

Measures to change the 'colour' of money



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THE REDUCTION IN PRESUMPTIVE TAX COULD SERVE AS AN INCENTIVE FOR TAXPAYERS WHO ARE KEEN TO DECLARE THEIR INCOME, BUT MAY NOT BE ENOUGH TO BRING MORE TAXPAYERS IN, SINCE THE ALTERNATIVE IS ZERO TAX

THE GOVERNMENT has taken a number of measures towards reducing and controlling the generation and accumulation of unaccounted incomes or black wealth in India or by Indians, the demonetisation exercise being the most visible one. In Budget 2017 and Economic Survey 2016-17, this has been positioned as a measure to curb generation and holding of black money/income. Questions have been asked on what the government will do to change the incentives for generation of unaccounted incomes in times to come. Budget 2017 does include some measures: cleaning up of political funding, measures to encourage digital transactions and, to a smaller extent, the reduction in the rate of tax for small and medium businesses.

Two measures for cleaning up political funding are the capping of cash donations from one source at ₹2,000, down from ₹20,000, and the potential

introduction of electoral bonds to allow donations without the donor's identity being disclosed on the books of the party. While the former can be perhaps side-stepped by increasing the number of small donations, it does raise the compliance costs. The idea of electoral bonds is interesting in that it would allow entities to donate legitimate income without disclosing their identity, but this requires a change in culture and expectations associated with donations.

Digital transactions are a way to discourage generation of unaccounted income. After demonetisation, some measures to encourage this were announced. The Budget too introduces a few measures: a reduction in presumptive tax for non-cash payments received, a cap on cash expenditures and a ban on cash transactions above ₹3 lakh in cash. The reduction in presumptive tax could serve as an incentive for tax-

payers who are keen to declare their income, but may not be enough to bring more taxpayers in, since the alternative is zero-tax. Similarly, for bidding transactions in cash beyond ₹3 lakh is an important instrument, but only if people seek redressal for grievances from formal institutions.

However, if people depend more on inter-personal relations for grievance redressal, the lack of legal sanctity might not mean much. Choosing to rely more on "carrots" rather than "sticks" might make digital transactions more acceptable and bring about the desired behavioural change.

The third measure, of reducing the tax rate of small corporates, could aid improved compliance. Sensitivity to tax rates however is a function of how effective the tax administration is in identifying evasion or avoidance. This is a difficult decision where there is a lot of discussion on "tax terrorism".

