

## General Studies-3; Topic: Indian economy – mobilization of resources

### Tax Compliance in India

#### 1) Introduction

- It is often said that India is “a tax non-compliant society and too many people evade taxes”.
- The fact that less than 3% of Indians pay income tax implies that a large majority avoid paying income tax.
- It is also said that most Indians under-report their incomes.
- Tax compliance will increase the per-capita tax revenues.

#### 2) Present Status

- With rising per capita incomes, the tax-to-GDP levels are rising quite well due to increasing formalisation of the economy.
- Between 2000-01 and 2017-18, the tax-to-GDP rose from 8.7% to 11.6%.
- During this period, personal income taxes, as a ratio to GDP, are up from 1.5% to 2.6%.
- Corporate taxation levels have been falling for several years, with the slowing of corporate profitability, and had this not happened, tax revenues would have grown even faster.
- In the personal income tax (category), the salaried ones are paying more compared to business people. It is important to ‘remove this unevenness’.
- Demonetisation, sustained campaign against tax evasion and the implementation of GST have resulted in greater tax compliance.
- GST implementation has increased the indirect taxpayer base by more than 50%.
- There has been a concerted effort to make India a tax compliance society.
- In Union Budget 2018-19, corporate tax rate of 25 per cent for businesses with turnover of up to Rs 250 crore was proposed.

#### 3) Reasons for low Tax Compliance in India

- With agriculture not taxed, over 60% of the population is out of the ambit of the tax system or other exemptions given for senior citizens, etc.
- The Economic Survey highlighted some local bodies are not collecting property taxes adequately.
- The Government and citizens suspect that corporate business is dishonest and accumulating profits at their cost.
- The private sector and citizens suspect that the Government does not use their tax collection for general welfare of the society and taxes are wasted.
- The businesses, especially in informal sector, have to be self-dependent and, hence, they save on taxes.
- When employees are not secure at work places compulsion of tax compliance would generally be weak.

#### 4) International Practice

- In the US, tax compliance is high and ascribed to strong deterrent effect of selective, intensive audits.
- In advanced countries, high tax collection and excellent public services reinforce each other.
- Globally the revenue from personal income tax is much higher compared to corporate income tax.
- While in India the personal income tax collection has to go up.

- China's taxpayers are more than those of India, even when its income levels were similar to those of India.

### 5) **How to increase tax collection?**

- Rewards could be more effective in motivating people to pay tax like reduced public transportation fares or special privilege in government-operated hotels, hospitals, and airlines.
- South Korea considers allowance to airport, VIP rooms, and free parking in public parking facilities.
- Providing tax-compliance certificates to firms to help them build an image.
- Making tax certificates mandatory to renew certain licenses.
- Good financial behaviour needs to be celebrated publicly.
- Need to create trust and cooperation between citizens, corporate/business sector and the Government.
- Government could consider an insurance scheme for informal sector business tax payers by providing financial support in times of distress.
- Need to create a conducive tax administration.
- Incentivising tax collection and tax intelligence agencies, probably with higher allowances and compensation.
- Electronic surveillance through technology upgradation.
- Quick settlement of disputed cases.
- Ensuring equity, certainty, convenience and simplicity in taxation.
- For creating conducive tax administration there is a need to introduce academic courses on ethics and business practices for business graduates, chartered accountants, company secretaries, auditors and legal experts.
- "The government will also need to stabilise GST implementation to remove uncertainty for exporters, facilitate easier compliance, and expand the tax base," the Economic Survey 2017-18 said.