Central Board of Direct Taxes - Time Series Data – Part II

Click here for Part I

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Why in news?

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The Central Board of Direct Taxes has recently released the latest data on income tax collections.

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What does it reveal?

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- The number of taxpayers has increased drastically over the last four years.
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- The number of tax returns filed has surged to 6.85 crore in FY 2017-18, an 80% growth since FY 2013-14.
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- Also, the number of taxpayers reporting income greater than Rs. 1 crore has reached 1,40,139, an increase of 60% between assessment year (AY) 2014-15 and 2017-18.
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- However, the tax collections have not shown commensurate increase which is shown by itsdecent compound growth rate of only about 13% per annum.
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- Also, the average income reported by rich Indians (those in the highest tax slab) has decreased.
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- Over the last five years, the share of the richest top 1% in the total tax collected has decreased by almost four percentage points.
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- The same is the case with the top 5% income earners, wherein their

contributions to the total tax collected has decreased.
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- In contrast, relatively low income groups are paying a larger proportion of the tax collected.
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- This is despite the number of taxpayers has increased across all the tax slabs and more individuals report income in crores than ever before.
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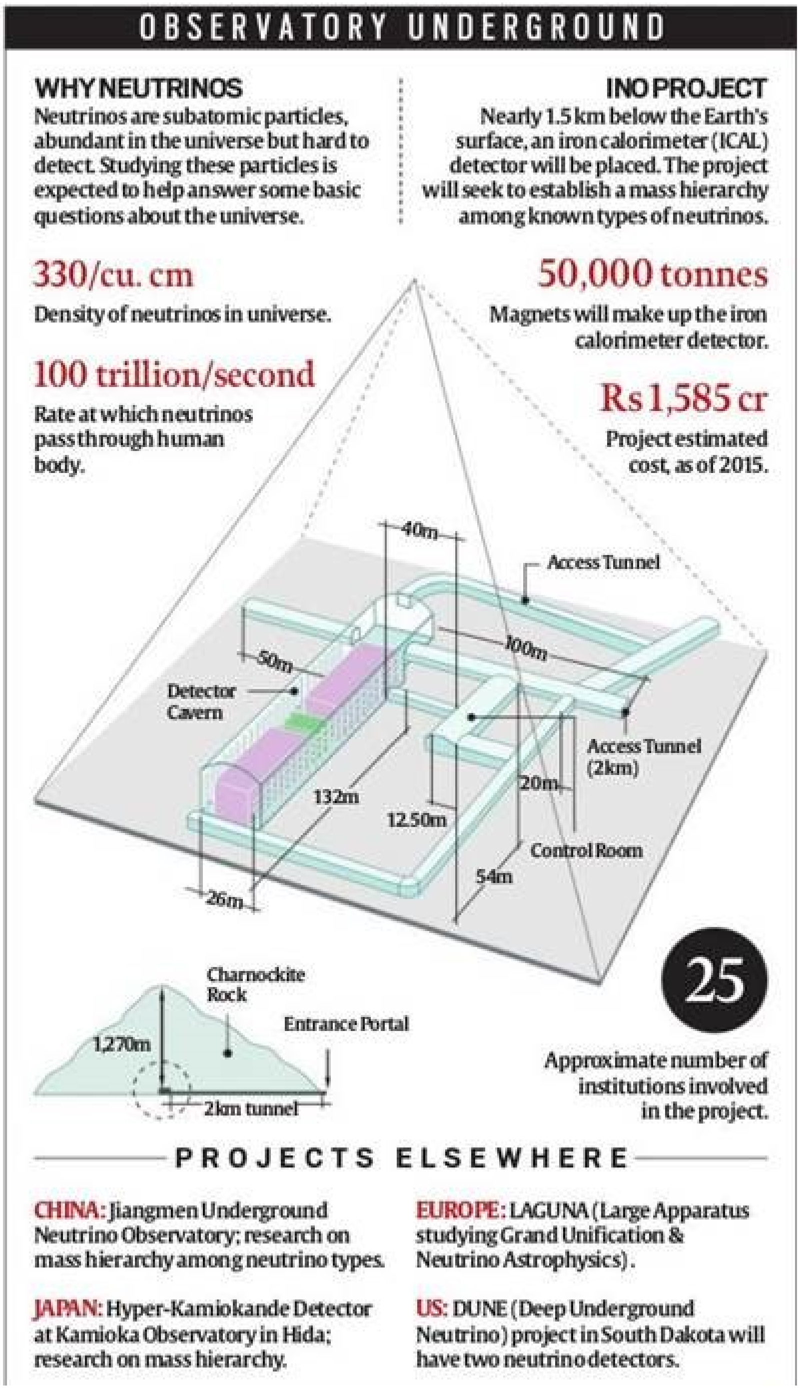

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What are the concerns?

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- Though the average reported income has also increased for the low tax slabs, this is not the case with high income groups.
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- After 2016, the average income reported by those in the highest tax slab is 13% less than their average just before 2016.
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- Thus a number of high-income individuals (HIIs) grossly **under-report** their income.
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- This shows that the Income Declaration Scheme of 2016 and other official measures announced to stem tax evasion by the rich have failed to achieve the desired results.
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- The Global Wealth Report 2018, by Credit Suisse, provides estimates of wealthy Indians and it suggests that at least 3,400 Indians have an annual income of more than Rs. 50 crores each.
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- However only 179 of them reported this level of income to the taxman in AY 2017-18.
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- Similarly, out of more than 1,500 Indians with an expected annual income of more than Rs. 100 crores each, only 61 reported to the taxman.
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- Besides, the share of reported non-salary income in the gross income of individuals has declined over the years from 48% in AY 2012-13to 43% in 2017-18.
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- This suggests that the 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.
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- **Tax avoidance/ evasion** by companies also remains an area of serious concern.
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- In AY 2017-18, a mere 7% of corporates reported profit before tax of more than Rs. 1 crore.
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- Again, the problem of under-reporting is serious with professional and the other service sector entities, which account for more than one-third of all corporates.
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- As a consequence, the share of direct taxes in the total tax collection has remained low.
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What are the improvements?

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- The tax collection figures for this year look better which is facilitated by schemes like the **Presumptive Taxation Scheme**.
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- There are two options available to pay income tax.
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- Under the first option, an assessee can compute taxable income on the basis of books of account.
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- The second option is Presumptive Tax Scheme wherein the income will be estimated on the basis of total turnover or gross receipts.
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- The scheme allows an assessee to take full benefit of past evasion and escape without scrutiny, simply by paying a turnover tax.
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- The limit of turnover or gross receipts has been raised recently to two crore rupees from the exiting one crore rupees to benefit about 33 lakh small business people.
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- It thus frees a large number of such assesses in the MSME category from the burden of maintaining detailed books of account and getting audit done.
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- Also, the scheme has been extended to professionals with gross receipts up to Rs. 50 lakhs with the presumption of profit being 50% of the gross receipts.
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- The scheme has since been attractive wherein the number of filers under the scheme shot up to 1.17 crore on August 31, 2018 from 14.93 lakh on August 31, 2017, which shows a growth rate of 681%.
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- However, things are expected to improve with proper implementation of the Goods and Services Tax (GST).
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- This tax generates trails of transactions across value and income chains.
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- Reports emanating from leading business centres like Surat indicate a

significant increase in tax collections, for direct as well as indirect taxes.
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- 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 of tax evasion and avoidance by HIIs and big corporates.
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What are the reforms needed in tax law?

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- **Individuals** - The present tax law does not require filing of returns if the income is below the taxable threshold (Rs. 2.5 lakh).
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- This means that many professionals who can easily manipulate their accounts never appear on the radar of the taxman.
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- The law should mandate filing of returns by all professionals and proprietorship businesses regardless of their profit.
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- This will increase compliance by enabling the taxman to scrutinise suspicious cases.
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- There is also a re-introduction of the wealth tax since the wealth level is harder to manipulate and the tax is harder to evade compared to income.
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- **Companies** - The tax law allows offsetting of past losses against future profits for companies and the definition of admissible expenditures in the law are susceptible to easy manipulation.
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- These provisions are widely misused by corporates by claiming bogus expenses, to artificially reduce their profit and hence their tax liability.
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- As much as 46% of corporates reported either losses or nil profit and another 47% reported profit less than Rs. 1 crore for AY 2017-18 and hence these provisions need re-examining.
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- A large number of companies showing negligible or no profit points to a continued prevalence of shell companies and other dubious structures which require systematic investigation.
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- Moreover, the numerous tax exemptions also come in handy for tax

avoidance and big corporates benefit more from these exemptions.
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- Consequently, smaller companies face a higher effective tax rate compared to larger corporates which makes the tax regime regressive.
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- The Budget papers 2018 shows that the effective tax rate of companies with profit greater than Rs. 500 crores was only 23.94%, while it was higher at 29.43% for companies with profits less than Rs. 1 crore.
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- **Administration** - There is also a need to enhance the deterrence power of the law, which depends on the likelihood of punishing tax evaders along with imposing a fine.
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- At present, the Income Tax Department has a very poor win rate before the appellate tribunal and the higher judiciary and the law does not bite enough to hurt the tax offender.
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- The odds of punishing the offenders can be increased by integrating the GST, the income tax and the Ministry of Corporate Affairs' databases.
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- These measures will go a long way in deepening the tax base among high-income groups and professionals.
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Source: The Hindu

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