

Demonetization effect: 9.1 million new taxpayers

BY ASIT RANJAN MISHRA &
GIREESH CHANDRA PRASAD

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The government added 9.1 million new taxpayers in 2016-17, an 80% increase over the typical yearly rise, highlighting the impact of India's November demonetization of high-value currencies.

This is expected to significantly boost the government's tax revenue. India had only 55.9 million individual taxpayers at the end of 2015-16.

The Economic Times, citing two top government officials, reported on 3 May that the number of people who filed tax returns surged by 9.5 million.

Not everyone who pays tax files returns. Many are salaried employees whose tax is deducted and paid by the employers. In 2015-16, only 37 million individuals filed tax returns.

The increase in taxpayers may be used by the government to justify demonetization, which critics have claimed did not help in its original objective of curbing black money, terror financing or counterfeit notes.

"About 9.1 million new taxpayers have been found, significantly expanding the taxpayer base," a senior government functionary said on condition of anonymity.

The person, who is in a position to be aware of data and thinking at the highest levels of the government, added that this was partly on account of demonetization.

It is estimated that a substantial part of the invalidated currency has returned to the banking system—official data on this is yet to be released—but the government has insisted, and rightly so, that the mere act of depositing money in a bank account doesn't convert black money into white money.

A second person, a government official familiar with the matter who asked not to be identified, confirmed this number. He said that every year, typically, India adds around 6 million taxpayers, and around 1 million stop paying taxes (on account of death, retirement, etc). That would mean India added around 4.1 million more taxpayers in 2016-17 than it otherwise would have.

The second person said India ended the year with 65 million taxpayers. In June 2016, Prime Minister Narendra Modi asked the income-tax department to work towards increasing India's tax base to 100 million individuals.

A low taxpayer base has for long been a key drag on the government's finances. India's tax revenue, including indirect taxes, as a percentage of its gross domes-

tic product (GDP) was 16.7% in 2016, compared with 25.4% in the US and 30.3% in Japan.

Among the 37 million individuals who filed tax returns in 2015-16, 9.9 million showed income below the exemption limit of Rs2.5 lakh; 19.5 million, income between Rs2.5 lakh and Rs5 lakh; 5.2 million, between Rs5 lakh and Rs10 lakh; and only 2.4 million people showed income over Rs10 lakh. Of the 7.6 million individual assesses who declared income above Rs5 lakh, 5.6 million were in the salaried class. Only 172,000 people declared income exceeding Rs50 lakh in the entire country.

In comparison, in the last five years, more than 12.5 million cars have been sold and, in 2015, 20 million Indians travelled overseas, either for business or pleasure.

In his budget speech on 1 February, finance minister Arun Jaitley quoted these figures and said India is largely a tax non-compliant society. "The predominance of cash in the economy makes it possible for the people to evade their taxes," he said.

Jaitley added in his speech that after demonetization, the preliminary analysis of data received in respect of deposits made by people in old currency presented a revealing picture. "During the period 8 November to 30 December 2016, deposits between Rs2 lakh and Rs80 lakh were made in about 10.9 million accounts with an average deposit size of Rs5.03 lakh. Deposits of more than Rs80 lakh were made in 1.48 lakh accounts with average deposit size of Rs3.31 crore. This data mining will help us immensely in expanding the tax net as well as increasing the revenues, which was one of the objectives of demonetization," he said then.

This year's Economic Survey said that perhaps the most important marker of the success of demonetization would be tax collections.

"The number of new income tax payers as well as the magnitude of reported and taxable income should go up over time. That will be the surest sign of success."

The International Monetary Fund, in its latest Asia Pacific Economic Outlook, said that after demonetization, bank deposits of large amounts were expected to attract high scrutiny by tax authorities and the information obtained as a result of income verification could lead to a durable impact on the tax revenue base. "With only about 1% of the Indian population paying personal income taxes, the scope for broadening the tax base is clearly large," it said.

asit.m@livemint.com