

THE DOG'S TAIL

Like the clever taxpayer, it will wag the system

THERE IS NO LOOPHOLE that has not met an Indian taxpayer. A Hindi proverb says you can never straighten a dog's tail (*kutte ki poonch...*). Don't blame the poor soul who is using adaptation techniques that would put other evolutionary survivors to shame. The Smithsonian lists a few, like crocodiles, lice, coelacanths, horseshoe crabs, and duck-billed platypuses. We could add PAN-card holders.

The *Economic Survey* for 2017-18 says, "It is striking that the centre's tax-GDP ratio is no higher than it was in the 1980s, despite average economic growth of 6.5 percent, the most rapid in India's history." The *Survey* estimates that demonetisation-cum-GST added about 1.8 million new taxpayers. In the 13 months after demonetisation, a total of 10.1 million new tax filers were registered, against a six-year average of 6.2 million.

Many of these new 'taxpayers' declared incomes somewhat lower than the tax-exempt limit of Rs 2.5 lakhs, so the net effect on revenue was negligible. However, with income growth over time they will go over the threshold and increase revenue dividends. Prime Minister Narendra Modi and Finance Minister Arun Jaitley have lamented that so many Indians own cars and fly off on expensive vacations but so few actually pay taxes.

Even if our tax revenues are not rising fast enough, they appear sufficient to fund the buses and public property that are torched by angry mobs, or to finance handsome salary hikes for judges, governors, the President, the Vice-President, and every Member of Parliament. We expect the government to also use its stretched coffers to build infrastructure and grow our GDP at about seven per cent.

It is not clear if Jaitley was being ironical, but in his Budget 2018 speech he noted that most people tend to think that businessmen make more money than salaried employees. He added that salary-earners pay more income tax than businessmen and professionals. For assessment year 2016-17, 18.9 million salaried individuals paid total tax of Rs 1.44 trillion, or an aver-

age of Rs 76,306, while 18.8 million businessmen and professionals paid total tax of Rs 480 billion, or an average of just Rs 25,753 per individual. So now you know why businessmen, doctors, lawyers – and chartered accountants – look so put upon. Think of those hold-overs from millions of years ago!

As for the salaried class, although Jaitley handed out a tiny Rs 40,000 sop to them, he promptly took it away with a bump-up in income-tax rates. The increasingly impoverished middle class does not matter – it does not vote en masse or, mostly, does not vote at all.

From the tithe, or one-tenth of produce or income that was decreed in Biblical lands, to the levies prescribed by the *Manu Smriti* and the *Arthashastra*, thence to Sher Shah Suri's land revenue model, through Mughal taxation, strikingly like today's in its division between the centre and the provinces, to the first formal income-tax Act in 1860 introduced by the British, people have practised the fine art of evasion.

Although Indian stock markets have plummeted, seasoned market players are sure Jaitley will tweak his proposed long-term capital gains tax on share-trading profits. They are philosophical. As Chanakya said: "The ruler is never satisfied with revenue collection, as the ocean with incoming waters, nor the scholar with good sayings, or the eye with the sight of the beloved." **BW**



Businessmen and professionals each paid income-tax of only Rs 25,753

The author is former Editor, Reuters Asia, Editor-in-Chief of The Hindustan Times and Editor of Business Today