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Some ‘taxing’ issues in India’s fiscal policy

What is the issue?

It is a myth that the poor don’t pay taxes as they pay a significant amount through indirect taxes

What are some popular misconceptions about fiscal policy in India?

- **Poor don’t pay taxes -** The poor pays all kinds of indirect taxes like GST, excise tax, sales tax when they buy a product.
- However the taxable middle-class feels that the poor enjoys all the subsidies without getting taxed.
- In reality the indirect taxes gets inflated by all kinds of indirect taxes imposed by both central and state governments on petroleum products.
- Today indirect taxes are becoming more important relative to direct taxes.
- **All rich pay taxes -** All rich people do not necessarily pay income tax.
- Only salaried people with TDS have no way to evade income taxes.
- Rich farmers in India need not pay agricultural income tax.
- Even a salaried individual, under current income tax regime, can earn around ₹7.5-8 lakh a year without paying any income taxes by making use of various exemptions.
- As a result the Indian tax system is becoming less progressive over time.
- **Real income of income tax payers got increased -** In the last budget tax rates and exemption limits for different income tax brackets are not changed.
- This affects the income tax payers adversely in an inflationary situation.
- When the prices go up by 10% everyone’s income also increases by 10%.
- People moving to higher income tax brackets have to pay a higher percentage of tax. It means their real income remains the same.
- **Government should stimulate demand through tax concessions -** The government can spend more money on infrastructure development instead of giving tax benefits or putting more money directly in the hands of the people.
- Spending on infrastructure projects will creates demand through productive job creation instead of subsidies.
- As a result money gets transferred to the poor by taxing the rich.
- This would increase net aggregate demand as the poor have a higher propensity to consume.
- On the other hand, better physical infrastructure is expected to attract more private investment which would in turn expand the productive capacity of the nation in future.
- The long-term trend growth rate of an economy depends on the growth of production capacity rather than the growth in aggregate demand.
- So additional government expenditure has bigger effect on aggregate demand than equal reduction in tax revenue.

- With the same level of budget deficit, it makes sense to rely on additional government spending rather than tax cuts to created demand.
- **Present tax concessions benefit the needful –** Consider health insurance which has GST at a high flat rate of 18%.
- A low-income senior citizen does not have to pay any income tax.
- Still he has to pay the 18% GST on health insurance premium without getting any tax deduction.
- Under Section 80D, he can only deduct the premium payment including the GST up to Rs 50,000.
- But a rich person with marginal income tax rate of 30 per cent plus surcharge would enjoy a significant tax benefit.
- **Disinvestment proceeds targets are not met -** Many express dismay over the huge shortfall in achieving the target of disinvestment proceeds.
- There is a distinction between strategic sale (that changes management and control, as in the case of Air India) and mere equity dilution (by selling some PSU shares).
- If strategic sales are not possible (because no strategic investor is forthcoming), it is better to wait rather than hastily sell at existing prices to present a better fiscal deficit number.
- The focus should be on efficiency improvement through disinvestment rather than raising money for the government.

Reference

1. https://www.thehindubusinessline.com/opinion/some-taxing-issues-in-indias-fiscal-policy/article65062129.ece