

Black money fight: Operation Clean Money off to a middling start, tax collections up but number being investigated falls from 17.9 lakh to 60,000

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Not surprisingly, given the demonetisation drive, the government has chosen to play up both the success of Operation Clean Money (OCM), as well as its prospects. So, a press release talks of a list of a list of 60,000 persons that has been drawn up for detailed investigations which will include, for instance, checking their claims of high cash sales during the demonetisation period. The fact that the taxman is zeroing on 60,000 persons—of these, 1,300 are categorised as ‘high risk’—after coming out with an initial list of 17.92 lakh persons whose cash transactions ‘did not appear to be in line with their tax profile’, in itself suggests the back-stories created by armies of well-paid chartered accountants and tax attorneys are holding up well.

The fact that, going by the same press release, a total of 2,362 search, seizure and survey actions between November 8 and February 28 yielded just Rs 818 crore of valuables and Rs 9,334 crore of undisclosed income also tells its own story. Also, much of this will be disputed later, so even this is not a done deal. In the five-year period 2010-11 to 2015-16, keep in mind, while total tax collections rose 1.8 times from Rs 7,93,071 crore to Rs 14,55,648 crore, disputed taxes rose 3.6 times from Rs 1,88,010 crore to Rs 6,83,188 crore; as a share of total tax collections, disputed taxes rose from 23.7% in 2010-11 to 46.9% in 2015-16.

Though collections from the PMGKY amnesty scheme were quite poor, the OCM presentation talks of a 16.9% growth in overall tax collections and of 91 lakh new taxpayers being added in FY17. The latter suggests that, thanks to demonetisation, people rushed to file their tax returns. While it would be important to see how many of these returns were filed after November 8, keep in mind, in FY15, based on CAG data, 136.3 lakh more tax assesseees were added—this includes those who didn’t file tax returns but paid taxes via the TDS route.

Interestingly, there is no firm estimate of how many taxpayers India has. For FY14, CAG puts all taxpayers at 470.3 lakh and, of this, 304 lakh were non-corporate; the tax department, however, puts the total at 516.7 lakh and, of this, 509.6 lakh were non-corporate. Ultimately, of course, a growth in the number of taxpayers is only meaningful if it translates into equally high tax collections. While the 17% growth in all tax collections in FY17—and 22.8% in the case of personal income taxes—was good, it wasn’t spectacular. In FY16, overall tax growth was 17%—it was 16.5% in FY13, 27% in FY11 and 25.3% in FY08; personal tax collections grew 21% in FY14 and 36.7% in FY08.

Also, keep in mind the high 17% growth in total tax collections in FY17 would have been influenced by a faster GDP growth as well—indeed, at 11.2%, tax-to-GDP in FY17 was higher than FY16’s 10.6% but lower than FY08’s 11.9%. Whether demonetisation will lead to higher taxes remains to be seen, and a lot will depend on, for instance, how much tax can be got from the 60,000 people being further probed. It will also depend on how well the taxman is able to use its Project Insight designed to give the taxman a 360o view of people’s income and expenditure, and,

since it creates a profile of value-addition in each step of the production-consumption chain, GST will also be a big help.

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