Central Board of Direct Taxes - Time Series Data Part I

Why in news?

\n\n

The Central Board of Direct Taxes (CBDT) recently released the new time series data (same data points recorded at regular intervals) as updated up to FY 2017-18.

\n\n

What are the highlights?

\n\n

\n
- **Returns** - The direct tax base has significantly widened in the last few years.
\n
- There is a growth of more than 80% in the number of returns filed in the last four financial years.
\n
- They rose from 3.79 crore in FY 2013-14 to 6.85 crore (these figures include revised returns) in FY 2017-18.
\n
- Further, the number of persons filing income tax returns also increased by about 65% during this period.
\n
- **Income** - The CBDT made public the income-distribution data for assessment year (AY) 2016-17 and AY 2017-18.
\n
- There has been a continuous increase in the amount of income declared.
\n
- This is true with all categories of taxpayers, over the last three assessment years.
\n
- For AY 2014-15, corresponding to FY 2013-14 (base year), the return filers had declared gross total income of Rs. 26.92 lakh crore.
\n
- This has increased by 67% to Rs. 44.88 lakh crore for AY 2017-18.
\n
- This shows a higher level of compliance resulting from various legislative

and administrative measures, including the enforcement measures against tax evasion.
\n

- **Taxpayers** - The overall number of taxpayers declaring an income above Rs. 1 crore a year saw a sharp growth of about 60% over the 3 years under consideration.
\n
- This included corporates, firms, and Hindu Undivided Families.
\n
- Likewise, the number of individual taxpayers disclosing income above Rs. 1 crore saw a growth of 68% in this period.
\n

\n\n

\n

- There is also an improvement in the compliance of salaried taxpayers.
\n
- It rose from 1.70 crore for AY 2014-15 to 2.33 crore for AY 2017-18, an increase of 37%.
\n
- The average income declared by these salaried taxpayers has also gone up by 19%.
\n
- In the same period, there has been a growth of 19% in the number of non-salaried individual taxpayers.
\n
- Also, the average non-salary income declared rose by 27% between AY 2014-15 and AY 2017-18.
\n
- **Tax-GDP ratio** - The direct tax-GDP ratio rose to 5.98% in FY 2017-18, the highest it has been in the last 10 years.
\n

\n\n

\n\n

What were the driving factors for widening tax base?

\n\n

\n

- Some of the reasons for increase in the number of tax returns include -
\n

\n\n

\n
1. the effect of demonetisation
\n
2. the increase in the use of information being collected digitally and being used by the tax department
\n
3. the movement towards digital assessment and decrease in the number of cases being picked up for scrutiny
\n
4. the ease of getting refund, majorly by small and medium taxpayers
\n

\n\n

\n
- **TDS** - The system of tax deduction at source (TDS) is mandated by law on all those who make payments above a specified level in a year.
\n
- It allows the tax department to mobilise income-tax and corporation tax without much hassle or additional cost.
\n
- In 2014-15, the share of TDS in gross direct tax receipts was about 32% and had risen to 36% last year.
\n
- **Advance taxes** - Advance tax is the payment of income tax in advance instead of lump sum payment at year end i.e. 'pay as you earn tax'.
\n
- The combined share of these two instruments (TDS and advance tax) in total direct tax collections is almost 76%.
\n
- Also, the cost of direct tax collections has come down from a high of 0.66% of total revenue garnered in 2016-17 to 0.61% in 2017-18.
\n

\n\n

What is the concern with direct taxes share?

\n\n

\n
- The contribution of direct taxes to the total amount of taxes collected rose every year through the first decade of this century.
\n
- It increased from around 36% in 2000-01 to nearly 60% in 2009-10.
\n
- But this was reversed in 2010-11, when the share fell to around 56%.
\n

- Also, thereafter, despite spikes in some years, the broad trend has been that of decline.
\n
- The share of direct taxes has fallen every single year since 2013-14, except this year.
\n
- It is about 52% in 2017-18, but less than the 2009-2010 peak of 60%.
\n
- So most of the rise in the total tax collection in the last few years has come from indirect tax collections.
\n

\n\n

What lies ahead?

\n\n

\n
- This year, direct tax collection increased at a higher rate compared to the collection of indirect taxes.
\n
- A further increase in the direct taxes share will help lower regressive indirect taxes that impose a significant burden on the poor.
\n
- Direct taxes are also a better choice from the standpoint of economic efficiency.
\n
- It's because they help avoid the severe distortionary effects of indirect taxes such as the GST.
\n
- Amidst increasing global tax competition, India is likely to face pressure to bring down corporate tax rates.
\n
- This is inevitable if it wants to maintain its stature as an attractive investment destination.
\n
- So the government has to address the issues in its efforts to draft a new direct tax code.
\n

\n\n

\n\n

Source: The Hindu, Indian Express, Business Standard

\n



SHANKAR
IAS PARLIAMENT
Information is Empowering