

SBI Research

Deciphering emerging Trends in ITR Filing: The Ascent of the new Middle Class in circular migration

15-August-2023

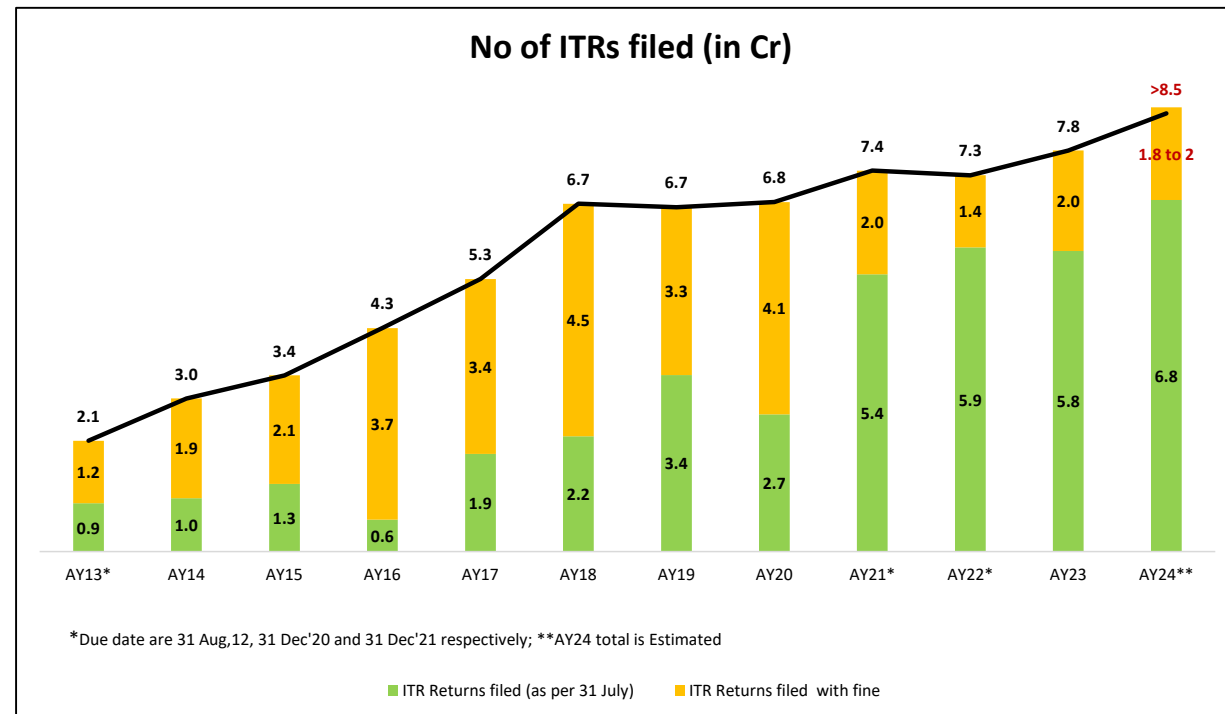
- Celebrating the 77th Independence Day and emboldened by the Idea of a new India taking wings, ready for the leap of faith to stake claim for a rightful position on a world stage being rescripted constantly by myriad conflicting forces, we took a deep dive into what lies beneath the huge treasure trove of IT returns data, that capture and reflect the state of affairs of a society as it aspires to Dream more, Do more, Want more and Achieve MORE together
- Deciphering the data, we understand there is a great tale in the offing as the Ascent of the **Great Indian Middle Income Class** is but all too perceptible, ready to propel the country into a Middle Income Economy cohort going forward as the tax filer base, helped by ongoing reforms and confidence building measures coupled with a galvanizing economy firing on all cylinders promises to bring to the net ~482 million IT filers in FY47 (~70 million in FY23), increasing its share in taxable workforce /workforce eligible to pay taxes to 85.3% (from current 22.4%)! Formalization drive of nearly 70 million MSMEs promises to broad base the cohort suitably. **25% of ITR filers are expected to leave the lowest income strata by FY47 (against 13.6% leaving the lowest income strata between AY12-AY23)**
- **Weighted mean income of Rs 4.4 lakh in AY14 (basis ITR returns) has increased to Rs 13 lakh (helped by transition from lower income group to upper income group as also buoyancy in the number of tax-filers who were earlier not reporting income) and further to Rs 49.7 lakhs in 2047 with shifting of distribution of tax-filers from lower income group to upper income group**
- Per capita income is expected to increase from Rs 2 lakh in FY23 to Rs 14.9 lakh in FY47 (in USD terms, the corresponding increase comes to ~\$12,400 in FY47 from ~\$2500 in FY23)
- Circulatory migration / skilled workforce upgrading to better opportunities /transitioning to a higher income bucket as the Indian diaspora finds the promises of the new Indian economy lucrative enough to collaborate in innovative ways in tandem with inter-state migration needs to be better captured in ITR returns to enable better framing of policy narratives
- **Indian Banks, resurgent, strong, capital healthy, tech oriented and adopting best global practices look confident and ready to front lead the aspirations of this new India and the aspiring Middle Indian class as it is more about the mentality that best defines the Middle-Income Class on the move...**

Analysing IT Returns for insights in emerging trends

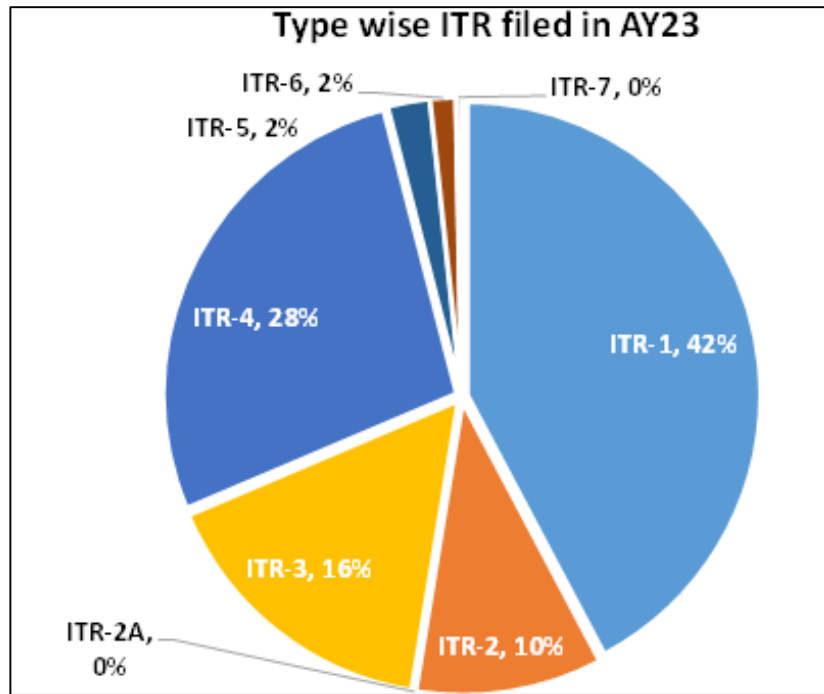
- ❑ Data has been taken from Income tax Dashboard (<https://www.incometax.gov.in/iec/foportal/>)
- ❑ Data considered here is taken from March 2012 to March 2023 for AY12 to AY23. i.e ITR filed during 01/04/2011 to 31/03/2012, 01/04/2012 to 31/03/2013,and 01/04/2022 to 31/03/2023
- ❑ For AY 24, ITR wise and State wise break ups are not available, so that AY 24 is not considered for State wise and ITR type wise analysis
- ❑ As per World Bank estimate, 161 crore population is estimated for India at FY47
- ❑ As per UN working age population (15-64 years) is expected to peak in 2040 and decline thereafter. Close to 22% workforce is projected to be engaged in agriculture in FY47
- ❑ Workforce engaged in activities other than agriculture is considered as workforce with taxable base /Taxable Workforce

ITR filed continues to increase with more discipline: Estimated tax filers for AY24 could top 85 million....

- Total income tax returns filed during AY23 increased to 78 million from 73 million in AY22. Of these, total 58 million or 75% 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 25% in AY23
- For AY24, 68 million ITRs have been filed by the due date and another 18-20 million returns are expected to be filed in the remaining financial year till Mar'24, thereby taking the total number close to/over 85 million / ~37% of formalized labor force**
- For AY24, we believe the share of IT returns filed after due date may drop to around 20%. 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**

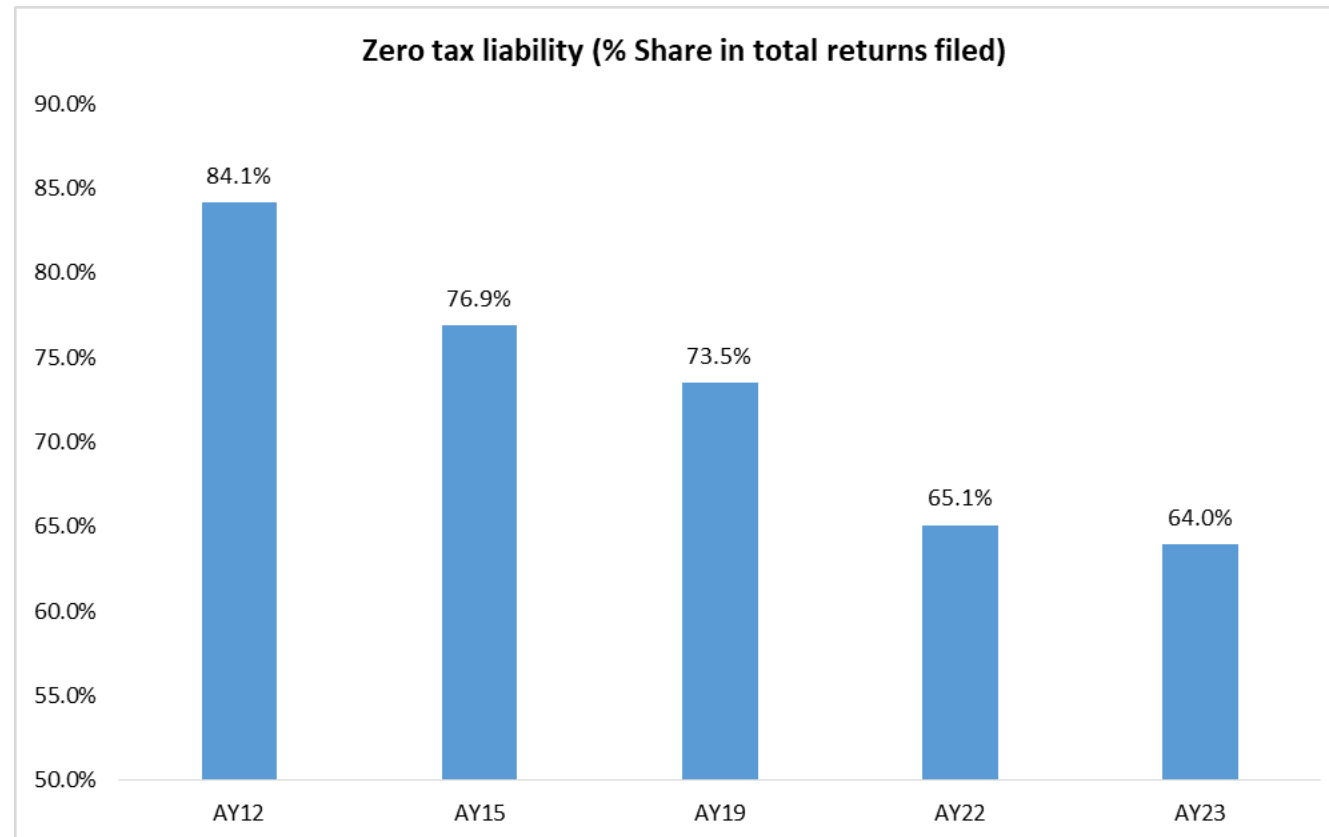


- Comparing the type wise ITRs filed, AY23 witnessed an increase in filing of ITR-2 to 10.3% from 8.6% in the previous year. ITR-1, ITR-3 and ITR-4 constituted 42.3% (43.4% in AY22), 16.1% (16.5% in AY22) and 27.4% (27.4% in AY22), respectively in AY23
- In the current year, AY24 as per the break-up available for **13.6 million returns** maximum or 55% are ITR-1, followed by 29% ITR-4 and 8% ITR-2 and 7% ITR-3. If we go by the previous year trends, the lower share of ITR-3 filed so far indicates that people with business income constitute the maximum among those who file the returns late (with fine)

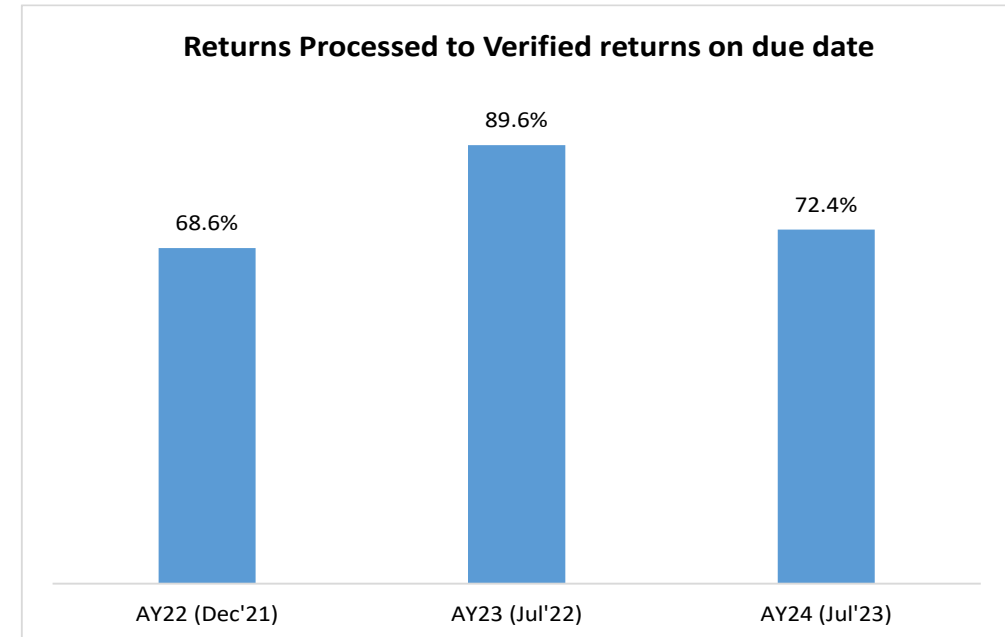
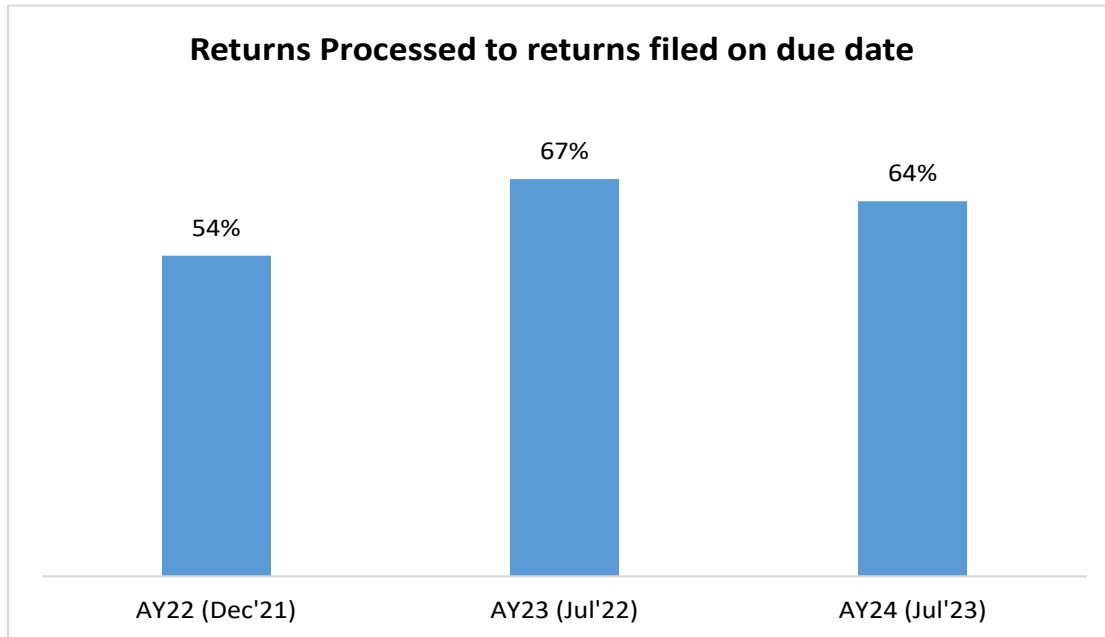


Different types of ITRs		
ITR type	Filed by	Income and its source
ITR-1	Resident individuals/HUF	Income ≤ 50 lakhs, salary, pension, one house property
ITR-2	Resident individuals/HUF	Income > 50 lakhs, capital gains, more than one house property, foreign income/foreign asset, crypto income
ITR-3	Individual 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)	-

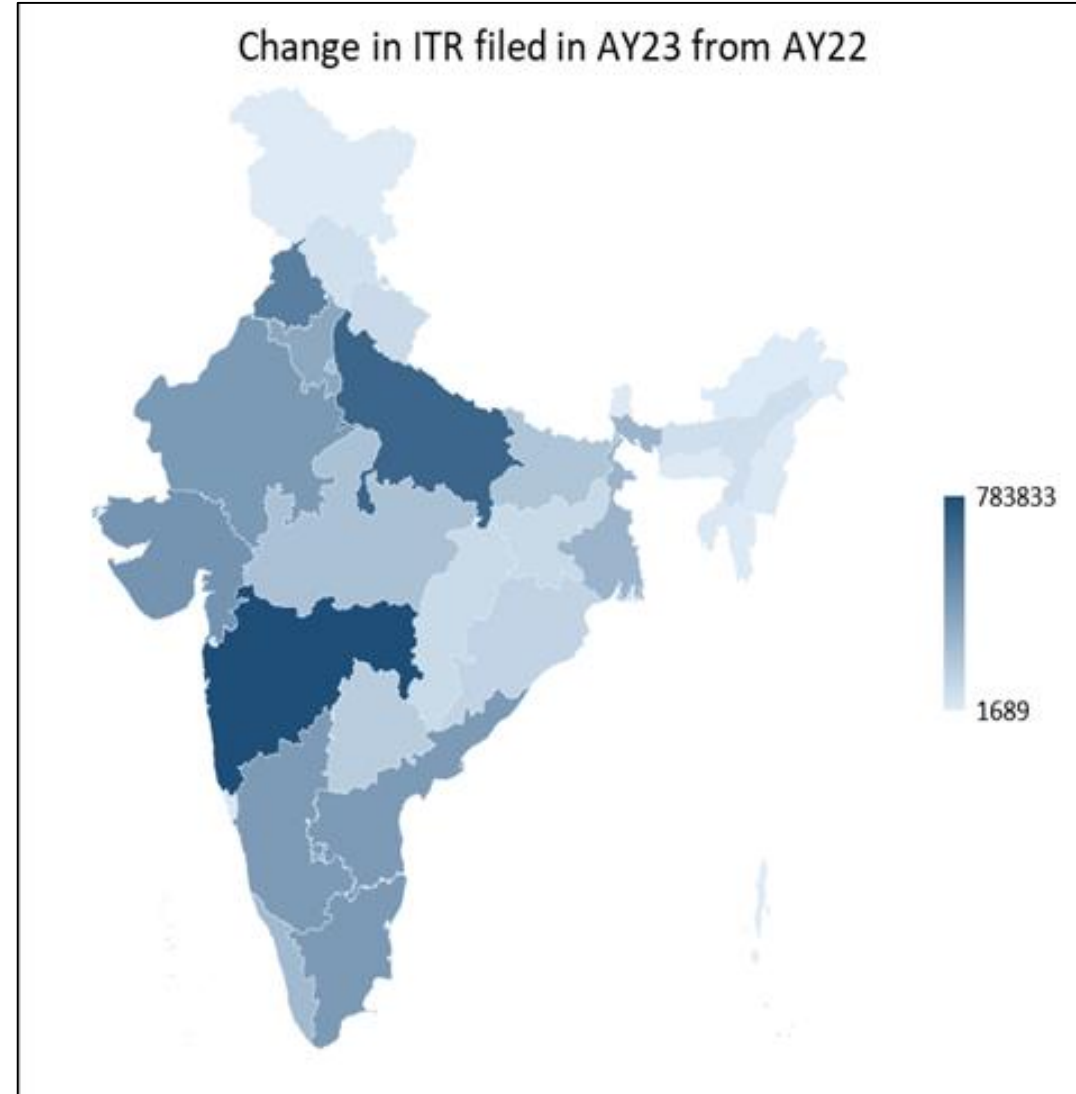
- There has been a material decline in zero tax liability, their share in total returns filed has declined to **64% in AY23** from **84.1% in AY12**....Juxtaposing the same against buoyancy in tax filing numbers witnessed in recent years and calibrating with migratory patterns emerging as mass of the working population seeks befitting opportunities across the latitude of the vast country could help policy makers in formulating next level measures as the economy gears up to take the leap of faith.....



- The returns processed as a ratio of returns filed by the due date has also increased significantly. In AY22, 59 million returns were filed by Dec'21 (due date) and of this 32 million (54%) were processed by that date. In AY23 of 68 million returns that were filed by Jul'22, 43 million (64%) were processed by the due date. In AY24 of 68 million returns that were filed by Jul'23, 43 million (64%) were processed by the due date. The fair and simplified process, with guaranteed efficiency of the architecture is a Confidence Building Mechanism (CBM) indeed, prompting the borderline populace to shed the earlier mindset (when taxes filings were more of a 'necessary burden' for many) and be aligned with a 'Nation First' mentality to declare income from all sources as PAN has been declared as a common identifier for all digital systems...Linking of Pan with Aadhar should ensure a smooth transition towards this goal to connect policy initiatives with digital rails optimally
- Returns processed (43 million) as percentage of verified returns (60 million) is also at a high level of 72% in AY24



- ❑ State wise ITR filed during AY23 shows that Maharashtra, Uttar Pradesh, Gujarat, Rajasthan and West Bengal are the top 5 states. These states constitute ~48% of the total income tax returns filed in AY23
- ❑ Overall, there have been 64 lakh more ITRs filed in AY23 over AY22, with the maximum increase registered in Maharashtra followed by Uttar Pradesh, Punjab, Gujarat, Rajasthan
- ❑ 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**

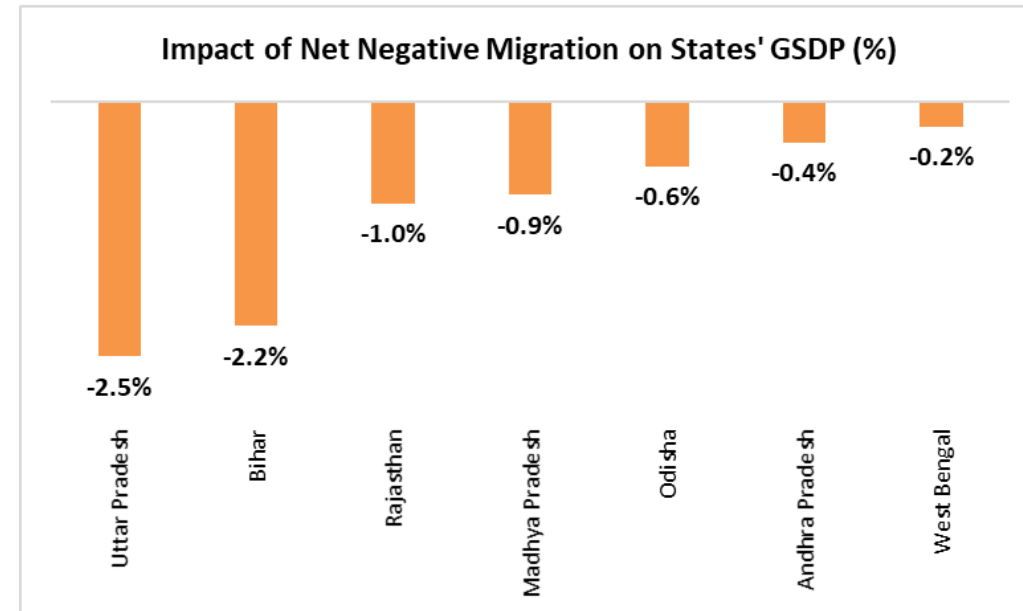
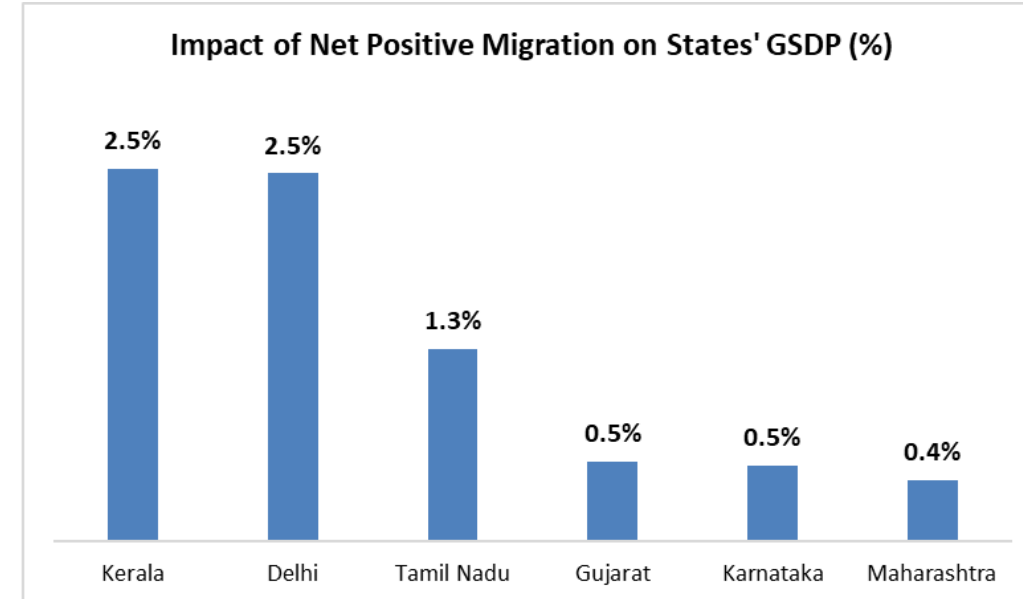


- ❑ Change in ITR filed during AY23 vis-a-vis AY15 shows that Maharashtra, Uttar Pradesh, Gujarat, Rajasthan and Tamil Nadu are the top 5 states. These states constitute 46% of the change in income tax returns filed during AY23 and AY15
- ❑ Overall, there have been 481 lakh more ITRs filed in AY23 over AY15, and 100 lakh more ITRs filed in AY23 over AY20 with the maximum increase registered in Maharashtra followed by Uttar Pradesh

Change in ITR filed (Lakhs)		
States	AY23- AY15	AY23- AY20
Maharashtra	64	14
Uttar Pradesh	52	13
Gujarat	42	9
Rajasthan	34	8
Tamil Nadu	29	4
West Bengal	29	5
Punjab	25	6
Andhra Pradesh	23	18
Karnataka	22	3
Madhya Pradesh	21	5
Haryana	20	4
Bihar	19	6
Delhi	18	3
Kerala	14	3
Telangana	11	-12
Odisha	10	2
Jharkhand	7	1
Chhattisgarh	7	1
Assam	6	1
Uttarakhand	6	0
Jammu & Kashmir	4	1
Himachal Pradesh	4	0
India	481	100

How Migration impacts States GSDP...NOT a zero sum game: an example of cooperative federalism...

- Among all the major states in India, six states (Delhi, Tamil Nadu, Kerala, Gujarat, Karnataka and Maharashtra) have net positive migration. We endeavored to find out the contribution of migrant in these states' GSDP. **Basis our analysis, migrant population contributed 0.5-2.5% of GSDP in individual states, with cumulative addition of ~7.8% of GSDP (~Rs 15 lakh crore)**
- Interestingly, the entire increase in State's GSDP in 6 net positive migration state (i.e., 7.8% of GSDP) is almost equal to the decline in GSDP in 8 net negative migration states (7.7% of GSDP)
- While the migratory pattern needs to be studied with latest data to reinforce the findings, we believe the positives of the migration through collaborative pitching of the idea of federalism, and redistribution of efficient skilling far outweighs the loss in select states' GSDP (plus, the remittance remuneration!)



Among the top six states where most ITR were filed in AY23, three states exhibited net positive migration and three (UP, Rajasthan and West Bengal) exhibited net negative migration. The net negative migration from these three states indicates that their share of 22% in total ITR filed does not present a true/correct picture of state of affairs as the place of work of people migrating from these states are different

Thus, we believe that current address on Aadhaar card may be linked to the ITR returns filed as the same might be more accurate and present the place of working of individuals and thereby divulge changing income/migration patterns: Alternatively, there could be an independent capture in IT returns regarding the current place of work

Impact of Migration on State-wise ITR filed		
State	Net Migrants in 20-29 cohort, 2001-2011 (in lakh)	Share in total IT Returns filed
Maharashtra	5.1	15.4%
Uttar Pradesh	-58.3	9.7%
Gujarat	3.4	9.7%
Rajasthan	-7.9	6.5%
West Bengal	-2.4	6.2%
Tamil Nadu	10.1	6.2%
<i>Memo: Share of IT Returns in:</i>		
States with Net Positive migration		31.3%
States with Net Negative migration		22.4%
Source: SBI Research		

The large increase in tax filers is also a result of increasing formalization through efforts in expanding GST database: How UDYAM is propelling ITR filing of MSMEs

- Following the adoption of the revised definition of Micro, Small and Medium Enterprises (MSMEs) on 26 June, 2020, which is based on investment in plant & machinery or equipment; and turnover, the Udyam Registration Portal was launched on 1st July 2020. Since then, around 22 million micro small and medium enterprises have registered on the Udyam portal (including Udyam Assist Platform)
- We mapped these state-wise Udyam registration with ITR filed in respective states. We believe (based on our findings) that these 21.8 million MSMEs have also helped in increasing tax filing base in India, which has increased by ~10 million to 78 million in last 4 years. The top 5 states that accounted for 60% of total incremental increase in ITR filing, also accounted for 45% total Udyam registration, supporting our contention. This indicates **formalization of MSME units on a larger scale driven by innovative measures and contribution by all stakeholders...**

Relationship between ITR filed and Udyam & GST Registration (in lakh)			
Major States	Change in IT Returns filed during AY23 over AY20	Udyam Registration as of now	GST Registration
Andhra Pradesh	18.3	6.6	4.1
Maharashtra	13.9	40.6	16.9
Uttar Pradesh	12.7	18.6	18.2
Gujarat	8.8	16.6	11.5
Rajasthan	7.9	16.4	8.5
Bihar	6.2	9.1	6.1
Punjab	6.2	7.9	3.9
Madhya Pradesh	5.4	10.3	5.2
West Bengal	5.1	7.3	7.2
Haryana	4.4	7.4	5.1
Tamil Nadu	3.9	22.7	11.2
Kerala	3.3	5.3	4.0
Karnataka	2.8	12.8	9.9
Odisha	2.4	4.7	3.2
Assam	0.8	3.2	2.2
Jharkhand	0.7	3.8	2.0
Chhattisgarh	0.5	3.0	1.7
Uttarakhand	0.2	2.1	2.0
Himachal Pradesh	0.2	1.2	1.2
Telangana	-11.7	7.1	5.0
India	100.2	218.7	140.9

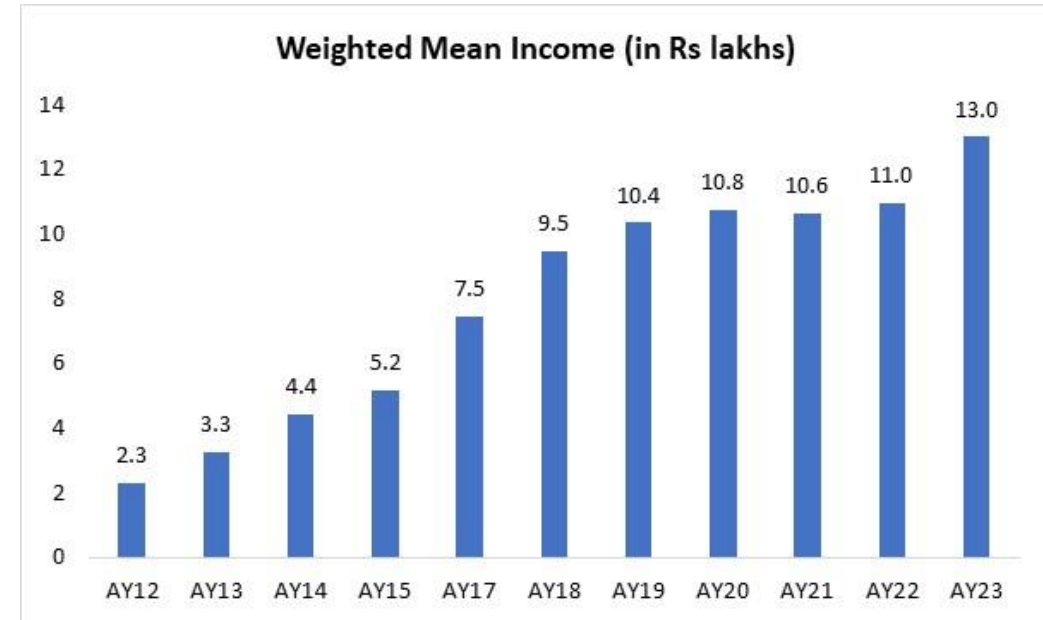
Source: SBI Research

Power of Middle-Class during Amrit Kaal

"A healthy middle class is necessary to have a healthy political democracy. A society made up of rich and poor has no mediating group either politically or economically."

— Lester Thurow

- ❑ Based on the gross income data of ITR, we have calculated weighted mean income for each assessment year, assuming that most of the people are earning incomes around weighted mean income
- ❑ **Weighted mean income of Rs 4.4 lakh in AY14 has increased to Rs 13 lakh in AY23**
- ❑ One of the major reasons is transition from lower income group to upper income group
- ❑ Other reason is buoyancy in the number of tax-filers who were earlier not reporting income
- ❑ If cases of non-reporting and under-reporting of income can be controlled, there will be significant jump in the weighted Mean Income of the ITR filers



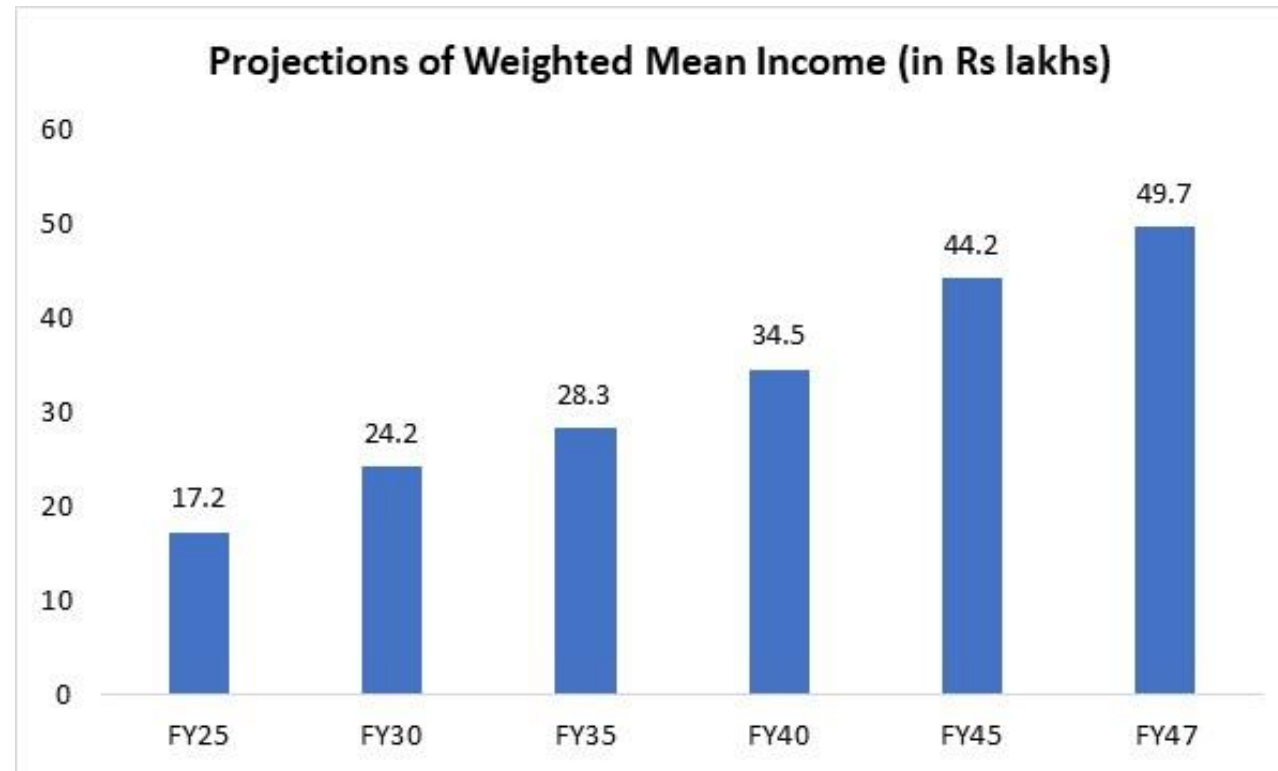
❑ **Weighted Mean income** =
$$\frac{\sum_{i=1}^6 w_i n_i}{\sum_{i=1}^6 w_i}$$

i represents each income bracket

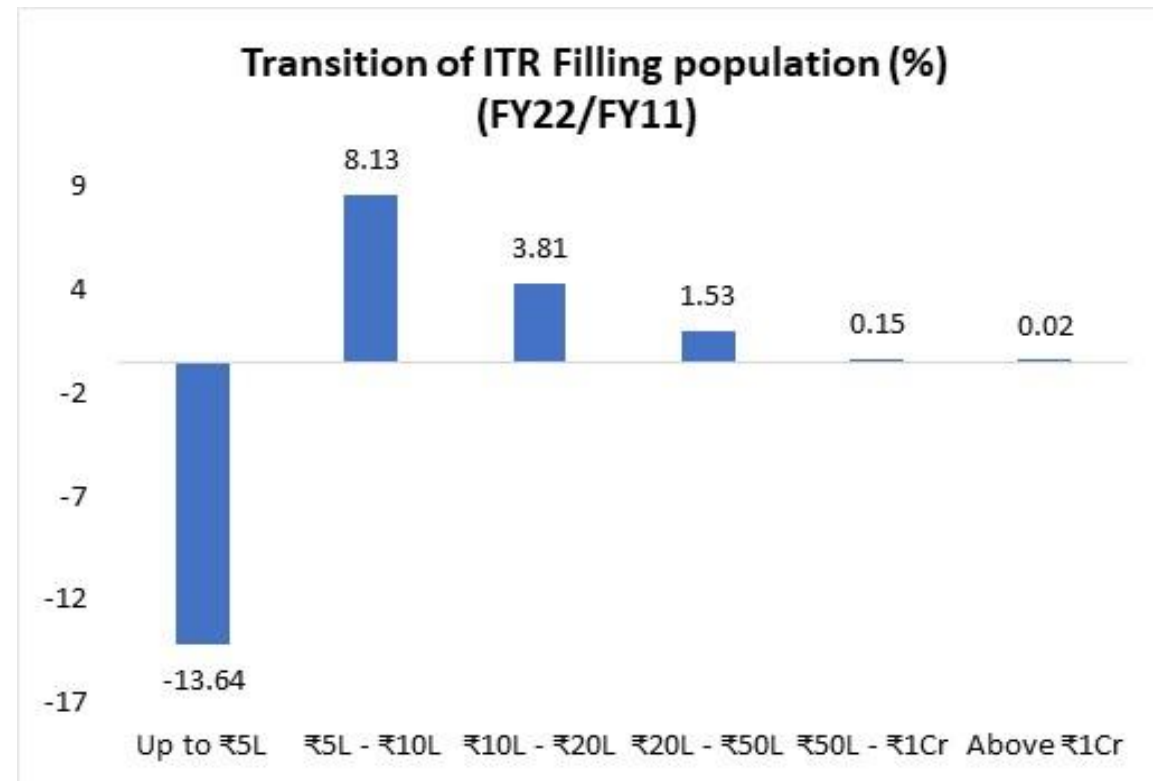
n_i is number of people in each income bracket

w_i is weight of each income bracket. Weight is considered as mid-point of each income bracket except for upper most bracket, wherein we have taken 2 crore as mid-point
 Dynamic weights for upper most brackets are used for projections till FY47

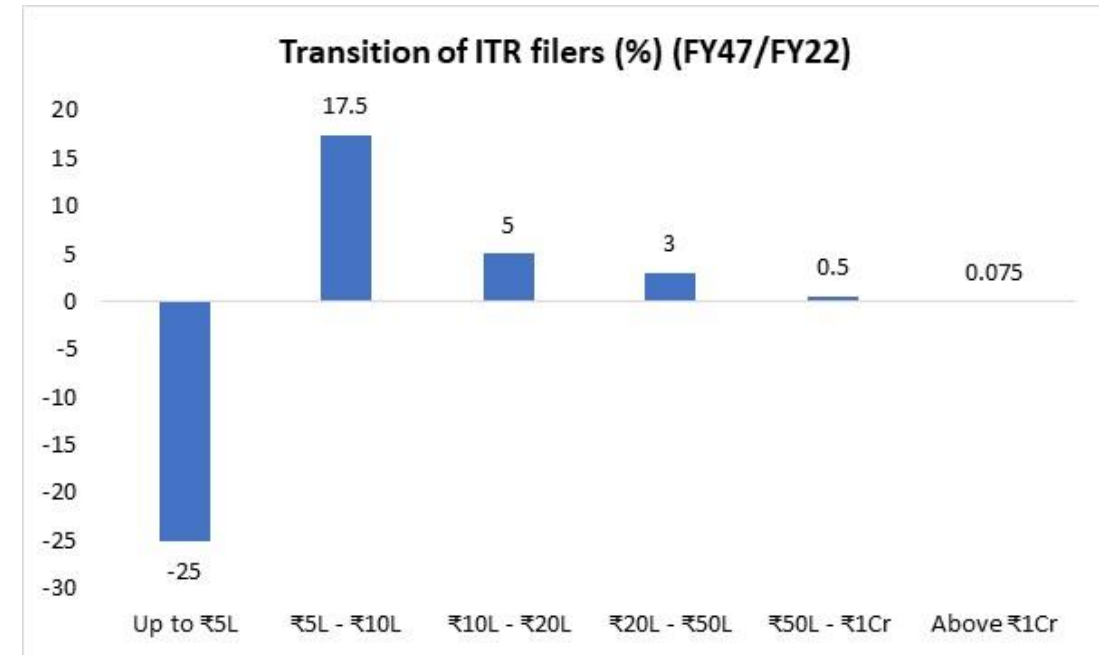
- It is projected that weighted mean income is expected to increase from Rs 13 lakhs currently to Rs 49.7 lakhs in 2047, particularly due to increase in number of tax-filers, as also due to shifting of distribution of tax-filers from lower income group to upper income group



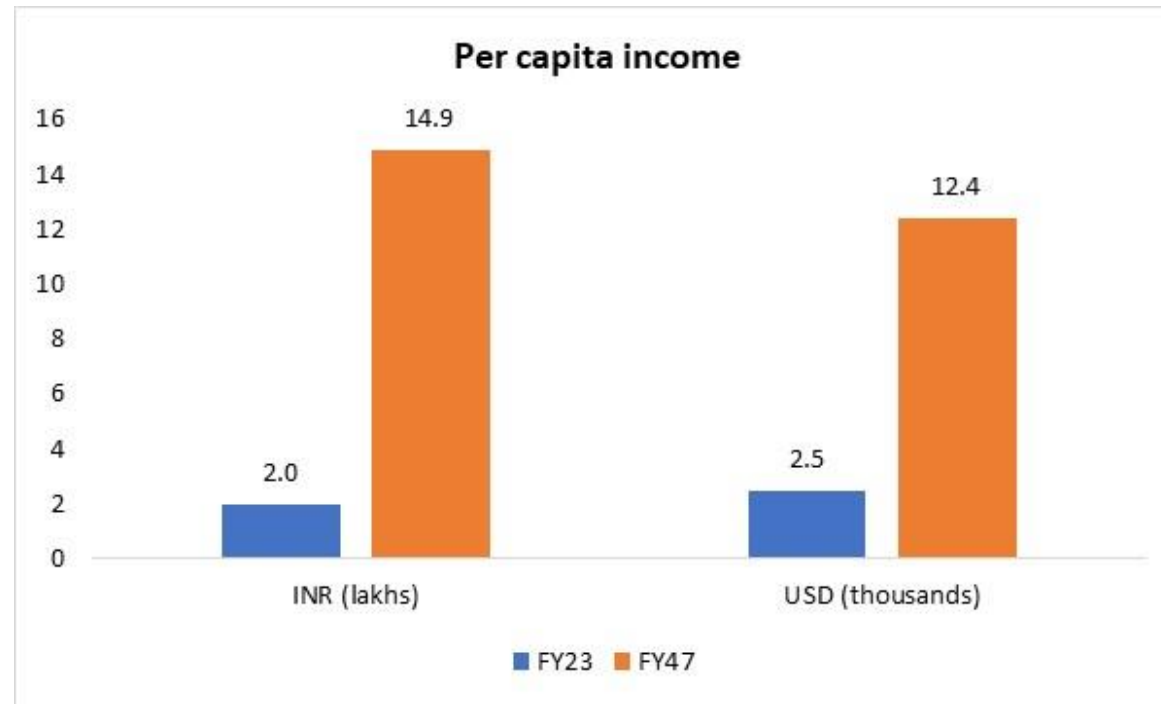
- ❑ In Assessment Year (AY) 2011-12 (FY11), 16 million people filed ITR with maximum concentration of 84% population belonging to income group of up to Rs 5 lakhs
- ❑ In AY23, 68.5 million people filed ITR with maximum concentration of only 64% population still in the income group of up to Rs 5 lakhs
- ❑ **Inter-alia, 13.6% population has left the lower income strata and migrated upwards in AY23 in comparison with AY12**
- ❑ 8.1% population has increased in the income group of Rs 5 lakh - Rs10 lakh, 3.8% population has increased in the income group of Rs10 lakh - Rs20 lakh, 1.5% population has increased in the income group of Rs 20 lakh – Rs 50 lakh
- ❑ 0.2% population has increased in the income group of Rs 50 lakh - Rs1 crore, while close to 0.02% population has increased in the income group of above Rs 1 crore



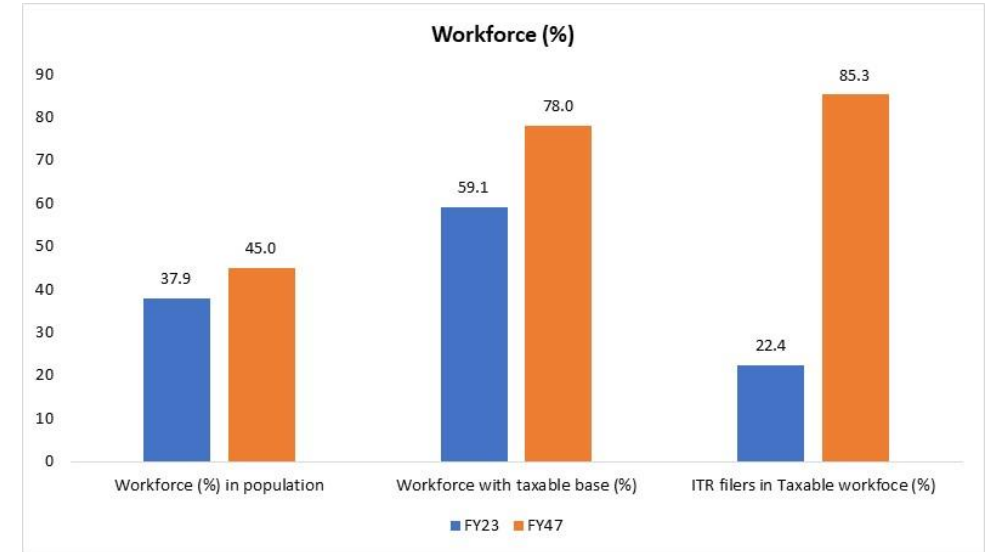
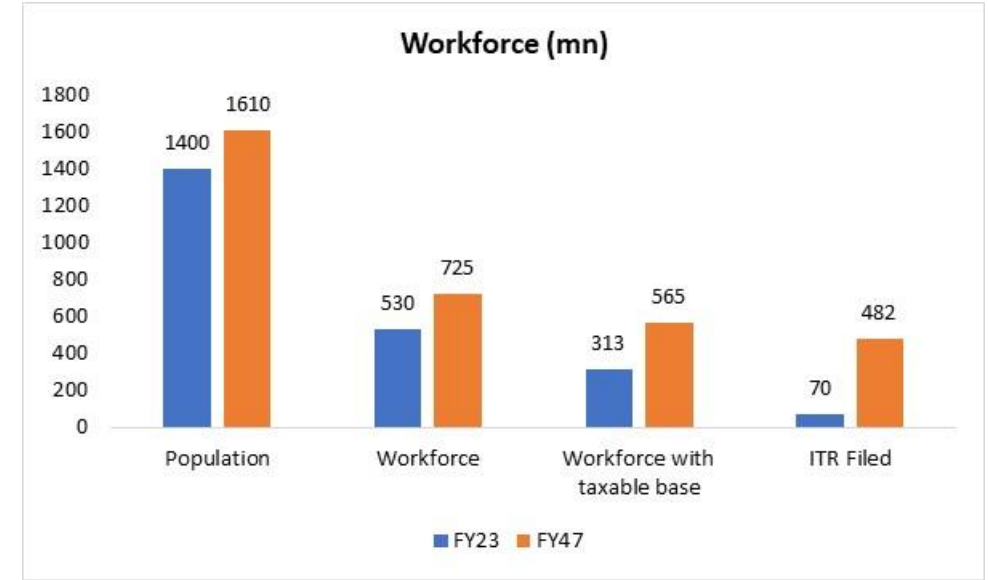
- 25% of ITR filers are expected to leave the lowest income strata by FY47, with around 17.5% filers expected to shift to income group of Rs 5 lakh – Rs 10 lakh, 5% expected to shift to income group of Rs 10 lakh – Rs 20 lakh, 3% expected to shift to income group of Rs 20 lakh – Rs 50 lakh
- 0.5% of filers are expected to shift to income group of Rs 50 lakh – Rs 1 crore, and 0.075% to income group of above Rs 1 crore by FY47



- ❑ Per capita income is expected to increase from Rs 2 lakh in FY23 to Rs 14.9 lakh in FY47
- ❑ In USD, it is expected to increase from **\$2500 in FY23 to \$12400 in FY47**



- Indian population is expected to increase to 1610 million in FY47 from 1400 million in FY23
- Correspondingly, our workforce is expected to increase to 725 million in FY47 from 530 million in FY23, increasing the workforce share in population from 37.9% in FY23 to 45% in FY47
- Workforce with taxable base is expected to increase to 565 million in FY47 from 313 million in FY23, increasing its share from 59.1% in FY23 to 78% in FY47
- ITR filers are expected to increase from 70 million in FY23 to 482 million in FY47, increasing its share in workforce with taxable base from 22.4% in FY23 to 85.3% in FY47

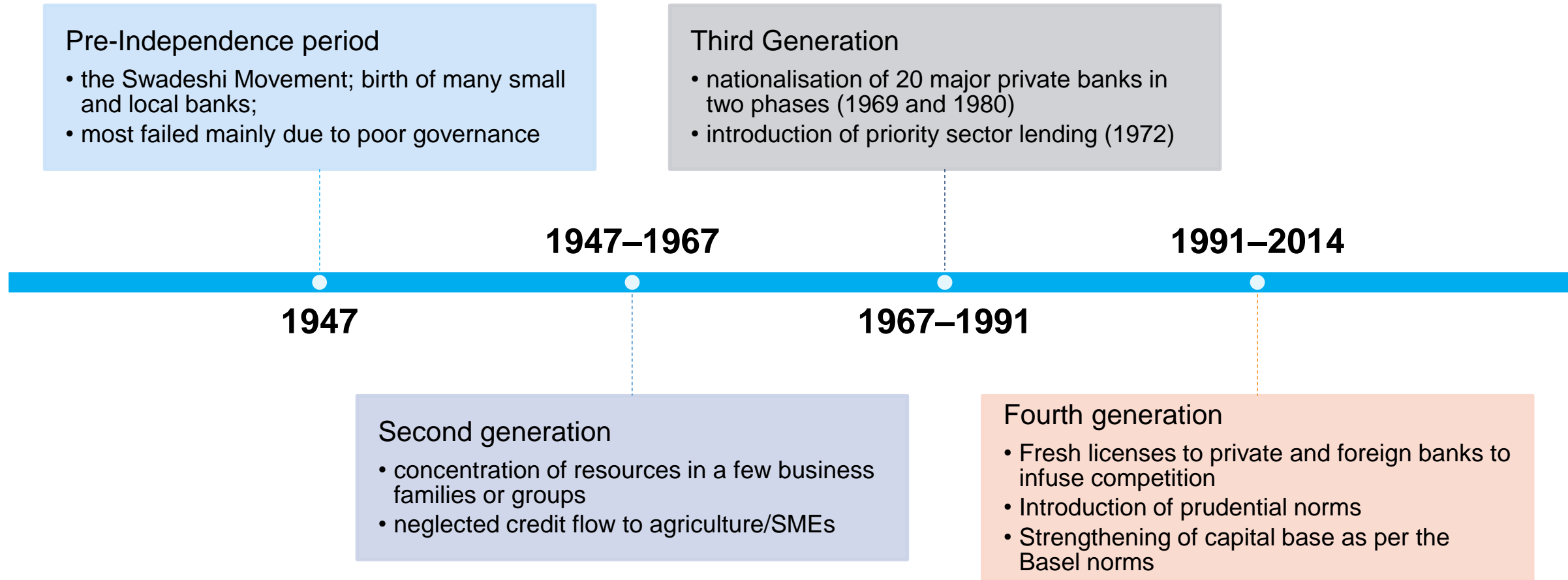


Way Forward

ITR Filing in multiple languages....

- ❑ As announced in the Union Budget this year by Finance Minister, PAN is proposed to be used as **common identifier** for all digital systems of specified government agencies, helping in further promoting ease of doing business
- ❑ The changing local diaspora, high on innovations and technology, educational qualifications, skill sets and laced with a can-do attitude is showing new patterns of migration in pursuit of befitting / better rewarding opportunities across the land file of the nation which can be better captured through harmonising the PAN-Aadhar data further
- ❑ We understand the middle class on the ascent in India is more forward looking than what many corresponding research have been able to capture in toto and displays a state of mind filled with abundant hope and thus may warrant new definitions as it displays a unique state of flux, leveraging the emerging opportunities as the economy gets formalized and share of the gig economy rises, displaying a 'on the move' characteristic
- ❑ While ITR filers do have to give an undertaking while filing returns that have column for place (where the declaration is being made), the migratory characteristics of a huge population block (mostly skilled as of now but the share of partly skilled/unskilled too should grow handsomely going forward as tax filing gets enhanced adoption/acceptability) **warrant dynamic capture of place through various attributes (place of domicile/place of permanent residence/place of work) which could throw interesting and useful insights into the growing tax filers base, the socio-economic implications and integration of various welfare schemes**
- ❑ **On a lighter side, enabling ITR filing in multiple languages of the land and ingraining AI led assistance could push the architecture to the door-step of many who might be a bit skeptical of the process despite its recent simplification**

Annexures: How the Banking Sector could act as an enabler in India's current transformation



Key Banking Indicators

Parameters		FY14	FY20	FY23	FY23 over FY14 (Times)
Credit Growth	(Rs Trn)	60	103	138	2.3x
	(YoY%)	13.9	5.1	15.9	
Deposits Growth	(Rs Trn)	77	136	187	2.4x
	(YoY%)	14.1	7.9	10.2	
Net Profit	(Rs Bn)	809	109	2480	3.1x
CRAR	%	13.0	14.8	17.1	--
GNPA Ratio		3.8	8.3	3.9	
NNPA Ratio		2.1	2.9	1.0	
PCR		44.7	66.2	74.0	
Return on Assets (RoA)		0.8	0.1	1.1	
Return on Equity (RoE)		9.5	1.2	12.3	
NIM		2.7	2.9	3.7	
Source: RBI					

	2014	2023
Total Number of Banks/FIs in India	12175	9588
<i>of which, PSBs</i>	27	12
Private Banks	20	21
Foreign Banks	43	45
Small Finance Banks	-	12
Payment Banks	-	6
RRBs	56	43
NBFCs	12029	9443
Total Branches	123277	162901(1.3x)
ATMs	160055	219440(1.4x)
Financial Inclusion (Number of PMJDY a/cs in Million)	-	491

Consolidation leads to bigger and stronger Banks/FIs (12 PSBs)

New type of Banks opening new vistas for customers on the periphery

Consolidation leads to more profitable non-Bank players in synergy with Banks

Biggest Financial Inclusion plan in the world to bring the unbanked under ambit of Banking and Social Securities



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