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Who pays taxes and who doesn't : Tax compliance in India

Why in News:-

- According to the latest data on income tax collection released by The Central Board of Direct Taxes:
 - The number of taxpayers has increased drastically over the last four years.
 - The number of tax returns filed has surged to 6.85 crore in FY 2017-18, an 80% growth since FY 2013-14.
 - Also, the number of taxpayers reporting income greater than ₹1 crore has reached 1,40,139, an increase of 60% between assessment year (AY) 2014-15 and 2017-18.
- However, the tax collections have not shown commensurate increase.

Concerns with the Data as it show not so progressive tax collection:-

- Collections have grown at a decent compound rate of about 13% per annum.
- The average income reported by rich Indians (those in the highest tax slab) has decreased.
 - In fact, over the last five years, the share of the richest top 1% in the total tax collected has decreased by almost four percentage points.
- In contrast, relatively low income groups are paying a larger proportion of the tax collected.

Issue in Tax Compliance:-

- **Under Reporting:** While for the low tax slabs, the average reported income has also increased, this is not the case with high income groups.
 - The **Global Wealth Report 2018**, by Credit Suisse, suggests that at least 3,400 Indians have an annual income of more than ₹50 crore each. But only 179 of them reported this level of income to the taxman in AY 2017-18. Similarly, out of more than 1,500 Indians with an expected annual income of more than ₹100 crore each, only 61 reported to the taxman.
 - The share of reported non-salary income in the gross income of individuals has declined over the years which suggests that tax base has not deepened among professionals such as lawyers, doctors, accountants and those running private educational institutes, who continue to under-report their income.
- **Tax avoidance/ evasion by companies:** It is also remains an area of serious concern.
 - In AY 2017-18, a mere 7% of corporates reported profit before tax of more than ₹1 crore.
- While implementation of the GST will surely help stem tax evasion by semi-formal and mid-size companies by formalising their transactions, it cannot address the main problem: tax evasion and avoidance by HIs and big corporates.

Suggestions:-

- The law should mandate filing of returns by all professionals and proprietorship businesses regardless of their profit as current tax law does not require filing of returns if the income is below the taxable threshold (₹2.5 lakh). This will increase compliance by enabling the taxman to scrutinise suspicious cases. However the cost of tax assessment should not be greater than tax collection.
- There is also a case for the wealth tax. Compared to income, the wealth level is harder to manipulate; therefore, the tax is harder to evade.
- For companies, definition of admissible expenditures are susceptible to easy manipulation. These provisions are widely misused by corporates by claiming bogus expenses, to artificially reduce their profit and hence their tax liability. These provisions need re-examining.
- There is exponential growth in shell companies and other dubious structures which require systematic investigation.
- There is need to change the regressive tax regime into progressive one.
 - Going by the Budget papers 2018, the effective tax rate of companies with profit greater than ₹500 crore was only 23.94%, while it was higher at 29.43% for companies with profits less than ₹1 crore.
 - This may be due to small no. of big companies but value wise there is no such difference.

Way Ahead:-

- As study shows ***good governance is directly related to tax compliance rate*** as tax increases, ***accountability of government to the people*** is also increase which is an important pillar of good governance.
- So government should done all the necessary reform needed in tax laws as these measures will go in a long way in deepening the tax base among high-income groups and professionals.

THANK YOU

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