A wider net: on the expanding tax base

The demonetisation of high-value currency notes and the advent of the goods and services tax regime have triggered a surge in the number of those filing taxes in the country. The Economic Survey argues that the large gains on the indirect and direct tax fronts indicate that the primary intentions behind the two big-bang economic strides — of formalising the economy and bringing more income into the tax net — have been met to some extent. From about 59 million individuals who filed income tax returns or whose tax was deducted at source in 2015-16, the number of tax-filers rose by 10.1 million since the note ban. Stripped of statistical adjustments to avoid a bias in findings, the Survey assesses that roughly 1.8 million, or 3% of the existing compliers, started paying up. Many of them are reporting incomes close to the 2.5-lakh threshold for personal income tax, so this may not swell the exchequer much. But it holds potential for growth as the new taxpayers progress in their vocations. Personal income tax collections are expected to rise to a historic high of 2.3% of GDP in 2017-18, compared to 2% between 2013-14 and 2015-16. This may seem glacial progress but could be considered a tipping point in a country where just 4% of adults pay personal income tax, though the government reckons that number should be 23%.

A Budget less cluttered

The Survey finds a 50% increase in unique indirect taxpayers in the first six months of GST, with around 10 million registered taxpayers now compared to an estimated 6.5 million pre-GST. The GST regime, despite the initial chinks, could end up boosting India’s macro-economic stability by breaking what the Survey terms ‘inertia’ of the tax-GDP ratio. This ratio for the Centre has remained at the same level since the 1980s, though the economy grew at an annual average of about 6.5%. The Survey has noted that both of India’s underlying macro weaknesses — the fiscal and current account deficits — tend to get exacerbated when oil prices move up. A wider tax base could at least help tackle the former. Fixing exporters’ GST woes and continuing to ease the transition pains under its new features, such as e-way bills to deter evasion, would be critical to attain the 7%-7.5% growth projected for the coming year. At the same time, the government needs a road map to expand the direct tax pie by pruning blanket exemptions for vocations such as farming and using a more proactive Big Data-driven approach to target evaders. The government must reward this tax base expansion by offering the ‘compliant’ some relief in the Budget, even if it means slashing high duties on petroleum products. After all, high indirect taxes pinch the poorest the most.

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