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Economic Inequalities vis-à-vis Social Justice: Tax Structure in India

KEYWORDS

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ABSTRACT *Inequalities of wealth, income, power and prestige are universal characteristics of social life. Economic inequality or wealth and income difference comprises all disparities in the distribution of economic assets and income. Impact of economic inequalities on life expectancy, higher disease rates, infant mortality, emotional depression and prison population etc. correlate with higher social economic inequality. The directive principles of state policy laid down in the Constitution of India have proclaimed justice- social, economic and political as a basic national commitment. Social and economic justice have several dimensions such as extreme inequalities of income and wealth, regional imbalance, concentration of wealth and means of production, special care of vulnerable and disadvantaged section of the society. The present paper attempts to make an analytical study of the present tax structure in India to find out whether this tax structure have achieved any success at all, in its purpose of reducing inequalities in the country.*

Introduction

Inequalities of wealth, income power and prestige are universal characteristics of social life. Economic inequality or wealth and income differences comprise all disparities in the distribution of economic assets and income. The term typically refers to inequality among individuals and groups within a society, but can also refer to inequality among countries whether economic inequalities are positive or negative phenomenon, both on utilitarian or moral grounds. Impact of economic inequality on life expectancy, higher disease rates, infant mortality, obesity, teenage pregnancies, emotional depression and prison population correlate with higher social economic inequality.

Economic inequality has existed in a wide range of societies and historical periods. A country economic structure or system for example, capitalism or socialism, ongoing wars or differences in individual's abilities to create wealth are all involved in creation of economic inequalities.

The directive Principle of State Policy laid down in the constitution of India proclaimed justice social and economic and political as a basic national commitment. Social and economic justice have several dimensions such as extreme inequalities of income and wealth, regional imbalance, concentration of income and wealth and means of production, vulnerable and disadvantaged sections of the society. Extreme inequality is the negation of social justice and economic justice. The Indian society is admittedly among the most unequal ones in the world. The inequalities income arises from inequalities of wealth. If some people have very high income it is because they own and control large blocks of wealth i.e land, real capital or financial assets, In turn inequality of wealth. Pursuit of social and economic justice requires coordinated measures against all sources of inequalities.

This paper gives brief discussions of various theories and different school of thought relating to economic inequalities. Most of these theories state that progressive tax structure is one of the important measures taken by the government to reduce economic inequalities and to achieve social justice. The present paper makes an analytical study of the present tax structure in India to find out whether this tax structure has achieved any success at all in its purpose of reducing inequalities and social justice in the country.

There are various theories and numerical indices for measuring economic inequalities-

1. Functional Theory- according to these theory inequalities exists because it is beneficial and necessary to the society. Inequalities in the distribution of desirables exists as a device for ensuring that the most important positions are filled by the most qualified people and that the people in these positions perform their tasks competently. Certain jobs in the society are more important than others and that these jobs involve special talent and training. Therefore, according to the functional theory social and economic inequality is necessary for the functioning of the society. Lord Keynes, a famous economist has said, "For at least hundred years, we must pretend to ourselves and to everyone that fair is foul and foul is fair, for foul is useful and the fair is not. Avarice and Usary and precaution must be our Gods for a little longer."
2. Conflict theory- This theory was developed by Karl Marx and his followers. According to this theory, all of history has been a class struggle between powerful and powerless; the exploiters and the exploited; Capitalists are able to control the workers by creating a belief system that legitimates the status quo. Marxism favors an eventual society where distribution is based on an individual's needs rather than his ability to produce inheritance, or such factors. In such a system inequality would be minimum. Marxists believe economic inequality is necessary for political freedom- saying that when there is economic inequality then political inequality is assured. In such a society currency would be eliminated, the means of production owned in common and non-labor jobs eliminated. Marxists believe that once the means of production are owned in common and owned for utility rather than profits, that all the workers receive a voice in a democratic workplace and the money incentive removed, economic equality will be achieved.
3. Meritocracy- Meritocracy favors an eventual society where an individual success is direct function of his merit or contribution. Therefore, economic inequality is beneficial in as much as it represents inherited or unjustified wealth or opportunities. From a meritocratic point of view, measuring economic inequality as one parameter, not distinguishing these two opposite contributing factors, serves no good purpose.
4. Liberalism- Classical liberals and libertarians generally do not take a stance on wealth inequality but believe in equality under law regardless of whether it leads to unequal wealth distribution. Ludwig von Mises(1966) explains: The Liberal Champions of equality under law were fully aware of fact that men are born unequal and that it is precisely their inequality that generates social cooperation and civilization. Equality under law was in their opinion not designed to correct the unexplorable facts of the universe and to make natural inequality disappear. It was on the contrary, the device to secure for the whole of mankind the maximum of benefits it can derive from it.

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Tax Structure and its Impact on Economic Inequality

This paper would now attempt to briefly analyze the tax structure in India in order to find out whether this tax structure has contributed towards one of its various goals i.e. to reduce economic inequality. Here it would be appropriate to point out the limitations of the present study i.e. the details of All India Income Tax Statistics (AIITS) are available from 1922 till only 2000. After year 2000, these publications have been discontinued. This fact has repeatedly been mentioned by various researchers and economists. Thomas Picketty, a professor of Paris School of Economics has recently highlighted this fact in his book 'Capital'. In particular, India's income tax administration has almost given up compiling detailed income tax statistics, although detailed yearly reports are available from 1922 to till 2000. So, this paper would analyze the concerned data only till the year 2000 to find out the impact of tax structure towards reducing economic inequality.

The following statistics made available by AIITS have been tabulated and analyzed to find out that only a small percentage of total population file returns. Till 2000, we used to get category-wise details from the AIITS. This publication has been discontinued.

Table 1- Number of returns for the assessment year 1999-2000 filed by individuals (Salaried and Non-Salaried Persons)

Range of Income (in Rs Lakhs)	Salaried (No. of returns)	Non-Salaried (No. of returns)
25-50	103	672
50-100	155	Nil
100 and above	Nil	258

Source: - AIITS, Director of Income Tax, New Delhi, 2001

Apparently, in 2000 there were no salaried persons in the country with incomes of more than Rs 1 Crore annually. This fact has been accepted in the annual budget 2013-14 by the then finance minister that around 1.2 Million people did not file tax return but appeared to possess enough wealth thereby creating gap between rich and poor.

Table 2- Number of returns (2000-01)

Income Class (In thousands)	AITS (in thousands)
50-100	8445
100-200	3886
200-300	291
300-400	137
400-500	70
500-1000	260
Above 1000	62
Sum Total	13,141

Source: - AIITS, Director of Income Tax, New Delhi, 2001

In 2001, 8445 returns were filed, only 62 returns were filed in the category of above 10 Lakhs and total returns were filed to the number of 13,141 thousand. The population of India was more than 100 crores according to the Census 2000, only 1.31 crore people paid taxes.

Table 3- Number of returns from Service activities (1998)

Nature of Business	No of returns of Non-Company Organization (All India)
Utensil Shop	10,539
Crockery and Glassware	3158
Furniture Shop	5477
Medical Shop	45,847

Source: - AIITS, Director of Income Tax, New Delhi, 2001

In the whole country, there were only 10,539 utensil shops and 5,477 furniture shops which are in the taxable categories. Instead of details, we get only aggregate numbers. Surprisingly this number is much larger in most of the cities in the country.

Table 4- Category-wise no. of IT assesses in India

Year	Company	Individual	HUF	Firms	Trust	Others	Total
2008-09	3,27,664	3,01,01,260	7,68,845	13,10,849	71,145	70,854	3,26,50,627
2009-10	3,67,884	3,13,84,084	8,06,236	13,54,330	76,898	95,994	3,40,85,426
2010-11	4,96,872	3,10,35,394	7,61,911	12,29,722	1,19,378	95,487	3,37,39,124

Source: - indiastatistics.com, Lok Sabha Unstarred Question No. 2062, dated 2 Dec 2011

In the table above, we have information about total number of assesses in different categories. It reveals that there were 3.1 crore assesses in 2010-11 but it does not tell us the amount of taxes collected from different categories. The number of people paying income tax in India is 35 Million which is about 3% of its population (117 crore people according to Census 2010) whereas in the US about 45% of population pay Income tax i.e. 144 million people out of a total population of 307 million.

Another important aspect in the tax structure is the tax exemption on dividend income. There are owner shareholders who may be getting more than Rs. 100 Crore as dividend annually by virtue of their holdings. We do not know how much dividend was distributed and how much rich benefitted. RBI (2010-11) selected 3041 Public Limited Companies. These companies paid tax in dividends to the tune of 50,145 crores and 1741 Private Limited Companies paid taxes of around 1423 crores as dividends.

Around 51,000 crores was not taxed by IT department at the rate of 30% rate applicable to individuals in the top bracket- a saving of 17,000 crore in taxes. No doubt financial wizards and accountants will argue that companies are paying dividend distribution tax, but this tax is levied at half of the rate paid by the top bracket that benefit most from having a dividend distribution tax. Such details are not published by the IT department anymore since it reveals the nature and extent of people covered by taxation.

Conclusion and Suggestions

Besides all socialistic policies and welfare plans of the various

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governments, the gap between rich and poor has continuously and systematically increased and economic inequality has gained unfathomable proportions. The tax structure has not succeeded in reducing economic inequality rather it has enhanced inequalities of income and wealth. So, there is a need to review and reframe the tax structure and the tax collection system should be more stringent so that the tax evaders are brought to books. Moreover, informal sector is a big area of leakage. All people in Informal sector who are not poor should be brought under tax laws. Other sections of people like film-stars, cricketers who evade income tax should be dealt with strictly. IT department should bring out monthly bulletins as well as annual reports providing insight into the nature of our direct tax segment and the challenges faced.

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