Govt proposes to increase tax scrutiny, reduce refunds

With slowing economic growth impacting tax revenue collections, the finance ministry is proposing to make good the shortfall by shifting its focus to companies operating in the still rapidly growing consumer economy and a closer scrutiny of the top 100 assessees to check for any tax evasion.

Signalling this, finance secretary R.S. Gujral, who was addressing the annual income-tax (I-T) commissioners' conference, also directed field staff to go slow on I-T refunds, which had aggregated a record Rs95,278 crore in 2011-12.

The move could potentially draw a sharp response from Indian industry.

"Given the overall sentiment post the recent controversy around the general anti-avoidance rules and the retrospective amendments, the government's move will be taken in a negative way. There could be an adverse impact on the markets as well," said Soumya Kanti Ghosh, director (economics and research) at industry lobby group Federation of Indian Chambers of Commerce and Industry. The tax department should instead focus on bringing more assessees under the tax net, he said.

"Monsoon appears to be weak so far, and if it does not improve, then the rural economy will collapse, which will have a direct impact on these sectors," said Venu Srinivasan, chairman of TVS Motor Co. Ltd. "In that case, I really don't know if the government will be able to do so (follow through on its plans)."

The government is targeting to collect Rs5.7 trillion in direct taxes this fiscal. But given the slowdown in manufacturing and economic growth, this target could be difficult to achieve. While the Index of Industrial Production contracted by 3.5% in March, fourth quarter gross domestic product (GDP) growth slowed to 5.3%.

"Sectors which are expected to do well this year include consumer goods, software industry, two-wheeler industry, cement, infrastructure," Gujral said. "Banks will see improvement in profitability and the steel industry will also see some improvement in demand. With crude prices stabilizing, OMCs (oil marketing companies) should also show a significant improvement in profitability. We should focus on sectors which are doing well and take a closer look at the tax collections from these sectors."

Direct tax refunds jumped 30% last year from Rs74,000 crore in 2010-11. This fiscal, due to a sharp increase in online tax filings, the government was expecting a higher outgo on account of tax refunds.

“Refunds during the year should not exceed those of last year. Refunds last year were at around Rs95,000 crore. We should try to contain the refunds to less than Rs95,000 crore,” Gujral said.

The tax department has also been asked to re-examine the tax payments of the top 100 industrial assessees to see if there are any cases of evasion.

“It is an extremely challenging time. Fiscal deficit last year was 5.8%. GDP growth has slipped sharply and current account deficit (on the balance of payments) is also close to 4%. There is a need to augment revenue collections significantly and simultaneously ensure that we spur growth,” Gujral said. “Given that the targeted (nominal) GDP growth is around 14% in nominal terms, a 15% growth in direct taxes is not unachievable and not difficult.”

Last fiscal, the government managed to collect Rs.4.95 trillion in net direct taxes, compared with the budget estimate of Rs.5.32 trillion and the revised estimate of Rs5 trillion, as corporate earnings were hit due to the prevailing economic scenario. Growth in gross corporate taxes was 11.52% at Rs3.96 trillion and personal income tax was up 16.2% at Rs1.93 trillion. But what hit tax revenue hard was that the two most important zones—Mumbai and Delhi—saw corporate tax collections growing at less than 3%.

“With a growth of 6.5% and an inflation of around 7.5-8%, our collection of direct taxes should have been higher. The tax-GDP ratio should have also shown improvement,” Gujral said. “Last year, there were some sectors that were stressed, due to which tax collections dipped.”

Gujral pointed out that most banks, OMCs, and steel, coal, power and capital goods companies saw a sharp fall in advance tax payments in 2011-12.

Also speaking at the conference, finance minister Pranab Mukherjee said the tax target for the current fiscal was “modest” and achievable given that growth momentum is expected to pick up in the current fiscal and real GDP growth is expected to be above 7%.

Experts were unimpressed by the measures being contemplated by the finance ministry.

“Delaying refunds is just putting off the problem for another year. The interest piles up and the final outgo increases,” said B.M. Singh, a former chairman of the Central Board of Direct Taxes. “There is no provision in law which aids the government to deliberately delay refunds. It is more an administrative measure.”

(Livemint.com)