Hard-line “Tax Extraction” Policy

What is the issue?

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- The NDA government’s tax collection drive has been highly coercive in the backdrop of a high and extractive tax rates.
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- 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.
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How has the government’s taxation drive been lately?

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- 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.
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- The minister’s statement is in line with the NDA government’s focused tax collection drive that has been in vogue since demonetisation.
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- Significantly, the past 3 years has marked a brisk growth in overall tax collection despite modest increase in incomes and sluggish economic growth.
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- 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).
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What does the Tax Statistics say?

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

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- **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.
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- 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.
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- Notably, promises by the NDA government to effectuate an across-the-board cut in the corporate tax rate to 25% have remained on paper.
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- Surcharges, cesses and taxes on dividends, interest and capital gains add on to the personal tax burden of 10-30%.
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- More significantly, recent additions to the tax base have also been from the lower rungs of the economy - implying direct taxation is reaching saturation.
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- **Indirect Taxes -** GST collections, despite persisting refund glitches, have recently hit the Rs.1 lakh-crore monthly target.
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- The GST, envisaged as a simple regime, has been muddied by the adoption of 5 rate slabs with peak rates as high as 28%.
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- The exclusion of petroleum products from GST also enables the government to levy exorbitant taxes on fuel which refuse to fall with rising prices.
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What is the way ahead?

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- 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.
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- 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.
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- 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.
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- Thus, having extensively deployed the stick to ensure tax compliance thus far, it is time the Finance Minister thought of carrots (incentivising

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

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