

## **Tax and Inequality- A Central Concern for Effective Governance**

Union Finance Minister, Shri Pranab Mukherjee has said that it is desirable to have a periodic international dialogue on economic concerns that affects lives in all our countries. He was inaugurating the 4<sup>th</sup> International Tax Dialogue Global Conference on "Tax and Inequality". Shri Mukherjee said that the present phase of globalization has brought us closer to each other, than any point in the history of human civilization. Our opportunities are getting increasingly tied together and so are solutions to many of our common problems, he said. The Finance Minister said that the multifaceted integration of societies has created a collective destiny, unifying many of our development concerns.

Welcoming the participants, Shri Mukherjee said that India is delighted to co-host this conference and expressed happiness over the international tax dialogue joining hands with the Ministry of Finance in organizing the conference. He said that the Conference has brought together an impressive panel of stakeholders to deliberate on tax matters by involving national tax officials, international and regional tax organizations, policy makers and experts from around the world.

Shri Mukherjee said that this conference addresses an important theme namely, "Tax and Inequality" which is a central concern for effective governance and just functioning of a modern welfare nation-state. He stated that the intricate relationship between growth and inequality poses challenges for the formulation of tax policy in both developed, as well as developing countries. Shri Mukherjee said that on the one hand, progressive tax policy is a means to address growing inequalities in incomes and wealth and on the other hand, it provides resources to address the structural issues in inequality and poverty. He said that it facilitates the implementation of public programmes and expenditure policies for capacity building of the less fortunate individuals and communities within countries. At the same time, tax policy has implications for incentivizing economic activity, savings, production or consumption, and hence growth. It is thus a vital instrument of public policy and has to be carefully used, the Minister said.

The Finance Minister said that the policy makers need to make difficult choices about how tax systems can best support growth and help in creating fair and equitable societies. He said that principles of horizontal and vertical equity are important if a tax system is to be seen as fair. Shri Mukherjee said that tax administration, which includes mechanisms to register taxpayers, collect revenue, enforce compliance and provide redress when required, also has a direct bearing on fairness of tax policy. The Minister said that a good tax policy if not administered properly may result in a distribution of the tax burden very different from that which would occur if the tax code was administered effectively.

Shri Pranab Mukherjee said that there is much that we can learn from each other's tax systems, working experience and the best practices and there is also a need to collaborate and align and make our tax systems speak to each other as we get integrated and the cross-border economic transactions multiply. He stated that the deliberations in the conference would contribute to that process. Informed policy making leads to better tax policy and tax administration and better tax policy and effective tax administration leads to better lives for our citizens, he said.

The Finance Minister said that the issue of the tax reforms was at the heart of the process of economic reforms and liberalization that India embarked on in the early 1990s and we had come a long way since then. He said that the tax reforms though gradual have been systemic in scope, particularly when we consider the proposals currently awaiting implementation. The reforms have covered both the direct taxes as well as the indirect taxes. Shri Mukherjee said that the proposed Direct Taxes Code brings together the policy initiatives on the direct taxes and is slated to come into force from the next financial year. Similarly, he stated that we are moving towards an economy-wide generalized value added tax system of goods and service taxes at all levels in the country. The Finance Minister said that the tax reforms have been directed at:

- Simplification of tax system and its administration;
- Rationalization of tax rates;
- Broadening of tax base;
- Special focus on sunrise area of taxation like transfer pricing and international taxation;
- Strengthening tax information exchange network with countries/ jurisdiction;
- Improvement of tax administration;
- Better tax payer services and reduction in cost of compliance;
- Robust dispute resolution mechanism; and
- Focused enforcement on high net worth individual tax abuse practices and high revenue risk.

Shri Mukherjee said that an efficient tax system is a fundamental requirement for sustained development of any nation. Taxes underwrite the capacity of a nation to implement its development and welfare goals, he said. The Finance Minister said that it is a means to promote equity in the distribution of gains from economic growth in a country like India. He stated that we have adopted a progressive personal income tax to address the inequality and our progressive direct tax policy has resulted in a ten-fold increase in direct tax revenue from USD 8.62 billion in the fiscal year 1996-97 to US 87 billion in fiscal year 2010-11. The Finance Minister said that more importantly, the composition of our tax revenues has altered significantly in favour of direct taxes which now account for nearly 60 per cent of our total tax revenues. We have tried to address the issue of gender inequality and old age vulnerabilities by providing some tax relief to women and old people, he said.

Shri Mukherjee said that tax evasion undermines the intended benefits of a progressive tax policy. He said that the problem is compounded by illicit outflow of money from emerging economies and developing countries. Global financial integrity has

estimated such annual illicit outflows averaging between USD 725 to 810 billion from these countries. The Finance Minister said that the Indian Government has adopted a five pronged strategy to deal with issues of tax evasion and black money which includes:

- Joining the global crusade against black money;
- Creating an appropriate legislation framework;
- Setting up institution for dealing with illicit money;
- Developing systems for implementations; and
- Imparting skill to the manpower for effective action.

In his concluding remarks, Shri Mukherjee said that the strategy has started showing result. However, resolution of these issues requires international co- operation and alignment of tax systems for better cross-border compliance, he added. The Finance Minister said that the complexity of cross border transactions is on a rise and presents a serious challenge to tax administrators in practicing and bringing equality. The opacity of tax systems in some of the jurisdiction is adding to the challenges. There has been some movement on these issues in response to the initiative by G-20 but we need to pursue this to its logical end, he said.

Speaking on the occasion, China's Vice Minister of Finance, Mr. Wang Jun said that at the crucial moment of world economic and social development, it is of great importance and significance for people from the world financial and tax communities to gather together, share their experience and wisdom to make their contributions to a more balanced global economy, more equitable international community and more harmonious human society.

Deputy Managing Director, IMF, Mr. Min Zhu said that the IMF had been focused on the issues of inequality and poverty for many years, across the range of their activities. He said that in its surveillance and program work, IMF has long highlighted, to give just one example, that the benefits of the huge fuel subsidies in many countries go overwhelmingly to the richest, and that there are better ways to help the poor.

Also present on the occasion were Minister of State for Finance (Revenue), Shri S.S. Palanimanickam and Minister of State for Finance (Expenditure, Banking and Insurance), Shri Namo Narain Meena.