Central Board of Direct Taxes - Time Series Data – Part III

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Why in news?

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The Income-Tax Department released a significant amount of data on direct tax collections recently.

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What does it reveal?

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- Returns or assessees relating to a particular assessment year would be associated with transactions during a well-defined financial year.
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- However, the number of returns received in a given financial year could pertain to multiple assessment years.
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- For instance, returns filed during the financial year 2017-18 can relate either to the financial year 2016-17 or to some of the earlier years.
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- This is because taxpayers could be filing revised returns in subsequent years or file a returns after the due date.
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- Thus, one can imagine compliance with the tax regime in two ways.
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- The first one relates to the number of “persons” paying tax, i.e., the number of taxpayers irrespective of whether or not they file returns.
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- The second one relates to the number of “persons” who choose to file returns.
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- The former can be referred to overall compliance whereas the latter, which is a fraction of the former, can be referred to as voluntary compliance.
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- The overall compliance has been growing steadily over the period 2012-13 to 2017-18.
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- The rate of growth of number of taxpayers has been 7-8% per annum except for two years 2013-14 and 2016-17, when it reached a low double-digit level.
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- With regard to voluntary compliance, there is a consistent increase in number of people filing returns over the last four years from 3.13 crore in 2012-13 to 5.43 crore in 2017-18.
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- This amounts to an average increase of 13% per annum.
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- Bulk of this increase is in the 'individuals' category, much less so in any other category, including firms and companies.
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- The increase is sharpest in 2017-18, where there is a reported growth of over 21%.
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What are the reasons for these changes?

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- To understand the changes in the compliance in the economy, it would be useful to look at two ratios-
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1. the ratio of number of returns filed to the number of persons filing returns
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2. the ratio of taxpayers to the number of persons filing returns.
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- An individual can file more than one return in any given financial year, i.e., those pertaining to earlier years.
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- Thus the ratio of number of returns filed to the number of persons filing returns shows the average number of returns filed per person.
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- Over the last five years, this ratio has increased from 1.14 to 1.26.
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- In other words, a larger number of “persons” are filing returns for earlier years or revising returns pertaining to earlier years.
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- This could be considered an evidence of improvement in voluntary compliance.
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- The increase is encouraging in the short run since with an increase in deterrence, the behaviour of people should get corrected.
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- However, one should expect that this ratio should once again stabilise at a lower level once this correction has been achieved.
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- The other ratio is the number of taxpayers to the number of persons filing returns.
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- This reflects the proportion of persons who pay tax but do not feel the need to file a return.
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- As the graph shows, the ratio has fallen from a high of 1.62 in 2013-14 to 1.36 in 2017-18.
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- In other words, while in 2013-14, 62% of taxpayers did not file returns, in 2017-18, this figure comes down to 36%.
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- This proves the improvement in overall compliance, wherein irrespective of filing returns, the number of taxpayers have increased.
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What should be done?

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- The initiatives by the government in the form of demonetisation and related measures do not seem to have dramatically altered the rate of growth of the number of taxpayers.
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- But among these taxpayers, a larger fraction seems to have progressed to filing returns.
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- This would be evidence of improvement in voluntary compliance with the system.
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- However, over 40% of the returns report zero-tax liability.

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- Thus, though more people are being brought into the tax net, tax avoidance are possibly happening in the system.
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- It should also be mentioned here that the data presented so far do not allow analysis of the impact of GST since the returns for which data are available relate to the pre-GST period.
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- Thus the impact of both demonetisation and GST on tax compliance have to be explored further in the future.
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Source: Business Line

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