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Getting more from taxation

The government needs to expand the tax base and not tax the already-taxed some more. Sustainability and realisation of tax must be made the focus of the regime

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For corporate taxes, the number of legal business entities in India is staggering. However, those paying taxes make for a low number. (IE)

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Every year, budget planners are confronted with raising more taxes to increase the government's revenue while keeping taxpayers satisfied. However, more often than not, this exercise ends up loading more taxes onto the handful of sincere taxpayers as there is certainty about them paying up, and there is an assumed belief that they will be able to bear additional taxes given their profile. As a corollary to this, it is a tough call to bring the untaxed into the tax net; however, there is enough evidence that this approach is losing steam. In a country of more than 135 crore people, till July 31, 2022, only a little over 5.8 crore income tax returns (ITRs) were filed for 2022-23, which is just above 4% of India's population. Further, the number of people who declare their annual income as being above `1 crore is just 131,390. This brings to light the stark reality of how a sizeable chunk of Indians who should be paying taxes avoid paying them. This leads us to ponder over mopping up tax revenue without further taxing the taxed and by bringing tax evaders under the tax ambit. Even fractional rates of taxes on the untaxed can mop up significant revenue.

For corporate taxes, the number of legal business entities in India is staggering. However, those paying taxes make for a low number. Besides, we have a growing problem of online businesses operating from outside Indian territory and are yet allowed to sell competing goods and services in India. Regarding personal taxes, high taxpayers are only a small fraction of the total. The number of luxury cars far exceeds the number of taxpayers. This anomaly means the goods are funded by the evaders. No country can build a strong foundation with this.

India had 8.22 crore taxpayers, which includes individuals and corporates in FY20. In contrast, the two-wheeler population is about 18 crore, with the cheapest scooters costing about `50,000.

Industry estimates show that around 17,000 luxury vehicles were sold in the country between January-June 2022 alone. But this kind of expense hardly matches actual income tax returns by rich Indians. Clearly, scooter or luxury car ownership numbers do not tally with the number of people honestly filing taxes. So, there is an urgent need for stringent compliance, with technology playing a critical role in tracking the expenditures of individual taxpayers.

In India, the tax-to-GDP ratio is around 20%, which is below par if we compare it with other rapidly developing economies. It is because only a small percentage of the population pays taxes. Enhanced compliance in tier II cities, targeting professionals as well as businesses who do not avail of presumptive taxation, will enhance the tax base. Such measures will enable the government to remove cess and surcharges that individuals and corporates pay on top of tax paid on earned income. These add to the total tax payout, and can go as high as 42% in the case of individuals as the surcharge on individual taxation is around 10 to 35%.

Per a recent FICCI study, Illicit Markets: A Threat to Our National Interests, the estimated tax loss to the government in two highly regulated and taxed industries—tobacco products and alcoholic beverages—is over `28,500 crore. Goods with higher profit margins, like gold, tobacco, and alcohol, are highly taxed and lead to massive tax evasion and smuggling. The need of the hour is to parallelly arm enforcement agencies with cutting-edge technologies to catch smugglers and underground operators. Second, lowering the tax rates in these industry segments will eradicate tax evasion, resulting in more tax collection.

The focus should be on the quantum of tax and making the incidence of tax lower to fuel growth and wealth creation as against the rate of tax and making that number bigger. For example, we are witnessing huge investments in startups and the emerging innovative and disruptive technology space. For this sector to become India’s next tech boom and create more wealth, we should ideally look at a 10-year liberal tax approach around capital gains, backed by enabling regulations that can open the floodgates for wealth creation, taking India towards becoming a $10-trillion economy by 2030.

Sustainability and realisation of tax need to be considered. Many science companies have shifted their IPRs to tax heavens and remit royalties to these regions to evade taxes. A consistent and less complex taxation system will not only reduce tax evasion but also encourage domestic and foreign investors. To enable better profitability and encourage investments, taxes should be moderate for new emerging sectors, particularly the technology sector. The government needs to expand the tax base and not tax the already taxed some more and leave some totally out of the net. This will lead to the collection of more taxes, bring relief to the honest taxpayer, and also enable the government to showcase visible development of public infrastructure and facilities like health and education. Let’s focus on compliance and simplify and expand the tax base. It will require an overhaul in the Indian taxation system, and what better time than the upcoming Union budget to start on this task that will put a smile on both the honest taxpayers’ and the exchequer’s faces?

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