

REPEALING THE TAXES ON INCOME OF INDIVIDUALS: IS IT PRACTICALLY FEASIBLE?

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“Taxes are universal burden in moral as well as in civil life.

There is no pleasure, social or otherwise, which is not assessed by fate at its full value”

- Alfred De Musset

The above-mentioned quote by French dramatist portrays an insight of the burden of taxes over the citizens of any nation. To substantiate the crux, Henry Hezlitt, a renowned business & economic journalist of the Wall Street Journal has stated that the mounting burden of taxation not only undermines individual incentives to increased work and earnings, but in a score of ways discourages capital accumulation and distorts unbalances and shrinks production. Providing the economical out frame of implication of taxes Mr. Hezlitt could easily able to convey the implications ever increasing burden of taxes on macro level.

The present system of direct and indirect taxes in India was firstly referred in Arthashashtra and Manusmriti. However, the implementation of the referred system dates back to year 1860 when Sir James Wilson introduced the first Income Tax Act while serving as India’s first finance member. The intent of the Britishers for passing the income tax law in the country became apparent in year 1880s when the Brits were in need to raise revenue to fight Anglo-Russian War. 1 Considering the historical evidences of imposing the taxation in Indian subcontinent, the present situation for imposing the taxes on individuals seems similar to that of an intention of Britishers

1 Karan Khatri, 'History Of Income Tax In India' (<https://www.caclubindia.com>, 2017) <<https://www.caclubindia.com/articles/history-of-income-tax-of-india-23570.asp>> accessed 1 April 2018.

in 1980s. However, instead of increasing the revenue to undergo war, the government nowadays have more ethical intentions such as building all the infrastructure projects include roads, railways, bridges, flyovers, subways, dams and lots more. Upholding public security department which includes Police, Defense. Sustaining general services like Municipal and Council services and others. Thus, we if look from rational perspective, the money so raised from citizens by way of imposing taxes is been invested for the welfare of citizen at large.

However, as analyzed and concluded in the recent empirical research, out of 125 Crores Indians only 1.9 Crores Indians pays taxes, which is nearly 1.9% of the total population. Further, due to the progressive tax exemptions and relief, only 23,930 Indians out 1.9 Crores taxes payers contributes 26% of the total tax revenue.² Apparently, there is a huge disparity even among the people who actually pay taxes.

Meanwhile, the study also revealed that around 92% of the Indian household earns lesser than 2.5 Lakhs per annum and thus, they are exempted from paying taxes. Furthermore, the professionals like Doctors, Lawyers, Farmers; Government Employees contributes much lesser tax revenues than marginal rates.³

In year 2013, the Income Tax Department published the data pertaining to income tax collection. The said published report revealed that a total of 28.7 million individuals filed income tax returns, of which 16.2 million did not pay any tax, leaving only about 12.5 million tax-paying individuals, which is just about 1 percent of the 1.23 billion population of India in the year 2013.⁴ The report also exposed that the figure of tax payers has augmented by 25 percent since 2011-12, with the exception of financial year 2013. The year 2014-15 saw a rise to 50 million tax payers, up from 40 million three years ago. Though, close to 100,000 individuals who filed a return for the year

2 Economic Times, 'Why Income Tax Payers In India Are A Small And Shrinking Breed' (<https://economictimes.indiatimes.com>, 2017) <<https://economictimes.indiatimes.com/news/economy/policy/why-income-tax-payers-in-india-are-a-small-and-shrinking-breed/articleshow/56929550.cms>> accessed 1 April 2018.

3 *Ibid*

4 Spriha Srivastava, 'Guess How Many People Pay Taxes In India' (www.cnbc.com, 2016) <<https://www.cnbc.com/2016/05/03/guess-how-many-people-pay-taxes-in-india.html>> accessed 2 April 2018.

2011-12 showed no income. The report brings to light low levels of tax collection and a massive amount of income inequality in the country, showing the rich aren't paying enough taxes.⁵ In the meantime, the Income department said the objective of publishing the data is to encourage wider use and analysis by various stakeholders including economists, students, researchers and academics for purposes of tax policy formulation and revenue forecasting.⁶

Taking the data and analyses into consideration the economists around the world have warned India of the growing income inequality. Subsequently, the International Monetary Fund (IMF) also pointed to the social risk of growing inequality in countries like India and China. The report emphasized the gap between the rich and the poor and stressed the need for effective fiscal policy that broadens the coverage of social spending. It also pointed to the need for a progressive taxation system that taxes the rich more.⁷ While, Thomas Piketty, a French Economist has been a critic of the hidden income inequalities in India and the country's reluctance to part with income data. In consequence, Piketty criticized the Indian income tax department in a public forum for their extreme lack of transparency. He stressed the need for pressure from the media and universities on the government to make such data public.⁸

Besides the above mentioned disparities, the moral issue of tax evasion in the country has always been a cause of concern. While tax evasion is extensive, the I-T department does not have adequate manpower or resources to chase all the dodgers and make them cough up the due amounts. Since the black money transactions take place in cash it is challenging to track them down. A single assessing officer could be loaded with as many as 15000 files and it is challenging for him or her to examine all of them in minute detail.⁹ Thus, quite evidently India doesn't have appropriate administration system to impose the taxation laws precisely. For that reason, an alternative to

⁵ *Ibid*

⁶ *Ibid*

⁷ *Ibid*

⁸ *Ibid*

⁹ B.S Srinivasalu Reddy, 'Tax Burden More On Salaried Class' (<https://www.businesstoday.in>, 2011) <<https://www.businesstoday.in/money/tax/salaried-class-bears-most-of-tax-burden-than-professionals/story/13798.html>> accessed 2 April 2018.

present taxation system can be proposed as to reduce the burden on 1% tax payers and on a present system of administration.

In present scenario of taxation system of India, an individual is paying huge portion of indirect tax besides the direct taxes as well. Hence, the author insist his views on repealing the laws of direct taxes i.e., taxes on income as the newly inculcated Goods and Services Taxes is presumed to be effective & efficient and thereafter, exhibited the signs of proliferated revenue collection through indirect sources.

Therefore, the present progressive taxation system can be repealed and a Minimum Alternative Tax system for individuals can be inculcated.

Minimum Alternative Tax- For all the person(s) u/s 2(31) of Income Tax Act 1961.

At present, the minimum alternative tax is been imposed only on Companies under the provisions of Income Tax Act 1961. But, the concept is not applicable to individuals, HUFs, partnership firms etc. Furth more, the present MAT system is full of loopholes, as a consequence. Government has been facing continuous heat and several suggestions of amendments to make section 115JB more inclusive as well as flexible. The Indian government has recently announced the formation of a special committee to examine ways to resolve disputes arising over MAT payment. At present the scope of the committee is limited and seems to be focused on resolution of MAT demands placed by the government on foreign institutional investors. This is because over the past few months several foreign investors have received notices with regards to payment of MAT. However, efforts by the government are still on to make MAT payment more holistic and controlled.¹⁰ Going by that, the government can look up to MAT as an alternative option to direct tax system as to collecting minimum taxes from all the individuals whether employed, professional, consultant, government employee, defense employee, partnership firm, HUF, Companies, Association of

¹⁰ (2017) <<https://www.bankbazaar.com/tax/minimum-alternate-tax.html?ck=Y%2BziX71XnZjIM9ZwEflsyDYIRL7gaN4W0xhuJSr9Iq7aMYwRm2IPACTQB2XBBtGG&rc=1>> accessed 05 April 2018.

persons, Body of individuals. As a result, this will increase the base of tax payers to widest amplitude & substantially increase the revenue collection of the government and most importantly, the system would be able to cater the encumbrance on 1% tax payers of the country.

