How Tax Simplification has given a necessary fillip to ITR Filing

A comparison of disparity in income during AY15 and AY24 shows that there is a clear rightward shift in the income distribution curve signifying people in lower income brackets are increasing their income to converge towards their share in population….our analysis shows that there has been a cumulative 74.2% decline in income disparity coverage for those earning up to Rs 5 lakhs…. This shows the continuous efforts of Govt are reaching the bottom of pyramid – that is leading to increase in income of 'lower income group' people

Issue # 18, FY25 25-October-2024

Executive Summary……(1/2)

- With an increasing alignment with progressive taxation regime, contribution of direct taxes to total tax revenue reached 56.7% in AY24 (54.6% in AY23), **the highest in 14 years**. The growth rate of Personal income tax (PIT) collections has been surging faster than Corporate tax collections since FY21, with PIT increasing by 6% against CIT's 3% growth
- Maharashtra has the highest share in direct tax collection kitty (~39%), followed by Karnataka, Delhi, Tamil Nadu and Gujarat. Also, riding the new gilded age of economic boom, states of Maharashtra, Delhi, Karnataka, Tamil Nadu have higher per capita tax than national average. States like Andhra Pradesh, Uttarakhand, Haryana, Kerala and Gujarat have per capita tax lower than national level but higher per capita income
- Direct taxes to GDP ratio inched up to 6.64 % in AY24, highest since 2000-01, vindicating the results of improving tax compliance. Interestingly, Direct Tax buoyancy grew to 1.86 in 2023-24 from 1.25 in the previous financial year while Cost of collection declined to 0.44 % in FY24 (0.51% in FY23)
- ITRs filed during AY24 witnessed a phenomenal jump, standing at ~8.6 crore (against ~7.3 crore in AY22). A total of 6.89 crore or 79% of these returns were filed on or before the due date, the concomitant result in the share of returns filed after due date (i.e., with fine) thus declining from a high of 60% in AY20 to merely 21% in AY24. We believe the total number of ITRs filing for AY25 could swell more than 9 crore by end March'25 (7.3 crore ITRs have been filed by the due date) while inculcating more discipline amongst the filers
- Granular analysis indicates the shifting of middle class in India from income range of Rs 1.5-5.0 lakh in AY14 to Rs 2.5-10.0 lakh in AY24**…**Even the quantum of 'crorepati' taxpayers rose 5x to ~2.2 lakh in AY24 (against 0.4 lakh in AY14)
- Top-5 states (Maharashtra, Uttar Pradesh, Gujarat, Rajasthan and Tamil Nadu) accounted for ~48% of the total ITRs filed in AY24. These states also accounted for the maximum increase in incremental number of ITRs filings witnessed during the intermittent period (AY24-AY15), driven in part by better employment opportunities being created, as also the migration efflux inter/intra geographical pockets
- Gini coefficient, estimating ITR data of taxable income of individuals, reveals individual income inequality has decreased from AY13 (FY12) to AY24 (FY23) from 0.489 to 0.460. The jump in Gini Co-efficient during last two AYs (from a declining trend witnessed earlier) could be more specific to increased participation of wide cohorts of retail investors (specifically lower income group) in F&O segments of Capital Markets, sans much understanding of the intricacies of the broader markets. However, based on our projections, we understand that **Gini coefficient should further decrease to 0.441 in AY25**.

Executive Summary…….(2/2)

- **Declining Income Inequality mirroring upward transition of lower income people along with their income is evident….**43.6% Individual ITR filers, belonging to income group of less than Rs 4 lakhs in AY15 (FY14), have left the lowest income group and shifted upwards…also, **26.1% of the gross income of lowest income group of lower than Rs 4 lakhs has shifted upwards in the intermittent period**

- Working on Income disparity curves of AY15 /FY 14 and AY24 /FY23 (**comparison of disparity in income**) shows that there is a clear rightward shift in the income distribution curve signifying people in lower income brackets are increasing their income to converge towards their share in population

- **We believe that Govt's measure of simple average (ratio of total income of taxpayers to total number of taxpayers) as given in IT data, is not able to capture granular contribution of each income bracket in increase of total income. We have, thus, calculated the weighted mean income of Individuals. The modified metric provides picture of granular increase of income within income brackets, thus captures their contribution better.**

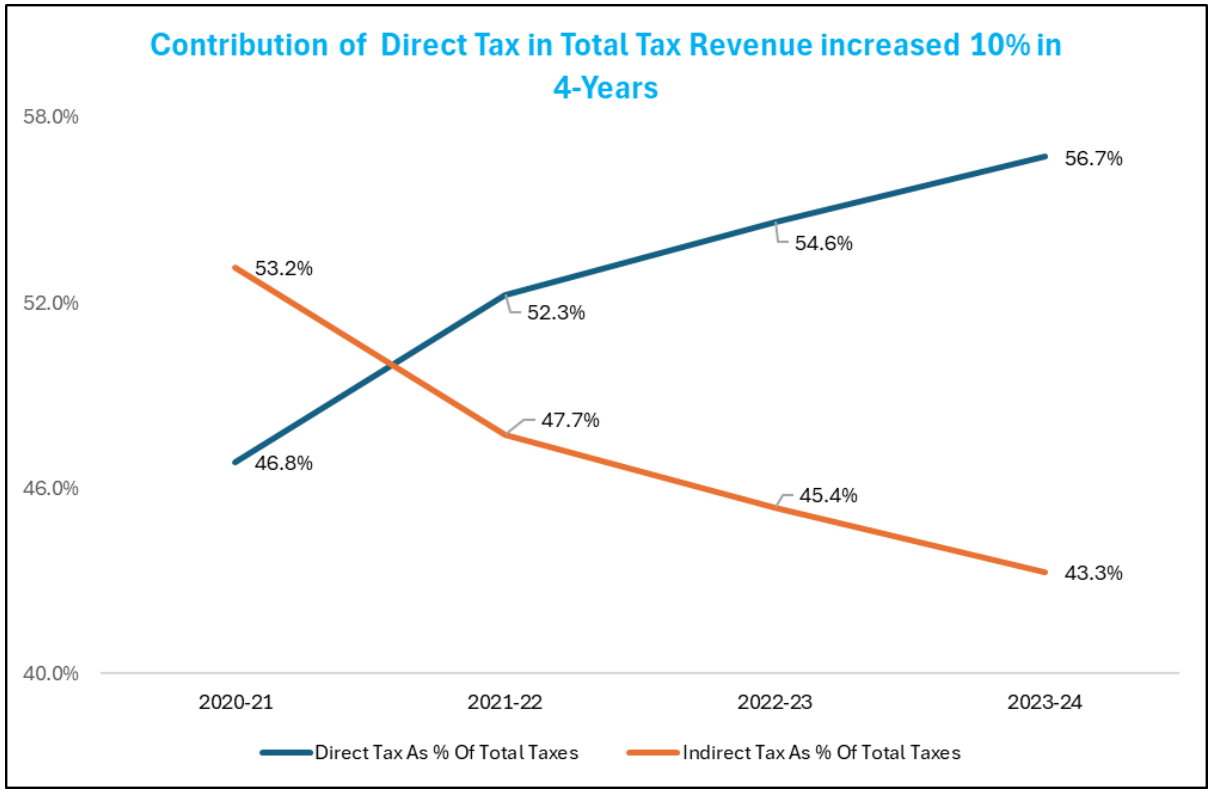
- **Direct tax file base is increasing in hitherto untapped states….**States such as Maharashtra, Delhi, Gujarat and Karnataka, which have been traditional leaders in income tax base are nearing saturation in ITR filing while UP, Bihar, AP, Punjab and Rajasthan are gaining share in incremental growth of filers

- **Female Labour force participation is on the rise (from 23.3 in 2017-18 to 41.7 in 2023-24),** with Jharkhand, Odisha, Uttarakhand, Bihar and Gujarat fanning the maximum movement

- As Income Tax Department has solicited comments from public to modify the IT act, after a hiatus of 6 decades, woven around four pillars of simplifying the act, reduction of litigations, compliance reduction and removing redundant / obsolete provisions, we opine that greater reforms can be initiated on banking front that has a direct connect with all adults / households and suggest introducing **uniform taxation by considering a proposal for taxing at the flat rate of for individuals over a particular threshold income, senior citizens (60 to 80 age) and for super seniors (80+ age) for income above Rs 10 lakhs as also revisiting the TDS threshold suitably**

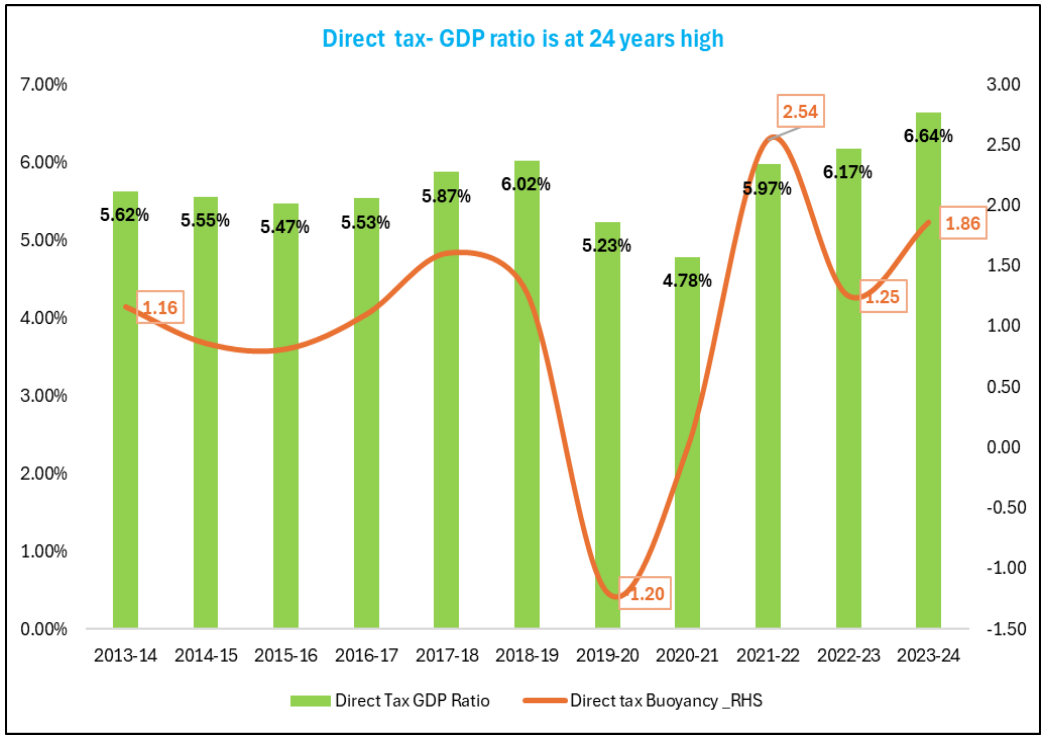
Direct taxes to total tax revenue stands at 57% in FY24

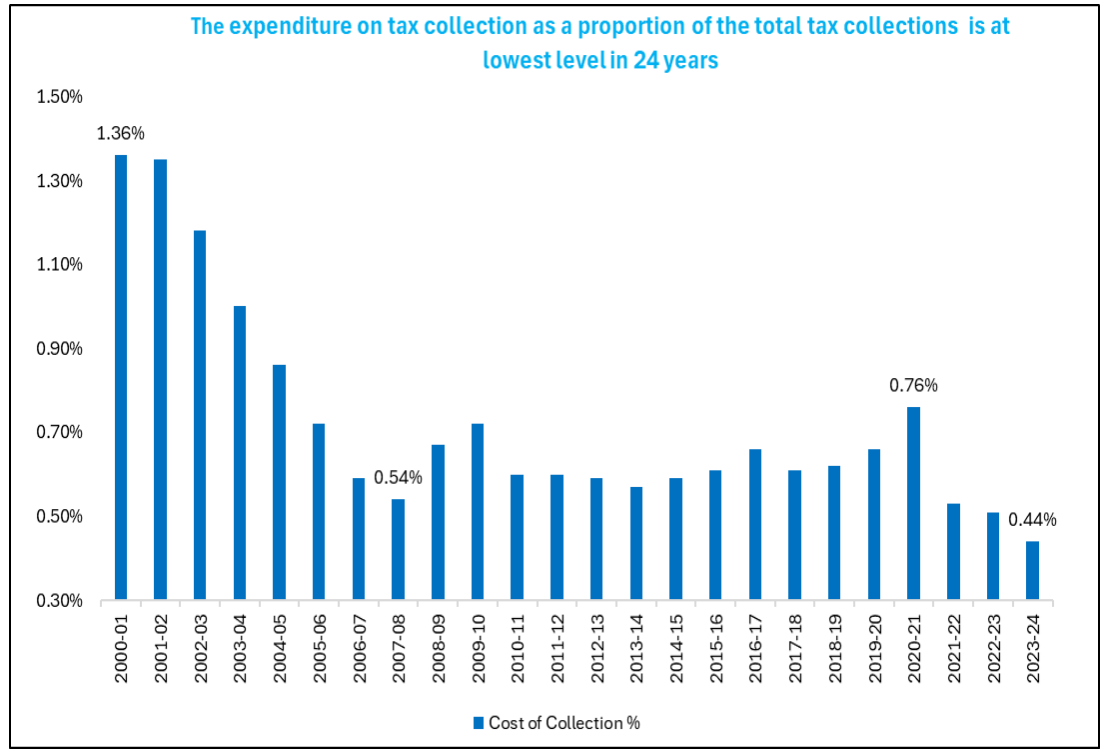
- The contribution of direct taxes to total tax revenue reached at 56.8% in 2023-24, the highest in 14 years. While, the share of indirect taxes to total tax revenue is declined to 43.3 per cent
- Personal income tax (PIT) collections surging higher than corporate tax collections since FY21
- PIT share has been increased by 6%, while corporate tax share has increased by 3% in 4 years



Direct taxes to GDP ratio is two decade high and cost of collection is lowest since 2001

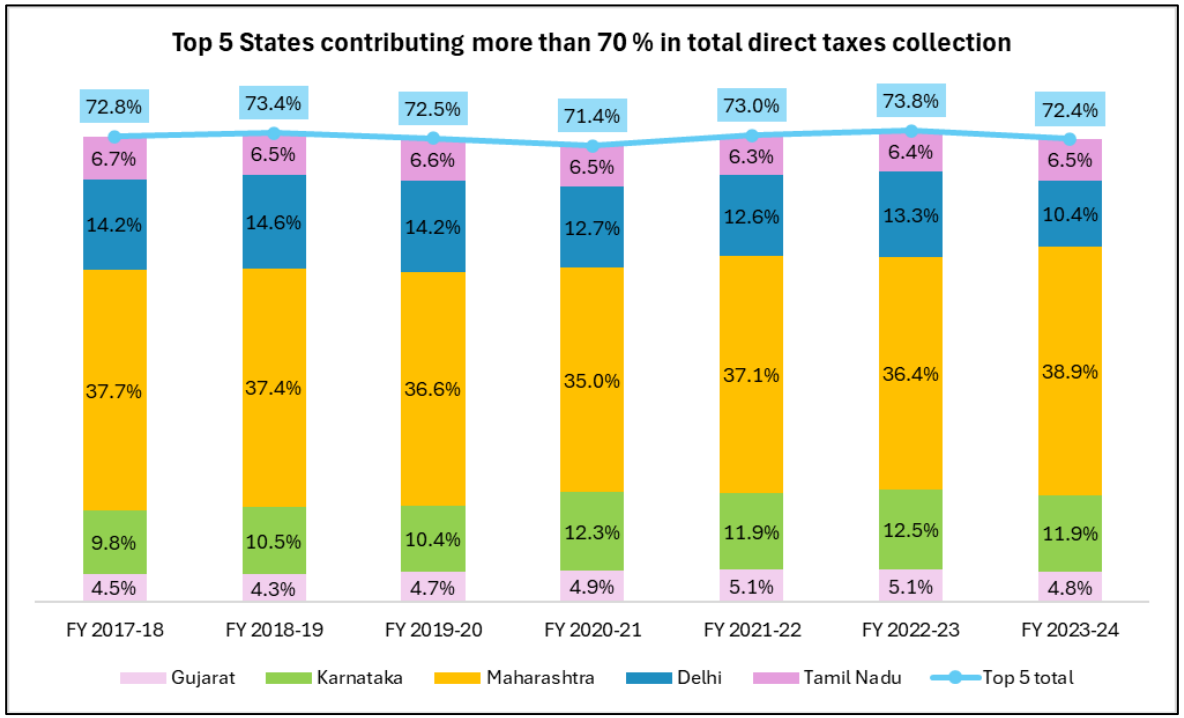
- Direct taxes to GDP ratio is 6.64 % in FY24, which is highest since 2000-01,when consolidated time series by CBDT is available
- Direct Tax buoyancy grew to 1.86 in 2023-24 from 1.25 in the previous financial year
- Cost of collection (expenditure on tax collection as proportion to total tax collection) declined to 0.44 % in FY24 from 0.51 % in FY23

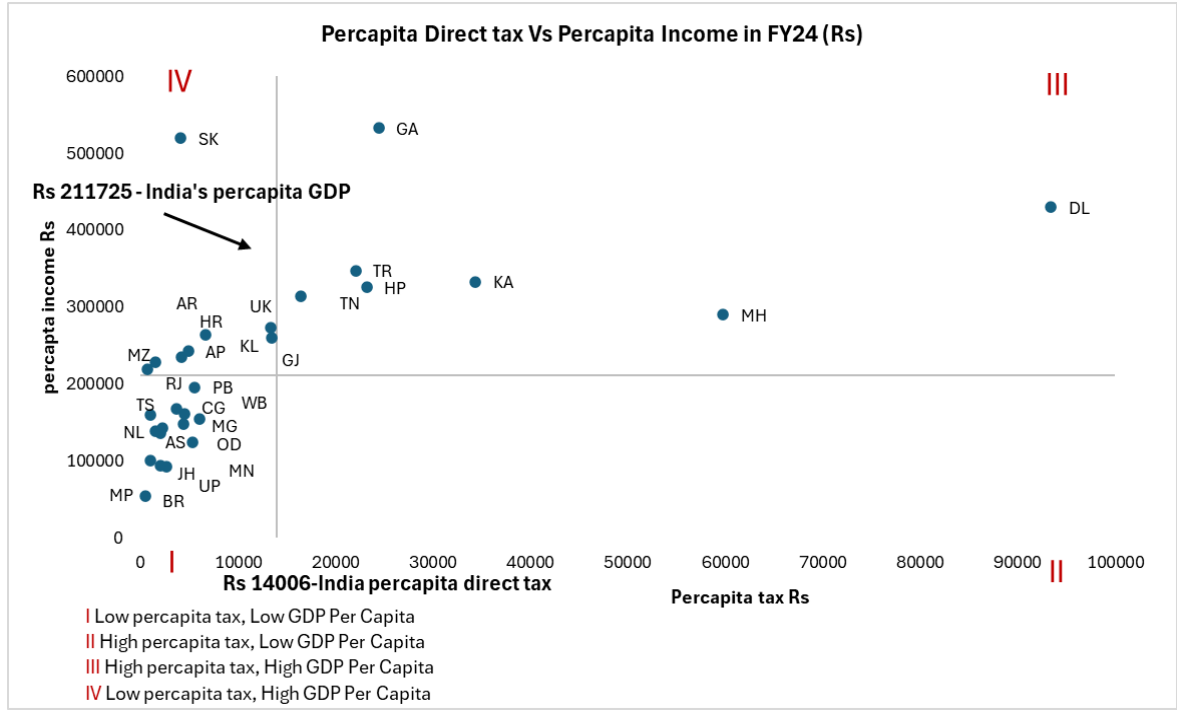




5 States contributing more than 70% in total direct taxes collection

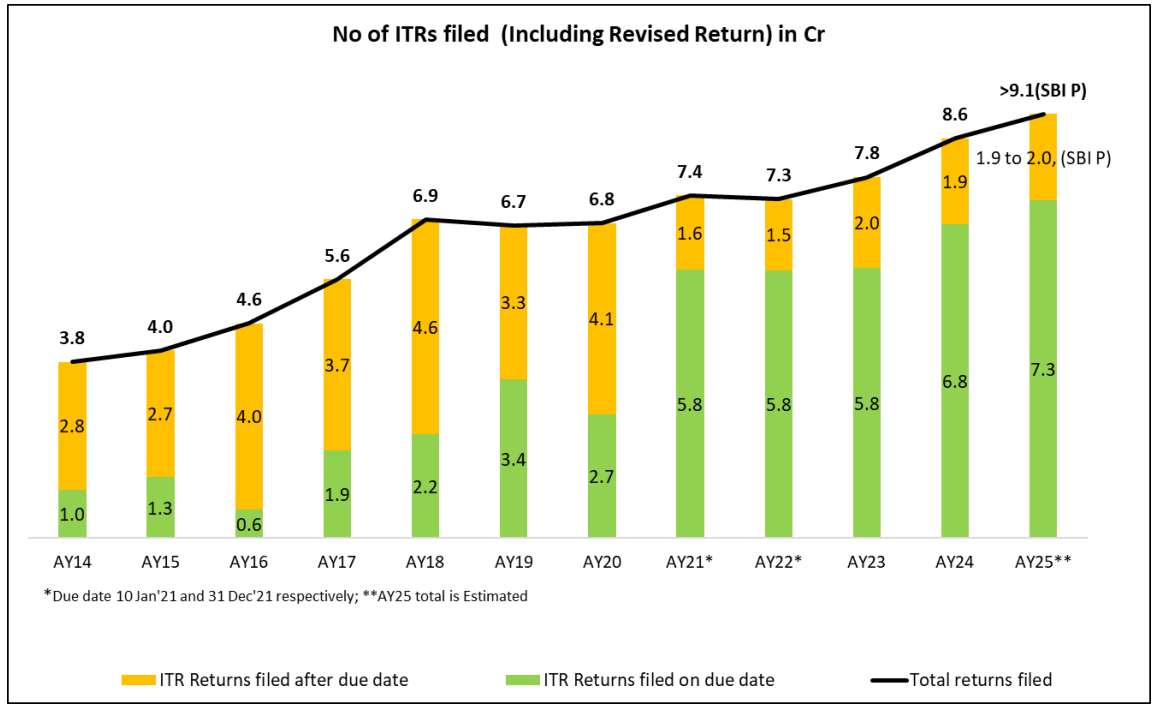
- Maharashtra having highest direct tax collection(38.9%), followed by Karnataka, Delhi, Tamil Nadu and Gujarat
- States like Maharashtra , Delhi, Karnataka, Tamil Nadu have percapita tax higher than national level
- States like Rajasthan, Punjab, Bihar, West Bengal, Odisha, MP and UP have percapita direct tax lower than national level and low percapita income
- However, states like Andhra Pradesh, Uttarakhand, Haryana, Kerala and Gujarat have per capita tax lower than national level and high per capita income





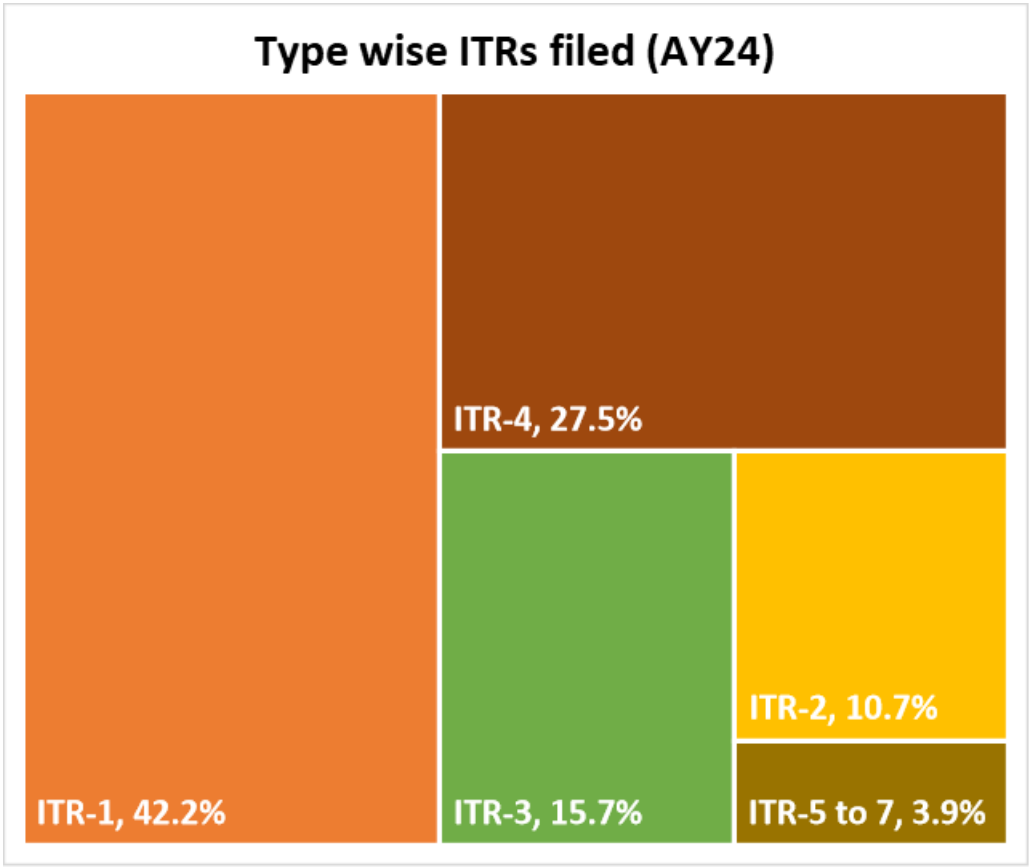
ITR filed continues to increase : Estimated tax filers for AY25 could top 9 crore

- Total income tax returns filed during AY24 increased to 8.6 crore from 7.3 crore in AY22. Of these, total 6.89 crore or 79% of the returns were filed on or before the due date
- Interestingly, apart from the increasing number of returns filed every year, the share of returns filed after due date (i.e., with fine) has also declined from a high of 60% in AY20 to merely 21% in AY24
- **For AY25, 7.3 crore ITRs have been filed by the due date and another ~2.0 crore returns are expected to be filed in the remaining financial year till Mar'25, thereby taking the total number close to/over 9 crore**
- For AY25, we believe the share of IT returns filed after due date may drop to around 18-19%. This reveals the discipline among tax-payers along with the simplification of IT forms and processes driven by **constant efforts of CBDT to build an efficient, digital-heavy filing, verification and return architecture sans hassles**



42% Return filers are in ITR-1 category

- Comparing the type wise ITRs filed, AY24 witnessed 13.9% increase in filing of ITR-2 followed by 10.3% increase in ITR-4 to 10.3. ITR-1, ITR-3 and ITR-4 constituted 42.2%, 15.7% and 27.5%, respectively in AY24



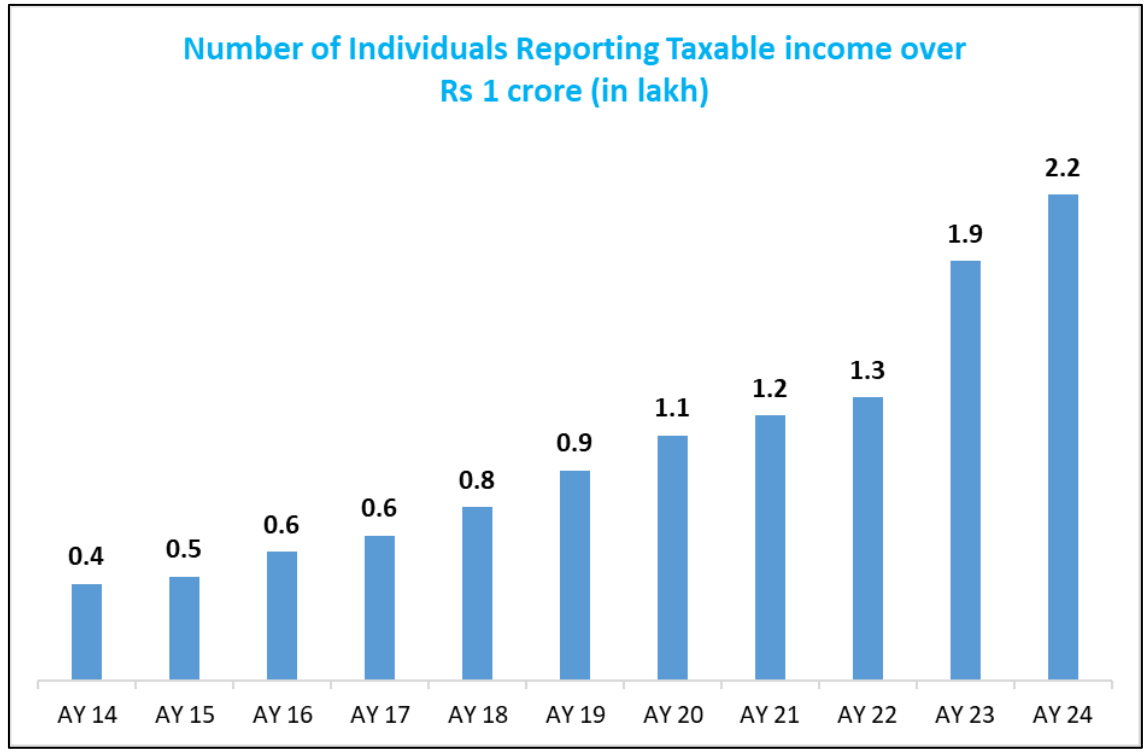
Different types of ITRs		
ITR type	**Filed by**	**Income and its source**
ITR-1	Resident individuals/HUF	Income<=50 lakhs, salary, pension, one house proprty
ITR-2	Resident individuals/HUF	Income > 50 lakhs, capital gains, more than one house property, foreign income/foreign asset,crypto income
ITR-3	Individual or HUF, partner in a Firm	Earn money from the intraday stock exchange or futures and options trading , revenue from jobs, real estate, capital gains, company or trade (including presumptive income), and other sources
ITR-4	Individual, HUF, Firm	Income <50 lakhs, salary, pension, one house property, presumptive income
ITR-5	Partnership Firm/ LLP	Profits from their businesses and professions, as well as some other sources of income
ITR-6	Company	report revenue from industry or occupation, as well as all other forms of income
ITR-7	Trust, scientific research association, and others who come under Section 139(4A), Section 139(4B), Section 139(4C), Section 139(4D), Section 139(4E), or Section 139(4F)	-

Number of Crorepati Taxpayers

- In the last 10 assessment years while the total number of taxpayers increased by 2.3x to 8.62 crore in AY24, the growth is quite fascinating in the income group mote than Rs 10 lakh
- Granular analysis indicate the **shifting of middle class in India from income range of Rs 1.5-5.0 lakh in AY14 to Rs 2.5-10.0 lakh in AY24**
- Even the crorepati taxpayers increased 5x to 2.2 lakh in AY24 vis-à-vis AY14

No of Tax payesr in different Income group (# Lakhs)					
Income group(Rs)	**AY14**		**AY 24**		**AY 24 as X times as AY 14**
	Number	% Share	Number	% Share	
>=0 and <=1,50,000	33.5	8.8%	39.5	4.6%	1.2
>1,50,000 and <= 2,50,000	160.4	42.3%	46.4	5.4%	0.3
>2,50,000 and <= 500,000	88.3	23.3%	442.9	51.4%	5.0
>5,00,000 and <= 1000,000	36.7	9.7%	132.6	15.4%	3.6
>10,00,000 and <=25,00,000	13.4	3.5%	70.5	8.2%	5.3
>25,00,000 and <= 50,00,000	2.4	0.6%	16.1	1.9%	6.8
>50,00,000 and <= 1,00,00,000	0.8	0.2%	4.6	0.5%	5.9
>1,00,00,000	0.4	0.1%	2.2	0.3%	5.0
Total Returns Filed	**379.0**	**-**	**862.0**	**-**	**2.3**

Source: SBI Research,Income tax return statistics; FY14 and FY24, Income group wise details are availble for those tax payesrs who passed consistency rule



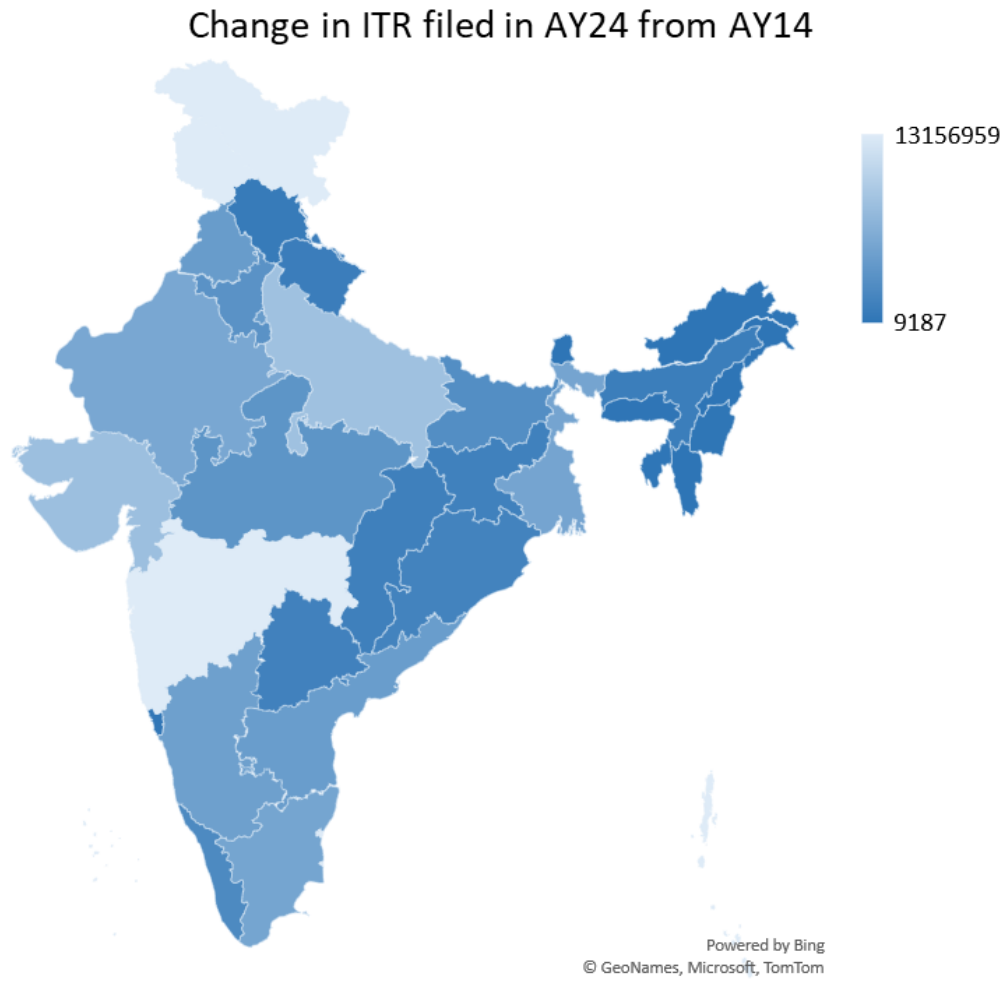
State-wise ITRs

- State wise ITR filed during AY24 shows that Maharashtra, Uttar Pradesh, Gujarat, Rajasthan and Tamil Nadu are the top 5 states. These states constitute ~48% of the total income tax returns filed in AY24

- Overall, there have been 5.1 Cr more ITRs filed in AY24 over AY15, with the maximum increase registered in Maharashtra followed by Uttar Pradesh, Gujarat, Rajasthan and Tamil Nadu

- In terms of % growth, smaller states of Manipur, Mizoram and Nagaland have registered more than 20% increase in ITR filed during the last 9 years

- **However, this data should also be seen in terms of migration from states as the ITR filing is linked with PAN card address, but the place of working is different from place of domicile for many citizens**

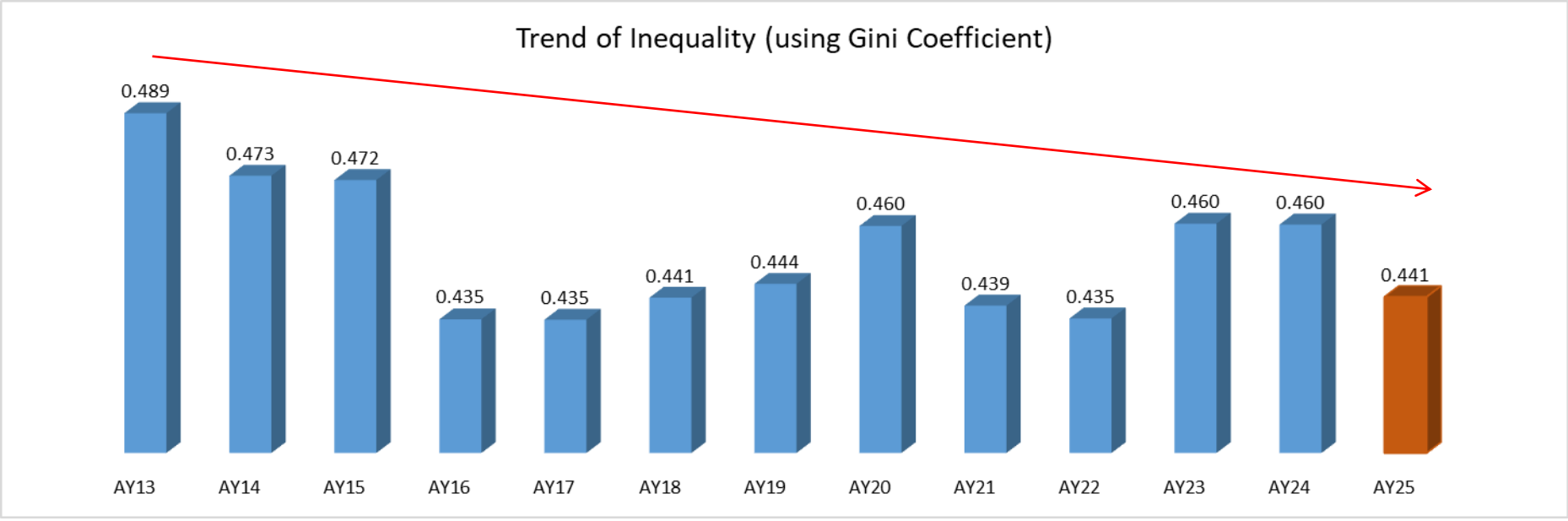


Estimating Income Inequality by using IT data…. Gini Coefficient Methodology

- Gini Coefficient is one of the most widely used measures of income inequality by using the Lorenz Curve. Complete equality would result in a Gini coefficient of zero, and complete inequality would result in a Gini coefficient of one..the number lies between zero and one with a declining number showing inequality is declining
- Using the IT data, based on a ranking of tax paying Individuals in ascending order of income, the estimated Lorenz curve is a plot of the cumulative share of income of tax paying individuals against the cumulative share of population of tax paying Individuals. The curve will lie somewhere between two extremes
- **Once we obtain the area under the Lorenz curve for each income bracket, the Gini coefficient which is the area between the Lorenz curve of the income distribution and the diagonal line of complete equality, expressed as a proportion of the triangular area between the curves of complete equality and inequality, is calculated for each year beginning FY14 till FY22 by using the taxable income data**
- On the basis of the area under Lorenz curve methodology, we have calculated gini coefficient as under:
  - $\boldsymbol{Gini\ Coefficient = 1 - 2\int_0^1 L(x).dx}$
  - where $L(x).dx$ represents area under the Lorenz curve for each income tax groups, calculated using cumulative income ($L(x)$) for the incremental population (dx) for each income group

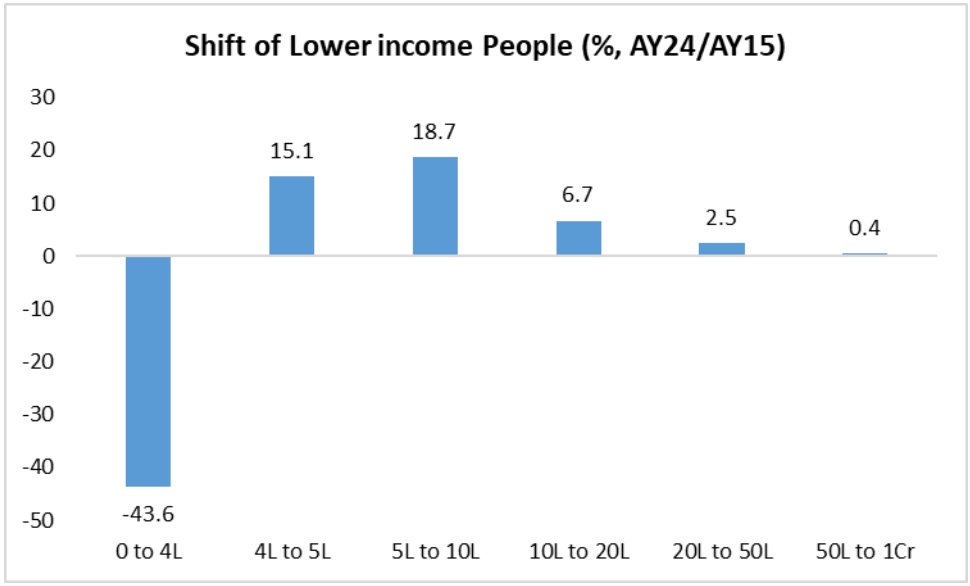
Gini coefficient signifies that Individual Income Inequality is declining continuously

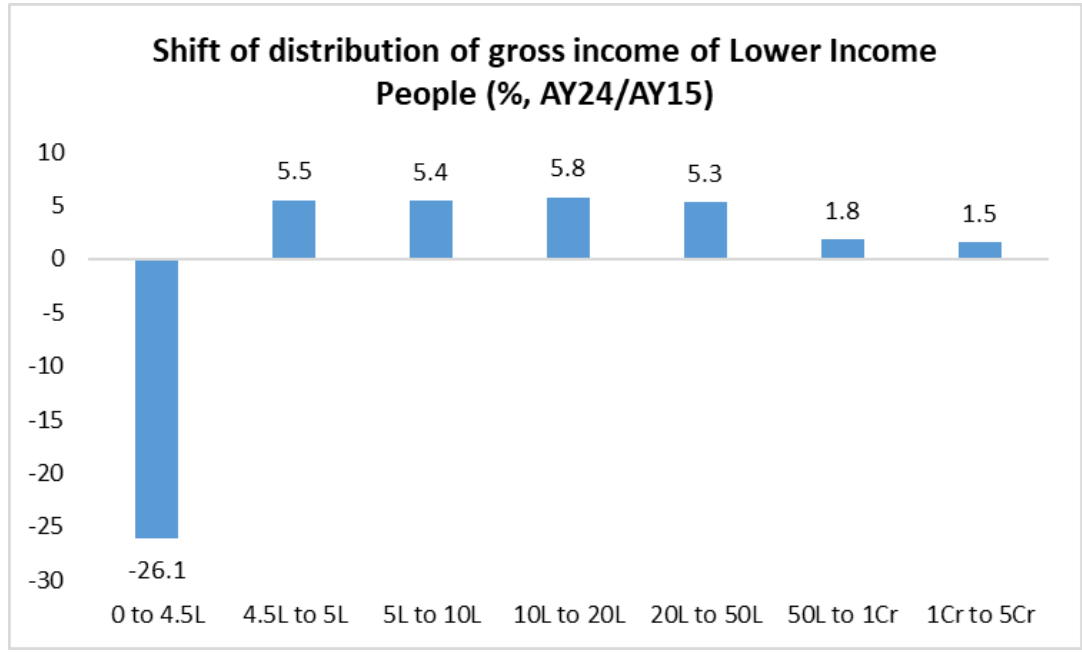
- Gini coefficient estimated using ITR data of taxable income of individuals shows that individual income inequality has decreased from AY13 (FY12) to AY24 (FY23) from 0.489 to 0.460
- Retail investors, specifically lower income group, incurring losses in F&O segment – is one of the reasons of rise in Gini coefficient in last two years
- Further, based on the past trends we have projected ITR data for each Income groups for AY25 and based on that we have estimate that Gini coefficient will further decrease to 0.441 in AY25.



Declining Income Inequality mirroring upward transition of lower income people along with their income is evident….

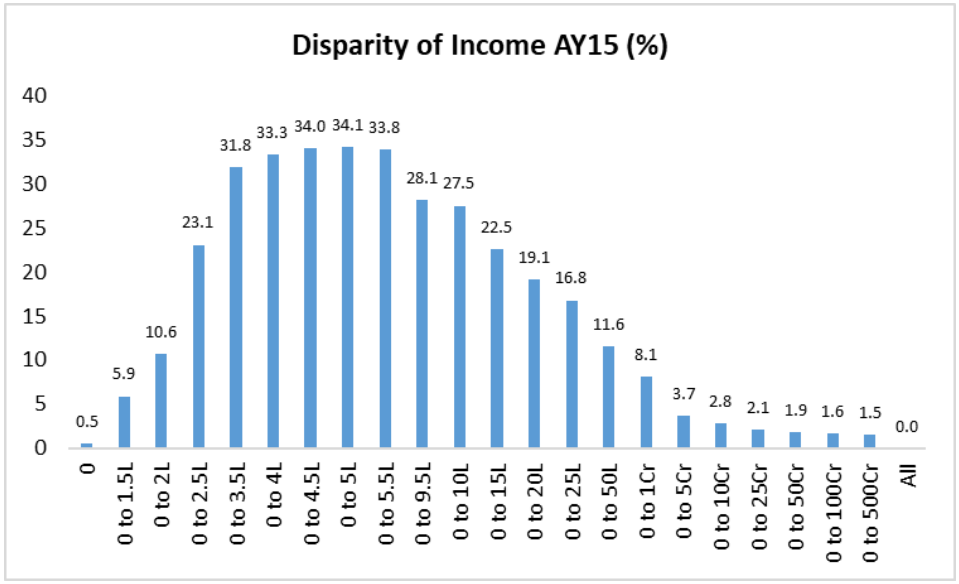
- 43.6% Individual ITR filers belonging to Income group of less than Rs 4 lakhs in AY15 (FY14) have left the lowest income group and shifted upwards
  - 15.1% and 18.7% are shifted in the income group of Rs 4 lakhs to 5 lakhs, and Rs 5 lakhs to 10 lakhs respectively, while 6.7% people shifted in the income group of Rs 10 lakhs to Rs 20 lakhs and rest further upwards
  - 26.1% of the gross income of lowest income group of lower than Rs 4 lakhs has shifted upwards with 5.5% gross income shifted towards Rs 4 lakhs to Rs 5 lakhs group, 5.4% towards Rs 5 lakhs to Rs 10 lakhs group, 5.8% towards Rs 20 lakhs to Rs 50 lakhs group, and 1.8% in Rs 50 lakhs to Rs 1 crore group

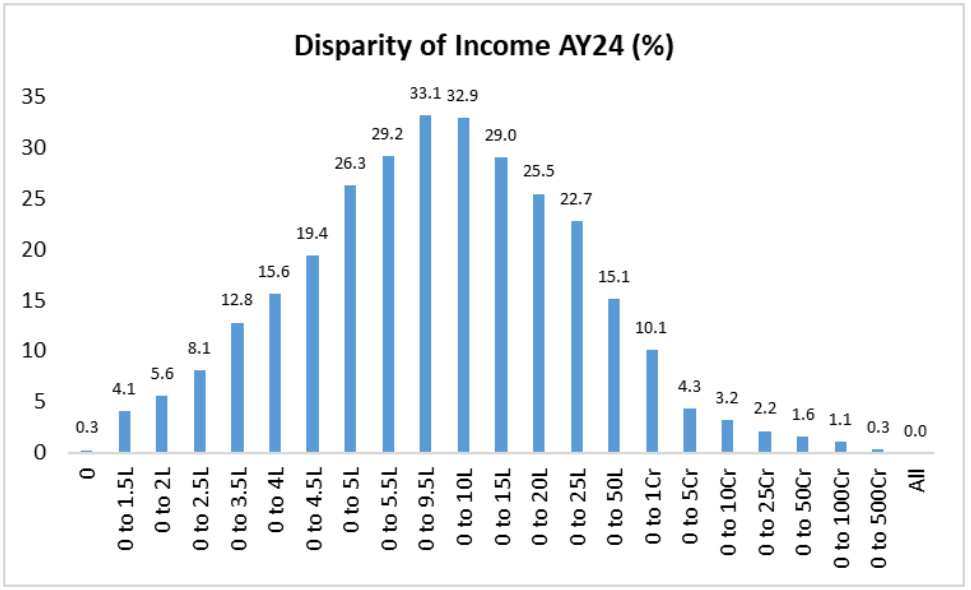




Income disparity on a path of ocean wave with increasing upward migration

- To paraphrase the often myth of worsening inequality in India, we captured Income disparity curves of AY15 /FY 14 and AY24 /FY23
  - A comparison of disparity in income during FY14 and FY23 shows that there is a clear rightward shift in the income distribution curve signifying people in lower income brackets are increasing their income to converge towards their share in population
  - For people with income upto Rs 3.5 lakhs, the share in income disparity has reduced from 31.8% in FY14 to 12.8% in FY21, signifying share of this bucket group has increased by a sharp 19% income in comparison to their population





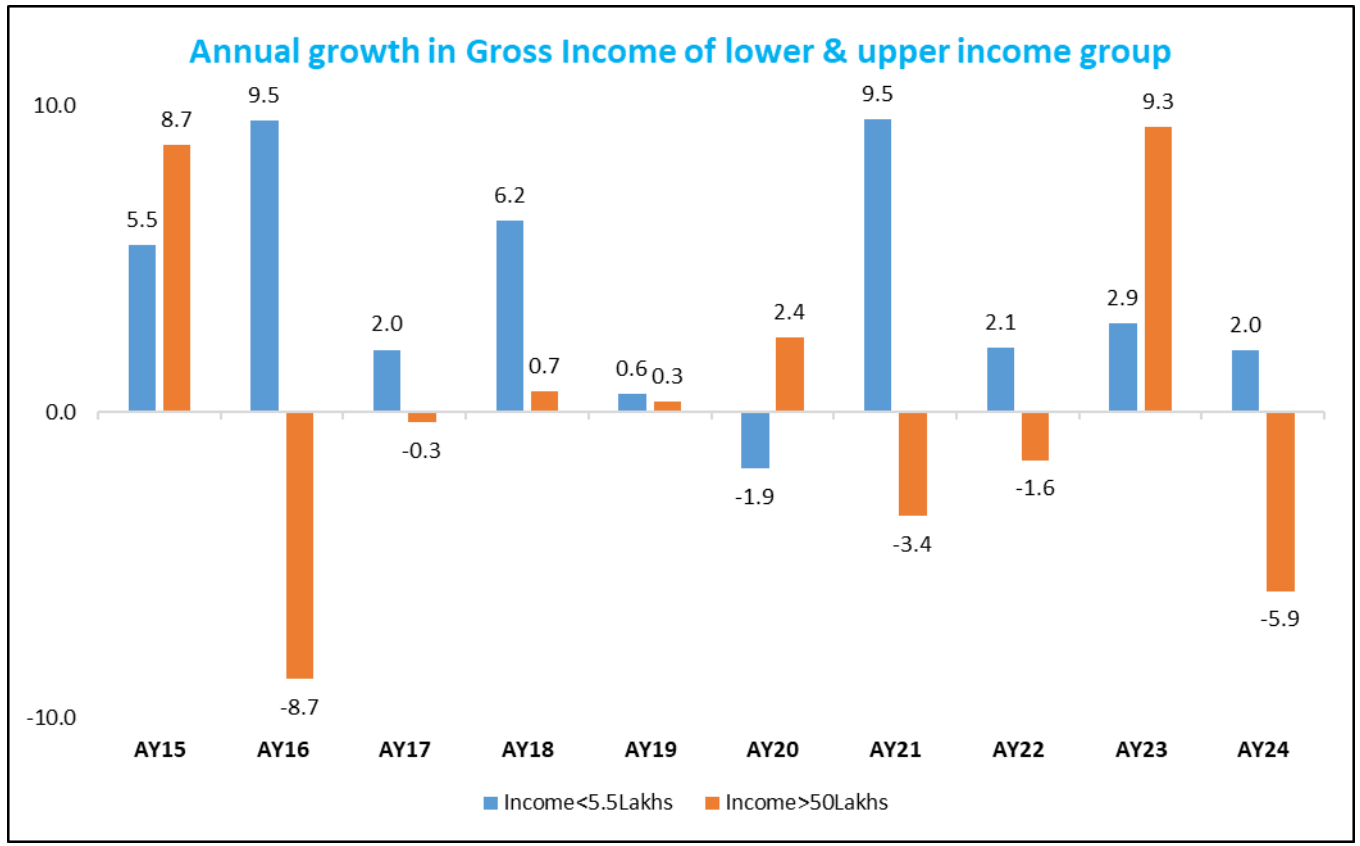
Income Disparity Coverage	
Income Group	Disparity Coverage
0	0.3
0 to 1.5L	1.8
0 to 2L	5.1
0 to 2.5L	15.0
0 to 3.5L	19.0
0 to 4L	17.7
0 to 4.5L	14.6
0 to 5L	7.9
0 to 5.5L	4.7
Source: SBI Research	

Income Disparity Coverage is the improvement in disparity in AY24 over AY15

Mean Income Comparison Of Lower & Higher Income Group (AY15/AY24)

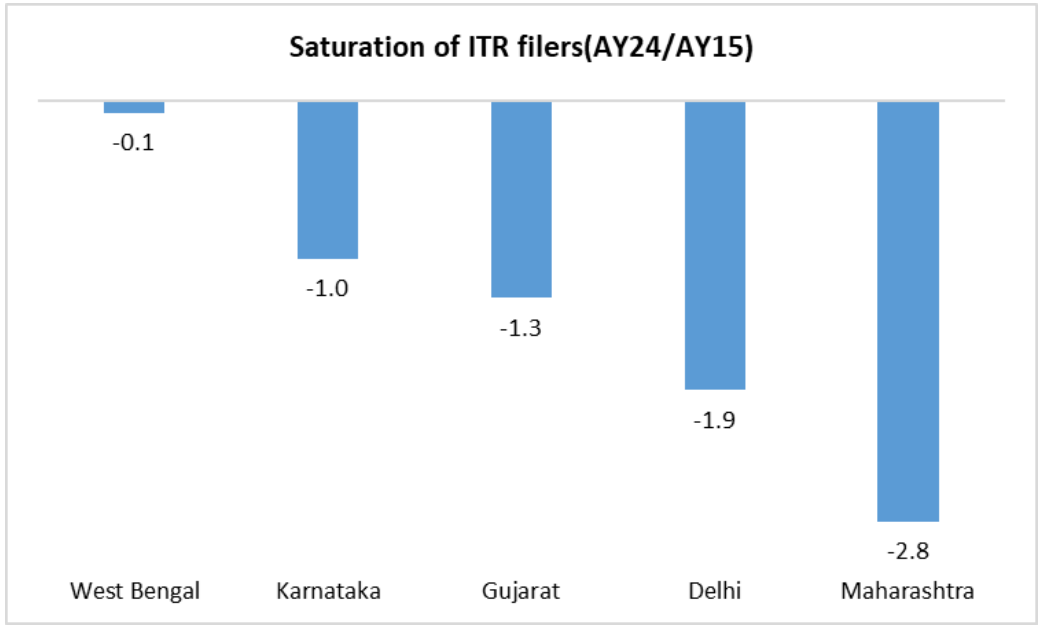
- Lower income group (less than 5.5Lakhs) has registered a positive growth rate for all years in last decade (except AY20 – due to covid'19 pandemic)

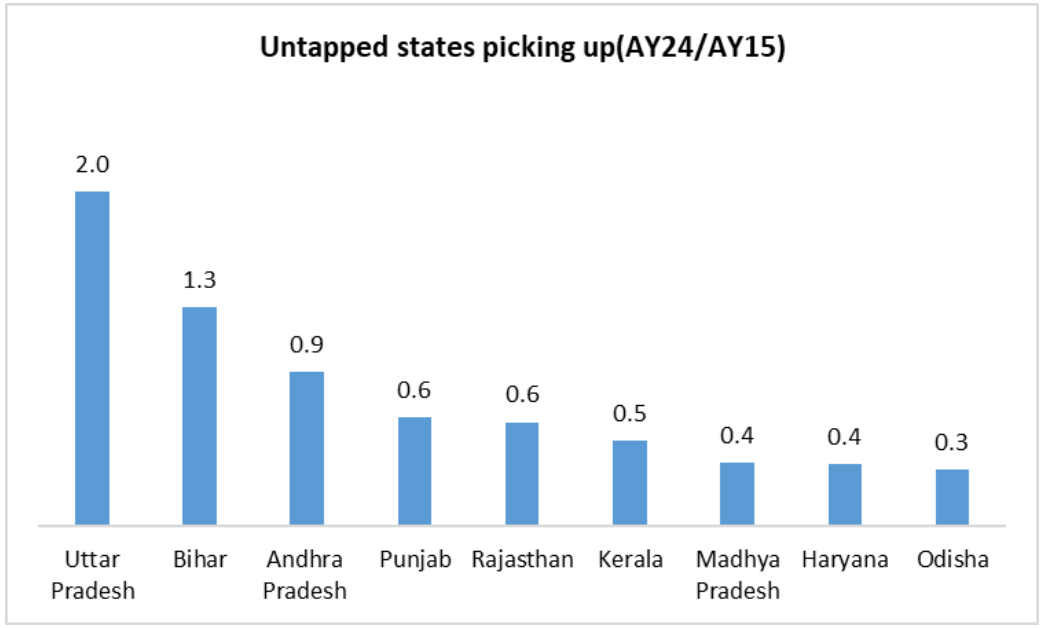
- This shows the continuous efforts of Govt are reaching the bottom of pyramid – that is leading to increase in income of 'lower income group' people



Direct tax file base is increasing in untapped states….

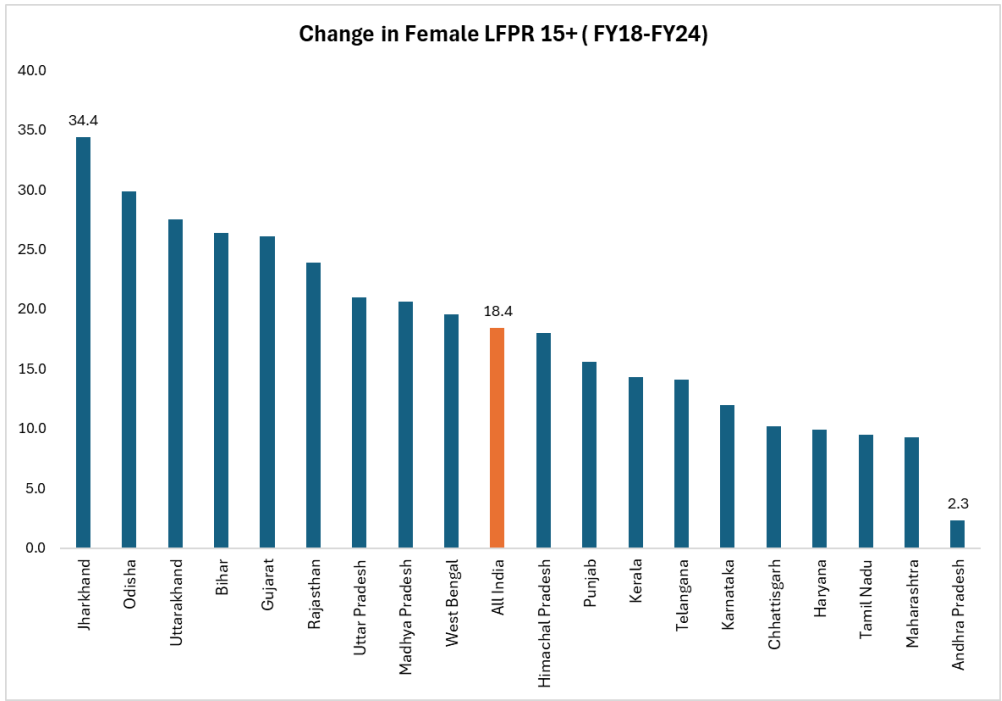
- States such as Maharashtra, Delhi, Gujarat and Karnataka, which have been traditional leaders in income tax base are nearing saturation in ITR filing and their share in overall tax file base is decreasing continuously
- Uttar Pradesh is the leader in increasing share in Income tax file base, followed by Bihar, AP, Punjab and Rajasthan

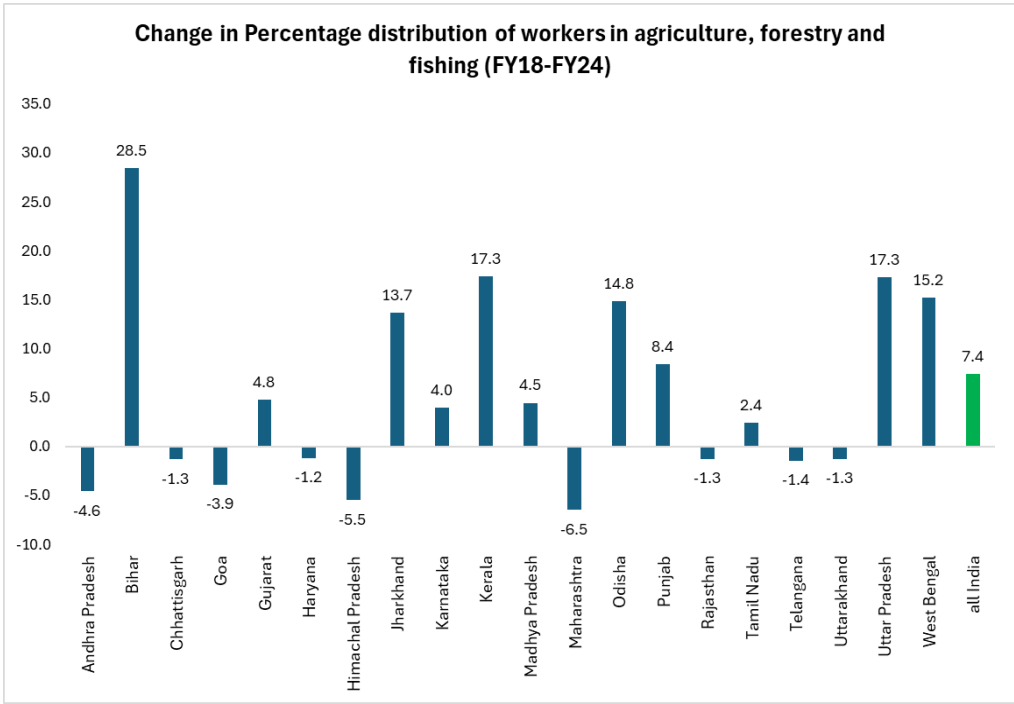




Female Labour force participation on the rise

- As per PLFS, female labour force participation has risen from **23.3% in 2017-18 to 41.7% in 2023-24**, increase of 18.4. Maximum increase during the period has been observed in case of Jharkhand, followed by Odisha, Uttarakhand, Bihar and Gujarat
- Furthermore, females have shifted more towards agriculture. There has been an increase in the share of agriculture as an occupation among the female at all India level from 57% in 2017-18 to 64.4% in 2023-24. Meanwhile it has declined for the males from 40.2% to 36.3% during the same period





Female ITR filers – methodology

- We have endeavored to estimate female tax filers based on the female labour force participation rate
- First female LFPR of 15+ is calculated for each state using the female population estimate for 2024
- Further, as agri income is exempted from income tax we considered only non-agri female workers considering the % share of females in non-agri activities from the PLFS report
- Next, we took the individual tax filers for each state (94% of overall tax filers) as a proportion of total labour force for that state. This proportion is taken as the proxy for formalization in that state and is then used to calculate the female tax filers from the non-agri female labour force
- The calculation is given by

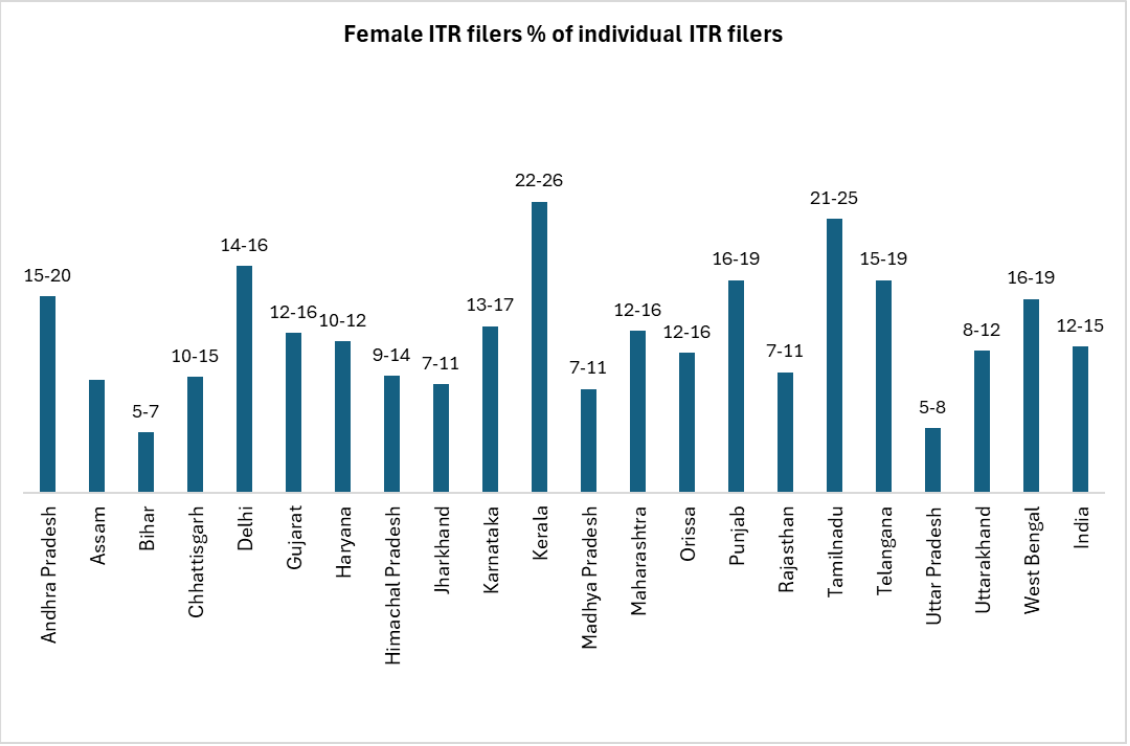
$$Female\ ITR\ filers = Female\ non\ agri\ LF * \%\ of\ individual\ tax\ payers\ to\ total\ LF$$

where,

$$Female\ non\ agri\ LF = Female\ LFPR * Female\ Population * \%\ of\ female\ non\ agri\ workers$$

Female ITR filers are estimated to be around 15% of overall individual ITR filers in India

- Since the PLFS gives labour force participation rate for agri, forestry and fishing but only agri income is exempted from income tax, we have considered a range of female ITR filers
- Our estimates show that female tax filers are around 15% of the individual tax filers
- Certain states as Kerala, Tamil Nadu, Punjab and West Bengal have higher share of female tax filers



Comprehensive Review of Income-Tax Act 1961

- In Budget 2024, FM has highlighted the government's focus on simplifying taxation, improving taxpayer services, and reducing litigation
- Accordingly, CBDT has formed a committee to review the Income-tax Act, 1961 and invited public inputs on the following 4 categories, which aim is to make the Act clearer and minimize tax disputes, providing greater certainty for taxpayers
  - ***Simplify the Act:*** Reducing complexity and making the Act easier to understand. Minimal cess and surcharges
  - ***Litigation Reduction:*** Identifying provisions that lead to disputes and offering solutions to minimise litigation
  - ***Compliance Reduction:*** Streamlining processes to reduce administrative burden on taxpayers
  - ***Redundant/obsolete provisions:*** Highlighting outdated provisions that can be removed to modernise the law
- In our view, this approach aims to address the practical challenges faced by taxpayers, accountants, and legal professionals, ensuring that their real-world experiences help shape the reforms. So, all the stakeholders should participate in evolving tax legislation, which will govern them in future

Better to Conceptualise Ne Code/Act rather drafting amendments to the Income Tax Act

Existing provision/Issue	Suggestions	Rational
The TDS provision of Income Tax Act require tax to be deducted by banks at the rate of 10% on interest payment in excess of INR 10,000 on deposits.	The threshold limit of INR 10,000 should be increased to at least INR 1,00,000.	The limit was fixed many years ago and TDS on such small amounts involves deployment of relatively large amount of resources in terms of manpower, systems and other costs at the taxpayer's, end without any significant benefits to the revenue.
Income Tax Rules require quarterly issuance of TDS certificates (Form 16A)	The annual issuance of TDS certificate (Form 16A) should be allowed (as in the case of Form 16- Salary) instead of quarterly.	The Income Tax department is currently relying on the 26AS for giving credit to the deductee and hence there is no usefulness of quarterly TDS certificate.
PROGRESSIVE TAXATION	Uniform Taxation can be introduced to the extent possible by taxing at the flat rate of for individuals for income above a particular threshold , for senior citizens (60 to 80 age) for income above Rs 8 lakhs and for super seniors (80+ age)	

The review would ordinarily take less time than conceptualising and drafting amendments to the prevailing Income Tax Act, 1961. So, Government should be introduced as part of the Budget 2026 as of money bill so as to ensure its speedy passage within seventy-five days of its introduction. There should be no amendments to the Income Tax Act, 1961 in the Budget 2026 and all direct tax proposals should be reflected in the new Code

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