

# INDIA

## Tax System and Inequality

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# Presentation Scheme

- Recent economic policy changes with tax implications
- Skewed income growth
- Inequality
- Progressivity in income tax
- Where is the revenue going?
- Taxation and recent downward trend in social schemes
- Writing off due tax revenue from the wealthy
- Bank frauds by the rich
- Low effective tax rates for the corporates
- Indirect taxes: New GST and its implications for federalism
- Big gap between direct and indirect taxes
- Suggestions and broader political questions

# Policy Changes

- Economic liberalization in early 1990s and new changes under the present government
- The dismantling of the Planning Commission and the constitution of Niti Ayog
- Demonetization of 500 and 1000 Rs. notes
- Introduction of Goods and Services Tax (GST)
- The 15<sup>th</sup> Finance Commission's census-based parameter for allocation to states from the Centre's divisible pool of taxes

## Average annual per adult income growth by income group in India, 1951-2015

(Source: Compiled from Chancel & Piketty 2017:61-62)

Income group (distribution of per-adult pre-tax national income)	Total real per adult income growth (1980-2015)	Total real per adult income growth (1951- 1980)
Full population	3.3 %	1.7%
Bottom 50%	1.9 %	2.2%
Middle 40%	2.0 %	1.9%
Top 10%	5.1 %	1.2%

# Inequality

- Social and economic inequalities
- Caste, Religious Minorities, Regions
- The income share of the top 10% of the Indian population stood at 55% in 2016.
- The top 1% of Indian population accounted for 22% of income in 2016.

(Source: World Inequality Report 2017 and Himanshu/Oxfam India 2018: 17)

# Income Tax Rate

Taxable income	Tax Rate
Up to Rs. 2,50,000	Nil
Rs. 2,50,000 to Rs. 5,00,000	5%
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Additional Surcharge: 10% of tax where total income exceeds Rs. 50 lakh; 15% of tax where total income exceeds Rs. 1 crore; and an education cess of 3% of tax

(Source: Income Tax Dept., Govt. of India 2018)

# Where is the tax money going? Diminished priority for pro-poor policies

- National Rural Employment Guarantee Scheme getting lesser emphasis
- This year's Central Budget announcement for health insurance for the poor lacks any substantial allocation
- PDS system's contraction
- The "Kerala Model of Development" and the so-called "Gujarat Model"

# Government's Gift to the Rich

Tax evasion by the rich is rampant.

Further, “the rich have also benefited from the largesse bestowed upon them by the government. The total revenue forgone as stated in the budget increased from Rs 2,06,700 crores in 2005-06 to Rs 5,89,285 crores in 2014-15. That is, the revenue forgone increased by almost three times in just ten years. The revenue forgone in 2005-06 was 56% of the total gross tax collection of the government. For every rupee of tax collected, the government was losing 56 paise of taxes, which could have been collected by the government. Most of these exemptions benefitted the rich and the corporate sector. Within the corporate sector, it was the largest corporate groups which benefited the most.” (Source: Himanshu/Oxfam India 2018: 66)

# Banking Frauds

- Following demonetization, regional associate banks of the State Bank Group were merged into the SBI. Big flow of money in a centralized direction affecting priority lending regionally
- This rampant bad loans given to crony capitalists and big businesses by public sector banks
- Frauds by Vijay Mallya, Nirav Modi etc. Loan frauds reported in the last five years amounted to Rs. 73,000 crore (RBI sources)
- The recent Nirav Modi scam in PNB itself amounts to an estimated Rs. 5100 crore

# Effective Corporate Tax Rates

(Source: Himanshu/Oxfam India 2018: 66)

Profit Before Tax	2005-06	2014-15
0-1 Cr	24.29	26.89
1-10 Cr	18.49	25.84
10-50 Cr	17.17	24.99
50-100 Cr	16.33	24.29
100-500 Cr	17.21	23.11
>500 Cr	19.1	20.68
All Sample Companies	19.26	23.22

## GST and Finance Commission's Terms of Reference: Implications for Federal System

- GST: State's priorities in taxing particular sector is hugely diminished. The power of the state to institute locally-relevant policy measures are therefore negatively affected
- FC terms of reference amounts to "punishing performance" by some states
- Finance Ministers of southern states raising concerns in their meeting a month back

# Number of Tax Payers Going Up

(Source: Magazine & Sasi, IE, 1 May 2018)

## FIVE-YEAR GROWTH

Assessment Year	No. of Total Taxpayers	No. of Individual Taxpayers
2011-12	4.38 cr	4.11 cr
2012-13	4.73 cr	4.46 cr
2013-14	5.25 cr	4.96 cr
2014-15	5.69 cr	5.39 cr
2015-16	6.11 cr	5.79 cr
2016-17*	6.41 cr	6.08 cr

\* Returns for AY 2016-17 were allowed to be filed up to 31.3.2018.

# Disparity in Direct & Indirect Taxes

Still, there is a decline in the share of direct taxes in total tax collection (from 55.82% in AY 2011-12 to 51.03% in AY 2016-17) (Source: Magazine & Sasi, IE, 1 May 2018)

Indirect tax share increasing correspondingly in the tax basket. Tax base for direct taxes is still small.

The wealthy and the salaried class still pay much less taxes than the poorer sections people, who pay taxes for goods of their consumption

Tax system: Progressivity to de facto Regression

# What is to be done?

- Raising opportunities for gainful employment and thereby raising tax base that is still too small
- Property tax to be expanded from its current ratio to GDP a paltry 0.2%
- Collecting due taxes by the government and avoidance of frauds by proper measures
- Protecting the federal political framework and address regional disparities
- Social and economic inequalities need to be addressed more rigorously.
- Linkages of tax, citizenship and democracy