

## State of Voluntary Tax Compliance

### Why in News?

The Prime Minister (PM) Narendra Modi recently commented on the state of voluntary tax compliance in India.

### What was his comment?

- Only 1.5 crore out of the 130 crore people pay income tax in India.
- Those persons declaring an annual income of Rs 50 lakh are just 3 lakh.
- Only 2,200 professionals declare their annual income of over Rs 1 crore.
- The PM remarked that when lots of people find ways not to pay tax, the burden comes on those who pay their taxes honestly.
- He appealed to all citizens to take a pledge to pay their taxes honestly, saying there was a long way to go in terms of tax compliance in India.

### What does data on I-T Return reveal?

- The Income Tax Return Statistics for various assessment years (AYs) reveal that **salary income is the highest source of income** reported by individuals between FY15 and FY18.
- Salary income reported across all income ranges is significantly higher than business income.
- Tax returns filed by individuals over this period indicate that salary income is higher than business income in the slabs above Rs 50 lakh.

### What is the situation of the salaried class?

- The gap between salary and business income is increasing year on year.
- The salaried class is subject to **tax deduction at source** on their entire income, even before they get their salary which results in accurate reporting of income.
- No other class of taxpayers is subject to this type of tax withholding, resulting in rampant under-reporting and non-reporting of income.
- For AY17, the income-tax paid by a salaried taxpayer was about three times higher than that of business taxpayer - not a feat to be proud of.
- This is so as the individual business taxpayer doesn't report their income and they get away with impunity.
- **Under-reporting** of income has been the bane of India's tax system.

## Why the salaried class are penalised with higher taxes?

- This is due to the government's **inability to increase the taxpayer base**, and collect income tax from the non-salaried class.
- Taxes on honest salaried taxpayers have increased over last four years.
- This has resulted in a minuscule 0.1% of individuals contributing about 20% of the tax payable by all individuals between FY15 and FY19.
- In FY21 budget, the **dividend distribution tax has been abolished**, and shareholders are required to pay income tax on the dividend income.
- Individuals earning a gross total income (GTI) above Rs.5 crore have an additional tax impact of 7.94% on dividend received in FY21 and beyond.
- So, the salaried taxpayers are penalised with more tax for being honest.

## How do salaried class feel?

- There is **strong resentment** and anger among the salaried class for being penalised for their honesty.
- Many high-income earning, honest, taxpaying citizens are **relocating out of India** due to the growing disparity due to tax evasion.
- There is **very low tax morale** among the salaried class.

## How tax evasion is driven?

- Tax evasion is driven significantly by **tax morale**, viz., the intrinsic motivation of taxpayers in a country to pay taxes.
- Tax morale itself is driven primarily by two perceptive factors:
  - a. **Vertical fairness**, i.e., what one pay in taxes is commensurate to the benefits one receives as services from the government; and
  - b. **Horizontal fairness**, i.e., differences in the taxes paid by various sections of society.

## What could be done?

- The government should take concrete steps to increase the taxpayer base, and arrest tax evasion.
- The high spenders and their sources of income need to be scrutinised.
- An examination of various statutory filings available with various government departments (like GST returns) would provide the leads to tax evasion.

**Source: Financial Express**



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