Leakage in Indian Tax System

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ABSTRACT
This paper is an attempt to analyze the tax leakage. Tax leakage by causing a revenue drain may adversely affect the primary account position and thus may indirectly influence the fiscal sustainability of the state’s economy. This is the main thread of argument coming out of the paper. Our major finding is that almost thirty-five percent of the total tax potential is not tapped. Further, this amount of tax leakage is large enough to eliminate the primary account surplus from the economy. In fact, keeping a primary account surplus is a preliminary condition for attaining fiscal sustainability in the economy. Thus, it is clear that the presence of tax leakage in the economy is destroying even the primary condition for achieving fiscal sustainability. However, tax leakage is a factor upon which the government has a control or in other words, the presence of tax leakage may be considered as a mirror image of the inefficiency of tax administration in the economy.

Keywords---- Economy, Tax Leakage, Tax, and Fiscal Sustainability

I. INTRODUCTION

In a federation like India, healthy state finances may be important for ensuring regional balanced development and for launching the entire Economy to a higher growth projects.

In India, the development of material as well as the human resources rests with the state governments as they may respond to the local needs immediately. In accordance, the public expenditure of the government is divided into revenue expenditure in addition, capital expenditure. While revenue expenditure includes the Expenditure for the functioning of the government, capital expenditure includes long-term public investment on different sectors of the economy, loans and advances by the state government as well as the debt repayments. The capital expenditure may, therefore, be considered crucial for the development of material as well as the human resources in the state. Unfortunately, nowadays, the crowding out of capital expenditure by the overflow of revenue expenditure became pervasive in the different state economies in India. This may impose obstacles in the way of long-term development of the country and hence may need to be addressed with caution.

II. THE indisposed fiscal health of India: A Probe to the reasons

The exit of money from the economy through leakage results in a gap between what is supplied and what is demanded. If consumers spend their income outside of their community or country, then businesses must look elsewhere to make up for the loss of funds. India’s current economic problems have yet another dimension. As the country grows faster, India witnessed Rest 5, 12,400 cores going out of the country in an illicit manner in 2011. This leakage, if true, could be damaging to a country like India that seeks to generate fast economic growth to provide for millions who live in poverty. Illicit flows constitute a major source of domestic resource leakage, which drains foreign exchange, reduces tax collections, restricts foreign investments, and worsens poverty in the poorest developing countries. As India reported high growth, the quantum of money moving out of India has surged. In 2002, it stood at Rest 47,580 core. It has jumped over 11 times to Rest 5, 12,400 cores in 2011. If we assume a 20% tax on this amount, the Indian government has lost close to Rest 1, 03,700 cores in tax revenue. If the government had that money, it would have had to borrow less from the market to meet its expenditure. It could have also contributed in keeping interest rates low and inflation in
control. Over the past few years, high inflation and interest rates have squeezed economic growth. This has resulted in fewer jobs and distress to people due to rising prices.

For e.g., Companies take benefits of tax shielding that they hide the actual amount of tax they need to pay. The leakage also means Evasion of Tax. A study by KPMG says that $462 billion went out in illicit financial flows from India, of which 68 per cent went after the liberalization in 1991. Thus, the abolition of control, licenses and discretionary powers accompanies an increase in illicit funds. The three illicit sources were tax evasion, crime and corruption.

III. ANALYTICAL FRAMEWORK

The study analysis suggests that tax leakage may seriously affect the fiscal health of the economy. Unlike the other probable reasons of fiscal crisis, the government has a control upon this factor. Thus, a detailed analysis of tax leakage may be helpful in understanding the probable solutions of fiscal crisis from the state’s point of view. In this background, the main purpose of this section is to set up a clear-cut relationship between the tax leakage and the fiscal health of the economy. Fiscal health of any economy depends on the viability of its financial matters. If an economy is fiscally sustainable, it may successfully survive in the end. In fact, such sustainability may be vital in ensuring.

Inter temporal freedom for designing the pattern of public expenditure. In fact, fiscal sustainment may be considered as a dynamic stage of development, in which the economy is growing with sizeable public investment in its economy.

Through Indian Affairs programs, Tribes improve their tribal government infrastructure, community infrastructure, education, job training, and employment opportunities along with other components of long term sustainable development that work to improve the quality of life for their members. This program supports the Department’s goal of Serving Communities and the outcome goal of fulfilling Indian trust responsibilities by enabling Tribes the meaningful exercise of their treaty fishing, hunting, and gathering rights. The Natural Resource Damage Assessment and Restoration (NRDAR) Program function is to restore Bureau and tribal natural resources that have been injured because of oil spills or hazardous substance releases into the environment as authorized by the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Clean Water Act (CWA) and the Oil Pollution Act (OPA). The NRDAR program staff works closely with the Tribes and other state and Federal natural resource trustees to ascertain injuries to natural resources injured as a result of oil spills or hazardous substance releases into the environment that affect tribal trust lands, Bureau facilities and natural resources retained by the tribes through treaties. Achieving actual on-the-ground restoration of injured natural resources is the primary goal of the program. The staff serves on NRDAR trustee councils, performs damage assessment and restoration functions and provides technical assistance to the Tribes. The responsibility of this program is to develop license conditions consistent with the Secretary of the Interior’s authority under the Federal Power Act for the protection and utilization of Indian reservations impacted by private hydroelectric power operations that are licensed by the Federal Regulatory Energy Commission (FERC). The conditions are primarily designed to mitigate the impacts caused by the hydroelectric power project located on an Indian reservation. The impacts include the occupation/inundation of reservation land, erosion, destruction of fisheries, water quality and harm to other trust resources. The conditions must be supported by material fact and are subject to appeal under provisions of the Energy Policy Act of 2005 and other legal challenges. Once implemented in a hydroelectric power operation license, the Bureau must monitor, implement and enforce the conditions.

The BIA manages the Water Rights Negotiation/Litigation Program for the purpose of defining and protecting Indian water rights and settling claims through negotiations if possible, or alternatively, through litigation. The primary priority of program funds is to provide all necessary documentation and other material as may be deemed necessary by a Court to further the United States water rights claims on behalf of an Indian tribe. This may include preparing hydrographic survey reports, including the determination of surface and ground water supplies, identification of arable lands, including, and especially, a practicably irrigable acreage (PIA) assessment, determining the exact owner and priority of the water right, source of water, whether surface or underground, determining point and means of diversion, purpose of use, amount of water diverted or depleted by the use, determining the place of use, studies conducted to determine the water needs of fish and wildlife, and the engineering and economic requirements for water delivery. Funding any duplication of these efforts by tribes is not possible.

The Agriculture & Range program supports the Department’s goal of Serving Communities by improving the management of land and natural resource assets. The program assists American Indians and Alaska Natives in developing conservation and management plans to protect and preserve their natural resources on trust land and shared off-reservation resources. Under the authority of The American Indian Agricultural Resource Management Act, P.L. 103-177 and the Indian Self Determination Act, P.L. 93-638, the program provides support for tribal agricultural programs under tribal contracts and direct implementation, covering over 46 milliostaff provide oven acres of Indian land used for farming and grazing by
livestock and game animals. Bureau right and technical assistance to tribal programs at the agency level involving Indian farmers and ranchers in the following eight major activities:

To show sincerity and demonstrate good faith, government must look at other areas where savings can also be made especially the high cost of running government, due process in the award of contracts and diligence in monitoring of implementation. What makes fuel subsidy removal good or bad is what we do with the savings. If government must withdraw fuel subsidy, then the savings must be productively utilized to improve the economy with palliative measures for the poor. Every effort should be made to create employment, ensure local refining and address the power sector challenge to serve as catalyst for economic development and widen the tax base for further growth. For instance, the removal will result in higher cost for companies and individuals. This means lower profit for companies and less disposable income for individuals. Hence, companies will pay less companies income tax, education tax and IT tax. In addition, companies and individuals will consume less and therefore pay less VAT. If the savings from subsidy removal were not well utilized to develop infrastructure, and create employment, then the lower consumption by individuals would mean less income for businesses with the attendant effect on further productivity, profitability and income taxes. Individuals and households will experience reduction in their disposable income, which will in turn result in a drop in savings and funds available for lending to businesses. This could lead to higher cost of funds for businesses further resulting in lower taxable profit for CIT purposes. In addition, firms may cut down on jobs, which will further result in reduction in personal income tax. Under extreme pressures on disposable income and profitability, tax avoidance and evasion would likely intensify resulting in further loss of tax revenue to the government and higher cost of enforcing compliance.

IV. CONCLUSION

In the entire analysis, it can be easily seen that the financial problems faced by the economy is an after effect of the poor fiscal management of the state. The controlling power of the state over such factors is rather limited. However, in the revenue mobilization side, except in the case of central transfers, the rest are under the control of the state government. Our major finding of 35% leakage from tax potential may be a clear indication of the under utilization of the revenue resources of the state. Analyses show that the advancement in the revenue collecting mechanisms may be effective in uplifting the economy from the deepening fiscal crisis by reinstating the fiscal sustainability of the state and government. Thus, the government must take relevant measures towards curbing of tax leakage and making an economy grow and prosper.

REFERENCES