

Boosting the Tax Base

What is the issue?

Growing work force should also result in increase in income tax revenue but that is not happening and the income tax base remains narrow.

What is the status of India's workforce?

- According to the UN Population Report, India accounts for about **17.5% of the world's population** with a population of 1.4 billion.
- India's young population (15-64 years) accounts for **67%** of the whole.
- At 253 million, India is also home to the **world's largest adolescent population** (10-19 years).
- India has the prospects to reap the demographic dividend as the median age of an Indian this year was **28.7 years** against a global value of 30.3 years.
- According to UNFPA, India will have one of the youngest populations in the world **till 2030** and the demographic window of opportunity will last **till 2025**.
- Share of elderly population is among the lowest and fertility rates are high.

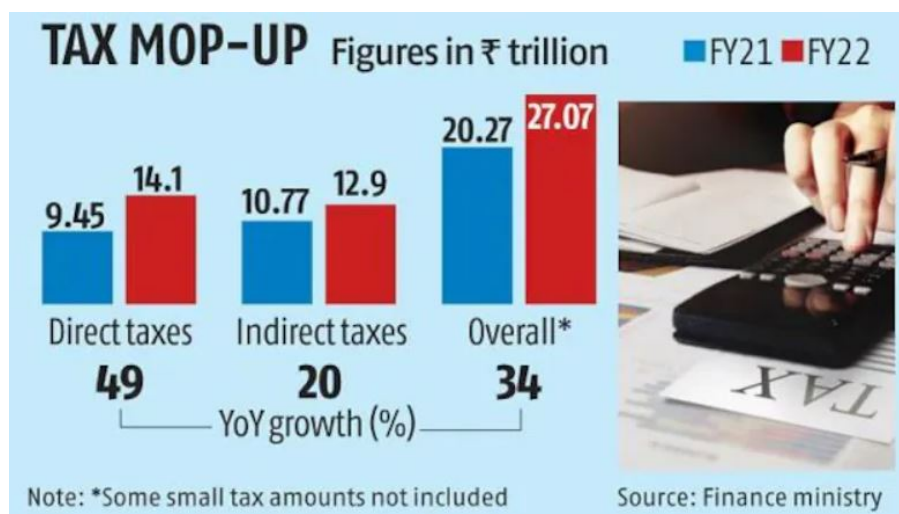
Why is the income tax base so narrow?

A tax base is a total amount of assets or income that can be taxed by a taxing authority, usually by the government.

- **Income less than Rs 5 lakh** - The Finance Ministry had revealed that the number of people who filed income tax returns stood at 6.8 crore in 2020-21.
- This means that only 4.8% of the total population filed IT returns in 2021.
- Since 65% of the taxpayers earned less than Rs 5 lakh, only 1.2% of the population pays income tax as of now.
- **Unorganised sector** - A large portion of workforce employed in the unorganised or informal sector is one of the reasons why fewer people are filing tax returns.
- **Working age vs employed** - According to World Bank, only 95 crore people were in the working age group of 18 to 64 years in 2021 because not all those in the working age are employed.
- The worker population ratio in India is 44.5%, which means that only 42 crore people could be employed in some way or the other in India.
- **Tax exemptions** - A dominant portion of India's workforce is employed in agriculture and agri income is exempt under income tax.

As per Indian Union Budget estimates for financial year 2023, direct taxes

accounted for 51.5% and indirect taxes accounted for 48.5% of total central tax collection in India.



How to harness the increasing working age population?

- **Formalisation of the economy** - Of the total workforce in 2017-18, 90.7% was employed by the informal sector.
- Bringing such services in to the formal sector could help direct tax collections.
- This can be done with some help from the GST system.
- **Tax at source** - Collecting tax at source for purchase of certain goods and services is another way to identify those who earn a tidy sum every year but are not paying any taxes.
- As of now, TCS is collected for high value goods such as expensive motor vehicles, gold jewellery or overseas remittances.
- The ambit of TCS can be expanded to consumer durables, domestic luxury travel, stays in expensive hotels etc.

References

1. [The Hindu Businessline | Is there a way to boost the tax base?](#)
2. [Business Standard | India's tax revenues soar to a record high](#)