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View: Every year the same old story — Punish the honest, let the dishonest make merry

BY ET CONTRIBUTORS | UPDATED: FEB 27, 2018, 09:53 AM IST

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By TV Mohandas Pai & S Krishnan

Finance minister [Arun Jaitley](#) had promised to tackle the problem of black money and evasion by people who don't declare their entire income, and expand the taxpayer base.

However, in his [Budget 2017](#) speech, he only blamed citizens by stating, "We can conclude that we are largely a [tax](#) non-compliant society. The predominance of cash in the economy makes it possible for the people to evade their taxes. When too many people evade taxes, the burden of their share falls on those who are honest and compliant."

And he only increased the tax burden on honest taxpayers. People who have been honest by following the law and declaring their true income are penalised with a higher amount of tax every year. In 2016, the finance minister increased [surcharge](#) by 3% on individuals having income above Rs 1crore. In 2017, he levied a surcharge of 10% on individuals whose annual taxable income is between .50 lakh and Rs 1crore.

This year, he introduced a standard deduction of Rs 40,000 for providing relief to salaried taxpayers and pensioners, in lieu of two other allowances. The net benefit from standard deduction is only Rs 5,800 per salaried employee. At the same time, he has increased the cess on income tax by 1%, which will reduce the net benefit from standard deduction. Salaried employees earning an annual salary of Rs 5.80 lakh and more will pay more taxes.

The salaried class has become the proverbial goose that lays the golden egg. Honest taxpayers who have declared their full income are made to pay more tax for being honest, while people who have not declared their true income are only subject to admonition. In [Budget 2018](#), Jaitley said, "Income-tax data analysis suggests that major portion of personal income-tax collection comes from the salaried class.



The salaried class has become the proverbial goose that lays the golden egg.

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For assessment year 2016-17, 1.89 crore salaried individuals have filed their returns and have paid total tax of Rs 1.44 lakh crore, which works out to average tax payment of Rs 76,306 per individual salaried taxpayer. As against this, 1.88 crore individual business taxpayers including professionals paid total tax of Rs 48,000 crore, which works out to an average tax payment of Rs 25,753 per individual."

Indian Divided Family

Under the presumptive tax scheme, the income-tax department (ITD) has only received an average tax payment of Rs 7,000 from individual, Hindu Undivided Family (HUF) and firms, and Rs 35,000 from professionals for 2016-17. Not surprisingly, this remained a statement without any concrete steps to force tax evaders from the business and professional community to pay more taxes and to widen the taxpayer base.

On the corporate side, Jaitley in his Budget 2015 promised to reduce corporate tax (CT) rate from 30% to 25%, with corresponding withdrawal of exemptions over the next four years. He then withdrew many exemptions. In his Budget 2017 proposals, he only announced a reduction in CT rate to 25% for smaller companies with an annual turnover of less than Rs 50 crore in 2015-16.

This year, he extended the CT rate of 25% to companies with an annual turnover up to Rs 250 crore in 2016-17. He has not reduced the CT rate for large companies. This affects their competitiveness with global companies who pay a lower corporate tax rate in their home countries.

The worldwide average statutory corporate income-tax rate is about 23%, measured across 202 tax jurisdictions. The effective tax rate (ETR) — inclusive of surcharge and [education cess](#) — of the corporate sector in India was 23.22% in 2013-14, 24.67% in 2014-15, 28.24% in 2015-16, and 26.89% in 2016-17. The ETR has increased by 3.67% since 2013-14, amounting to Rs 46,427 crore, and maybe more now.

The collective net loss of Rs 21,395 crore by public sector banks (PSBs) in 2016-17 has also contributed to the reduction of ETR to 26.89%. Nine of the 21 PSBs reported losses during 2016-17. Officials are taking the excuse that exemptions are still not withered away, while the ETR and tax payments have, indeed, gone up because of withdrawal of exemptions. While there has been an increase in the ETR, the FM has still not kept his promise and broken the trust that the taxpayer had in his promise.

Honesty is the Cleft Policy

In Budget 2018, Jaitley said there is premium on honesty. But honest taxpayers who have declared true income of more than Rs 1 crore, and salaried taxpayers, have not seen much benefit. And people who have declared income between Rs 50 lakh and Rs 1 crore do have to pay much higher taxes than before.

But dishonest people who don't declare their income fully don't seem to have been hurt. It is hoped that the FM rectifies this and ensures that there is a premium on honesty. In truth, there is a discount on honesty today.

Pai is chairman, Aarin Capital Partners, and Krishnan is a tax consultant. Views expressed are personal.

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