Implement GST, to Boost Direct Tax

GST’s audit trails lead to buried treasure

The government’s tax transparency initiative with faceless assessment and appeals and a taxpayer charter is welcome. Corruption depends on human interface and the misuse of arbitrary powers by taxmen. That must go. Contactless assessment will minimise the interface between the assessing officer and the assessee, and improve compliance. Tax officers must also desist from making high-pitched assessments in their zeal to meet collection targets. Launching the platform for ‘Transparent Taxation — Honouring the Honest’, Prime Minister Narendra Modi urged people to introspect and pay their tax duties. However, the way to increase direct tax collections is to clean up the goods and services tax (GST), which generates audit trails to income currently escaping tax.

Nearly 66% of the total tax collections in the country come from indirect taxes that are borne by the rich and poor alike. The share of direct taxes in total tax revenues must rise. The mining of GST data and electricity bills makes it eminently feasible. The gross value added for the economy is equal to the gross profits plus wages and salaries. It holds at the firm level and can be used to estimate the value added by each production unit, and its distribution to taxable entities. Electricity bills and employee provident fund payouts must tally with the claimed production and value-added levels.

Many small units are outside the formal banking system. The remedy is to extend the reach of formal finance, make small units keep books and bring these into the net. Data analytics must be used to track the physical volumes of raw materials along their production chain ending in tax-evaded goods. If garments evade taxes, the suppliers of the fibre that is spun into yarn later converted to fabric should be asked to furnish the details of all their customers. These should be traced, and their customers, and so on. Reverse charge should be used more widely, also be universal so that buyers can pay tax on their purchases directly to the government while recognising the vendor on whose behalf the tax is being paid.