Estimating of Revenue Foregone (Direct Taxes)

Practical Exercise

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Group Exercise

- Excel file about the CIT returns
- 50 companies (taxpayer ID)
- 7 years (2016-2022)
- Statutory CIT rate is the benchmark tax rate
- Any reduced rates should be considered as Tax Expenditure

Group Exercise

- All companies start operating in 2016
- 5 companies are industrial park developers

  5-year holiday (0% until 2021)
- 5 companies are mining lease holders

  (taxed at 15%)
- 40 are subject to statutory CIT tax rate

Year	TaxRate
2016	25.75%
2017	25.00%
2018	25.00%
2019	25.00%
2020	24.00%
2021	24.00%
2022	24.00%

Data

All the necessary data is provided (loss to carry forward - calculated)

Year	Taxpayer ID	Special Mining Lease Holder	Industrial Park Developer	Loss prev. yr	Taxable Income (USD)	Taxable Income after loss prev. year	Loss to carry forward	Statutory CIT Rate
2016	4	0	1	-	(32,500,000)	(32,500,000)	(32,500,000)	25.75%
2017	4	0	1	(32,500,000)	8,688,474	(23,811,526)	(23,811,526)	25.00%
2018	4	0	1	(23,811,526)	4,674,824	(19,136,702)	(19,136,702)	25.00%
2019	4	0	1	(19,136,702)	6,514,302	(12,622,400)	(12,622,400)	25.00%
2020	4	0	1	(12,622,400)	8,901,000	(3,721,400)	(3,721,400)	24.00%
2021	4	0	1	(3,721,400)	9,020,500	5,299,100	-	24.00%
2022	4	0	1	-	10,786,018	10,786,018	-	24.00%
2016	5	1	0	-	11,628,365	11,628,365	-	25.75%
2017	5	1	0	-	18,680,424	18,680,424	-	25.00%
2018	5	1	0	-	4,939,251	4,939,251	-	25.00%
2019	5	1	0	-	4,615,684	4,615,684	-	25.00%
2020	5	1	0	-	8,160,723	8,160,723	-	24.00%
2021	5	1	0	-	1,274,283	1,274,283	-	24.00%
2022	5	1	0	-	(4,080,317)	(4,080,317)	(4,080,317)	24.00%

Tasks

Focus on two tax expenditures:

1. Reduced rate (15%) for Special Mining Lease Holders.
2. 5-year holiday for Industrial Park Developers

Calculate

1. Each firm's tax liability under the benchmark rate

What would total tax liability be in each year if all firms paid the Benchmark rate?

2. Tax liability for the mining lease holders and industrial park developers, in each year
3. Revenue foregone under the two tax expenditures, in each year

How to calculate

1. Each firm's tax liability under the benchmark rate

Taxable Income after loss prev. year * Statutory CIT Rate

(if taxable income<0 ➔ tax liability = 0)

2. Special Mining Lease Holder

Tax Liability: Taxable Income after loss prev. year * reduced rate (15%)

(if taxable income<0 ➔ tax liability = 0)

Revenue Foregone: Tax liability under Benchmark Regime - Tax Liability Mining Companies

2. Industrial Park Developer

Tax Liability: Taxable Income after loss prev. year * Statutory CIT Rate (only from 2021)

(if taxable income<0 ➔ tax liability = 0)

Revenue Foregone: Tax liability under Benchmark Regime - Tax Liability Mining Companies

Solution

Year	Sum of Tax liability under Benchmark Regime
2016	85,504,438
2017	87,145,408
2018	93,224,227
2019	74,774,284
2020	88,748,222
2021	78,063,365
2022	98,883,886
Total	606,343,831

Year	Sum of Revenue Foregone Mining companies
2016	3,464,213
2017	2,834,164
2018	5,017,831
2019	4,969,204
2020	3,744,746
2021	2,743,606
2022	2,942,604
Total	25,716,368

Year	Sum of Revenue Foregone Industrial Park Developers
2016	2,332,026
2017	4,356,125
2018	2,075,475
2019	2,943,738
2020	1,337,706
2021	-
2022	-
Total	13,045,069

Thank You!

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Questions?