries, India has bound itself to similar tariff concessions on imports from such countries or group of countries. Similarly, India is also a signatory to the Information Technology Agreement which requires tariff concessions on specified electronic products by all signatory nations. 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 in a way *de-facto* tariff rates for imports from the concerned countries or group of countries or commodities concerned.

1.7 Till 2016-17 Budget, revenue impact of tax incentives on customs side was estimated by taking into consideration the effective rate prescribed under any exemption notification, conditional or unconditional, vis-à-vis the tariff rates prescribed under the First Schedule to the Customs Tariff Act, 1975 or under the Finance Act concerned, following the formula as under,-

a) In cases where the tariff and effective rates of duty are ad valorem rates, – Revenue impact of tax incentives = Value of goods X (Tariff rate of duty - Effective rate of duty)

b) In cases where the tariff rate is ad valorem basis but the effective duty is specific, then, – Revenue impact of tax incentives = (Value of goods X Tariff rate of duty) - (Quantity of goods X Effective rate of specific duty)

c) In cases where the tariff rates and effective rates are a combination of ad valorem and specific rates, revenue impact of tax incentives is calculated accordingly.

1.8 However, over the years, it has been observed that the above methodology results in over estimation of revenue impact of tax incentives, as it treats unconditional and conditional exemptions alike. As explained above, since the unconditional exemptions and exemptions extended towards sovereign commitments in effect prescribe *de facto* tariff rates for the commodity concerned, the revenue impact of tax incentives is others, essentially the revenue foregone on account of conditional exemptions.

1.9 Accordingly, the methodology to calculate the revenue impact of tax incentives has been modified. The analysis in subsequent paras, considers such unconditional rates or preferential tariffs as *de-facto* tariff rates for the purposes of estimating revenue impact of tax incentives.

1.10 In addition, there are certain technical exemptions, such as those for re-imports of Indian origin goods, temporary imports for display, exhibitions, fairs, specific events, etc., imports of replacements under warranty, exemption to containers, exemption to goods sent for execution of approved projects, goods used in Antarctica expedition, etc. The revenue impact of these notifications has also been excluded from estimated revenue impact of tax incentives.

1.11 World over exports are zero rated. India also zero rates its exports. There are many ways for zero rating exports, including extending exemptions on procurements of raw materials and inputs for or against exports. As such, these exemptions only provide for tax neutralization to exporters to ensure that we do not export taxes. These also include notifications issued to implement the Foreign Trade Policy provisions. Thus, the revenue impact from these schemes has also been excluded from estimated revenue impact of tax incentives.

1.12 Accordingly, the methodology for estimation of revenue impact of tax incentives on customs side has been modified, so as not to include the, -

(a) revenue implications of unconditional BCD, CVD and SAD exemptions, including those exemptions where the conditional rate is same as general unconditional rate;

(b) revenue implications of preferential tariffs under various FTAs/CEPAs/CECAs;

(c) revenue implications of technical exemptions, such as exemptions on re-imports, temporary imports, etc.; and

(d) revenue implication of tax neutralization notifications for exports.

1.13 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. Since the EDI system does not capture data in respect of imports through non-EDI locations, or where the EDI system is not fully operational or where Bills of Entry are still being filed manually, suitable adjustments are made to arrive at the total revenue impact.

1.14 As per the new methodology, the revenue implication of tax incentives on the customs side is calculated as below,-

(a) Sum total of revenue impact of tax incentives for all the chapters has been calculated from EDI data (after making corrective adjustments);

(b) From the sum total, the revenue impact of tax incentives captured in the EDI on account of certain duties which are no longer levied viz. Additional Duty on Goods of Special Importance [GSIA] (exempt from March, 2006), Additional Duty on Textiles and Textile Articles [TTA] (exempt from July, 2004) and Special Excise Duty [SED] (exempt from March, 2006) has been deducted;

(c) From the amount arrived at (b) above, the total BCD and CVD impact of account of unconditional exemptions and excemptions for FTAs/PTAs/ITA has been reduced.

(d) The revenue impact of tax incentives ascertained at (c) above for all the chapters has been extrapolated so as to reflect both EDI and non-EDI clearances.

(e) From the amount arrived at (d) above, the revenue impact of input tax neutralization schemes for exports has been deducted to arrive at the final revenue impact of tax incentives.

1.15 Based on the above methodology, the revenue impact of tax incentives on customs side for the year 2015-16 works out to Rs.3,11,972 Crore. For 2015-16, the EDI captures 94.6% of the actual reported gross customs revenue. After deducting the revenue impact of unconditional BCD and CVD exemptions, FTAs/CEPAs/CECAs exemptions etc. the revenue impact of tax incentives for 2015-16 is estimated at Rs. 1,15,442 Crore. Extrapolation of this for data not captured by EDI, gives the customs revenue impact for the whole year 2015-16 as Rs.1,22,032 Crore.

1.16 Same methodology has been adopted for the year 2016-17. For 2016-17, the EDI captured 95.01% of the gross customs revenue. As per EDI data, the total estimated customs revenue impact of tax incentives for 2016-17 came to Rs.3,07,707 Crore. After reducing the revenue impact of unconditional BCD and CVD exemptions and exemptions for FTAs/CEPAs/CECAs etc. the estimated revenue impact of tax incentives for 2016-17 comes to Rs. 1,28,304 Crore. After extrapolation, for data not captured by EDI, the estimated customs revenue impact for the year 2016-17 comes to Rs.1,35,043 Crore.

1.17 These figures, however, include revenue impact of tax incentives from the working of various export promotion schemes other than from drawback. The break-up of revenue impact from individual export promotion schemes is given below, separately. Out of these schemes, Duty Free Entitlement Credit Certificate, Target Plus, Vishesh Krishi and Gram Udyog Yojana (VKGUY), Served from India, Focus Market / Product and Merchandise exports from India Scheme (MEIS) are incentive schemes. The revenue impact from these schemes has been taken into account while calculating the duty impact on account of exemption notifications. The remaining schemes are either exemption schemes or input tax neutralization schemes. The revenue impact from the schemes has been excluded from the calculation of revenue impact, as indicated in Table 8 hereunder.

Table 8: Revenue impact on account of Export Promotion Concessions

(Rs in Crore)

S.No.	Name of the Scheme	2015-16	2016-17 (Estimated)
1	Advance Licence Scheme	25,634	28,784
2	EOU/EHT/STP	5,613	7,895
3	EPCG	9,884	9,641
4	DEPB Scheme	395	17
5	SEZ	9,925	10,182
6	DFRC	1	3
7	Duty Free Import Authorisation Scheme	1,321	545
8	Duty Free Entitlement Credit Certificate	231	228
9	Target plus schemes	1,001	773
10	Vishesh Krishi and Gram Udyog Yojana	1,953	276
11	Served from India Scheme	655	477
12	Focus Market/Product Scheme	10,374	5,103
13	Merchandise Exports from India Scheme	-	11,909
	TOTAL	66,987	75,830
14	Less revenue impact on incentive schemes maintained at S. Nos. 8 to 13	14,214	18,765
15	Revenue impact on account of input tax neutralization or exemption schemes to be reduced from gross revenue impact on account of customs duty	52,773	57,065

1.18 These aforesaid estimates of revenue impact do not include revenue impact on account of ad hoc exemption orders issued under Section 25(2) of the Customs Act, 1962, which are extended in specific cases.

1.19 Table 9 below summarizes the calculations for determining the revenue impact of tax incentives under customs duty regime, -

Table 9: Calculations for revenue impact of tax incentives under customs duty regime

(Rs in Crore)

S. No.	Head	Formula	2015-16	2016-17 (Annualized)
A	**Total revenue impact of tax incentives as per EDI data (after making corrective adjustments)**	-	3,11,972	3,07,707
B	Revenue impact on account of GSIA exemption	-	636	676
C	Revenue impact on account of SED exemption	-	214	159
D	Revenue impact on account of TTA exemption	-	249	448
F	**Net revenue impact of tax incentives**	A-(B+C+D)	3,10,873	3,06,424
G	Revenue impact on account of unconditional BCD exemptions, FTAs/CEPAs/CECAs exemptions	-	1,63,313	1,45,010
H	Revenue impact on account of unconditional CVD exemptions	-	32,118	33,111
I	**Revenue impact of tax incentives as per EDI data**	F-(G+H)	1,15,442	1,28,304
J	**Extrapolating to cover both EDI and non-EDI locations**	Ix100/f*	1,22,032	1,35,043
K	Net revenue impact on account of input tax neutralization schemes	-	52,773	57,065
L	**Final revenue impact of tax incentives**	J-K	69,259	77,978

* f is the extrapolation factor to cover non-EDI data. The EDI has captured 94.6% of the actual reported customs revenue collection from imported goods in 2015-16 and 95.01% in 2016-17.

1.20 Estimated revenue impact of tax incentives during 2016-17 is about 13% higher than that during 2015-16.

1.21 The revenue impact of tax incentives on customs duty side for 2015-16 and 2016-17 is, thus, as under:

Table 10: Revenue impact of tax incentives under customs duty regime

	Revenue impact Rs crore
2015-16	69, 259
2016-17 (Estimate)	77, 978

B. Central Excise

2.1 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, various Finance Acts specify the rate at which the excise duty under that Act is to be levied. These rates specified in various enactments are called "Tariff rates" of excise duty. Further, the Central Excise Act, 1944 or the Finance Acts concerned delegate powers to the Central Government [under Section 5A(1) of the Central Excise Act, 1944, which is also made applicable to duties levied under various Finance Acts], through notifications, to prescribe duty rates lower than the Tariff rates. The rates, prescribed through notifications, are referred to as "effective rates".

2.2 As in the case of customs, the central excise exemption notifications issued by the Government can also be broadly classified into two types,

a. Conditional exemption notifications; and

b. Unconditional exemption notifications.

2.3 Besides, powers to issue general exemption notifications under Section 5A(1) ibid, the Central Government also has the powers to issue special orders for granting excise duty exemption on a case to case basis. As such, the revenue impact on account of issue of special exemption orders is not taken into consideration for estimating the revenue impact of tax incentives figures.

2.4 Till 2016-17 Budget, revenue impact of tax incentives on central excise side was also estimated by taking into consideration the effective rate prescribed by any exemption notification, conditional or unconditional, vis-à-vis the tariff rates prescribed under the First Schedule of the Customs Tariff Act, 1975 or under the Finance Act concerned, following the formula as under, -

(a) In cases where the tariff and effective rates of duty are ad valorem rates, - Revenue impact of tax incentives = Value of goods X (Tariff rate of duty - Effective rate of duty)

(b) In cases where the tariff rate is ad valorem basis but the effective duty is specific, then– Revenue impact of tax incentives = (Value of goods X Tariff rate of duty) - (Quantity of goods X Effective rate of specific duty)

(c) In cases where the tariff rates and effective rates are a combination of ad valorem and specific rates, revenue impact of tax incentives is calculated accordingly.

2.5 This year, the methodology to calculate the revenue impact of tax incentives on the Central Excise side has also been modified as has been done in the case of customs. Accordingly, the rates imposed by unconditional notifications have been considered as *de facto* tariff rates. The revenue impact of tax incentives in central excise, thus, is essentially the revenue foregone on account of conditional exemptions which grant reduced rates vis-a-vis the tariff rates (prescribed by Central Excise Tariff Act, 1985) or the *de-facto* tariff rate (prescribed by unconditional notifications).

2.6 Automation of Central Excise & Service Tax (ACES) system is in operation in all the Central Excise formations across the country. As such, the ACES data does not capture details where all the goods manufactured are fully exempt from excise duty, and to that extent the estimates of revenue forgone based on this data result in some under estimates of revenue impact of tax incentives. Estimate of total revenue impact of tax incentives in central excise is based on ACES data, which, among other things, captures the data contained in returns filed by assessees. The revenue impact due to the operation of area based exemption schemes was obtained separately from the Central Excise Zones concerned.

2.7 As for the area-based exemptions, there are two types of exemptions currently in operation–

a) Based on refunds (North East and J & K), and

b) Outright exemption (Himachal Pradesh and Uttarakhand).

In the case of refund-based exemptions, revenue impact of tax incentives is computed by aggregating the refunds actually sanctioned to the individual units or claimed by them during the year.As for outright exemptions, revenue impact is calculated using the difference between the general effective rate and the duty actually paid *viz.* Nil.

2.8 Accordingly, the revenue impact of tax incentives for the financial year 2015-16 is Rs.1, 99, 461 Crore [Rs 1, 77, 495 Crore (general exemptions, conditional and unconditional) + Rs 21, 966 Crore (area based exemptions)]. After reducing the revenue impact of unconditional excise duty exemptions, the revenue impact of tax incentives for 2015-16 comes to Rs. 79, 183 Crore [Rs 57, 217 Crore (conditional exemptions) + Rs 21, 966 Crore (area based exemptions)].

2.9 Similarly, the revenue impact of tax incentives for the financial year 2016-17 is estimated to be [by extrapolating the data available for the period April to October, 2016] Rs.1, 99, 838 Crore [Rs 1, 80, 502 Crore (general exemptions, conditional and unconditional) + Rs 19, 336 Crore (area based exemptions)]. After reducing the revenue impact of unconditional excise duty exemptions, the revenue impact of tax incentives for 2016-17 comes to Rs. 76, 844 Crore [Rs 57, 508 Crore (conditional exemptions) + Rs 19, 336 Crore (area based exemptions)].

2.10 The overall revenue impact of tax incentives in central excise duty is as under,-

Table 11: Revenue impact of tax incentives under central excise duty regime

S. No.	Details of Exemption	Revenue impact (in Rs. Crore)	
		2015-16 Actual	2016-17 Estimate
1.	Area based exemptions applicable in the North Eastern States, Uttarakhand, Himachal Pradesh, Jammu & Kashmir	21, 966	19, 336
2.	Others	57, 217	57, 508
	Total	79, 183	76, 844

The tax expenditure for Direct and Indirect Taxes is summarized as under:

Table 12 : Revenue impact of tax incentives (Direct Taxes) in financial years 2015-16 and 2016-17
(in Rs. Crore)

	Revenue Impact of tax incentives in 2015-16	Projected Revenue Impact of tax incentives in 2016-17
Corporate Income-tax	76,858	83,492
Personal Income-tax	61,800	80,034
Total	**1,38,658**	**1,63,526**

Table 13: Revenue impact of tax incentives (Indirect Taxes) in financial years 2015-16 and 2016-17
(in Rs. Crore)

	Revenue Impact of tax incentives in 2015-16	Projected Revenue Impact of tax incentives in 2016-17 (Estimated)
Customs Duty	69,259	77,978
Excise Duty	79,183	76,844
Total	**1,48,442**	**1,54,822**

The aggregate tax expenditure from central taxes (both direct and indirect) is Rs 2,87,100 crores for 2015-16 and is projected to be Rs 3,18,348 crores for 2016-17. To conclude, the total tax expenditure is showing an upward trend ,both for direct and indirect taxes.

APPENDIX

Effective tax rate, inclusive of surcharge and education cess , of sample companies across Industry (financial year 2015-16) [sample size 5,97,884]

Sl. No	Sector	Industry	Number of Companies	Profit before tax (in ₹ crore)	Total tax (in ₹ crore)	Effective tax rate (in %)
1.	Manufacturing Industry	AGRO-BASED INDUSTRIES	9,925	11,159.5	2,934.0	26.3
2.	Manufacturing Industry	AUTOMOBILE AND AUTO PARTS	4,596	48,663.1	14,620.8	30.0
3.	Manufacturing Industry	CEMENT	639	10,223.2	2,183.1	21.4
4.	Manufacturing Industry	DIAMOND CUTTING	475	2,260.4	662.3	29.3
5.	Manufacturing Industry	DRUGS AND PHARMACEUTICALS	5,568	58,142.1	14,053.0	24.2
6.	Manufacturing Industry	ELECTRONICS INCLUDING COMPUTER HARDWARE	2,427	13,074.1	4,646.0	35.5
7.	Manufacturing Industry	ENGINEERING GOODS	9,806	35,066.1	10,303.0	29.4
8.	Manufacturing Industry	FERTILIZERS, CHEMICALS, PAINTS	3,809	21,551.4	6,145.6	28.5

Sl. No	Sector	Industry	Number of Companies	Profit before tax (in ₹ crore)	Total tax (in ₹ crore)	Effective tax rate (in %)
9.	Manufacturing Industry	FLOUR AND RICE MILLS	1,552	740.0	234.8	31.7
10.	Manufacturing Industry	FOOD PROCESSING UNITS	3,374	9,548.6	3,078.4	32.2
11.	Manufacturing Industry	MARBLE AND GRANITE	2,022	1,059.3	359.2	33.9
12.	Manufacturing Industry	PAPER	1,351	2,203.2	514.0	23.3
13.	Manufacturing Industry	PETROLEUM AND PETROCHEMICALS	662	74,103.8	16,909.0	22.8
14.	Manufacturing Industry	POWER AND ENERGY	5,408	52,722.7	11,554.5	21.9
15.	Manufacturing Industry	PRINTING AND PUBLISHING	2,593	6,256.7	1,967.7	31.4
16.	Manufacturing Industry	RUBBER	898	1,020.9	326.1	31.9
17.	Manufacturing Industry	STEEL	4,188	11,668.3	2,831.9	24.3
18.	Manufacturing Industry	SUGAR	331	1,272.7	246.0	19.3
19.	Manufacturing Industry	TEA,COFFEE	1,030	1,821.3	415.6	22.8
20.	Manufacturing Industry	TEXTILES,HANDLOOM, POWER LOOMS	9,773	14,908.8	4,009.1	26.9
21.	Manufacturing Industry	TOBACCO	274	17,329.8	5,445.7	31.4
22.	Manufacturing Industry	TYRE	151	7,411.8	2,028.5	27.4
23.	Manufacturing Industry	VANASPATI AND EDIBLE OILS	631	2,214.5	520.9	23.5
24.	Manufacturing Industry	OTHERS	52,580	1,87,849.6	47,155.5	25.1
25.	Trading	CHAIN STORES	668	1,182.2	400.3	33.9
26.	Trading	RETAILERS	17,168	5,970.8	1,700.9	28.5
27.	Trading	WHOLESALERS	25,707	10,798.0	3,697.9	34.2
28.	Trading	OTHERS	90,732	27,213.3	7,516.9	27.6
29.	Commision Agents	GENERAL COMMISION AGENTS	4,136	979.5	297.3	30.3
30.	Builders	BUILDERS	18,965	7,968.3	2,216.8	27.8
31.	Builders	ESTATE AGENTS	3,671	284.6	80.7	28.4
32.	Builders	PROPERTY DEVELOPERS	29,269	17,394.8	4,323.5	24.9
33.	Builders	OTHERS	19,975	3,436.9	875.5	25.5
34.	Contractors	CIVIL CONTRACTORS	10,913	13,843.9	4,268.0	30.8
35.	Contractors	EXCISE CONTRACTORS	28	9.1	3.3	35.9
36.	Contractors	FOREST CONTRACTORS	9	308.0	115.9	37.6
37.	Contractors	MINING CONTRACTORS	880	3,263.6	918.7	28.2
38.	Contractors	OTHERS	11,640	6,795.8	2,347.1	34.5
39.	Professionals	CHARTED ACCOUNTANTS, AUDITORS, ETC.	86	2.8	0.8	30.2
40.	Professionals	FASHION DESIGNERS	88	34.6	9.3	26.7
41.	Professionals	LEGAL PROFESSIONALS	340	32.0	9.5	29.6
42.	Professionals	MEDICAL PROFESSIONALS	1,884	402.6	122.1	30.3
43.	Professionals	NURSING HOMES	1,048	282.3	90.8	32.1
44.	Professionals	SPECIALTY HOSPITALS	1,390	1,771.9	556.9	31.4
45.	Professionals	OTHERS	5,953	1,255.2	424.0	33.8
46.	Service Sector	ADVERTISEMENT AGENCIES	3,152	2,000.3	695.1	34.7
47.	Service Sector	BEAUTY PARLOURS	370	28.0	9.3	33.2
48.	Service Sector	CONSULTANCY SERVICES	19,278	12,169.7	3,076.4	25.3
49.	Service Sector	COURIER AGENCIES	563	556.6	231.8	41.7
50.	Service Sector	COMPUTER TRAINING/EDUCATIONAL AND COACHING INSTITUTES	3,688	1,277.0	404.3	31.7

Sl. No	Sector	Industry	Number of Companies	Profit before tax (in ₹ crore)	Total tax (in ₹ crore)	Effective tax rate (in %)
51.	Service Sector	FOREX DEALERS	940	365.0	116.4	31.9
52.	Service Sector	HOSPITALITY SERVICES	5,169	1,636.1	512.3	31.3
53.	Service Sector	HOTELS	6,875	2,693.6	738.5	27.4
54.	Service Sector	I.T. ENABLED SERVICES, BPO SERVICE PROVIDES	16,051	55,330.6	16,244.3	29.4
55.	Service Sector	SECURITY AGENCIES	2,119	739.3	287.6	38.9
56.	Service Sector	SOFTWARE DEVELOPMENT AGENCIES	13,136	1,00,121.8	24,527.7	24.5
57.	Service Sector	TRANSPORTERS	4,740	9,037.0	2,389.3	26.4
58.	Service Sector	TRAVEL AGENTS, TOUR OPERATORS	4,902	1,322.8	446.8	33.8
59.	Service Sector	OTHERS	74,399	93,852.0	27,812.6	29.6
60.	Financial Service Sector	BANKING COMPANIES	233	1,02,223.6	41,158.1	40.3
61.	Financial Service Sector	CHIT FUNDS	2,742	510.0	159.7	31.3
62.	Financial Service Sector	FINANCIAL INSTITUTIONS	570	10,190.7	3,860.5	37.9
63.	Financial Service Sector	FINANCIAL SERVICE PROVIDERS	2,545	9,994.9	2,997.3	30.0
64.	Financial Service Sector	LEASING COMPANIES	514	2,528.4	545.3	21.6
65.	Financial Service Sector	MONEY LENDERS	323	160.3	39.4	24.6
66.	Financial Service Sector	NON BANKING FINANCE COMPANIES	8,470	70,829.9	20,780.9	29.3
67.	Financial Service Sector	SHARE BROKERS, SUB-BROKERS, ETC.	3,658	10,056.7	2,520.3	25.1
68.	Financial Service Sector	OTHERS	15,949	39,259.0	10,998.5	28.0
69.	Entertainment Industry	CABLE T.V. PRODUCTIONS	414	260.1	78.3	30.1
70.	Entertainment Industry	FILM DISTRIBUTION	355	1,615.0	566.3	35.1
71.	Entertainment Industry	FILM LABORATORIES	43	11.0	2.9	26.4
72.	Entertainment Industry	MOTION PICTURE PRODUCERS	709	896.2	317.9	35.5
73.	Entertainment Industry	TELEVISION CHANNELS	393	4,670.7	1,343.4	28.8
74.	Entertainment Industry	OTHERS	4,538	3,440.1	899.3	26.1
75.	Others	OTHERS	32,433	34,129.6	11,087.3	32.5
	Total		**5,97,884**	**12,67,408**	**3,57,968**	**28.24**