



India's Widening Tax Base

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Why in News?

The recent release of **income tax returns statistics** by the [Income Tax Department](#), spanning assessment years from 2019-20 to 2021-22, offers insights into **changing tax compliance patterns**.

- The data unveils a transformation in the profile of taxpayers, **particularly a movement towards higher-income brackets**, while highlighting persistent challenges in ensuring all eligible taxpayers file their returns.

What is an Income Tax Return?

- **Income Tax:**
 - Income tax is a tax charged on the **annual income of an individual or business earned in a financial year**.
 - The Income Tax system in India is governed by [The Income Tax Act, 1961](#) and it is a direct tax.
- **Income Tax Return:**
 - It is a designated document used to **convey details about an individual's earnings in a financial year and the taxes paid on that income to the Income-tax Department**.
 - This form also facilitates the carrying forward of losses and **enables individuals to claim refunds from the income tax department**.

What are the Major Takeaways from Recent Income Tax Returns Statistics?

- **Overall Tax Filings:**
 - In the **assessment year (AY) 2021-22** (financial year 2020-21), a total of 6.75 crore taxpayers submitted income tax returns, marking a **5.6% increase from the previous year's 6.39 crore filings**.
 - However, approximately 2.1 crore taxpayers paid taxes but **did not file returns**.
- **Evolution of Taxpayer Base:**
 - The **number of taxpayers has progressively increased** in recent years: from 5.87 crore in AY 2018-19 to 6.75 crore in AY 2021-22.
 - However, the percentage of taxpayers paying nil tax has also risen from **40.3% in AY 2018-19 to 66% in AY 2021-22**.
- **Income Trends:**
 - The department highlighted a **migration of individual taxpayers towards higher income brackets over the years**.
 - According to the **Central Board of Direct Taxes (CBDT)**, the proportionate contribution of income from the top 1% earners decreased, while the share from the **bottom 25% increased over the years**.
- **Criticism:**

- Critics highlight a **widening wealth gap between the ultra-rich and the middle class in India**, as the top 1% of income earners saw their income share rise from 17% to 23% from 2013-14 to 2021-22.
- Meanwhile, the income growth for the **bottom 25% lagged**, leading to a decline in their real income when adjusted for inflation.
- This income **gap raises concerns about economic fairness** and the struggles of the middle class in achieving sustainable financial progress.

Note

The **assessment year** is the period during which the income earned in a particular financial year is assessed or evaluated for tax purposes. It is the **year immediately following the financial year** for which the income is being assessed.

What is the Central Board of Direct Taxes?

- The **Central Board of Direct Taxes** is a **statutory authority** functioning under the Central Board of Revenue Act, 1963.
 - It operates within the **Department of Revenue Ministry of Finance**.
- It plays a dual role by contributing **crucial insights for shaping direct tax policies and strategies in India**, while simultaneously overseeing the **implementation and execution of direct tax regulations via the Income Tax Department**.
 - It is led by a Chairman and consists of six members.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

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? (2021)

- (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)