

Wide gap between tax receipts and Budget target sparks concern

● Analysts see up to ₹1 lakh crore shortfall in gross tax revenues

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THE UNION GOVERNMENT would need its gross tax revenues (GTR) to grow at a daunting rate of 21.4% in the second half of the current financial year (H2) to meet the Budget Estimate (BE) of ₹42.7 lakh crore for the year as a whole.

Given that nominal GDP growth might hover around 8-9% in the year, this would require tax buoyancy of 2-2.5, which is hardly seen in recent years. A significant shortfall in GTR against the BE seems likely, but the Centre might still manage to meet its fiscal deficit target of 4.4% of the gross domestic product (GDP) for the year, down from 4.8% in 2024-25, thanks to robust dividend payout of ₹2.56 lakh crore from the Reserve Bank of India (RBI), and the savings expected on some expenditure heads. Yet, the fiscal chal-

lenges are manifold: higher demand for subsidies from the ministries/agencies concerned, the need to keep pace with the budgeted capex (it grew 40% on a low base on H1) and a lower-than-budgeted nominal GDP in the benign inflation scenario.

In FY26, the GTR should be 12.5% higher compared to the provisional estimates of FY25 to meet the Budget target.

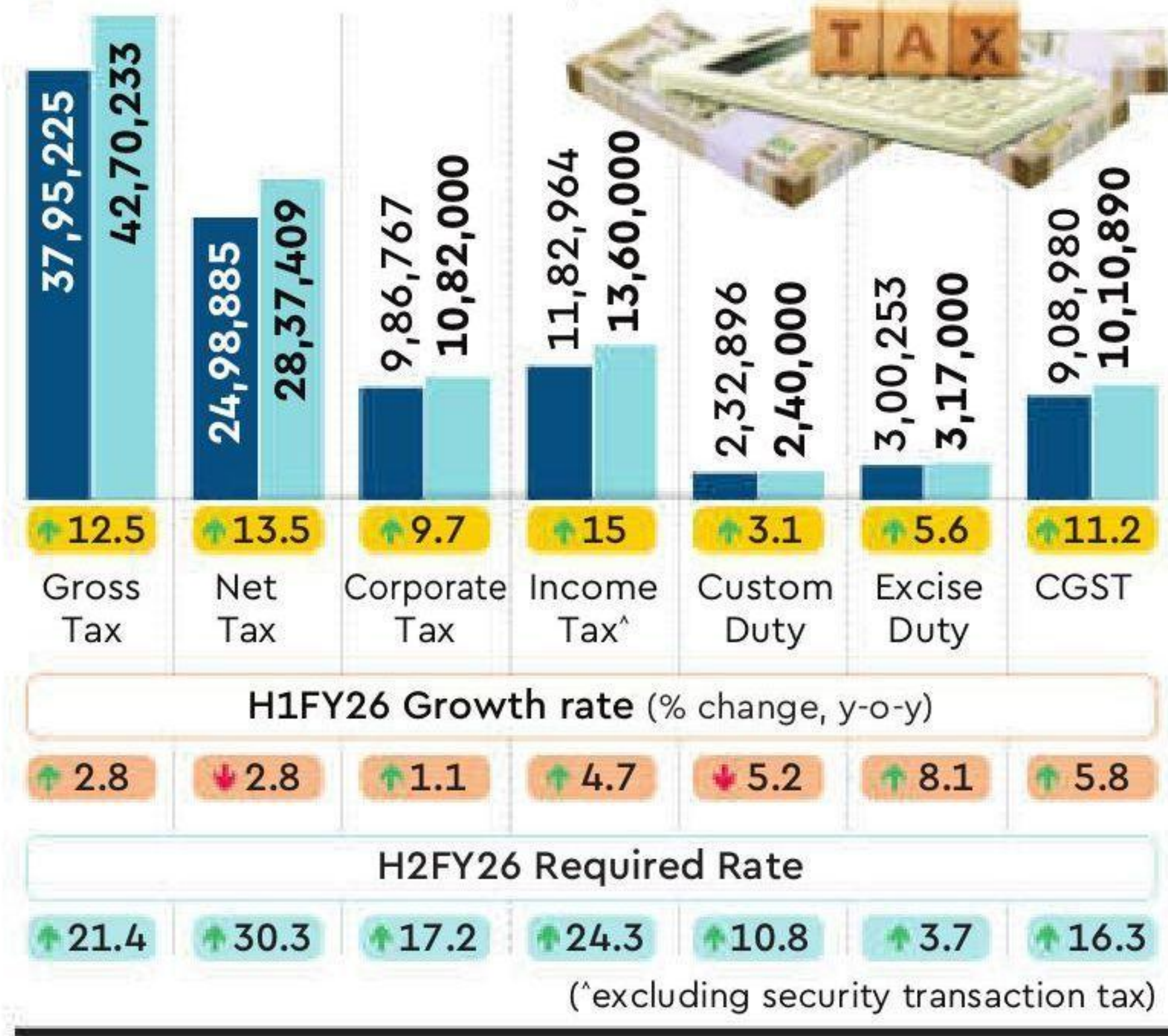
However, the Centre's first half (H1) collection was ₹18.65 lakh crore, a rise of just 2.8% in comparison to the corresponding period of last year. In H1 of FY25, GTR grew 12% on year. To meet FY26 BE, the GTR in H2 should be ₹24.04 lakh crore in absolute terms.

This looks tough considering the GTR growth rate in the H2 of FY25. The ask rate to meet FY25 budget estimate in H2 last fiscal was 10.5%, however, actual growth stood at 7.4% with ₹19.81 lakh crore collected in the period.

The FY25 BE for GTR was ₹38.40 lakh crore (revised estimates ₹38.53 lakh crore) but the provisional collection was ₹37.95 lakh crore, reflecting a shortfall of ₹44,945 crore against the BE.

MONEY MATTERS

(All figures in ₹ crore) ■ FY25 Provisional ■ FY26 BE
▲ Growth rate in tax collection (% , y-o-y)

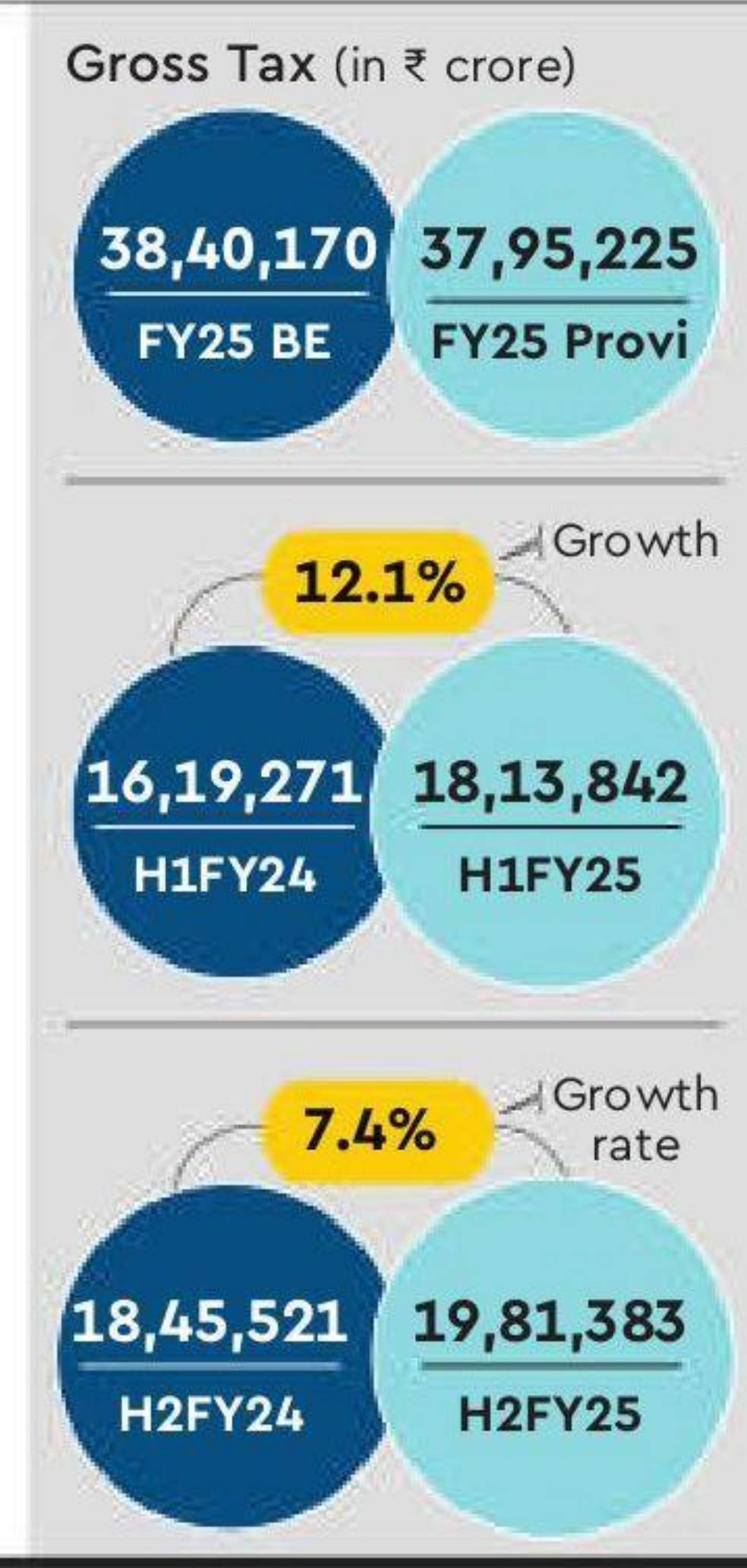


In terms of net tax revenue (post-devolution), the required rate in the second half stands at 30.3%, which indicates a front-loading of the tax revenue transfers to the state from the divisible pool.

The slowing of the tax revenue growth comes amidst major overhaul in direct and

indirect tax regimes, the Goods and Services Tax (GST) rate rationalization and a quantum jump in the personal income tax (PIT) exemption threshold up to ₹12 lakh.

Former president of the Institute of Chartered Accountants of India Ved Jain sees higher PIT exemption level as



a challenge in meeting the budgetary target.

"The corporate tax collection is doing well but PIT is not doing so well. A large number of taxpayers, particularly salaried employees earning up to ₹1 lakh per month are virtually out of the tax net," Jain said. He, however, indicated that the

GST rate reduction may not have a high (negative) impact on revenues as it is expected to boost the purchasing power of the people and money will get more into circulation.

"Corporate tax collection may improve because of the GST relief so the shortfall in personal income tax might get compensated," Jain said.

The income tax collection in the first half was ₹5.91 lakh crore and it needs to be ₹7.68 lakh crore in the second half to meet budget estimates of ₹13.60 lakh crore. The required growth rate year-on-year stands at 24.3%. Similarly, to meet corporate tax and central GST target, the tax collection in the second half should be ₹6.15 lakh crore and ₹5.44 lakh crore respectively with a required rate of 17.4% (corporate tax) and 16.3% (CGST).

Credit rating agency ICRA is apprehensive that GTR may undershoot the BE by ₹70,000 crore to ₹1 lakh crore.

"Overall, the required growth for direct taxes in H2 seems optimistic, given the onset of steep US tariff and penalty on exports and sustained pressure of input costs on corporates' profitability,

although GST rate rationalisation is likely to support volumes and/or nudge premiumisation," ICRA said.

NR Bhanumurthy, director at Madras School of Economics, however, expressed optimism about the Centre achieving the BE for GTR, citing higher (real) GDP growth. He projected it to be around 7%, higher than the 6.3%-6.8% range forecasted for FY26.

"The lower revenue may be in indirect taxes, particularly because of the GST reforms introduced by the government. However, the Revenue Secretary has clearly mentioned that the shortfall due to GST rate cuts will be compensated by an increase in demand. This will be reflected in the November GST revenue," he said.

Bhanumurthy also pointed to market indications that post-festival demand has not declined this year compared to last year.

"There should be some pick-up, and if this trend continues, I don't foresee a major shortfall in revenue mobilisation compared to the budget estimates," he added.