Union Budget: Collect more taxes and give less alms

Stripped of all the verbiage, the main function of a government is to collect taxes. To do so effectively and successfully, it must preserve order and stability; and ensure conditions to keep the economy growing. The more it grows, the more revenues it collects and, therefore, how much it collects is the truest index of its success.

The power of a nation is directly related to the revenues it realises from its citizens. The US is powerful because it collects $17,464 per capita from its citizens. Those who predict the imminent rise of China and then India to the rarefied heights of being a global power do not seem to realise that China collects only $1,600 per capita and India $284 per capita. I have particularly in mind one former finance ministry official who goes from meeting to meeting with a PowerPoint presentation of how India will be a world power in a few decades, giving rise to much self-delusional optimism among the national elite.

There is no doubt that the GDPs of China and India will close in on that of the US in the next three or four decades. But we will still be nowhere near the US when it comes to that raw index of true power. How much money does the state have to spend? How much money a government has determines how much a government can transform our lives and influence the world too.

A state has four streams of collecting taxes. These are corporate tax; personal income tax; sales tax and levies; and customs and excise duties. Every year as the budget proposals for the next year are being written, there is a clamour from trade and industry bodies like CII, Ficci and Assocham pleading for a reduction of the rates of all these. While they package their pleas with what purports to be sound economic logic, the real logic is that the better-off just want more and give less.

Of course, taxes ought to be reasonable and balanced to give the state more money to spend without imposing a backbreaking burden on its private and corporate citizens. To find this reasonable and fine balance is what good government is all about. Too high an incidence of taxation will not only encourage cheating on taxes but also will make industry and commerce unprofitable and disincentivise individuals. There was a time in this country when personal income tax was as high as 98% for the highest slab. The consequence was that there were few honest people at the higher slabs. Cheating the state became a common practice. With the rates now much more sensible, this is not as endemic. Ditto for customs and excise duties. The outcome of the extortionate rate of taxes we used to have only a few decades ago is still seen in the continuing incidence of corruption in the tax collecting departments of the government.

But are taxes still too high in India? Let’s take corporate taxes. The US and Japan top the list with 40% and 40.69%, respectively. Germany collects 38.36%, Italy 37.25% and Canada 36.10%. Among the G20 countries, only China imposes a smaller percentage than India. China’s rate is a flat 33% and India’s is 33.99%. China’s rate has been steady at 33% for the past five years while India’s has declined by almost 2%. As a matter of fact, only India, among the G20, has been steadily reducing the incidence of corporate taxation. Despite this, uncollected taxes are on the rise.

The government could have been richer by a gargantuan R5.8 lakh crore if the I-T department had not been dragging its feet over recovering the amount in time or holding up files in appeal cases at the Commissioner of Income Tax level. Another R2.1 lakh crore is stuck in litigation cases at the Income Tax Appellate Tribunal, High Courts and the Supreme Court. The total figure is now over R8 lakh crore.

These figures have been highlighted in the latest report of the CAG tabled in Parliament. The report points out a tax demand for R2.9 lakh crore remaining uncollected at the end of March 31, 2011. The report adds: “The recovery mechanism is inefficient as certified demand remaining uncollected increased to R1,06,990 crore (96.3%) in 2010-11 from R26,703 crore (75.8%) in 2006-07.”

Quite clearly, this has more to do with the usual bad habits and bad government than high taxation? Meanwhile, in the case of the US, the average corporate tax rate had risen by as high as 6%. Fighting two wars can be an expensive business. But so can modernising a nation and fighting poverty by creating 12 million jobs a year.

In the details provided by P Chidambaram in last year’s budget proposals is another gem. The effective tax rate for public sector companies was 23.35% while that of the private sector that CII and Ficci champion was just 19.50%. The IT sector has become the bellwether of Indian enterprise. The IT majors have been performing exceptionally not just in the stock market but also in the real world. They have been posting income gains and rising profits year after year. One would have thought that the self-professedly socially conscious leaders of this sector would have given the state, which has also got to cater to hundreds of millions of people living well below an acceptable living standard, something for giving them large catchment area of maths proficiency. On the other hand, the IT sector took away R11,880 crore as deduction on export profits. The telecom sector is adding almost 12 million new subscribers each month now. It took R6,850 crore in exemption. And these are supposedly the sunrise sectors.

But what must cause the ministry of finance even more concern is that China’s government revenues have been growing by almost 17% each year since 1998. And India’s have been growing relatively slowly at 12% in comparison. It is true that their GDP has been growing faster than ours. But it is also true that they collect more taxes and give far lesser write-offs.

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