Hard-line “Tax Extraction” Policy

What is the issue?

\n\n

\n
- The NDA government’s tax collection drive has been highly coercive in the backdrop of a high and extractive tax rates.
\n
- In this context, the Finance Ministry’s proposal to raise the Tax-to-GDP ratio by another 1.5% has created dismay among the masses.
\n

\n\n

How has the government’s taxation drive been lately?

\n\n

\n
- Government’s drive - Finance Minister’s has stated intent to raise India’s tax-to-GDP ratio by a further 1.5% points over the next 4 years.
\n
- The minister’s statement is in line with the NDA government’s focused tax collection drive that has been in vogue since demonetisation.
\n
- Significantly, the past 3 years has marked a brisk growth in overall tax collection despite modest increase in incomes and sluggish economic growth.
\n
- All this has created nervousness among taxpayers as they are already over-burdened with a lot (high direct taxes, GST and a variety of cesses).
\n

\n\n

What does the Tax Statistics say?

\n\n

\n
- India’s direct tax mop-ups have expanded at 13% per annum in the last 3 years while nominal GDP grew at just 10%.

\n
- **Direct Taxes -** IT Return filers have vaulted from 3.9 crore to 6.8 crore, a steep improvement in compliance despite a very citizen unfriendly tax regime.
\n
- India’s effective corporate tax rate of over 34% is far higher than the global average of 22% and is a distinctly noticeable global outlier.
\n
- Notably, promises by the NDA government to effectuate an across-the-board cut in the corporate tax rate to 25% have remained on paper.
\n
- Surcharges, cesses and taxes on dividends, interest and capital gains add on to the personal tax burden of 10-30%.
\n
- More significantly, recent additions to the tax base have also been from the lower rungs of the economy - implying direct taxation is reaching saturation.
\n
- **Indirect Taxes -** GST collections, despite persisting refund glitches, have recently hit the Rs.1 lakh-crore monthly target.
\n
- The GST, envisaged as a simple regime, has been muddied by the adoption of 5 rate slabs with peak rates as high as 28%.
\n
- The exclusion of petroleum products from GST also enables the government to levy exorbitant taxes on fuel which refuse to fall with rising prices.
\n

\n\n

What is the way ahead?

\n\n

\n
- While India’s low tax-to-GDP ratio is cited as proof of continued non-compliance, this is a flawed metric as it fails to account for income disparities.
\n
- Tax-to-GDP metric also doesn’t account for the low level of formalisation in the economy, which is one of the most striking features of Indian economy.
\n
- Notably, the Economic Survey of 2015-16 too had convincingly argued that India’s tax-to-GDP ratio was in line with its peer group of emerging nations.
\n
- Thus, having extensively deployed the stick to ensure tax compliance thus far, it is time the Finance Minister thought of carrots (incentivising

compliance).
\n
- Therefore, the Centre should now be looking to prune its sky-high tax rates instead of demanding even higher pay-outs.
\n

\n\n

\n\n

Source: Business Line

\n