Balance Sheet of a Decade!

Taxation

Report Card 2014-24

The essence of democracy requires that we hold governments to account vis-a-vis their claims and promises. But one of the biggest casualties of the recent years has been the idea of accountability. The divisive and jingoist hyperboles in the media facilitate a collective amnesia. This report card (though not conclusive) is part of a series, by the Financial Accountability Network India, that attempts to glance through and highlight a few of the claims and reality of the government's performance across various sectors from a financial and economic lens.

Financial Accountability Network India - FAN India

CLAIMS

In their 2019 manifesto, the BJP govt assured **improved compliance and increased tax base, the tax to GDP ratio has reached 12%, up from 10.1% in 2013-14**. "This increased revenue has been deployed for benefits to the poor and creation of infrastructure at an unprecedented level. We will continue with our policy similarly – lowering of tax rate thereby rewarding honest taxpayers and improving compliance since our economic model is based on entrepreneurship and innovation".

National Council of Applied Economic Research had estimated **GDP** would grow by **2-2.5% on a sustained basis** because of GST.

By clubbing together all indirect taxes under GST, the "ease of doing business" was supposed to enhance efficiency, which would lead to a **reduction in prices**.

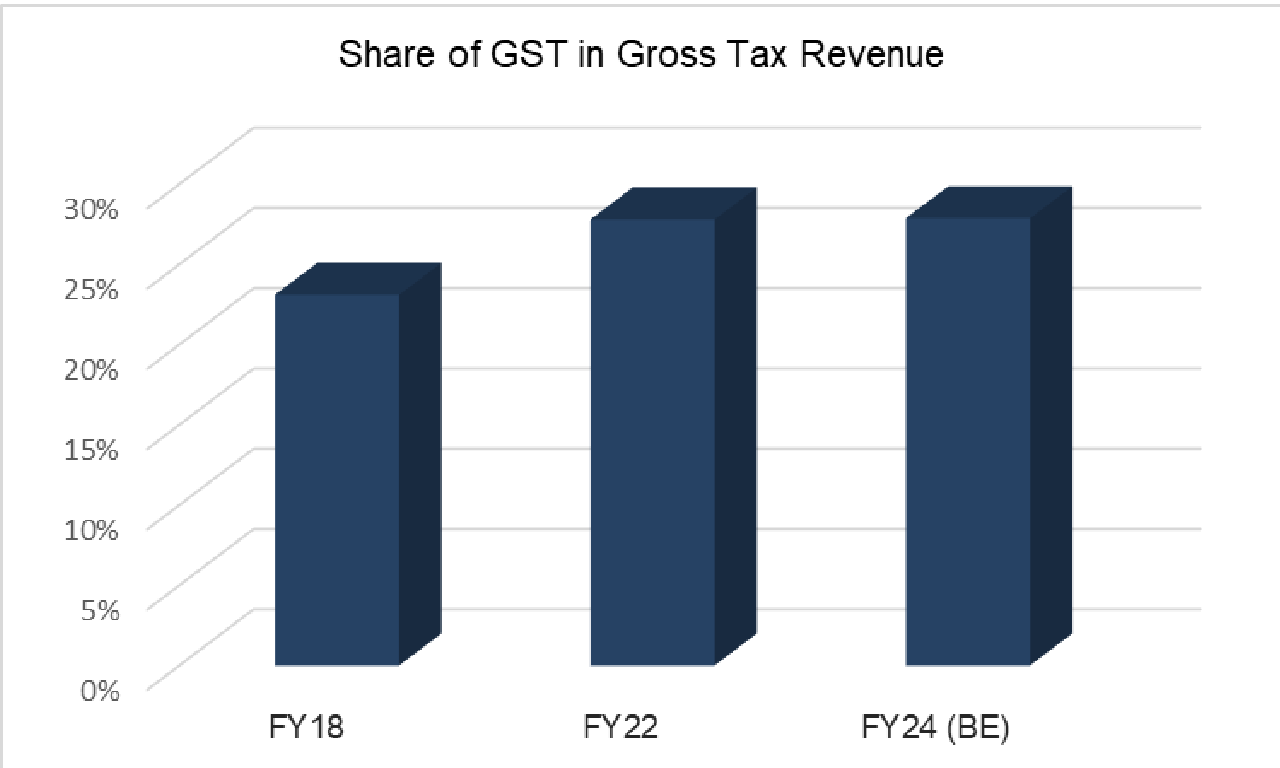
REALITY

Direct Tax and Indirect Tax

- **The gap between Direct Tax and Indirect Tax:** Analysis of RBI's data shows that the gap between Direct Tax and Indirect Tax as a % of GDP was around -2% in 2009-10, which has widened to -5% in FY2022. This widened the gap between the Direct tax and indirect tax has burdened the deprived sections, not affecting much to well-off sections in the last few years.

- Between FY13-22, the ratio of direct tax-indirect tax for the country stood at 37:63, which is nearly the **reverse** of the ratio in OECD countries.

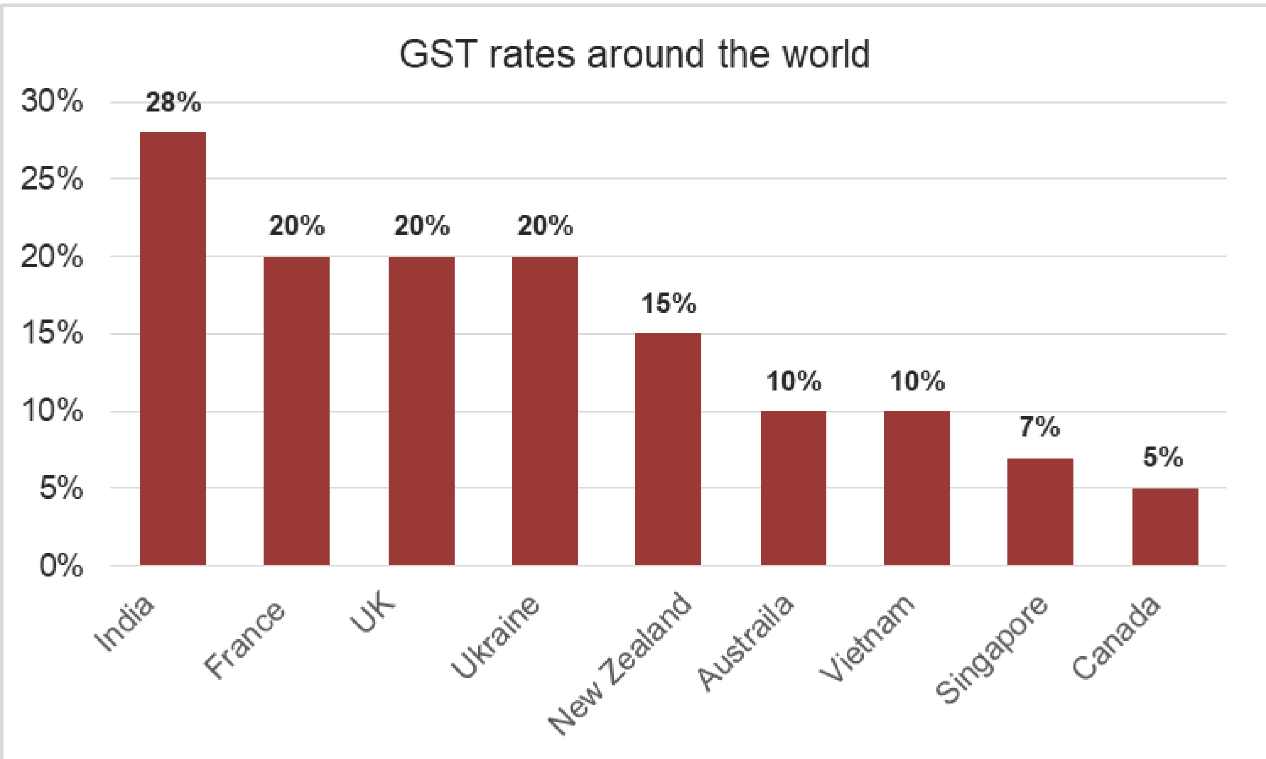
- **Tax to GDP ratio:** India's tax-GDP ratio has remained below par in recent years, which reached a high of 17.9% in FY08. Consequently, the tax-GDP ratio has increased by just 1.6% per cent points from 10.1 per cent in 2013-14 to 11.7 per cent in 2024-25, still less than what was in FY08.



Reality of GST

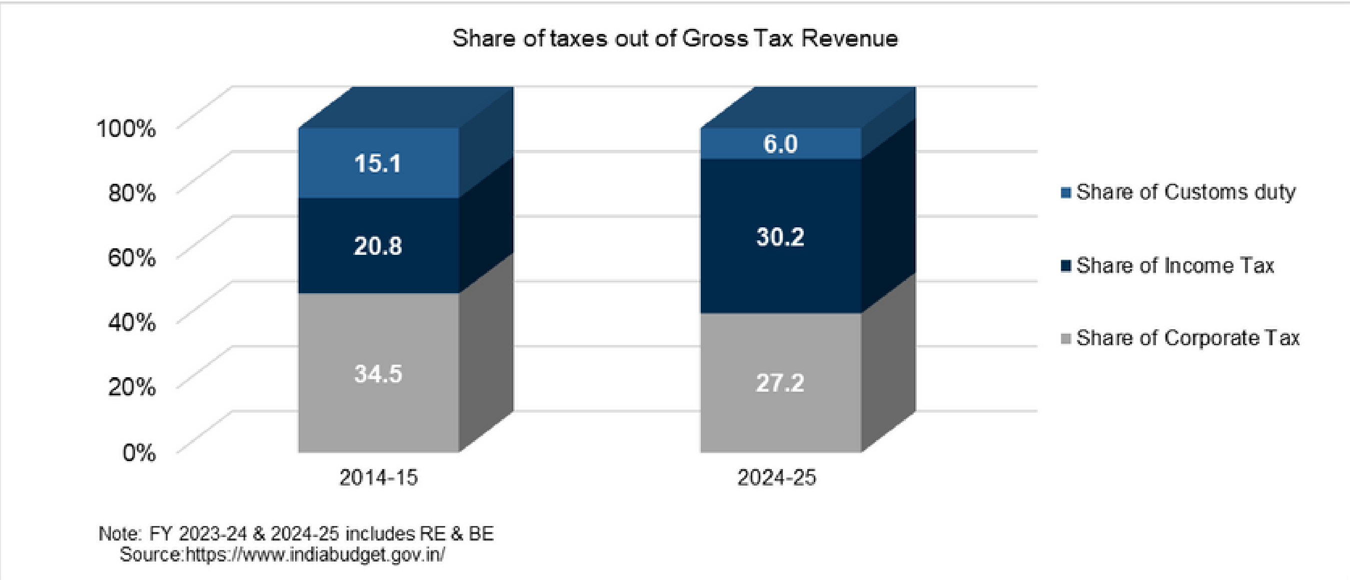
Higher GST Collections are a burden on the poor: Every time the Goods and Services Tax (GST) collection touches or crosses the Rs 1 lakh crore mark, the Centre goes into celebrations, without realizing that **a rise in the GST is regressive as both the rich and poor are taxed at the same rate.** The gross GST collection during April-December (2023-24) (15 lakh cr) was 11.7% higher than 13.4 lakh cr during the corresponding year 2022-23

GST rates around the world: It was also said that GST was already applicable in 160 countries, with the earliest to adopt it being France, which instituted a GST as early as 1954, and India was on the right side of history in implementing a GST. Such extrapolations are tricky. What works in one country may not work in another country. The US does not have a GST and Malaysia withdrew GST in 2018. **On comparing the GST rates around the world, India has a rate greater than the other nations that have GST mechanisms.** Higher rates mostly affect the poorer sections, not much to corporates and other well-off sections.



Not to benefit the poorer states: It was expected that GST as a last point tax would benefit the poorer, consuming states. This was expected to reduce inter-state inequality. But the opposite has happened since the unorganized sector is concentrated in the poorer states. As this sector has declined, it has led to a greater adverse impact on the poorer states than on the richer states. Before the introduction of GST, the period from 2005-06 to 2015-16, the combined state budgets of all Indian states had a revenue surplus on average. However, in the period since 2017, when GST was introduced, the average of all state budgets shows a revenue deficit of 0.6 per cent of GDP.

GST has impacted GDP growth and the rate of Inflation since its introduction: It was said introduction of GST would lead to an increase in the rate of growth of the economy and a decrease in the level of prices. However, the data reveals otherwise. Post GST the **growth rate of the economy fell from 8% in 2016 to around 3% before the pandemic hit** the country. RBI has revised the growth projection of FY 24 from 7% to 6.5 % which is still less than the growth that was in 2016. On Comparing the level of prices before the introduction of GST and the present time, one can identify the **increase in the rate of inflation** which was around 7.44% in July 2023. An increase from 4.9% (annual average) in 2016 to 6.7% in 2022-23.



Share of taxes in Gross Tax Revenue: Corporate Tax Cut

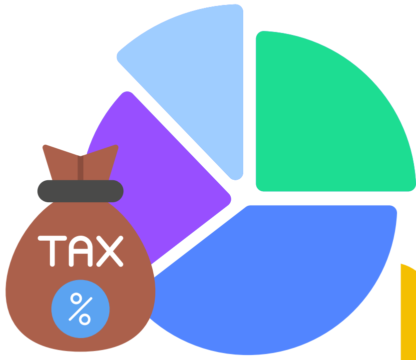
Corporate tax was slashed in 2019, from a peak base rate of 30 per cent to 22 per cent for existing and from 18 per cent to 15 per cent for new manufacturing (without claiming exemptions) (Ministry of Finance 2020)

As per the recent estimates of the Budget of 2024-25, Income tax collections are estimated to increase from **2.6 lakh cr in 2014-15 to 11.5 lakh cr in 2024-25** i.e. a rise of around **6 times**

However during the same period taxes levied on corporates increased only by **2.5 times** from **4.3 lakh cr to 10.4 lakh cr**. This has burdened the working class people of the country as the Modi government is financing these large corporations by transferring the resources to them from the poorer sections.

Recent estimates of the Budget show that the share of Corporate tax in Gross tax revenue has decreased from 34.5% in 2014-15 to 27.2 % in 2024-25, on the other hand, the share of Income tax has increased from 20.8% to 30.2%. The share of custom duty has also shrunk to 6 % from 15.1 %. These figures depict that the present govt is trying to depend more on the middle class, and are decreasing the share of Corporate tax.

Centre, State and the Tax Basket



Huge Gap: There exists a large gap between the share recommended by the Finance Commission and the actual share devolved to the states. **The state's share in central taxes declined from 34.8% in 2015-16 to 29.6% in 2022-23** where the recommended share was around 42% and 41% respectively in the 14th and 15th Finance Commission.

How much are the states losing out? The total amount not devolved to the states was Rs 1.36 lakh cr during the 14th FC period and a whopping Rs 3.69 lakh cr during the 15th FC. The difference between the entitlement to states as per FC recommendations and actual deviation increased to about **3 times** than 13th FC difference which was around Rs 45,000 cr.

The Cess trick: The share of cesses and surcharges in gross tax revenue under the Modi govt has risen significantly from **10.4% in FY12 to 20% in FY21.** The receipts from cess and surcharge are not part of the divisible pool of taxes but are transferred to the reserve funds under the Consolidated Fund of India. So the states lose out!

HIGHLIGHTS

GST is hurting the poor!!

Since GST is an indirect tax where the tax burden is shared by both the buyer and the seller, **an increase in tax collection would lead to a rise in prices**. Since the poorer sections spend a greater proportion of their income paying indirect taxes. GST penalises the poorer sections of the population.

A flat tax rate like GST - on all goods, including essential inputs, **has driven up prices across the board** by inflating costs at every stage of production.

Contrary to claims, **output production has fallen as small businesses** have shutdown, unable to cope, while big businesses increased their capacities and took over.

The growth in the organised sector as refelted in GST is at the expense of the unorganised sector. For instance, e-commerce (in the organised sector) is growing at the expense of the unorganised sector trade.

Does Income tax data really show lowering disparity?

What does Income tax data show?

Even if the income tax data shows a reduction in disparity, that is only from the return filers who only constitute just 5.5% of the population. Thus it cannot tell about the actual inequality in the entire population. This was even confirmed by MoS Finance Anurag Thakur in the Lok Sabha that ‘only 1 per cent of the population in India is the direct taxpayer’ (Lok Sabha 2020).

Tax Evasion & Tax Reliefs for the rich

The Global Wealth Reports of Credit Suisse shows, India had 7.25 lakh and 9.12 lakh dollar millionaires (physical and financial wealth) in 2018 and 2019. Assuming that their annual income was just 10 per cent of their wealth, this would mean Rs 70 lakh. But tax data for AY 2018-19 shows just 29,002 individuals declared income above Rs 50 lakh – far below 7.25-9.12 lakh dollar millionaires around the time. This huge gap indicates massive **tax evasion** and a bad tax system.

The budget for 2023-24 proposes another **tax relief** to the super rich (High Net-worth Individuals). Maximum surcharge on income has been reduced from 37 per cent to 25 per cent, thus, cutting down maximum income tax rate from 43 per cent to 39 per cent.

How about a wealth Tax

In India, wealth tax was abolished in 2015.
Just before its abolition, the wealth tax was levied at the flat rate of 1% on net worth of more than Rs 30 lakh. Even when it was in place, it was never implemented properly. In 2015-16, it generated a paltry Rs 1,079 crore.

What kind of wealth tax should India adopt?

S Subramanian (2020) estimated that a **4% COVID wealth tax** on the **wealthiest 953 families in India could generate revenues worth 1% of GDP**, and this was more than the financial package announced by the central government in the aftermath of the pandemic.

Prof. Prabhat Patnaik (2020) estimated that a **wealth tax of 2% on the top 1%** in the country would **fetch Rs 8 lakh crores** as revenue. An **inheritance tax** of 33% could add nearly another Rs **6 lakh crore**.

Prof Ishan Anand & Anjana Thampi provided some estimates of the additional revenues that could be generated upon implementing flat taxes and progressive wealth taxes on the wealthiest Indians:

If the **wealthiest 1,007 families** in the country were targeted with a flat **wealth tax rate of 2%**, the total tax revenues generated in 2021 would have been **Rs 1.84 lakh crore**.

Marginally, incremental wealth tax rates, ranging from 2% to 6% depending upon the total wealth of the individual, would have generated tax revenues of **Rs 2.76 lakh crore in 2021**.

This could be used for guaranteeing a large chunk of the rights based welfare schemes and ensure adequate public spending on social infratructure.

Tax the Rich, not the Poor and Middle Classes!

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