Tax Expenditure and Budgetary Policies

Tax Expenditure corresponds to relaxations given when tax burden becomes difficult for the sustainability of a particular sector. **Tax exemptions or incentives** are given in the form of **lower rates of tax** relative to normal rates. Tax expenditures are revenue losses attributable to tax provisions that often result from the use of the tax system to **promote social goals** without incurring direct expenditures. Normally these exemptions are generated for particular purposes as tax incentives. [Why we are talking about this now : Because, UPSC asked a question in 2013 Mains as below : "What is meaning of the term tax-expenditure? Taking housing sector as an example, discuss how it influences budgetary policies of the government."

Tax Expenditure and its importance in Indian Economy

The term 'tax expenditure' is associated with budget. Though many are familiar with the concept of subsidies and its impact on Indian Economy, it seems not every one know the details of tax-expenditure. Tax-expenditure more or less has the same impact as subsidies as a necessary evil.

Tax expenditures can take many forms. Some result from tax provisions that **reduce the present value of taxable income** through deferral allowances, or special exclusions, exemptions, or deductions from gross income. Others affect a household's **after-tax income** more directly through tax credits or preferential rates for specific activities.

Why Tax Exemptions given are called Tax Expenditure?

If government didn't give any tax exemptions, this deducted amount would have belonged to government itself. Though Tax Expenditure are not direct spending by government, the concept of tax expenditure is that, government is giving back money to achieve certain social goals, like strengthening housing sector or industrial sector. But in actual sense, Government is not collecting money to be re-distributed later, but gives away tax exemptions.

Also read: Unified Payment Interface (UPI): Made Simple

Tax Expenditure and Budgetary Policies in Housing Sector

1. Exemptions allowed for deduction of HRA (Income tax) and various other income tax deductions and exemptions (Eg: Medical Premium).
2. Exemptions allowed for interest payment and principal repayment for housing loans.
3. Tax Expenditure in Union Budget 2013 : First home loan from a bank or housing finance corporation upto Rs. 25 lakh entitled to additional deduction of interest upto Rs. 1 lakh.

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7. NB: It should be noted that due to various policies of government, the number of persons who own houses have increased. More over, the people can afford to spend on infrastructure as they don't have to give taxes.

Tax Expenditure Budget

The tax expenditure budget comprises the estimated revenue losses attributable to various exclusions, exemptions, deductions, nonrefundable credits, deferrals, and preferential rates in the tax code. These provisions reduce the income tax liabilities of individuals or businesses that undertake certain types of activities.

Volume of Tax Expenditure and Subsidies

So we hope now it is clear that tax-expenditure corresponds to the revenue a government foregoes through the provisions of tax laws that allow deductions, exclusions, or exemptions from the taxpayers' taxable expenditure.

The revenue foregone from corporate and personal income taxes, estate, and customs duties amounts to near 6.5 per cent of GDP. As a share of revenue realised, the foregone revenue accounts to near 80%. As is it is clear, this is by now means a meager amount.

You might have heard opposition parties shouting about crony capitalism and excess favors done to corporates. Yes, you can connect tax expenditure right here. And that may be one of the reasons why UPSC asked this question. But UPSC was concerned only about Housing sector; so the answer should also be written from that perspective, highlighting the positives and negatives.