# Transaction tax to replace Income-tax without losing tax base

The administration of the Income Tax Act in India has, inter alia, resulted in wasteful litigation, huge wastage of time and valuable resources and has not been able to extend its coverage to a vast section of society.

The Government needs to think out of the box and put in place a system of determination and collection of tax which is simple and definite and at the same time augments the taxpayer base and revenues significantly.

2. A Poona based organization had suggested a flat rate of 2% transaction tax on every credit of a tax payer appearing in the bank account. This proposal is too simplistic and is not implementable.

3. We however feel that as a concept the principle holds merit. If we can have a taxation system, whereby, the banks tax the deposits made by different types of businesses, professionals and employees based on a percentage rate peculiar to the type of deposit, the objective of simple, objective and wide based tax system can be achieved.

To take a simple example of a professional, the Government today has a data of the net profit percentage that professionals declare on the total receipts earned by them during the year. Let us say the average net profit declared by professionals is 15% of the total receipts each year. The tax at the rate of 30% would work out to 5% of the total receipts. If the total receipts that have mandatorily to be banked are taxed at 5%, the objective of collecting tax from professionals without any litigation or debate would be solved. The Government would get at least the same tax it is currently getting from professionals. I am sure the professionals would have no reason to object because 5% of the gross receipts would be a fair contribution towards income tax without them having to file copious returns claiming expenses and then face scrutiny and justify their claims. Similarly, in respect of trading concerns the average net profit declared by them can be determined and a suitable rate at which the receipts can be taxed at the level of the bank itself can be examined.

4. The major problem that can arise in such a system is that people may not deposit their entire receipts in the bank. For that the solution is simple. Thanks to our Hon'ble Prime Minister, post demonetization, most people want to come clean and transact through banks. No one is comfortable hoarding cash. The only reason why cash is being hoarded is because of the fear that any deposit of cash in the bank would attract 70% income tax plus invocation black money law, the BenamiTransaction Act etc etc. Therefore if a general amnesty is announced whereby all cash is required to be deposited in the bank and suffer, let us say, a one-time tax of 30% or 40%, I am sure people would be more than willing to oblige. Post that, there can be a law stating that any person having cash in excess of five lakhs would simply be prosecuted. A person is required to deposit all receipts he earns in the bank and while making the deposit state its nature. If it is a professional receipt, a loan, or a gift etc, he must state so in the deposit slip itself. The bank on the other hand

is required to deduct tax, say at the rate of 5% in the case of a professional in respect of his receipts, at the rate of 1% on the bank loan and at the rate of 2% on the gift etc. etc.

5. Different rates for different kinds of receipts can be formulated and the software would simply classify the nature of receipts and apply the rates.

6. At the end of the year the taxpayer would get his receipts certified by a chartered accountant who will classify them according to their nature and file with the Income-tax Department. The Income-tax Department merely needs to compare those certified receipts with the receipts in the bank of the assessee and raise demand on differences, if any.

7. Scrutiny must only take place where a person claims a receipt to be exempt and in fact one could do away with any kind of exempt receipts. An agricultural receipt could be taxed at say at half percent. Stringent penalties can be prescribed for false declaration and it will be very simple to administer this form of taxation because of very little complexity in the law. Only the nature of the receipt needs to be examined and the percentage of tax as prescribed needs to be applied.

8. This system will practically do away with any kind of interface with the Income-tax Department. There will be no litigation and valuable time and money will be saved. India will become a destination for business. The tax base will increase dramatically since every form of receipt will be taxed in some manner.

9. If developed countries like America can bring down their tax rates to 20% in order to attract businesses, why cannot India take the lead by not actually reducing the tax rate but enlarging the tax base through a simpler method and nearly covering a quarter of its population which is currently out of the tax net.

If this simple system is put in place, why would a pan vendor or a small shopkeeper not deposit money in the bank and pay tax at the rate of 1%.

10. We need to do something radical in order to catch up with the rest of the world. At our current pace, with the current political system and the level of education it will take us many many years to even come close to the developed economies.

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