‘India’s tax rise for high earners may trigger fund flight’

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NEW DELHI: A former Reserve Bank of India (RBI) governor, Bimal Jalan, has warned that the higher income taxes the government introduced in its budget could lead to a flight of funds from the country.

“In theory if tax rates are very high, obviously people look for other countries, which have lower interest rates, and also exemptions from income tax,” said Jalan, 77, who chairing a central bank panel deciding on how much of the RBI’s reserves should be transferred to the government.

Finance Minister Nirmala Sitharaman, in her budget this month, raised taxes on people earning more than 10 million rupees ($145,000) a year to at least 42.7 per cent. That included foreign portfolio investors registered as trusts.

Analysts and traders say this has been a major reason for foreign investors being net sellers of more than 30 billion rupees of funds from Indian equity markets in July, after they invested more than 100bn rupees in June.

That has helped to send India’s BSE index tumbling more than 4pc to 37,686.37 since July 1.

Parliament passed the budget last week.

Indians with taxable income of more than 1 million rupees a year now pay 30pc of their earnings as income tax plus an additional 4pc on the amount of taxes paid.

According to the new budget, people and trusts earning more than 5m rupees a year will pay an additional 10pc surcharge and 15pc for those earning more than 10m rupees.
“The incentive to borrow or invest domestically is certainly impacted by higher taxes. So investors may be sending money overseas, but hopefully it does not lead to round tripping,” Jalan told Reuters in an interview on Sunday, referring to funds exiting only to come back, and evading taxes along the way.

India is among the top 10 countries with the highest corporate tax rate, even after Sitharaman lowered it to 25pc from 30pc for those companies that have annual sales of less than 4bn rupees.

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