

Government breathes easy as direct tax collections rises 26% till August

The direct tax collections rose 26% in the first five months of the current fiscal, belying fears of a drop in government revenue because of the slowdown.

The 2011-12 budget has assumed a 19% increase in direct tax collections. However, net tax collections were down in April-August 2011-12 to Rs 96,738 crore from Rs 100,113 crore from a year ago because of a 154% increase in tax refunds, data released by [finance ministry](#) on Thursday showed.

The decline in net collections, the amount Centre gets to keep after giving states' their share, will put pressure on government's finances. The finance ministry has pegged the fiscal deficit for the current year at 4.6% of GDP, but has already exhausted 55% of that limit in the first four months.

India's economy expanded only 7.7% in the first quarter, down over a percentage points from 8.8% expansion in the corresponding quarter last year. "Huge tax refunds mean that, the advance taxes paid by the corporate sector based on their expectations of growth have to be returned as their expectations didn't materialize", said Sunil Sinha, senior economist, [CRISIL](#), a rating agency.

This would mean that corporate tax collections should drop going ahead. Gross corporate tax collection was up 29.7% at Rs 96,597 crore against Rs 74,463 crore last year. Gross personal income tax collections rose 20% to Rs 57,582 crore. "On the whole, the government will miss its fiscal deficit target by 0.4-0.5%. Due to the slowdown in GDP, the tax collection will be hit," said Sinha.

The finance ministry is still maintaining that it will stay within the budgeted

deficit, confident that its tax department will raise 10% more revenue than budgeted.

"First quarter trends reflect that the government would be able to meet the deficit targets as set in the Budget Estimates"- the ministry said in its quarterly review of the receipts and expenditure tabled in Parliament earlier this week.

It has attributed the fall in net collections to front-loading of tax refunds and expects this will even itself out over the entire fiscal. The government refunded `57,622 crore of taxes in the first five months against Rs 22,505 crore in the same period last fiscal.

The indirect tax collections were up 27% in April-July 2011-12 over the year-ago period, indicating that the sharp deceleration in the industrial growth is yet to impact government revenues.

(Economic Times)