ANNEX - 12

Revenue foregone under the Central Tax System:Financial Years 2005-06 and 2006-07

Introduction

The main objective of any tax system is to raise revenues to fund Government expenditures. The amount of revenue raised is determined to a large extent by tax bases and tax rates. It is also a function of a range of measures – special tax rates, exemptions, deductions, rebates, deferrals and credits – that affect the level and distribution of tax. These measures are sometimes called "tax preferences". They have an impact on Government revenue (i.e. they have a cost) and reflect the policy choices of the Government.

Tax preferences may be viewed as subsidy payments to preferred taxpayers. Such implicit payments are referred to as "tax expenditures" and it is often argued that they should appear as expenditure items in the Budget. In this context, the basic issue is not one of tax policy but one of efficiency and transparency – programme planning requires that the policy objectives be faced explicitly; and programme budgeting calls for the inclusion of such outlays under their respective programme headings. Tax expenditures are spending programmes embedded in the tax statute.

A tax expenditure or a revenue foregone statement was laid before Parliament for the first time during Budget 2006-07 by way of annexure-12 of the Receipts Budget 2006-07. It was well received by all quarters and gave rise to constructive debates 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.

Like last year, this document 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 foregone on account of such tax incentives has been estimated only in respect of major items of tax preferences over which there is no ambiguity. The estimates are for financial year 2005-06, the last year for which data is available. However, an attempt has also been made to estimate the revenue loss during financial year 2006-07 on the basis of the revenue foregone figures of 2005-06, or actual figures for 2006-07 (April-September).

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 the short-term impact analysis. They are developed assuming that the underlying tax base would not be affected by removal of such measures. To the extent 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.

(b) The cost of each tax concession is determined separately, assuming that all other tax provisions remain unchanged. Many of the tax concessions do, however, interact with each other. Strictly, the interactive compounded impact of tax incentives could turn out to be different from the revenue foregone calculated by adding up the estimates and projections for each provision.

The assumptions and methodology adopted to estimate the revenue foregone on account of different tax incentives are indicated at the relevant places in this document.

I. Direct Taxes

The Income-tax Act, inter alia, provides for tax preferences to promote savings by individuals, exports, balanced regional development, creation of infrastructure facilities, employment, donations for charity and rural development, scientific research and development, the cooperative sector and accelerated depreciation for capital investment. Most of these tax benefits can be availed of by both corporate and non-corporate taxpayers. Here it is attempted to estimate the tax expenditures on the major items.

A. Corporate Sector

Large business is mainly organised as companies. The tax expenditure on companies is also large. For the purposes of estimating the tax expenditure, data pertaining to 3,01,736 companies was culled out from the database of the Income-tax Department. The availability of such huge and rich data was possible due to the Government's decision to make it mandatory for companies to file their income-tax returns electronically. Till 31st January, 2007, 3,01,736 companies had filed their returns electronically and this constitutes about 90% of the total returns expected in financial year 2006-07. This sample size is many times higher than the sample size of 1689 companies used last year.

The data was analysed and the following facts emerged:-

- The companies covered reported Rs. 4,08,444 crore as profits before taxes (losses were reported by about one-third of the sample) but declared a total income (taxable income)[1] of Rs. 2,48,758 crore only during the financial year 2005-06 (for which returns of income were filed in financial year 2006-07).
- These sample companies paid Rs. 78,669 crore as corporate tax during the same financial year.
- These companies also paid Rs. 5,139 crore as Fringe Benefit Tax and Rs. 8,033 crore as Dividend Distribution Tax during the same financial year.

Table 1 profiles the sample companies across profit range. Companies with profits above Rs. 500 crore – a total of 113 – accounted for 49.87 per cent of the total profits before taxes, and their share in total taxes was 49.46 per cent. But their effective tax rate[2] was only 19.10 per cent which is lower than the sample companies having profits before taxes of up to Rs. one crore. **The effective tax rate of the entire sample was 19.26 per cent, which was substantially lower than the statutory tax rate of 33.66 per cent.**

The total income as a percent of profits before taxes is much higher (75.36 per cent) for companies with profits before taxes of up to Rs. one crore than that for the total sample (60.90 per cent). This indicates lesser deviance from profits before taxes in the case of relatively smaller companies as compared to larger companies possibly because of higher tax concessions being availed by the latter.

[1] *The term "total income", in income-tax returns, represents taxable income as would be implied in common parlance.*

[2] *Effective tax rate is the ratio of total taxes paid to the total profits before taxes and expressed as a percentage.*

Table 1: Profile of Companies across range of profits before taxes (financial year 2005-06)

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 Payable (in %)	Total Income as a percent of Profits Before Taxes	Effective Tax Rate (in %)
1	Less than Zero	101456	0.00	0.86	0.28	-	-
2	Zero	20020	0.00	7.67	3.79	-	-
3	Rs 0-1 Crore	164352	3.87	4.78	4.87	75.36	24.29
4	Rs 1-10 Crore	12642	9.32	8.90	8.94	58.17	18.49
5	Rs 10-50 Crore	2382	12.45	10.70	11.10	52.33	17.17
6	Rs 50-100 Crore	425	7.34	5.74	6.22	47.67	16.33
7	Rs 100-500 Crore	346	17.16	14.05	15.33	49.87	17.21
8	Greater than Rs 500 Crore	113	49.87	47.30	49.46	57.76	19.10
9	All Sample Companies	301736	100.00	100.00	100.00	60.90	19.26

The figures in Table 1 clearly indicate that the companies in the middle of the distribution i.e those having profits before taxes between Rs. 10 and 500 crore, are the ones paying the least tax. The effective tax rates of these companies are above 2 per cent lower than that of the entire sample.

Table 2 profiles the sample companies across effective tax rates. Companies with average effective rate of less than 20 per cent accounted for 51.47 per cent of total profits before taxes but only 20.36 per cent of total income and 19.43 per cent of total corporate income tax paid. In other words, a large number of companies (1,74,412) contributed disproportionately lower amount in taxes in relation to their profits. Further, 85,280 companies comprising 15.17 per cent of total profits contributed 34.29 per cent of the total corporate income tax. **Therefore, the tax liability across companies is unevenly distributed. This is primarily due to the various tax preferences in the statute.**

Table 2: Profile of Companies across effective tax rate (financial year 2005-06)

Sl. No.	Effective Tax Rate (in %)	Number of Companies	Share in Total Profits (in %)	Share in Total Income (in%)	Share in Total Corporate Income Tax Payable (in%)
1	Less Than Zero and Zero	118357	5.39	1.69	0.28
2	0-20	56055	46.08	18.77	19.15
7	20-25	7850	14.63	16.17	16.92
8	25-30	9882	8.73	11.90	12.56
9	30-33.66	24312	9.99	15.82	16.81
10	>33.66	65219	15.17	28.06	30.50
11	Indeterminate	20061	0.00	7.67	3.79
12	All Sample Companies	301736	100.00	100.00	100.00

The tax foregone on each tax concession claimed by the sample companies has been calculated by applying the corporate tax rate of 33.66 per cent on the amount of each deduction. The revenue foregone on account of accelerated depreciation has been calculated by first determining the difference between the depreciation debited to the profit and loss accounts by companies and the depreciation allowable under the Income-tax Act. Thereafter, the corporate tax rate of 33.66 per cent has been applied to this difference to arrive at the revenue foregone figure.

A different methodology has been adopted to calculate the revenue foregone on account of weighted deduction for expenditure on scientific research and development since this deduction was not captured in the income-tax returns filed electronically. The revenue foregone on this account in financial year 2004-05 was Rs. 2318 crore. This was 2.8 per cent of the total corporate tax collection in financial year 2004-05. The revenue foregone on this account in financial years 2005-06 and 2006-07 has been computed at 2.8 per cent of the actual collection of corporate income tax in 2005-06 and the revised estimate for 2006-07.

Based on the revenue foregone figures for financial year 2005-06, it has been attempted to estimate the revenue foregone during the current financial year, i.e. 2006-07. The estimation for 2006-07 has been done by calculating the ratio of revenue foregone on each tax incentive in 2005-06 to the actual corporate income tax collected in the year and then applying the same ratios to the revised estimates of corporate income tax collections in 2006-07 to determine the revenue foregone on each tax incentive in the year. **Table 3** depicts the major tax expenditures on corporate taxpayers in terms of revenue foregone during financial year 2005-06 and 2006-07.

Table 3: Major tax expenditure on corporate taxpayers during financial years 2005-06 and 2006-07

Sl. No.	Nature of incentive/deduction	Revenue Foregone (in Rs. Crore) (2005-06)	Revenue Foregone (in Rs. Crore) (2006-07)
1	Export profits of STPI units and units located in SEZs, EPZs and FTZs (section 10A and 10AA)	6870	9938
2	Export profits of Export Oriented Units [EOUs] (section 10B)	1787	2585
3	Export profits of units manufacturing items of artistic value (section 10BA)	1	1
4	Accelerated Depreciation (section 32)	641	927
5	Weighted deduction for scientific research and development (section 35(2AB))	2839	4107
6	Donations to charitable trusts and institutions (section 80G)	3519	5090
7	Donations for scientific research or rural development (section 80GGA)	244	353
8	Contributions to political parties (section 80GGB)	1	1
9	Profits of certain industrial undertakings or a ship or a hotel business (section 80-I)	1	1
10	Profits of undertakings engaged in development of infrastructure facilities, SEZs and Industrial Parks, generation of power, and providing telecommunication services (section 80-IA)	10893	15757
11	Profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)	2	3
12	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)	6233	9016
13	Profits of undertakings set-up in North Eastern States, Sikkim, Uttaranchal and Himachal Pradesh (section 80-IC)	1531	2215
14	Profits from business of collecting and processing of bio-degradable waste (section 80JJA)	17	25
15	Deduction in respect of employment of new workmen (section 80JJAA)	9	13
16	Deduction in respect of certain incomes of Offshore Banking Units [OBUs] and International Financial Services Centre [IFSC] (section 80LA)	30	43
	TOTAL	**34618**	**50075**

A notable feature of **Table 3** is the sharp fall in the revenue foregone on account of accelerated depreciation from Rs. 27077 crore in 2004-05 to Rs. 641 crore only in 2005-06. This sharp decrease is on account of the policy initiative in the Union Budget 2005-06 to cut back the general depreciation rate for plant & machinery from 25 per cent to 15 per cent. Effectively, the depreciation for tax purposes has now been reduced to reflect the accounting depreciation.

Further, the other two notable features of **Table 3** are the amount of revenue foregone on account of deduction of profits earned by undertakings from development of infrastructure (section 80-IA) and 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, etc (section 80-IB). In case of section 80-IA, the revenue foregone for 2004-05 in last year's statement had been calculated as Rs. 5,832 crore whereas, the figures are much higher for financial years 2005-06 and 2006-07. Similarly, in case of section 80-IB, the revenue foregone for 2004-05 had been calculated as Rs. 11,523 crore whereas, the figures are lower for financial years 2005-06 and 2006-07. The difference in both the cases is primarily due to the small sample size of 2004-05 (1689 companies) as compared to the large sample of 2005-06 (3,01,736 companies). However, if the revenue foregone on account of both is taken together (in any case, the two deductions are of similar nature) then the figures are consistent and follow a trend.

Similarly, the difference seen in respect of revenue foregone on account of area-based tax concessions (section 80-IC) is also attributable to the above reason.

B. Co-operative Sector

Section 80 P of the Income-tax Act allows a deduction of the whole of the amount of profits and gains of a co-operative society attributable to the activity of carrying on the business of banking or providing credit facilities to its members. The three broad categories of co-operative banks availing this deduction are:-

- Urban Co-operative Banks
- State Co-operative Banks
- Central Co-operative Banks

However, the deduction is not available to cooperative banks (other than Primary Agricultural Credit Societies [PACS] and Primary Cooperative Agricultural and Rural Development Banks [PCARDs] with effect from 1st April, 2007 (i.e assessment year 2007-08 and financial year 2006-07).

The Directorate of Income Tax (Research) carried out a study on the revenue implication of deduction under section 80 P in the case of Urban Cooperative Banks and brought out its findings in a report in March 2002. The report concluded that the revenue loss on account of allowing this deduction to Urban Co-operative Banks amounted to Rs. 872 crore in F.Y 1999-2000 and Rs. 982 crore in F.Y 2000-01. The revenue loss was worked out by applying the applicable tax rates in the corresponding assessment years to the aggregate deduction claimed under section 80 P. The aggregate deduction claimed under section 80 P was worked out by taking the average of the aggregate net profits and aggregate deduction claimed under section 80 P as the two figures differed substantially. The revenue loss calculated for all Urban Co-operative Banks (referred to as UCBs hereafter) amounted approximately to 20% of the income of scheduled UCBs.

Assuming that the ratio of incomes of scheduled and unscheduled UCBs remained unchanged, the revenue loss on account of this deduction for all UCBs has been worked out at 20% of the income of scheduled UCBs for financial year 2005-06. The methodology now followed is same as the methodology used for calculating the revenue foregone for financial year 2004-05.

In case of State Co-operative Banks, the revenue loss has been worked out by calculating the revenue loss in case of Scheduled UCBs as a percentage of the income of scheduled UCBs and then applying the same percentage to the income of such State Co-operative Banks. For Central Co-operative Banks also the same methodology has been adopted. This percentage worked out to 4.5.

The income of scheduled UCBs for financial year 2005-06 has been taken from the Report of the Reserve Bank of India. For State and Central Cooperative Banks, the income for 2005-06 was not available. However, the incomes for 2002-03, 2003-04 and 2004-05 were available in the same report and the income for 2005-06 has been estimated by following the trend of the previous two years.

The gross revenue loss in financial year 2005-06, on account of deduction under section 80P to cooperative banks, has been estimated at Rs. 1632 crore, as shown in **Table 4**. The table also depicts that there would not be any revenue loss on this account in financial year 2006-07 as the deduction under section 80P for co-operative banks has been withdrawn vide Finance Act, 2006. Revenue foregone under section 80P for other co-operative activities could not be computed for both the years due to non-availability of data but the revenue loss should be small.

Table 4: Tax expenditure on co-operative taxpayers during financial years 2005-06 and 2006-07

Sl. No.	Nature of incentive/deduction	Revenue Foregone (Rs. in crore) (2005-2006)	Revenue Foregone (Rs. in crore) 2006-2007)
1	Profits of co-operative banks from banking activities	1632	Nil
2	Profits of primary agricultural credit societies from banking activities	N.A	N.A
3	Profits of other primary co-operative societies from supplying milk, processing and marketing of agricultural produce, fishing, etc	N.A	N.A
	TOTAL	**1632**	**Nil**

Note : N.A. denotes 'Not Available'

C. Individual Taxpayers

The major tax expenditures on individual taxpayers in the financial year 2005-06 were the higher basic exemption limits for senior citizens (individuals aged 65 years or more) and women (other than senior citizens) and deduction available under section 80C of the Income-tax Act on a variety of investments in savings instruments (insurance premia, equity linked savings scheme, etc) and certain payments (repayment of housing loans, payment of tuition fees of children, etc).

The revenue foregone on account of higher basic exemption limits, as aforesaid, has been calculated by multiplying the revenue foregone per senior citizen and woman with their respective numbers. Their respective numbers have been estimated from the total number of returns of income filed by individuals for financial year 2005-06. As per data collected from the field formation of the Income-tax Department, the total number of returns filed by individuals for financial year 2005-06 was 2,42,14,698. Assuming that 10 per cent of the total returns were filed by senior citizens, the number of senior citizens availing the higher exemption limit is 24,21,470. Out of the balance returns of 2,17,93,228, it has been assumed that 20 per cent have been filed by women. Therefore, the total number of women availing an exemption limit of Rs. 1,35,000 is 43,58,646.

The revenue foregone per senior citizen is Rs. 12,240 as the tax liability (including education cess) on an income of Rs. 1,85,000 (which is the basic exemption limit for senior citizens) is Rs. 12,240. Similarly, the tax liability per woman (who is not a senior citizen) is Rs. 3,570 as that is the tax liability on an income of Rs. 1,35,000 (the basic exemption limit for women who are not senior citizens). The estimates for 2006-07 have been done by assuming a 10 per cent growth in number of returns filed by senior citizens and women for financial year 2006-07 over what was filed for financial year 2005-06. The assumption is justified as growth in total number of returns filed by all individuals has been about 15 per cent over the last two years.

The revenue foregone on account of deduction under section 80C of the Income-tax Act has been estimated by assigning different levels of investments in savings instruments and payments of tuition fees of children for different income categories of individual assessees. Thereafter, the tax liability on the average total income (income after deduction under section 80C) and average gross total income (income before deduction under section 80C) of each category has been estimated. The difference between the total tax on total income and the total tax on gross total income gives the figure of revenue foregone on account of deduction under section 80C. This figure has been estimated to be Rs. 9030 crore for financial year 2005-06. This is approximately 17 per cent of the total taxes collected from individual tax payers in 2005-06. The same percentage has been applied to the expected tax collection from individuals in 2006-07 (Rs. 62,000 crore) to arrive at the revenue foregone figure for 2006-07.

The total revenue foregone on account of higher exemption limits to senior citizens and women and on account of deduction under section 80C is shown in **Table 5**.

Table:5 Major tax expenditure on individual taxpayers during the financial years 2005-06 and 2006-07

Sl. No	Nature of incentive	Revenue Foregone (in Rs. crore) (2005-2006)	Revenue Foregone (in Rs. crore) (2006-2007)
1	Higher exemption limit for senior citizens	2964	3260
2	Higher exemption limit for women	1556	1712
3	Deduction on account of certain investments and payments	9030	10540
	TOTAL	**13550**	**15512**

II. Indirect Taxes

A. Excise duties

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, the various Finance Acts specify the rates at which these duties should be levied. The rates specified in various enactments are known as the “tariff” rates of excise duty. Government has been delegated powers under Section 5A(1) of the Central Excise Act, 1944 to issue notifications in public interest to prescribe duty rates lower than what are prescribed in the Schedule. These rates prescribed by notifications are known as the “effective” rates.

Accordingly, the revenue foregone is the difference between duty that would have been payable but for the issue of the notification, and the actual duty paid in terms of the relevant notification. Therefore:

Revenue foregone = Value X (Tariff rate of duty – Effective rate of duty)

In case of goods subjected to specific rates of duties, the revenue foregone figures are obtained by substituting the value by quantity.

Duty foregone is, thus, zero if tariff rate is equal to the effective rate.

In 2006-07 budget, an attempt was made to make an estimate of revenue foregone for 2004-05 on the basis of available information. Information relating to the value of clearances was obtained from periodic returns filed by the duty paying units in respect of clearances made by them, and the duty paid. However, it was noticed that the data were not comprehensive.

Units, which make only exempted goods, are not registered and are not required to file any returns with the department. As such, no data was available in respect of clearances by such units.

The data generated by the excise department is captured by SERMON, a system that compiles the returns received from the Commissionerates. While working out the revenue foregone estimates for 2004-05, it was noted that the figures of revenue foregone were apparently rather low. It was realized that in the absence of a well-organized and comprehensive computerization, it would be difficult to estimate the revenue foregone with any great degree of accuracy. Despite this, a beginning was made in 2006-07 budget, and it was recognized that there was a need to refine the system and thereby improve the reliability of the estimates. The SERMON data base captures data on the basis of entries made by field formations in 23 different zones of Central Excise. It is still at a nascent stage. To improve the quality of the data, completeness and accuracy of data captured from different zones were comprehensively reviewed by the Department, and various shortcomings were noticed. Some of these were:

- For specific rated items, the quantity was not properly reflected resulting in lesser duty foregone figure.
- There were problems in working out the revenue foregone in cases where the effective duty was specific, but the tariff rates were ad valorem. In some of these cases, the values were not declared (such value not being relevant for assessment purposes).
- Interchanging of ad valorem and specific rates resulted in erroneous capture of data.
- In some cases, the effective rate was taken as the tariff rate, though the tariff rates were in fact much higher.
- Inaccurate data capture on account of wrong feeding of rates.
- Effective rates shown as higher than tariff rates thus resulting in negative revenue foregone figures.

One of the basic reasons why the quality of duty foregone figures was not adequate was that SERMON software did not validate the data fed into the system. From 1st April, 2006, the SERMON system has been equipped to validate the data at the time of data entry in the software itself. This has improved the quality of the data. The estimates of revenue foregone for 2005-06 are more reliable than the estimates for 2004-05, and there has been further improvement in the quality of data for 2006-07.

In 2005-06, SERMON data captured gross revenue of Rs. 97293 crore representing 82 per cent of the actual gross revenue collection of Rs. 118,542 crore This has been blown up to 100 per cent by assuming that the same pattern of coverage also applies to the remaining 18 per cent.

Subject to the limitations discussed above, excise duty foregone during 2005-06 on account of exemption notifications is estimated at Rs.62,610 crore. The estimates for 2006-07 have been made on the above methodologies, but based on data for the period April-September, 2006-07. The revenue foregone estimated for 2006-07 is Rs.92,690 crore. If the revenue foregone figures for 2006-07 on TV sets and petroleum products were proportionately distributed to work out the 2004-05 revenue foregone figures, it would have been Rs. 52,790 crore.

The inaccuracy of data in SERMON had understated the revenue foregone figures in 2004-05 and 2005-06 because of various factors indicated above. To illustrate the effect of just one factor, in 2006-07, the revenue foregone figures for Television sets show an amount of Rs12,704 crore for April – September, 2006 (Rs.31,252 crore on an annualized basis) but revenue foregone on TV sets has not been reflected in 2004-05, as the effective rate of 16% was taken to be the tariff rate, while in 2005-06 and 2006-07, the tariff rate is taken as Rs. 34,000 per set or 16%, whichever is higher. In case of petroleum products, there was considerable underreporting of revenue foregone. These deficiencies have been gradually controlled. Thus while figures for 2005-06 are somewhat more accurate, the 2006-07 figures more or less comprehensively include the revenue foregone based on the difference between tariff rate and effective rate. The process of working out the revenue foregone data is being continuously reviewed, and the Department expects to make further improvement in working out the revenue foregone numbers.

The revenue foregone figures above do not include the revenue foregone under area based exemptions. Figures for this have been separately collected and are given in **Table 6** below:

Table-6 Tax expenditure under Excise duty regime

Sl. No.	Details of exemption	Revenue foregone (in Rs. crore) 2005-06 (Provisional)	2006-07 (Estimates)*
1.	Area based exemptions applicable in North Eastern States, Uttaranchal, Himachal Pradesh, Jammu and Kashmir and Kutch District of Gujarat	4150	7000
2	Other exemptions	62610	92690
	Total	**66760**	**99690**

*[*Based on actuals for 2006-07 (April-September, 2006)]*

The estimates of revenue foregone presented do not include revenue foregone on account of ad hoc exemption orders issued under Section 5A(2) of the Central Excise Act, 1944, that tend to relate to circumstances of an exceptional nature.

B. **Customs duties**

Customs duty is levied as per the rates specified in the Schedule to the Customs Tariff Act, 1975. The Customs Tariff Act, 1975 also provides for levy of additional duty of customs (commonly referred to as countervailing duty or CV duty), which is levied at a rate equal to the duties of excise leviable on such goods if they were manufactured in India. As already indicated these duties of excise are levied under various Finance Acts, which specify the rates at which these duties should be levied. The rates specified in various enactments are known as the 'tariff rates'. The Central Government has been delegated powers under Section 25A(1) of the Customs Act, 1962 to issue notification in public interest to prescribe duty rates lower than what are prescribed in the Schedule. These rates prescribed by notifications are known as the 'effective rates'.In the context of customs duty, the revenue foregone is thus defined to be the difference between duty that would have been payable but for the issue of the notification, and the actual duty paid in terms of the relevant notification. In sum:

Revenue foregone = Value X (Tariff rate of duty – Effective rate of duty).

Duty foregone is, thus, zero if tariff rate is equal to the effective rate.

The estimate of revenue foregone for 2005-06 on account of issue of various exemption notifications is based on the data generated from Bills of Entry filed in the Indian Customs Electronic Data Interchange System (ICES) at various Electronic Data Interchange (EDI) locations. The EDI data, however, are not complete, as certain ports are outside EDI. Besides, the EDI data did not capture Bills of Entry in respect of imports by EOUs, Warehouse Bills of Entry and where manual Bills of Entry are filed in EDI locations.

2.2 The revenue foregone data takes into account the exemptions from basic customs duty, CV duty and also exemption notifications issued under Central Excise Tariff Act, 1985, which are relevant for levy of CV duty.

For 2005-06, gross customs revenue captured by EDI data is Rs.48756 crore as against actual gross revenue collection of Rs. 66537 crore. EDI data thus represents about 73% of actual reported gross revenue collection for 2005-06. Therefore, the revenue foregone estimates are based on a fairly large sample.

EDI data has been blown up to work out the estimated revenue foregone for the year 2005-06, with appropriate adjustments wherever required. It has been seen that EDI data coverage is particularly low for edible oils, petroleum products, crude petroleum and some other items. Data on actual revenue realized from these items was collected separately. When the actual revenue from these two commodities is added to EDI data, the coverage went up to Rs.60982 crore or about 92% of the total revenue. This still leaves a shortfall of about 8% from the actual revenue. In the absence of any other data, it has been assumed that composition of import of goods giving the balance revenue was unchanged and was the same as per the EDI data. After suitable inflation of the data base, the duty foregone 2005-06 on account of all exemption notifications is estimated at Rs. 1,27,730 crore.

For 2006-07, similar methodology has been adopted to the revenue data for the period April-September, 2006 and the data has been blown up for the year to work out the estimated revenue figures for 2006-07. This amount is Rs.1,23,682 crore.

The revenue foregone data for each of the chapters of Customs Tariff Act is given in **Table 7** as under:

Table-7 Estimates of major tax expenditure under the Customs duty regime

(Rs. in crore)

Chapter	Brief Description of Goods	2005-06 (Provisional)	2006-07 (Estimated)
1	Live animals	1	1
2	Meat and edible meat offal	0	0
3	Fish and crustaceans, other aquatic invertebrates	9	3
4	Dairy Products	5	16

(Rs. in crore)

Chapter	Brief Description of Goods	2005-06 (Provisional)	2006-07 (Estimated)
5	Other products of animal origin	8	16
6	Live trees and other plants	2	3
7	Edible vegetables, certain roots and tubers	882	1437
8	Edible fruit and nuts	1132	1169
9	Coffee, tea, mate and spices	295	308
10	Cereals	3	538
11	Products of the milling industry	5	11
12	Oilseeds, grains, seeds, fruits	51	65
13	Lac, gums and resins	75	101
14	Vegetable plaiting materials	0	0
15	Animal or vegetable fats	4750	3747
16	Preparations of meat or fish	1	0
17	Sugar	1105	33
18	Cocoa	14	13
19	Preparations of cereals	45	50
20	Preparations of vegetables	24	11
21	Miscellaneous edible preparations	87	99
22	Beverages and spirits	213	152
23	Residues and waste from food industry	0	78
24	Tobacco	2	3
25	Salt, sulphur earths and stone	135	215
26	Ores	566	1810
27	Mineral fuels and mineral oils	28773	22615
28	Inorganic chemicals	1692	2145
29	Organic chemicals	4713	5231
30	Pharmaceutical products	1180	1025
31	Fertilizers	2030	2855
32	Tanning and dyeing extracts, pigments	220	270
33	Essential oils	97	114
34	Soap and washing preparations	69	81
35	Albuminoidal substances	49	53
36	Explosives, matches	6	14
37	Photography goods	124	95
38	Miscellaneous chemical products	723	1070
39	Plastics	1396	1718
40	Rubber	418	549
41	Hide and skins and leather	195	263
42	Articles of leather	14	20
43	Fur skins	5	13
44	Wood	605	823
45	Cork	0	1
46	Manufactures of straw	0	0
47	Wood Pulp	243	274
48	Paper	713	978
49	Printed books, newspapers	388	380
50	Silk	294	273
51	Wool	837	303
52	Cotton	2891	2987
53	Other Vegetable fibres	84	44
54	Man made filaments	3345	2648
55	Man made staple fibres	718	371
56	Wadding and non wovens	67	42
57	Carpets	24	21
58	Special woven fabrics	5288	2553
59	Coated textile fabrics	467	295
60	Knitted fabrics	188	153
61	Knitted ready made garments	12	8
62	Woven garments	51	23
63	Made ups	65	46
64	Footwear	63	113
65	Head gear	1	1
66	Umbrellas	11	6
67	Feathers/artificial flowers	1	1
68	Articles of stone, plaster	44	63
69	Ceramic products	144	164
70	Glass and glass ware	167	172
71	Precious stones, jewellery	16934	22168
72	Iron and steel	6306	7034
73	Articles of iron and steel	1024	2072
74	Copper and articles thereof	419	525
75	Nickel and articles thereof	210	311

(Rs. in crore)

Chapter	Brief Description of Goods	2005-06 (Provisional)	2006-07 (Estimated)
76	Aluminum and articles thereof	685	967
78	Lead and articles thereof	156	147
79	Zinc and articles thereof	281	607
80	Tin and articles thereof	27	40
81	Other base metals	98	96
82	Tools and implements	247	219
83	Miscellaneous articles of base metals	73	81
84	Machinery	10733	13683
85	Electrical machinery	16773	7968
86	Railways or tramways locomotives, rolling stocks etc.	182	84
87	Motor vehicles	1229	1590
88	Aircrafts	244	600
89	Ships, boats and floating structures	634	554
90	Optical/photographic instruments	2438	2507
91	Clocks and watches	14	10
92	Musical instruments	7	1
93	Arms and ammunitions	280	222
94	Furniture etc	95	176
95	Toys and games	81	90
96	Miscellaneous manufactured articles	133	167
97	Works or art, antiques	1	7
98	Project imports, baggage	601	1003
	Total	**127730**	**123682**

The above figures of revenue foregone include export-related input taxes. The split up for various export promotion schemes is given below separately. Most items in **Table 8** below may not be termed incentive schemes, since they largely represent input tax credit that has to be allowed in order to offer a level playing field to our exporters in international markets. In this sense, the revenue foregone from customs duties should be scaled down to the extent of revenue foregone for various export promotion schemes.

Table 8. Revenue Foregone on account of Export Promotion Concessions

(Rs. In crore)

S.No.	Name of the Scheme	2005-06 (Provisional)	2006-07 (Estimated)
1.	Advance Licence Scheme	13261	17610
2.	EOU/EHTP/STP	10277	13651
3.	EPCG	5332	8648
4.	DEPB Scheme	5650	4873
5.	SEZ	1070	2146
6.	DFRC	815	824
7.	Duty Free Import Authorization Scheme	-	530
8.	DFCEC Scheme	585	1266
9.	Target Plus Scheme	500	3120
10.	Vishesh Krishi and Gram Udyog Yojana	60	800
11.	Served from India Scheme	40	300
	Total	**37590**	**53768**

The above does not include revenue foregone on account of exemption notifications issued under Section 25 (2) of the Customs Act, 1962.

Conclusion

Table 9 depicts the revenue foregone figures for financial years 2005-06 and 2006-07 for both direct and indirect taxes.

Table – 9 Revenue Foregone in financial years 2005-06 and 2006-07 (in Rs. Crore)

	Revenue Foregone in 2005-2006 (Provisional)	Revenue Foregone as a percent of Gross Tax Collection in 2006-2007	Revenue Foregone in 2006-2007 (Estimated)	Revenue Foregone as a percent of Gross Tax Collection in 2006-2007
Corporate Income-tax	34618	9.45	50075	10.70
Personal Income-tax	13550	3.70	15512	3.32
Co-operative Sector related	1632	0.45	Nil	...
Excise Duty	66760	18.23	99690	21.31
Customs duty	127730	34.87	123682	26.44
Total	244290	66.70	288959	61.76
Less Export credit related	37590	10.26	53768	11.49
Grand Total	**206700**	**56.43**	**235191**	**50.27**

Notes: *(1) Gross Tax Collection refers to the aggregate of direct and indirect tax collected by the Central Government.*

(2) The figures of Gross Tax collection for 2005-06 are actuals while those for 2006-07 are revised estimates

To conclude, the figures shown in this statement are more comprehensive and realistic than the previous year's statement. As more information becomes available, the estimated for revenue foregone should also improve. What is possible to conclude is that revenue foregone remains high in terms of overall revenue collection. While it was 52.03 per cent of gross tax revenue in 2004-05, it has gone up to 56.43 per cent in 2005-06. In 2006-07, it is projected to reduce to 50.27 per cent.