

IN THE NET: ON DIRECT TAX BASE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Taxation & Black Money

The steps taken by the Union government over the last few years to widen its tax base may finally be yielding some rewards. The total number of tax returns filed in the country increased by over 80% over the last four financial years, according to data released by the Central Board of Direct Taxes on Monday: from 3.79 crores in 2013-14 to 6.85 crores in 2017-18. Further, the direct tax to GDP ratio rose to 5.98% in 2017-18, the highest it has been in the last 10 years. The average income reported by individual and corporate taxpayers also witnessed a significant rise in the last three years. With tax growth rate surpassing the growth in GDP, the tax buoyancy factor rose to 1.81. This rise in tax compliance has been attributed to the various measures taken by the Union government to increase compliance, including better gathering of information about sources of income, ease of getting refunds, and lowering of various other tax compliance costs. The total direct tax collection is estimated to be over 10 lakh crore in 2017-18, an increase of about 18% from the previous year.

The widening of the tax base is clearly good news for a government which, from the very beginning of its tenure, has declared its intent to improve tax collections. But the contribution of direct taxes to the total amount of taxes collected by the government, which is currently 52.29%, is still below what it was when Narendra Modi became Prime Minister. In fact, the share of direct taxes has fallen every single year since 2013-14, except this year. It is also far too low when compared to its peak of over 60% in 2009-10. In other words, most of the rise in the total tax collection in the last few years has come from indirect tax collections. This year, direct tax collection increased at a higher rate compared to the collection of indirect taxes. Going forward, a further increase in the share of direct taxes will help the government to lower regressive indirect taxes that impose a significant burden on the poor. Direct taxes are also a better choice from the standpoint of economic efficiency as they help avoid the severe distortionary effects of indirect taxes such as the Goods and Services Tax. Amidst increasing global tax competition, India is likely to face pressure to bring down corporate tax rates if it wants to maintain its stature as an attractive investment destination. Efforts to draft a new direct tax code, however, are yet to yield fruit due to bureaucratic delays. The government will do well to address this issue.

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