



Increase in Direct Tax Collections

For Prelims: Direct tax, Corporation Tax, STT, Vivad se Vishwas Scheme

For Mains: Mobilisation of Resources, Government initiatives to check tax evasion

Why in News?

The figures of Direct Tax collections for the **Financial Year 2022-23**, as of mid-June show that net collections **representing an increase of 45% over the collections of the preceding year.**

- The largest share in Net Direct Tax collection is of **Corporation Tax** then Personal Income Tax (PIT) including **Security Transaction Tax (STT)** Constitutes the rest.

What is Direct tax?

- A direct tax is a tax that a person or organization pays directly to the entity that imposed it.
- An individual taxpayer, for example, pays direct taxes to the government for various purposes, including **income tax, real property tax, personal property tax**, or taxes on assets.

What is the Significance of Direct tax?

- **Equity:** Direct taxes like income tax, wealth tax, etc. are based on the principle of **ability to pay**, so the equity or justice in the allocation of tax burden is well secured by these taxes.
- **Progressive:** Usually direct taxation is progressive in effect. Since direct taxes can be designed with fine gradation and progressiveness, they can serve as an important **fiscal weapon of reducing the gap of inequalities in income and wealth.** Direct taxes thus lead to the objective of social equality.
- **Productive:** Direct taxes are elastic and productive. Revenue from direct taxes increases or decreases automatically with the change in the national income or wealth of the country.
- **Certainty:** The canon of certainty is perfectly embodied in direct taxation. Compared to indirect taxes, direct taxes are more exact and precise in estimating the revenue. Further, in direct taxes, the taxpayer knows how much he has to pay and the State can estimate the yields correctly.
- **Economy:** The canon of economy is also well maintained under direct taxation. Direct taxes like income tax etc. being collected annually in lump-sum, the administrative cost of such collection will be minimum as compared to the indirect taxes like sales tax, excise duties, etc., which are collected at short intervals (usually, quarterly), and which involve a high cost of collection.
 - Further, chances of tax evasion are also minimised in direct taxes when they are collected at source. Gladstone, therefore, puts it as: "If you had only direct taxes you would have an economical government."
- **Educative:** Direct taxes have an educative value as they create a civic sense among the taxpayers. Citizens realise their duty to pay taxes and because of the direct burden of taxes they become conscious and keep vigil on how the public income is spent by the government in a democratic country.
- **Anti-inflationary:** Direct taxation can serve as a good instrument of anti-inflationary fiscal policy

designed to maintain the price level at a stable level. The excessive purchasing power during inflation can be mopped up from the community through increased direct taxes.

What are the Government Initiatives to Improve Direct Taxes?

- **For Personal Income Tax** - The Finance Act, 2020 has provided an option to individuals and co-operatives to pay income tax at concessional rates if they do not have avail of specified exemption and incentive.
- **Vivad se Vishwas Scheme:** Under [Vivad se Vishwas](#), declarations for settling pending tax disputes are currently being filed.
 - This will benefit the Government by generating timely revenue and to the taxpayers by bringing down mounting litigation costs.
- **Expansion of scope of TDS/TCS:** For widening the tax base, several new transactions were brought into the ambit of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS).
 - These transactions include huge cash withdrawal, foreign remittance, purchase of luxury cars, e-commerce participants, sale of goods, acquisition of immovable property, etc.
- **'Transparent Taxation - Honoring The Honest' platform:** It is aimed at bringing transparency in income tax systems and empowering taxpayers.

What are the Different Types of Taxes?

- **Corporation Tax:** It is levied on a firm's profit by the government.
 - It is taxed on operating earnings after expenses have been deducted.
 - The rate of corporate tax in India varies from one type of company to another i.e., domestic corporations and foreign corporations pay tax at different rates.
- **Dividend Distribution Tax (DDT):** Dividend refers to the distribution of profits to shareholders of a company.
 - Thus, the dividend distribution tax is a type of tax that is payable on the dividends offered to its shareholders by the corporation.
 - Higher dividends mean a greater tax burden for the corporate entity.
 - In Budget 2020, the Finance Minister has **abolished Dividend Distribution Tax (DDT)**. Now the incidence of dividend income taxation is shifted to investors from the companies.
- **Minimum Alternate Tax:**
 - At times it may happen that a taxpayer, being a company, may have generated income during the year, but by taking the advantage of various provisions of Income-tax Law (like exemptions, deductions, depreciation, etc.), it may have reduced its tax liability or may not have paid any tax at all.
 - Due to an increase in the number of zero tax paying companies, Minimum Alternate Tax (MAT) was introduced.
- **Security Transaction Tax (STT):**
 - It is a direct tax charged on purchase and sale of securities that are listed on the recognized stock exchanges in India.

UPSC Civil Services Examination, Previous Year Questions (PYQ)

Q. Which one of the following effects of creation of black money in India has been the main cause of worry to the Government of India?

- (a) Diversion of resources to the purchase of real estate and investment in luxury housing.
- (b) Investment in unproductive activities and purchase of precious stones, jewellery, gold, etc.
- (c) Large donations to political parties and growth of regionalism.
- (d) Loss of revenue to the State Exchequer due to tax evasion.

Ans: (d)

Exp:

- The simplest definition of black money could possibly be money that is hidden from tax authorities.

It is the money earned through illegal activity and not reported to the tax authorities, and so is black.

- Black money causes financial setbacks, as non-taxed income causes the government to lose revenue, which in turn affects the economic growth of the country.
- Taxation is the primary source of income for the government. Tax revenue can be regarded as one measure of the degree to which the government controls the economy's resources. Therefore, loss of revenue to the State Exchequer due to tax evasion is the main cause of worry to the Government of India.
- **Therefore, option (d) is the correct answer.**

Source: PIB

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