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For the period from the date of tax deduction till the end of the year, the taxpayer does not get any interest at all.

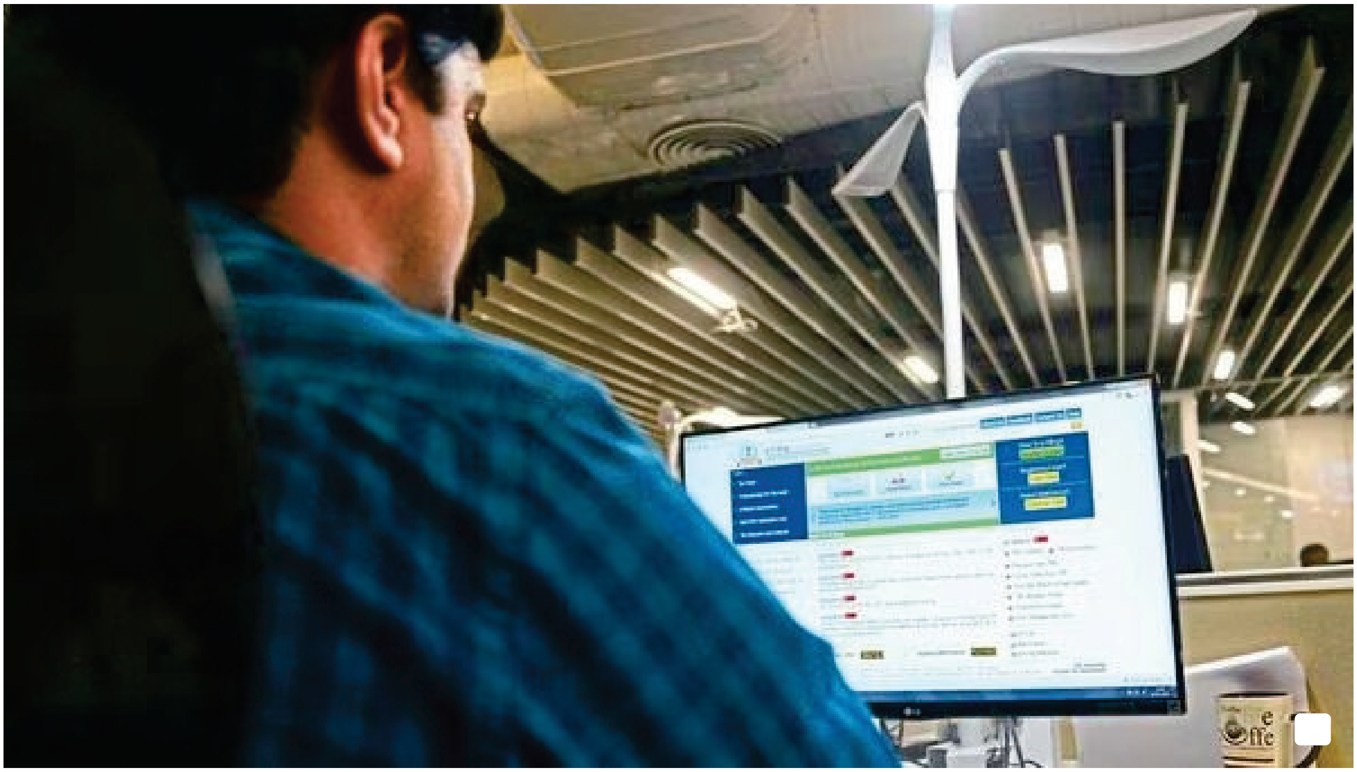
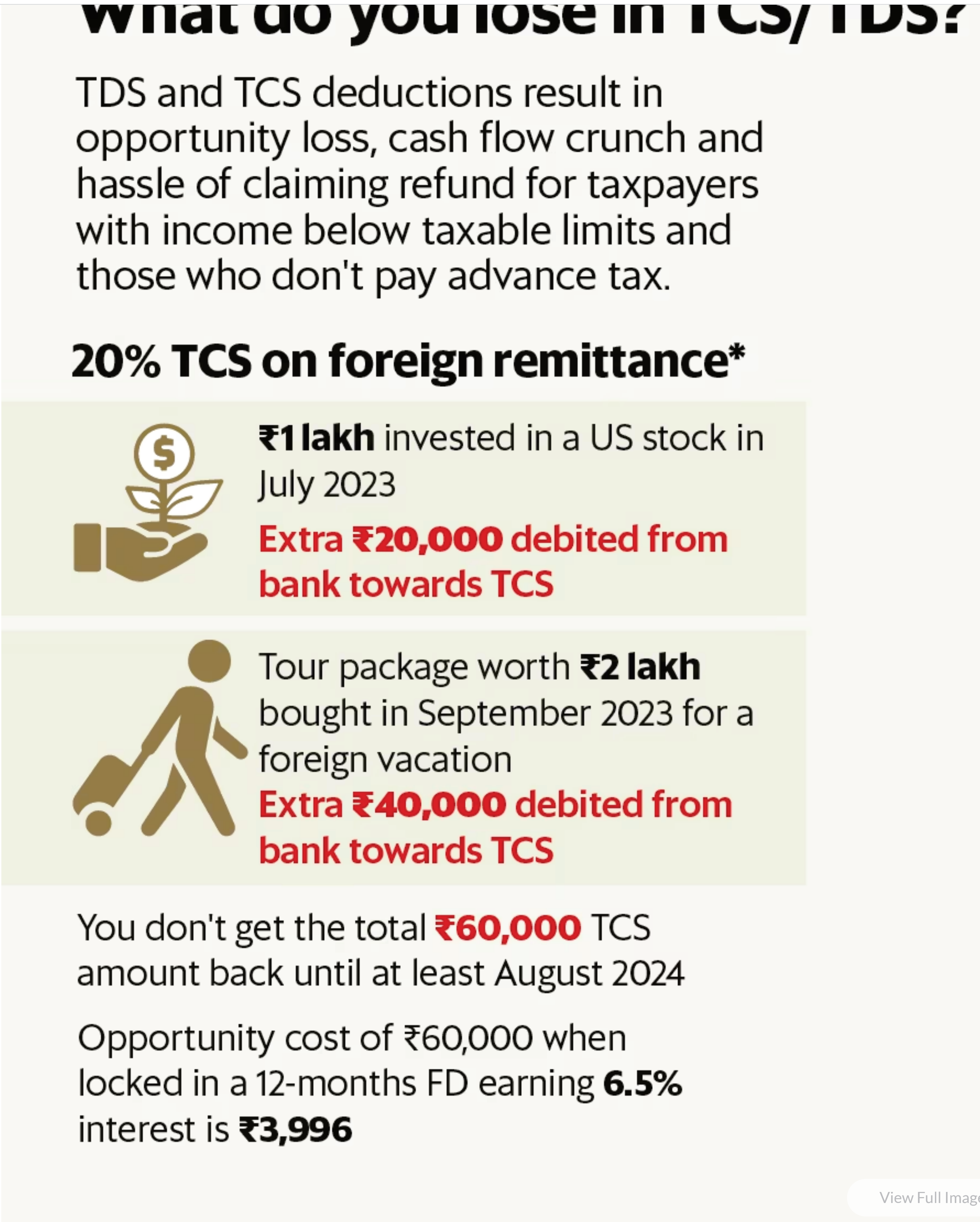


Photo: Mint

A bonanza for the government: Recent news reports highlight a significant surge in tax collections for fiscal 2023. Data illustrating the distribution of these collections from 2000-01 through 2021-22 reveals noteworthy trends. Interestingly, while gross tax collections grew by about 20% in the past year, tax refunds soared by 59% for the same time period, with net tax collections increasing by about 16%.

An analysis of the reasons for this trend unearths an important factor. Tax deduction at source (TDS) has been crucial for the government to collect revenue through taxation. And, in recent years, tax collection at source (TCS) has supplemented this. About 40% of the gross tax collection is from TDS and TCS.



Graphic: Mint

In the past couple of years, one has seen a substantial increase in the scope of both TDS and TCS – sales, purchases, business perquisites, e-commerce purchases, online winnings, remittances under Liberalised Remittance Scheme (LRS), sale of crypto-currencies, have all been subject to TDS/TCS now. This is besides the normal incomes earlier subject to TDS such as salaries, professional fees, technical fees, dividends, interest, payments to contractors, commission, payments to non-residents, etc.

investments, international transactions—done through debit, credit and forex cards—and foreign remittances, was increased to a whopping 20% from 5%. The new 20% rate will apply from July.

It is this enhanced scope of TDS/TCS which has accounted for the major part of the increase in tax collection. The substantial increase in the amount of refunds is also in all probability on account of the excess TDS/TCS over and above the tax liability of the persons from whom such amounts were collected, which had to be refunded.

According to the government, such TDS/TCS is necessary to enable the tax department to identify tax evaders—those who do not file their tax returns. The question that then comes to mind is: is the rate of TDS/TCS reasonable considering the purpose? Is TCS on LRS at 5% not sufficient to detect tax evaders? Why should the TCS rate be as high as 20%? Professionals or self-employed businessmen may not be affected so much since they can adjust the advance tax payments by the amount of such TCS. But a salaried employee, whose income is subject to TDS, has to again suffer a 20% TCS on an expense paid out of his post-tax salary when he goes on a foreign tour. In most cases, his advance tax liability is not substantial enough to absorb the TCS, and he ends up claiming a refund while filing his tax return.

Should he not get interest on his income tax refund? Yes, but the catch here is that he would get interest on the refund only from the beginning of the next year till the date that he gets his refund – that too, provided he files his return of income in time. Therefore, for the period from the date of deduction till the end of the year, the taxpayer does not get any interest at all – in effect, he is giving the government an interest-free loan or advance. Given the large size of the refunds, almost ₹3 trillion, that is a substantial interest-free float for the government. Further, the interest received from the beginning of next year is only 6% per annum, and that, too, is taxable.

This year, the extension of the scope of TDS will hit another large category of vulnerable individuals – pensioners and retirees who have invested in listed debentures and bonds to earn a periodic income. So far, interest on such instruments did not attract TDS. While changing the tax treatment for market-linked debentures, the government removed not only the exemption from TDS for interest on market-linked debentures, but also that for interest on plain vanilla-listed non-convertible debentures. Retirees affected by this would either have to ensure that they file their Form 15H in time with each company, or see their monthly cash flow impacted, with refunds received after almost a year on an average.

Another aspect of such a vast scope of TDS/TCS (perhaps the widest in the world) is the burden placed on the tax deductors—this is increasing year-by-year, and given the manner of drafting, is giving rise to increased litigation as to the coverage of the section. While the government releases figures on the low cost of collection of taxes (at 0.53% for 2021-22), this does not factor in the cost of the vast army of people that the tax deductors have to employ to cope with these

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Topics

TCS | Tax evaders