

## **Finance Minister's Speech**

'Tax and Inequality': 4<sup>th</sup> International Tax Dialogue Global Conference

10 AM December 7, 201, Vigyan Bhavan, New Delhi

China's Vice Minister of Finance Mr. Wang Jun,  
IMF Deputy Managing Director, Mr. Min Zhu,  
Minister of State for Revenue and my colleagues Mr. S.S. Palanimanickam  
and Shri Namo Narain Meena,  
Distinguished Speakers and Delegates,  
Ladies and Gentlemen

It is my privilege to welcome you all to this fourth International Tax Dialogue Conference. India is delighted to co-host this conference. I am happy that the international tax dialogue has joined hands with the Ministry of Finance, Government of India, in organizing this conference. I can see that you have been successful in bringing together and facilitating an impressive panel of stakeholders to deliberate on tax matters by involving national tax officials, international and regional tax organizations, policy makers and experts from around the world.

2. The present phase of globalization has brought us closer to each other, than any point in the history of human civilization. Our opportunities

are getting increasingly tied together and so are solutions to many of our common problems. The multifaceted integration of societies has created a collective destiny, unifying many of our development concerns. It is desirable therefore to have a periodic international dialogue on economic concerns that affects lives in all our countries.

3. This conference addresses one such important theme namely, “Tax and Inequality”. It is a central concern for effective governance and just functioning of a modern welfare nation-state. Indeed, the intricate relationship between growth and inequality poses challenges for the formulation of tax policy in both developed, as well as developing countries. On one hand, progressive tax policy is a means to address growing inequalities in incomes and wealth. On the other hand, it provides resources to address the structural issues in inequality and poverty. It facilitates the implementation of public programmes and expenditure policies for capacity building of the less fortunate individuals and communities within countries. At the same time, tax policy has implications for incentivizing economic activity, savings, production or consumption, and hence growth. It is thus a vital instrument of public policy and has to be carefully used.

4. I am reminded of Kautilya and his *Arthashastra* – a treatise on administration by one of ancient India’s great economic and political thinker and strategist. He wrote (and I quote):

“Just as one plucks fruits from a garden as they ripen, so shall a King have the revenue collected as it becomes due. Just as one does not collect unripe fruits, he shall avoid taking wealth that is not due because that will make the people angry and spoil the very sources of revenue”. (Unquote)

5. Policy makers need to make difficult choices about how tax systems can best support growth and help in creating fair and equitable societies. Principles of horizontal and vertical equity are important if a tax system is to be seen as fair. Tax administration, which includes mechanisms to register taxpayers, collect revenue, enforce compliance and provide redress when required, also has a direct bearing on fairness of tax policy. A good tax policy if not administered properly may result in a distribution of the tax burden very different from that which would occur if the tax code was administered effectively.

6. There is much that we can learn from each other's tax systems, working experience and the best practices. There is also a need to collaborate and align and make our tax systems speak to each other as we get integrated and the cross-border economic transactions multiply. Your deliberations in this conference will contribute to that process. Informed

policy making leads to better tax policy and tax administration. Better tax policy and effective tax administration leads to better lives for our citizen.

7. The issue of the tax reforms was at the heart of the process of economic reforms and liberalization that India embarked on in the early 1990s. We have come a long way since then. The tax reforms though gradual have been systemic in scope, particularly when you consider the proposals currently awaiting implementation. The reforms have covered both the direct taxes as well as the indirect taxes. The proposed Direct Taxes Code brings together the policy initiatives on the direct taxes. It is slated to come into force from the next financial year. Similarly, we are moving towards an economy-wide generalized value added tax system of goods and service taxes at all levels in the country. Our tax reforms have been directed at:

- Simplification of tax system and its administration;
- Rationalization of tax rates;
- Broadening of tax base;
- Special focus on sunrise area of taxation like transfer pricing and international taxation;
- Strengthening tax information exchange network with countries/ jurisdiction;
- Improvement of tax administration;

- Better tax payer services and reduction in cost of compliance;
- Robust dispute resolution mechanism; and
- Focused enforcement on high net worth individual tax abuse practices and high revenue risk.

8. An efficient tax system is a fundamental requirement for sustained development of any nation. Taxes underwrite the capacity of a nation to implement its development and welfare goals. It is a means to promote equity in the distribution of gains from economic growth in a country like India. We have adopted a progressive personal income tax to address the inequality. Our progressive direct tax policy has resulted in a ten-fold increase in direct tax revenue from USD 8.62 billion in the fiscal year 1996-97 to US 87 billion in fiscal year 2010-11. More importantly, the composition of our tax revenues has altered significantly in favour of direct taxes which now account for nearly 60 per cent of our total tax revenues. We have tried to address the issue of gender inequality and old age vulnerabilities by providing some tax relief to women and old people.

9. Tax evasion undermines the intended benefits of a progressive tax policy. The problem is compounded by illicit outflow of money from emerging economies and developing countries. Global financial integrity has estimated such annual illicit outflows averaging between USD 725 to 810 billion from these countries. The Indian Government has adopted a five

pronged strategy to deal with issues of tax evasion and black money. It includes:

- Joining the global crusade against black money;
- Creating an appropriate legislation framework;
- Setting up institution for dealing with illicit money;
- Developing systems for implementations; and
- Imparting skill to the manpower for effective action.

10. The strategy has started showing result. However, resolution of these issues requires international co- operation and alignment of tax systems for better cross-border compliance. The complexity of cross border transactions is on a rise and presents a serious challenge to tax administrators in practicing and bringing equality. The opacity of tax systems in some of the jurisdiction is adding to the challenges. There has been some movement on these issues in response to the initiative by G-20. We need to pursue this to its logical end.

11. I wish this conference a great success and I look forward to the outcome of deliberations. I wish you all a pleasant stay in India.

Thank you.