# To safeguard the poor, India needs a progressive taxation system

Posted on July 20, 2020 by Sankha Subhra Biswas

Prime Minister Narendra Modi revealed a truth unintentionally for the first time during his long but well-articulated speech on how Indians fought against Coronavirus (COVID-19). He confessed that 800*m* Indians are suffering from poverty and they need government's support to live. Though it has been alleged since a long time that the Modi regime didn't eradicate poverty, rather increased it, finally, Modi accepted this allegation, indirectly, but his deeds are not matching his words.

During the financial year (FY) 2017-18, the Modi regime introduced a new taxation policy – Goods and Services Tax (GST). This new tax regime was dignified as a revolutionary taxation method to gain more revenue. In an unequal system, GST, vis-à-vis flat taxation system equalised the poor and

rich because they are paying equal tax for buying any particular good or service. For example, if we consider an individual is buying a pen worth Rs 100, then that individual has to pay the tax amount levied on the pen, irrespective of the individual's socio-economic or class position.

For the system, this type of flat taxation is justified because the flat tax supporters argue that this helps to encourage people to work hard to earn more and tax is not any burden for them. But in reality, as we are living in an unequal system where 1% of the total population has accumulated more than 70% of India's wealth, while a garment worker, with the present-day minimum wage, needs 941 years to earn a billionaire's annual salary.

People are dying in the slums of Mumbai because they can't afford basic healthcare costs, as they are bound to pay the same tax amount like the rich. So it's high time to push the enactment of a progressive tax model and to impose wealth tax on the rich to reduce the tax burden on the poor.

The COVID-19 crisis spiralled one of the most devastating economic crises of all times. Thousands of people have lost their jobs. Migrant workers have lost their lives while they were walking to reach their native places and both the government and the opponents were busy accusing each other but refrained from stretching their helping hands towards the workers, which the latter were badly asking for.

Now, as the lockdown is withdrawn from most parts, the majority of the migrant workers have reached their native places but they don't know when they can go back to their workplaces. The Modi regime has already announced farcical humongous "*fiscal stimulus*" to start production but the

capitalists are using this money to invest in the stock markets to earn higher profits and, as a result, the Indian stock markets (BSE and NSE) have gained almost 20% from the lowest but it has no relation with the real economy.

It is the very data published by the government that is showing that they failed to serve the people's interests but definitely saved the capitalists from sinking. An estimated data given by the Centre for Monitoring Indian Economy (CMIE) reckoned that almost 122*m* people have lost their jobs due to the lockdown and 27*m* among them belong to the age group of 20 to 30 years. The *Financial Express* reported that poverty may increase up to 200% due to COVID-19. A report by Arthur D Little stated that COVID-19 will be felt by India's most vulnerable in terms of job loss, poverty increase and reduced per capita income which will push 120*m* into poverty.

But in such a worse condition they have to pay high GST because it is the tax law of the land. It's not the crisis-specific case but in the last few years, the inequality crisis has been on the rise and people have been dying due to hunger. India slipped to the 102nd position in the World Hunger Index but the government was busy spreading fake WhatsApp messages. In his new book, Nobel laureate Abhijit Vinayak Banerjee has reckoned that the mean spending capacity of a common Indian has already reduced by Rs 50 and this is the first time since independence that such a thing happened. But the government has been busy supporting the capitalists to help them accumulate more and more capital by reducing corporate and wealth tax, which help them to hoard their money or extra profit to themselves because it was not costly anymore.

So the plunge investment has triggered huge unemployment. The youth unemployment rate has been increasing for the last few years. But everyone

was paying the same amount of indirect taxes. The COVID-19 pandemic once again raised the question why do we need a fair and progressive taxation model in India.

### India’s taxation scenario

Taxation policy is a vital tool to reduce the inequality and income gap. Progressive taxation ensures the equal post-income distribution and a country with high tax can spend more in the public sector and also can ensure social securities. Every year the number of millionaires is increasing with a geometric progression rate but the total direct tax collection in India is abysmally low. India, a country with a high poverty rate, needs a properly-aligned taxation system to reduce poverty and increase the government spending to ensure social security, ration, welfare, etc, for the poor.

During 2019, India’s tax to GDP ratio slipped to 10.9% and in FY 2020 it has dropped to 9.88% because the indirect tax revenue fell short to meet its expectation which was alarming that the public spending capacity was falling. But high indirect tax rate was forcing people to pay more and more. The difference between the direct tax and total collected GST in past years was evident that indirect tax was a burden for the common people of the nation.

| Financial Year | Total Direct Tax collected (in billion INR) | Total GST collected (in billion INR) | Total Non GST collection (in billion INR) |
|---|---|---|---|
| 2017-18 | 10,020.37 | 2032.60 | 4,690.92 |
| 2018-19 | 7,889.30 | 3,313.70 | 2,896.61 |

Source- https://pib.gov.in/newsite/PrintRelease.aspx?relid=188255

The low tax revenues caused low public spending which worsened the service quality, spiked inequality in India and exposed a large number of people to poverty. But can we say that the low government spending is just a result of low indirect tax collection and there was no way to solve the crisis? According to Indian Finance Minister Nirmala Sitharaman, the number of people with an income of Rs 5*m* and above is only 172,000 but the total cars sold between 2012 and 2017 was 12.5*m* and 20*m* people choose flight as a mode of transport to travel abroad either for their work or leisure. So there is an imparity between the consumption, income and direct tax collection, and the government always has the option to impose more taxes on the rich to increase revenue to finance the social security programmes.

Over-dependence on the indirect tax is hurting the purchasing capacity of the poor people. Growing indirect tax percentage is clearly showing that poor people need to spend a lot to survive. But at the same time, the rich are accumulating capital and enjoying extra privileges. South Asian Alliance for Poverty Eradication, a prestigious civil society organisation, in their 2019 poverty report said:

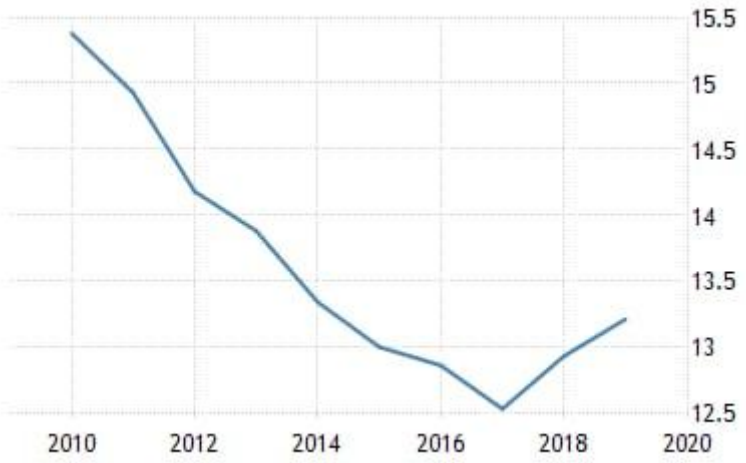
“According to a study based on the Statement of Revenue Impact of Tax Incentives under the Central Tax System for five years between 2010-11 and 2014-15, the effective tax rate for a company making a profit up to INR 1 crore (USD 1,37,970) was 29.37 per cent; while the corporate tax rate was 22.88 per cent for those with profits greater than INR 500 crore (USD 68.985 million) in 2014-15. This implied that the companies making smaller profits had to pay a higher rate of taxes than the companies earning five hundred

times more profit. Further, 52,911 companies made profits in 2014-15 and had effective tax rates of 0 or, in some cases, less than 0. This happened because the government incentives led to large declines in the effective tax rates for financial-leasing, sugar, cement, steel, mining contractors, power and energy, consultancy and paper companies. In addition, the companies also used an accounting trick called 'accelerated depreciation' that allows for greater deduction in the price of an asset during its earlier years to reduce their effective tax rates". (sic)

This clearly shows that the government is more aligned to the private players and helping them accumulate capital but isn't favouring the public sector enterprises. The public sector paid an effective tax of 25.03%, higher than private ones 23.36%. The scenario did not change for the FY 2019-20 when the government slashed the corporate tax by almost 7% from the rate decided in FY 2018-19. This low rate of tax helped the corporates to hoard their money back.

### Should everyone pay an equal amount of tax?

In the last few years, the government has started reducing the spending on social security programmes. The gradual fall in government spending has made the life of the poor more miserable.




source: tradingeconomics.com

But if we see the table in the previous paragraph, it clearly depicts that the rate of indirect taxes has been growing but spending on public welfare has been stagnant. In today's scenario, if we analyse the present condition of the COVID-19 pandemic, which is killing thousands every day, it will be starkly visible that the decaying public healthcare system is unable to control the pandemic. The public healthcare system is dying because there is a lack of budget to provide the necessary services to poor people using the best infrastructure. If we see the percentage of budget allocation for the public healthcare sector then we can conclude why the Indian government is still struggling to fight with COVID-19.

| Financial year | Allocation on Health (in billion INR) | Percentage of total budget |
|---|---|---|
| 2014-15 | 331.21 | 1.8 |
| 2015-16 | 306.26 | 1.7 |

| | | |
|---|---|---|
| 2016-17 | 376.71 | 1.9 |
| 2017-18 | 515.51 | 2.4 |
| 2018-19 | 528 | 2.1 |
| 2019-20 | 626.59 | 2.24 |

So this statistics is clearly showing that although the poor of our country has been paying higher taxes, the government didn't pay adequately for their welfare. In such a condition, paying equal taxes in the name of equality before the law is like giving the best philosophy books to a blind person to read and enrich her just because the government is giving this book to every citizen. Isn't it silly or, to be very precise, isn't it unjust for the most vulnerable sections of the country?

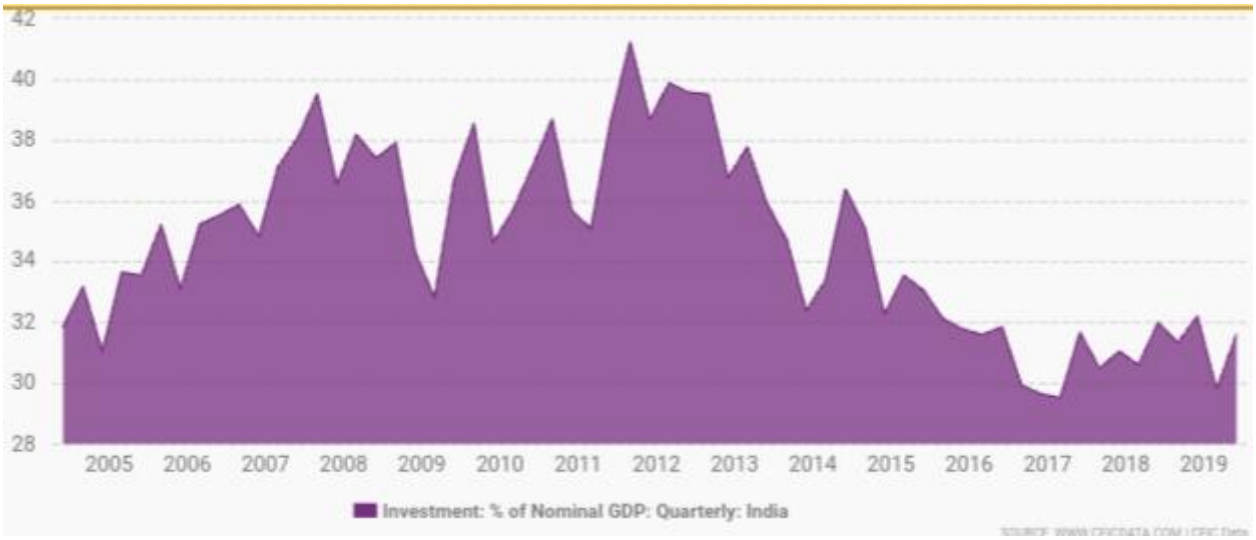
### Arguments in favour of a flat taxation system

Economists, who are supporting the flat taxation system are arguing that we should not charge higher taxes to the rich because:

1. The higher tax rate is not business-friendly and a country needs millionaires/billionaires to do business. The lower tax rates help to gain their confidence, which will apparently help the economy to grow.
2. The higher tax rate will increase corruption, as the high-earning individuals or organisations will try to evade taxes by underreporting their income and it will increase the black money circulation in the economy.

Aren't these silly arguments? If we consider the first logic then due to the

Modi regime's tax sops there must have been higher investments in the last few years and that high investment must have increased employment opportunities in India and reduced poverty? But the government data is showing that the expectation is far from reality and there has been a gradual drop in investment in the last few years, which spiralled the unemployment rate to a 45-year-high.




So it is clear that the low tax rate on the rich failed to ensure investment or employment generation, which took the unemployment rate to a 45-year-high rate before the COVID-19 pandemic's outbreak. Many economists have asked the system to be fair and ensure justice. But isn't it funny that if the poor are forced to pay more than they can afford because justice demands equality of tax rate? This jaundiced definition of *justice* is pushing the poor into a vicious cycle of poverty. Now millions have lost their jobs and have no way to earn their livelihood in the near future. If the tax burden isn't reduced, it will be unjust to the majority of our society.

According to the second argument, a low direct tax rate can reduce corruption

because no one will hide their earnings. But corruption is nothing but a structural problem and lower spending in social security programmes is the problem of the system. If the whole nation suddenly becomes honest even then the government won't be able to provide world-class service to the poor because the necessary sectors don't have enough revenue in hand.

Blaming corruption for dying government service is like expecting a patient in a coma to win a 100-metre sprint race in the Olympics. Globally, people have fought against the unjust taxation system and gained their rights. We should remember those struggles and learn from their historic experiences to deliver real justice to the majority.

## Conclusion

The COVID-19 crisis has unveiled the real condition of Indian society and has snatched millions of jobs. It's high time to demand a reduction of the tax burden on the poor. The Modi regime must increase spending on social security programmes to ensure a standard livelihood. The government should be unhesitant to raise corporate taxes and impose higher income taxes on the high-income groups to raise its revenue.

Immediately the government should reduce indirect taxes on all essential commodities so that the poor can buy them and generate demand in the economy. The higher participation in decision-making can ensure a good democratic system; so the Indian government should form a people's committee where people's representatives can give their opinion on how the budget should be spent. In the present scenario, when inequality has worsened in the country, progressive taxation can only reduce post-income inequality and save millions from starvation and destitution. So it is our social

responsibility to fight for a fair taxation system to ensure better social securities for the poor.

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