

Has direct tax compliance risen sharply?

DeMo may not have sharply raised the number of taxpayers even as more people are filing returns

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The Income-Tax Department recently released a significant amount of data on direct tax collections and compliance relating to the last few years. With two major changes introduced in the economy in the last two years, demonetisation and GST, it is tempting to explore the impact of these on compliance.

While a number of questions can be asked, one needs to first focus on what can be read from the data being presented.

The I-T Department has released a document titled 'Income Tax Department Time Series Data Financial Year 2000-01 to 2017-18'. This document provides three types of information on compliance with the tax regime:

- the number of returns filed in each year (including revised returns) — this information is provided for each financial year: it should be noted that the returns can relate to more than one assessment year.

- the number of "persons" filing returns — once again this information relates to each financial year.

- the number of taxpayers in any given assessment year: this is the number of taxpayers who have either filed a return or have paid tax in some form, even if it is in the form of TDS or TCS.

To understand these numbers, it is important to recall that returns or assessees relating to a particular assessment year would be associated with transactions during a

well-defined financial year. However, any information that relates to a financial year, like the number of returns received in a given financial year, could pertain to multiple assessment years.

For instance, returns filed during the financial year 2017-18 can relate either to the financial year 2016-17 or to some of the earlier years, since taxpayers could be filing revised returns in subsequent years or file a returns after the due date.

One can imagine compliance with the tax regime in two ways: through the number of "persons" paying tax, i.e., the number of taxpayers irrespective of whether or not they file returns and, alternatively, through the number of "persons" who choose to file returns. The former can be referred to overall compliance whereas the latter, which is a fraction of the former, can be referred to as voluntary compliance.

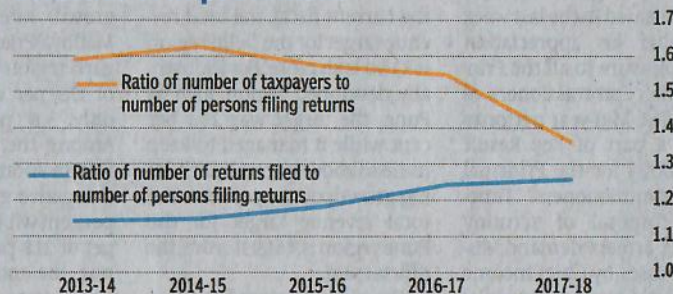
The overall compliance — the number of taxpayers — has been growing steadily over the period 2012-13 to 2017-18. The rate of growth of number of taxpayers has been 7-8 per cent per annum except for two years 2013-14 and 2016-17, when it reached a low double-digit level.

The summary statistics provide information on the extent of voluntary compliance in a given financial year.

These numbers have shown a consistent increase in number of people filing returns over the last four years from 3.13 crore in 2012-13 to 5.43 crore in 2017-18. This amounts to an average increase of



Evidence of Improvement



13 per cent per annum. Bulk of this increase is in the 'individuals' category, much less so in any other category, including firms and companies. The increase is sharpest in 2017-18, where there is a reported growth of over 21 per cent.

Key ratios

To understand the changes in the compliance in the economy, it would be useful to look at two ratios: the ratio of number of returns filed to the number of persons filing returns, and the ratio of taxpayers to the number of persons filing returns.

Since an individual can file more than one return in any given financial year, i.e., those pertaining to earlier years, the ratio of number of returns filed to the number of per-

sons filing returns shows the average number of returns filed per person.

Over the last five years, this ratio has increased from 1.14 to 1.26. In other words, a larger number of "persons" are filing returns for earlier years or revising returns pertaining to earlier years. This could be considered an evidence of improvement in compliance. While the increase is encouraging in the short run since with an increase in deterrence, the behaviour of people should get corrected, one should expect that this ratio should once again stabilise at a lower level once this correction has been achieved.

The other ratio — the number of taxpayers to the number of persons filing returns — reflects the proportion of persons who pay tax but do

not feel the need to file a return.

As the graph shows, the ratio has fallen from a high of 1.62 in 2013-14 to 1.36 in 2017-18. In other words, while in 2013-14, 62 per cent of taxpayers did not file returns, in 2017-18, this figure comes down to 36 per cent.

DeMo impact

The initiatives by the government in the form of demonetisation and related measures do not seem to have dramatically altered the rate of growth of the number of taxpayers, but of these "persons", a larger fraction seems to have progressed to filing returns. This would be evidence of improvement in voluntary compliance with the system.

However it is not clear whether this can be interpreted as bringing more people into the tax net, especially given another crucial fact — that over 40 per cent of the returns report zero-tax liability.

Disaggregate analysis of the data should throw up some interesting results, but we would have to wait for future releases of the data, since the data for 2017-18 is for returns filed up till August 31, 2018.

The number of returns as well as the amount of tax paid in the disaggregate analysis is substantially smaller than that provided in the summary tables; clearly, the data are far from complete to be used for analysis.

It should also be mentioned here that the data presented so far do not allow analysis of the impact of GST since the returns for which data are available relate to the pre-GST period.

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