

Tax cuts helped low and middle income earners, rich got only marginal relief from tax reforms

Low-income earners and entry-level employees have been the biggest beneficiaries of [tax cuts](#) in the past 10 years. The effective tax rate of a person earning 3 lakh a year has dropped from 14.1% in 2003-04 to 3.4% now, an ET analysis indicates. Middle-income earners have also seen a substantial drop in effective tax rate.

In contrast, high-income earners and the uber rich have got only marginal relief in percentage terms. An individual with a taxable income of 8 lakh a month was paying 32.5% tax in 2003-04. Despite the reforms and tax cuts, he pays 29.1% now (see chart). The data assumes significance in view of the nationwide debate on the possibility and desirability of higher tax rates on the very rich.

It is not possible to directly compare current income levels with those prevailing in 2003-04. Today, an entry-level worker earns as much as 25,000-30,000 a month. Ten years ago, a middle-level manager was making that much. In order to make incomes comparable, they were adjusted for inflation and the tax payable calculated on that income according to the tax slabs and rates prevailing in a particular financial year.

For instance, 10 years ago, the indexed value of an income of 10 lakh at today's prices was only 5.43 lakh.

The tax calculations did not take into account the various tax deductions and exemptions because it varies across individuals. So, the income is the net taxable salary of the individual after all deductions and exemptions.

While low- and middle-income earners account for almost 95% of taxpayers in India, it is the rich who bring in the largest chunk of the revenues. As the table shows, the 4.06 lakh taxpayers with an income of over 20 lakh a year account for 63% of the total tax collections.

In an interview with this paper last month, the influential chairman of the Prime Minister's Economic Advisory Council, C Rangarajan, had suggested that to augment revenues the government could at some stage consider a higher marginal tax rate on those with substantially higher incomes.

In an interview with ET NOW, published on January 31, Finance Minister P Chidambaram, who will present the budget on Feb 28, had alluded to the debate without indicating where he stood on the matter. "I have heard an argument that on some occasions, when the government needs resources, the very rich should be willing to pay a little more. The argument is being put forward by very eminent people. I am not endorsing or rejecting that argument," he said.

(Economic Times)