

## GLAD TIDINGS

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

### Help my 8-year-old daughter fight Thalassemia with a Bone Marrow Transplant

Data released by the Income Tax Department for three assessment years — 2013-14 to 2016-17 — shows a surge in the number of taxpayers and tax returns filed and in the number of taxpayers who declared an income of over Rs 1 crore. During the three-year period, the number of salaried taxpayers rose from 1.70 crore in 2013-14 to 2.33 crore in FY 17, a growth of 37 per cent, while the number of non-salaried taxpayers grew at 19 per cent from 1.95 crore in 2013-14 to 2.33 crore in 2016-17. The average income declared by salaried taxpayers was up 19 per cent from Rs 5.76 lakh to Rs 6.84 lakh while that of the non-salaried grew more modestly at 27 per cent from Rs 4.11 lakh to 5.23 lakh during this review period. The tax department data also shows a rise in the number of taxpayers who declared an income of over Rs 1 crore in their tax returns for FY 17 — at 1.4 lakh — a 60 per cent jump over three years while the number of taxpayers reporting an income of over Rs 1 crore rose 68 per cent to 81,344, an indication of the widening of the tax base.

Better compliance, especially among the salaried class, and a more robust audit trail over the last few years appear to have helped, with the Central Board of Direct Taxes (CBDT) saying that the improved numbers owed to non-intrusive administrative and enforcement measures taken by the Income Tax Department. Some of it could be because of the department's Operation Clean Money to identify black money after November 2016 using data related to cash deposits in banks. The tax department reckons that some of these efforts have led to a deepening and widening of the tax base and reflected in higher revenues. However, any celebration may be a bit premature. The fact is that the direct tax to GDP ratio after peaking at 6.67 per cent in 2007-08 at the height of the boom years has since then been hovering at close to 5.8 per cent. And it is not yet clear whether it will stabilise at this level or the gains are permanent in nature. That will hinge on an upturn in growth and improved corporate profits. Other structural weaknesses, such as the coverage of smaller firms in the tax net and the elimination of a range of exemptions, will have to be addressed for raising the tax to GDP ratio.

Over the next few years, it should also be clear whether the implementation of GST has a knock-on impact on direct tax collections. There have been welcome measures like electronic assessment, with the government extending the scheme to more cities in the country. To ensure that the current trend is an enduring one, the government will have to focus more on investment activity and on reigniting the animal spirits of entrepreneurs. A higher tax base and revenues are critical to meeting the deficit targets and to ensure fiscal consolidation.

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