

Budget 2013: Tax on super rich has uncertain economic benefits, says Standard Chartered

Tax on the super rich has uncertain economic benefits, but could send a strong political message to the country, Standard Chartered said in a note on Wednesday.

With India's tax-to-GDP ratio stagnating at around 10-11%, some policy makers have proposed a higher tax on the super rich to boost revenues. Only about 6 per cent of taxpayers (1.8 million people) report an annual income of more than Rs 1 million or \$20,000, but they account for 75 per cent of total income tax collection. In absolute terms, this group pays income tax of about Rs 1.1 trillion a year.

Standard Chartered is of the view that raising their income tax rate by 5 per cent would reduce the fiscal deficit by only about 0.15 per cent of GDP. In addition, the threshold for defining the super rich might be set at a much higher level, further diluting the revenue impact.

"Such a measure would run the risk of higher tax evasion and create a disincentive to work and invest in an economy where growth rates have come down substantially. In our view, the economic benefits of a higher tax on the super rich are uncertain," the report said.

Given the upcoming election, Standard Chartered feels that the government might frame such a measure as an attempt to redistribute wealth. Better tax compliance might be more effective in boosting revenue.

This is evident in the fact that 1.2 million people bought properties worth more than Rs 3 million; 3.38 million people made cash deposits at banks exceeding Rs 1 million in a year. 1.6mn people paid more than Rs 200,000 in credit card bills, while only 1.8 million people reported incomes of more than Rs 1 million.

Measures to improve tax compliance would increase revenues, but they would need to be implemented cautiously to avoid leading to more litigation. The value of tax disputes under litigation stood at Rs 4.05tn at the end of FY11, after doubling in two years.

(Economic Times)