Tax Compliance

Why in news?

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Finance Minister while addressing the annual meeting of CII observed that some tough steps are necessary to make India a tax-compliant society.

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What does statistics stay?

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- Finance minister mentioned that of the 4.2 crore persons employed in the organised sector, **only 1.7 crore filed returns.**
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- Similarly, of the 5.6 crore individual enterprises and firms operating in the informal sector, **only 1.8 crore filed their returns.**
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- Finally, out of 13.9 lakh companies registered in India, only 6 lakh companies filed their returns; of which 36,448 showed profits above Rs 1 crore.
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- This statistics defies logic in a country which boasts of luxury villas, expensive cars, rising gold imports, a booming stock market, significant rise in international travellers, and ever-increasing high net worth individuals.
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What is the hindrance at present?

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- The FM is correct in pushing for higher tax-to-GDP ratio.
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- However, given that 30 % of population is poor, 28 % is illiterate, 8 % is above 60 years of age, and **nearly two third of the population is dependent on tax-free agriculture income,** direct tax collection is expected to be rather benign.
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- In the US, tax compliance is high and ascribed to strong deterrent effect of selective, intensive audits.
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- But punishment leads to resentment, hostility, avoidance and minimum compliance and, therefore, should be avoided.
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- In sharp contrast, **rewards could be more effective** in motivating people to pay tax dues.
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- Rewarding honest behaviour, not coercive actions, can go a long away in bringing more people into paying taxes.
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How the tax compliance can be increased?

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- The reward system could help in increasing the compliance mechanisms.
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- **Some of the rewards suggested** are special schemes like faster access to special phone lines with shorter wait; or reduced public transportation fares; free admission to museums and cultural events.
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- Also suggested are measures like **providing tax-compliance certificates** to firms to help them build an image; and making tax certificates mandatory to renew certain licenses.
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- Japan, for instance, offers to have your picture taken with the Emperor if you were found to be honest.
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- The Philippines puts your name in a lottery if you were found to be compliant with VAT.
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- South Korea considers allowance to airport VIP rooms, and free parking in public parking facilities.
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- In Finland, **targeted tax incentives** have been used to significantly influence taxpayer behaviour through tax credits which can be used for different purposes, including nursing homes.
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- In India, good financial behaviour needs to be celebrated publicly.
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- Illustratively, in every commissionairates of direct and indirect taxes, **a**

public reward ceremony could be conducted.
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- Other incentives could include special privilege in government-operated hotels, hospitals, and airlines; preference in awarding government contract; bonus points for children in admission to government institutions etc.
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- There is also a need to **create trust and cooperation between citizens, corporate/business sector and the Government.**
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- At present the general perception is mutual suspicion among all three.
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- Poor public infrastructure cannot compel high tax compliance.
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- Finally, the Government and private business believe that citizens are illiterate and, therefore, can be ignored.
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- This fear of each other has only been increasing over years despite the change in political regime.
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- The Government could consider, on lines of agricultural/crop insurance, instituting an insurance scheme for business tax payers especially those from informal sector which would provide financial support in times of distress.
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- According to global research, **women are considered more tax compliant than men;** but unfortunately, not in India.
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- To improve tax collection there is need to create **a conducive tax administration.**
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- This would imply a) incentivising tax collection and tax intelligence agencies, probably with higher allowances and compensation; b) electronic surveillance through technology up gradation; c) quick settlement of disputed cases; and d) ensuring equity, certainty, convenience and simplicity in taxation.
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- To support creating conducive tax administration there is a need to introduce academic courses on ethics and business practices for business graduates, chartered accountants.
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Source: The Hindu

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