A Sharp Analysis: Revenue Forgone (Corporate Incentives) vs. Subsidies to Poor

Thursday, January 22, 2015 Discussion, Economy, Government No comments

"The problem of how we finance the welfare state should not obscure a separate issue: if each person thinks he has an inalienable right to welfare , no matter what happens to the world, that's not equity, it is just creating a society where you can't ask anything of people"—Jacques Delors, French Economist

Modern States were defined as welfare states and hence they are expected to take care of its citizens who are unfortunately deprived of basic needs like food, shelter and education which are required to lead a dignified life and survive in the era of cut throat competition. So, from time to time different governments enacted different schemes to alleviate poverty both with a view to develop vote banks as well as to reduce poverty in the country but failed to ensure these things meet their objectives and succeed in enhancing the standards of living of people. In course of time, as the objective is not served, these things became burdensome to the successive governments which are now aiming to cut these subsidies provided to poor in the name of reforms and development.

Is cutting subsidies the only way to reduce fiscal deficit or is there any other means which improves deficit situation thereby enhancing the revenues of the government? Let us check.

Table 1: Corporate Incentives vs. Subsidies to poor (Figures in crores)

Year	Corporate Incentives(A)	Subsidies (B)	GDP at Current market Prices	A as % of GDP	B as a % of GDP
2009-10	461370	141351	6477827	7.12	2.18
2010-11	422879	173420	7784115	5.43	2.22
2011-12	494207	217941	9009722	5.48	2.41
2012-13	532699	257079	10113281	5.26	2.54
2013-14	532509	255516	11355073	4.68	2.25

Source: Union Budget Documents. Corporate incentives adjusted for personal income tax

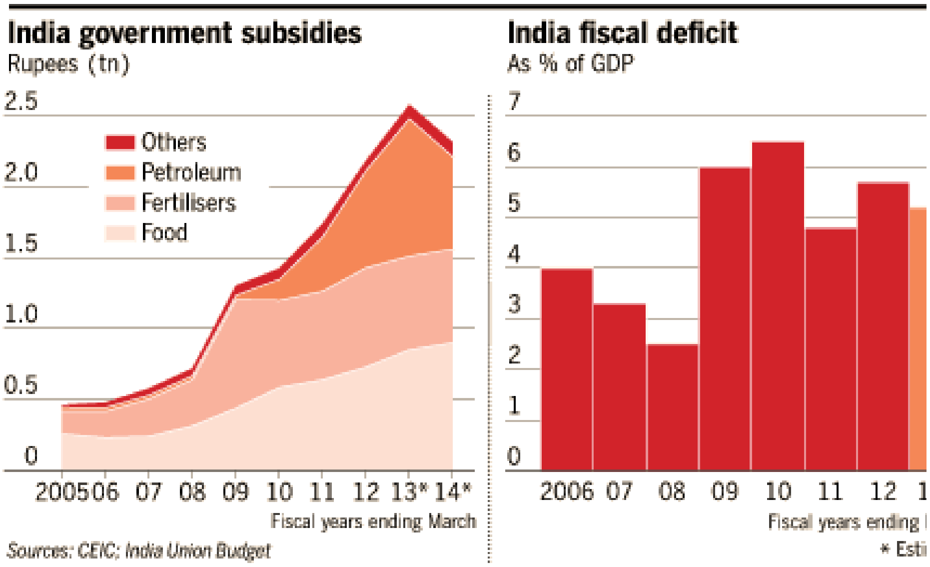
If we deeply delve into the statistics one should be shell shocked to know that the benefits received by Corporate India in the form of different incentives is mindboggling and stands at much higher levels than the subsidies provided to poor and farmers for their survival as revealed in the above Table. Budget figures for Financial Year 2013-2014 estimates the incentives received by Indian companies amounts to around 5,30,000 crores(adjusted to personal taxes) where as subsidies provided to common man are placed at 2,55,0000 crores. But still governments are not bothered to increase their revenues by cutting these incentives where ever possible. It is shocking to know that duty write offs in last 3 financial years from 2011 amounted to around 1,30,000 crores on luxury items like Gold, Jewellery and Diamonds which enjoy inelasticity of demand. When incentives to these luxury items can be given then why not subsidy on LPG to a common man who is struggling to meet his ends. At least partial withdrawal of duty write offs will easily bring in lakh of crores of rupees to the exchequer.

How much poor are really subsidized?

Subsidy Head	2009-10	2010-11	2011-12	2012-13	2013-14(RE)
a. Food	58443	63844	72822	85000	92000
b. Fertilizer	61264	62301	70013	65613	67971
c. Petroleum	14951	38371	68484	96880	85480
Major Subsidy(a+b+c)	134658	164516	211319	247493	245451
Total Subsidy	141351	173420	217941	257079	255516
As % of GDP	2.18	2.22	2.42	2.56	2.26

Source: Union Budget Documents. RE = Revised Estimates. Figures in crore rupees

Irony of our development model is that on one hand we talk of highly sophisticated achievements like successfully completing Mars Mission and on the other hand we failed to secure food and energy security to all its citizens as still many depend on kerosene for cooking and lighting purposes and it is estimated that at least 70,000 villages have not seen electricity till date even after 60 years of independence. According to Rajeev Gandhi Grameen Vidyutikaran Yojana—a programme launched by UPA government in April 2005 a village is declared as electrified by the government if it has basic infrastructure like (i) distribution transformer lines in the locality, (ii) electricity to public places like schools, panchayat office and health centers (iii) and at least 10% of total households are electrified.



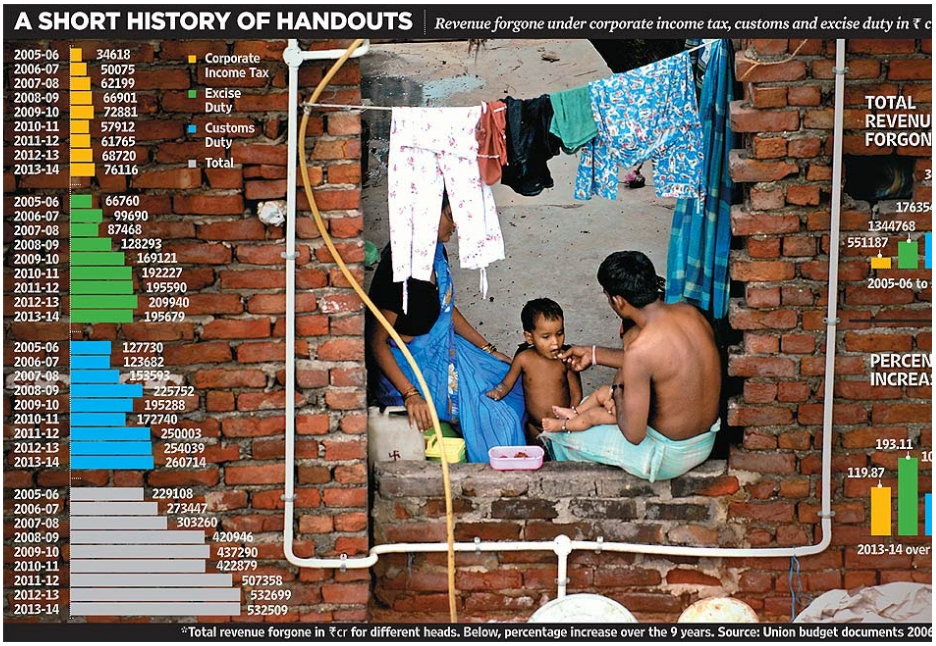
Pic courtesy : ft.com

In the year 2011 Organization for Economic Cooperation and Development(OECD) released a report titled 'Divided We Stand – Why Inequality is Rising' after studying 7 Emerging Economies v.i.z Brazil, Russia, India, China, Argentina , Indonesia and South Africa which comprises 50% of world population and contributes 20% to world GDP. This report concluded India spends the least amount as a fraction of its GDP among these countries on welfare schemes and has around 42% of population earning less than $1.25 a day. Besides our welfare schemes doesn't incorporate social security, unemployment benefits, pensions to aged population etc which are available to the citizens of developed countries. In India major chunk of subsidies goes for basic things like Public Distribution Scheme so as to secure Food Security to its citizens, Fuel like petrol, diesel, kerosene and LPG and Fertilisers besides certain welfare schemes like MNREGA to provide guaranteed employment to the youth of rural areas.

Major criticism on these subsidies is they won't reach the desired person but are diverted and misused. If there are any loop holes government is expected to plug them so as to prevent leakages in the system but not to completely throw it out. It won't be difficult for a government to identify and tax a person who is owning a diesel engine car rather than uniformly increasing diesel prices which will ultimately have cascading effect and may fuel inflation. Of late mobile tower companies also emerged as one of the largest consumers of diesel. When such a large scale corporate consumer can be easily identified there is no point in providing subsidized diesel to them which is meant for poor.

WHAT IS REVENUE FOREGONE:

Revenue foregone is a fancy description for indirectly providing benefits to corporate world in the form of tax exemptions. In simple words it is the revenue which is lost to the exchequer as government provides concessions or tax exemptions to encourage corporates under different schemes. We can understand the incentives given for promoting companies in remote areas as it will benefit the local population in generating employment or incentives given to exporters to earn foreign exchange. But the question is how long they should be given and to whom they should be given. Can we afford to give concessions for luxury items like diamonds, gold or jewelry which enjoys inelastic demand and cry foul at subsidies provided to a common man or at funds allotted for Employment guarantee schemes like MNREGA without which a sizable chunk of population will die out of poverty?



Pic courtesy: outlookindia.com

Government started announcing a revenue foregone statement from the financial year 2006-2007. Since then, statistics shows that, government of India lost around a whopping 36 lakh crores as an incentive to corporate India. We doesn’t have statistics to show how corporates benefitted prior to 2006. How much of this benefit given to corporates eventually flows back to the society? Is there any mechanism to measure these things? If certainly corporates are not paying back to the society than what they are receiving then government of India should concentrate its energies in enhancing revenues by cutting incentives which will automatically fill its coffers but not by targeting already burdened common man. At least bear minimum 20% cut in corporate incentives will add one lakh crores to the exchequer of government (refer table 1).

Is there any criterion for giving such incentives?

On what basis government of India is giving incentives to corporates. I doubt there is some criterion when and why incentives should be given to corporates. Budget documents are revealing incentives to corporates even in prosperous period. For instance from 2001 – 2008 across the globe including India was a period of prosperity. We can understand the world after subprime crisis in 2008 during which one can expect help from the governments including bigger corporates. But Union Budget documents are revealing corporates received incentives even during prosperous period and as well as during period of economic hardship. Surprisingly incentives on luxury items which enjoy inelastic demand like gold, diamond and jewelry amounted to 61676 crores in Fiscal 2012-13 there by contributing to 21% of share in total revenue foregone whereas revenue foregone on Crude Oil and mineral oil during the same period was 64780 crores accounting to 22% of total revenue foregone. And revenue foregone on fertilizers is just 2% of total revenues lost i.e. a paltry sum of 6943 crores in fiscal 2012-13. Recent reports on gold in the month of November 2014 revealed that only 6 firms accounted for 40% of total gold imported between April – September. It means indirectly through these duty write offs only few are getting benefited. Besides, at least 2 gold traders' names figured in black money probe list and it is also rumored that it has names of few corporate biggies. It is also surprising to know that effective tax paid by small scale companies earning less than a crore is 26% where as effective tax on large scale corporate amounted to around 21%. It is clearly suggesting people after getting incentives and enriching themselves are hoarding money abroad but not pumping the same in the society at the cost of which they benefitted.

REVENUE FOREGONE ON GOLD, DIAMONDS & JEWELLERY (IN RS. CRORE) 2005-06 TO 20

Year	Gold, diamonds & jewellery	% share of customs duty exemption	% share of tota revenue foregon
2005-06	16935	13.26	7.39
2006-07	25672	18.72	9.77
2007-08	25586	16.66	8.44
2008-09	27649	12.25	6.57
2009-10	42440	20.41	9.43
2010-11	49164	28.46	11.63
2011-12	65975	27.85	13.35
2012-13	61035	24.03	11.56
Total	314456	20.75	10.11

Source: Successive Union Budgets, Statement of Revenue Foregone
Figures are in rupee crore. One lakh crore = 1 trillion

Pic courtesy : thehindu.com

Conclusion:

For a nation which has cracked E=MC2 to join the elite club of nuclear powers and placed a low cost satellite on Mars, merely on the basis of its will power, identifying a true beneficiary of subsidies and helping them in leading a dignified life should not be a very difficult task. In the light of above discussion certainly it seems government of India owes an explanation to its citizens, especially when corporate incentives as a percentage of GDP are almost twice to subsidies given to poor, why it is helping corporates even in prosperous times, how many corporate committed not to lay off employees after receiving incentives in tough times, is it really necessary to give exemptions on luxury items like gold & diamonds and how much society is benefitted after losing such a massive amount of more than 3 trillion rupees in last 10 years in the form of incentives to corporate India.

What is your view on rationalising subsidies vs corporate incentives by the government?

Are Indian and foreign corporates doing good for social causes in comparison to what they are getting from government and society?

(Written by **Mazhar Mohammad**, Chief Strategist–Technical Research & Trading Advisory, @Chartview India)

An Analysis : SAARC (South Asian Association for Regional Cooperation) and its Relevance !!

None of the nation has sufficient power to choose its geographical neighbors. Its boundaries,

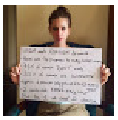
priorities, ideologies, governments etc. may...

Let's Make the World a Better Place to Live : An Eye for an Eye Will Make the Whole World Blind !!

I am afraid as I find a complete darkness and inhumanity all across for a moment. Recent terrorist attacks at various parts of the world h...

An Observation : IT Act 66A , Social Media and Fundamental Rights

Pic courtesy : barodarocks.com First of all, Many Thanks to the Almighty for blessing us all with lots of happiness, good opportunit...

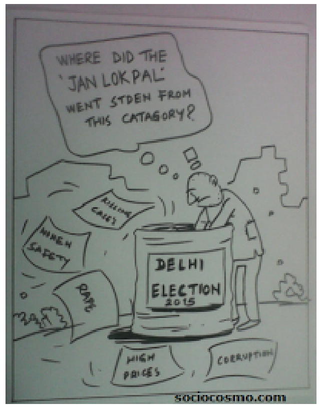


Women Empowerment : India & World

Women empowerment means the uplifting of women in social , cultural as well as in the economic ways, it is the process in which she ...

An Observation Regarding the Social Justice Bench of the Supreme Court of India

Pic Courtesy : thehindu.com The views of Aristotle regarding distributive justice have a great imbalance in the current scenari...



#Delhi elections

NEVER MISS UPDATES VIA FREE EMAIL !

Enter your email address:

Subscribe

Delivered by FeedBurner

ARTICLES ARCHIVE

Articles Archive ▼

Find us on Facebook

SocioCosmo

Like

2,701 people like SocioCosmo.

Facebook social plugin