

# A large number of people outside the tax net: a study on the street vendors in Kolkata

Sayan Banerjee, Dr. Partha Pratim Ghosh

*Department of Commerce, St. Xavier's College Kolkata*  
bsayan3597@gmail.com, drppghosh@gmail.com

## Abstract

**Objectives:** To understand the modus operandi of the street hawkers and analysing the impact of these operations on the revenue of the Government due to non-payment of taxes.

**Methods/Statistical analysis:** The study is prepared using primary data. The methodology followed is by conducting survey of 200 street hawkers from 8 prominent street hawker markets of Kolkata by way of predefined questionnaires which included quantitative questions. The statistical tool used to analyse the data are pie charts, histograms and arithmetic mean. The primary assumption taken is that the data is uniformly distributed thus arithmetic mean could be applied appropriately.

**Findings:** The study addresses the issue of government revenue loss due to the power conferred by the Income Tax Act to the persons earning income from Business and Profession. The street hawkers are perceived to have very low income but to the contrary of popular believe a significant section of the street hawkers earn more than basic exemption limit of Income Tax. However these street hawkers never pay taxes or file return thus these incomes are never reported consequently leading to huge revenue losses to the government. The revenue loss of the government is on account of 3 heads: Income Tax, Indirect Taxes and Licensing fees, this revenue is distributed among the state and the central government. The other issue resolves around the rampant corruption associated with the street hawkers operations, as per the findings of the survey it was found that around 1-2% of the total revenue of the street hawkers is paid to police or government officials and political leaders to be allowed to operate on the streets.

**Application/Improvements:** To minimise the revenue loss the Government can implement the Presumptive Taxation Scheme for Income Tax and Composition Scheme for Indirect Taxes for the street hawkers on turnover.

**Keywords:** Street Hawkers, Tax, Government Revenue.

## 1. Introduction

Street vending is an important source of self-employment in India where the organised sector including both public and private initiatives cannot employ the entire working population and a significant part of it is still tapped into the unorganised sector. As per our primitive understanding, the street hawkers comprises of people from the poorer regions of country coming to cities to earn a livelihood to support their families back in the villages. However, little do we notice that this unorganised industry is blooming, even famous businessmen like Gulshan Kumar of T-Series has his humble beginning rooted in street vending. The street vending economy has been a silent means of upward mobility in our society which we often overlook.

These operations provide a vital link between the producer and the consumer connecting the two in a cost efficient manner. As per the National Policy for Street Vendors, approximately 2.5% of the urban populations are engaged in street vending and hawking. This amounts to approximately one crore street vendors at least, with a turnover upwards of Rupees 1100 per day per vendor, the industry size is a whopping ₹1100 crores per day. The operations of the street vendors are governed by The Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act, 2014 ('the Act' or 'TSV Act').

According to the Act the definition of street vendors is as follows “A Street Vendor is defined as a person engaged in vending of articles, goods, wares, food items or merchandise of everyday use or offering services to the general public, in a street, lane, side walk, footpath, pavement, public park or any other public place or private area, from a temporary built up structure or by moving from place to place and includes hawker, peddler, squatter and all other synonymous terms which may be local or region specific; and the words “street vending” with their grammatical variations and cognate expressions, shall be construed accordingly.”

The TSV Act provides for set guidelines governing the operations of the street vendors in the city. The guidelines include setting up of a Town Vending Committee which in turn will identify specific vending and non vending zones in the city. The committee shall also be responsible for issuing of registration cards to the street vendors which will be required to be renewed against payment of nominal fees. As per the Act, the street vendors can be classified into three broad categories, Stationary, Mobile and other vendors. The vendors are further expected to full fill certain obligations and they are also entitled certain rights. Some of their rights and obligations include use of public amenities to operate their business also maintain the same in good condition, having designated areas to operate their business without hindrances, specific timings for operation and right to relocation in the event of reclassification of designated vending zones.

## 2. Objectives

The street hawkers form a sizeable section of the society and essentially are significant contributors to the unorganised sector of the economy. The objective of this study is to obtain an understanding of the modus operandi of the street hawkers; analysing the impact of non-payment of taxes by the street hawkers on the revenue of the Government and the economy.

## 3. Methodology

The methodology followed in gathering the data for further analysis is by way of conducting survey of the street hawkers with a sample size of 200 respondents spread across several reputed hawker markets of the city of Kolkata. The survey was conducted in Shova Bazar, Shyam Bazar, Hati Bagan, Park Street, Belgachia, Dum Dum, Nager Bazar and Dalhousie market areas of Kolkata. The data from secondary sources have also been referred to in terms of various census data released by the government from time to time and also the rate and slab of various taxes and fees levied by the government on similar fixed establishment mainstream business concerns. Further, the study is subject to certain limitations which may require attention, the sample size is limited to 200 respondents due to time crunch and scattered nature of their operations, larger sample would have resulted in more inclusive and comprehensive results. Since the operations of the vendors is unstructured the responses are on an estimation basis in respect to various quantitative questions, and the respondents were asked for certain sensitive data like the amount of bribe they pay to the local authorities for their operation in response to which certain respondents might have manipulated their responses.

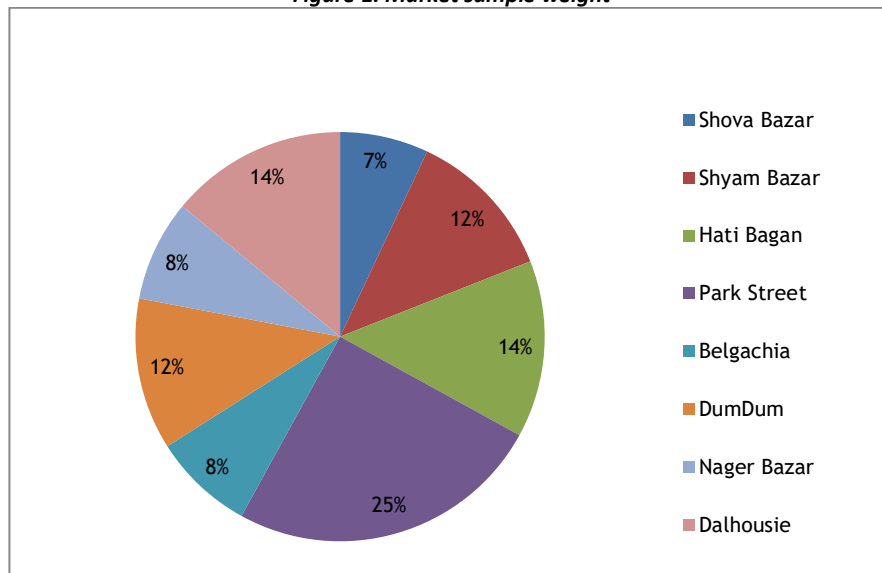
## 4. Basic analysis

### 1. Survey data analysis

The survey has been conducted in the streets of Kolkata and the sample of choice to a practicable extend have been kept to resemble the homogenous population of all street vendors in Kolkata region. The survey was conducted during the month of March, 2018. The markets under study are given below and the percentage of weight of each market on the total survey in Figure 1. The sample comprises of three categories of business operations: food vendors 49%, garments vendors 16% and other vendors 35%. Primarily the most common form of street vending business is that of food businesses, and the next most common is garments while others like flowers, accessories toys etc. comprises of the rest of the market. The respondents ranged from 1 year since start of business to as high as 68 years of operation. The period since start of operation determined their stability in market and the bargaining power of vendors with the authorities. It was found that the longer a vendor has operated the more secured they were about their operation in the streets.

As per the regulations of TSV Act, a vendor should not occupy the streets and operate beyond 12 hours in a day but the committee was empowered to decide the exact timing details. The street vendors in sample data mostly operated less than 12 hours on an average around 85% and only a small section of them operated beyond 12 hours that is 15% comprising mostly of food stalls and tea stalls. The street vendors not only provide self-employment to the owners but they also generate employment for semi-skilled and unskilled daily labourer. In the sample under study approximately 76% of the vendors employ up to 2 labourers with an average daily wage of ₹250. The street vendors on being asked whether they have to incur any non-business expenditure in the form bribes to the cops or the local authorities or the political leaders of the locality, around 70% of them responded positively. The payments ranged between ₹10 per day to as high as ₹1200 per week, whereas the average non business expenditure amounted to ₹301.10 per week. It was found that more than half of the non-business expenditure incurred by the respondents were paid to the police and only in a selective few areas payments to the political parties or local authorities were required.

Figure 1. Market sample weight



The business operation of the street vendors is largely unorganised hence extracting the operating figures have been difficult and the vendors themselves have been able to provide an estimate of their respective operation. The vendors on an average incurred an equivalent of ₹2100 per day operating expenses and their average sales for the day amounts to ₹3800 per day. The vendors dealing in garments and other non-food items usually had a higher turnover whereas the food vendors had a lower turnover. One of the interesting findings is that the highest turnover recorded during the survey period from the sample amounts to ₹14,000 per day for a food vendor, ₹13,000 per day for garments vendor and Rupees 12,000 for others category vendor. Based on the data obtained it was found that the average annual income of the vendors amounted to ₹ 6.5 lakhs, the highest being ₹20.07 lakhs and the lowest being ₹1.01 lakh. Almost three quarters of the street hawkers under survey reported an annual income higher than the minimum exemption limited as per income tax laws.

The other aspects of the operations of the street hawkers under review were their legality issue. The majority of the vendors reported that they had permission for their operations, whereas in reality none of them actually possessed a valid permission to operate. The interesting finding here is that these vendors have formed their own unions which have overtime become significantly influential and they negotiate with the local authorities and the police. It was observed that no street hawker had trade license to operate and only 9 of them had trade license only because they had fixed shops which were extended illegally to the footpaths. This was also observed that more than 52% of the street hawkers had PAN card but only 2% of them actually filed income tax returns. On being asked whether these street hawker want to pay tax almost 59% of them said they don't want to whilst the rest of them were not really concerned about paying tax.

On further enquiry it was found that a number of these vendors are willing to pay taxes if they are giving proper recognition by the government. The vendors were also enquired about whether their operations were illegal only a small section of them actually felt their operations were illegal whereas most of them said that their object of business was essentially legal.

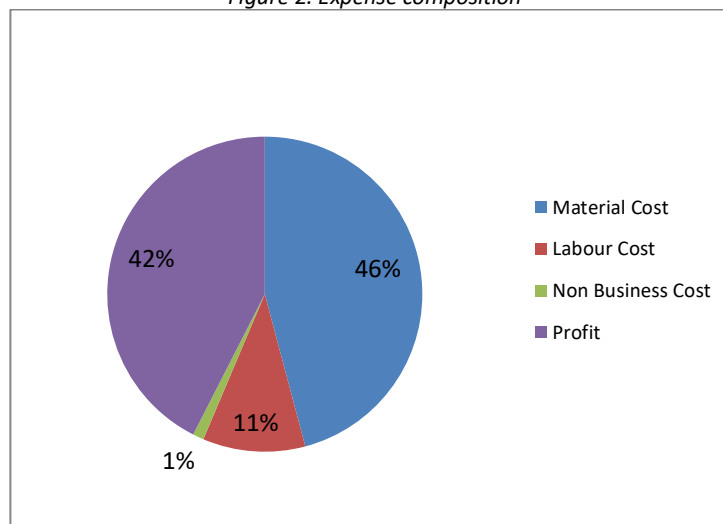
## 2. Modus operandi of street vendor business

The street vendor business is a simple business model requiring a very small amount of working capital thus one of the easiest self-employment options used by a certain section of the society. The cost composition of the vendors as found in the survey comprised of raw material cost, labour cost and non-business expenditure - establishment expenses. The composition of the cost along with their respective share in the total cost structure can be illustrated in the in Figure 2.

It was found from our study that majority of the cost accounts for material cost which is around 46% of total sales. These street hawkers usually employ cheap labourers at minimal wages of ₹200 to ₹300 per day. The labour cost accounts for around 11% of sales. The non-business expenses on an average range between 1-5% of sales. It has been observed that the street hawkers usually have a very high profit margin on sales and that is around 42% of sales.

In order to set up a street hawker stall in any locality the following generalised steps are usually followed: Obtain membership of the Local Union of Street Hawkers and pay the requisite amount of fees as maybe applicable from time to time decided by the members; pay a certain amount of money to the officials like the police or political party in power in the locality; and Set up a stall within the allocated place and start operation.

Figure 2. Expense composition



## 5. Findings of the study

### 1. Projected revenue loss of the government

The average turnover of the street vendors basis the survey findings of the sample data is ₹15,26,503 and the average income of the vendors amount to ₹6,50,231. This makes it abundantly clear that majority of the street vendors earn income which exceeds the minimum limit of income not chargeable to income tax as per the Income Tax Act, 1961. Thus based on this it was found appropriate to project the revenue loss of the government under various heads. The possible basic revenue sources of the government from such street vending operation has been categorised under three heads – Income Tax; Goods & Services Tax; and Licensing fees. The revenue loss of the government is as follows:

**1.1. Income tax**

Though initially it was assumed that the average income of these vendors would not exceed ₹2.5 lakhs threshold limit it was observed that it was significantly higher than this limit. It was found that out of the 200 street vendors in the sample only 36 respondents had income lower than the minimum threshold limit for Income Tax, whereas the remaining 164 respondents had income more than ₹2.5 lakhs. The income distribution of the sample data has been illustrated in Figure 3. Tax liability for the remaining 82% of taxable street hawkers from the sample can be calculated as in Figure 4.

Figure 3. Annual income distribution in sample

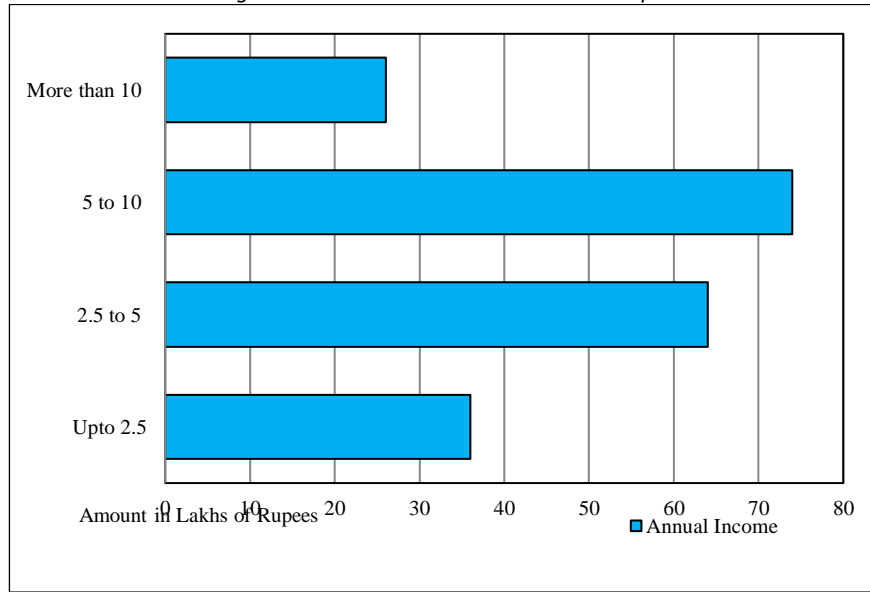


Figure 4. Calculation of Income Tax on the Income of the Sample data

Particulars	Ref.	Income upto Rs. 5 Lakhs		Income from Rs. 5 to 10 Lakhs		Income above Rs. 10 Lakhs	
		Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
In Rupees							
Weightage	A	64		74		26	
Total Taxable Income		2,50,000	5,00,000	5,00,000	10,00,000	10,00,000	20,07,500
Less: Exemption		2,50,000	2,50,000	2,50,000	2,50,000	2,50,000	2,50,000
Net Taxable Income		-	2,50,000	2,50,000	7,50,000	7,50,000	17,57,500
Tax Rate		5%		5%,20%		5%,20%,30%	
Tax Amount		-	12,500	12,500	1,12,500	1,12,500	4,14,750
Add: Cess @ 4%		-	500	500	4,500	4,500	16,590
Total Tax per person	B	-	13,000	13,000	1,17,000	1,17,000	4,31,340
Total Tax (weighted)	C=AxB	-	8,32,000	9,62,000	86,58,000	30,42,000	1,12,14,840
Average Tax (Min & Max)		4,16,000		48,10,000		71,28,420	
Total Income Tax				1,23,54,420			

The above calculation of the taxable income for individual street hawkers, income tax payable, and arriving at the overall revenue loss of the government from income tax head has been done based on certain basic assumption. It was assumed that the data was uniformly distributed and the tax computation has been done without giving effect of any Deduction, Rebate or Exemption available under the Income Tax Act, 1961 apart from the basic exemption of ₹2.5 lakhs for the purpose of simplicity of calculation.

Due to availability of estimate data the arithmetic mean has been adopted between maximum and minimum tax liability at each tax rate slab and subsequently multiplied with the number of individuals falling within the tax rate slab. Based on the calculation it was found that the loss of revenue of Government on account income tax amounts to ₹123.54 lakhs per annum approximately for the sample data.

### 1.2. Goods and services tax

It was observed in the survey analysis that only 20% of the vendors had a turnover above the exempted threshold limit of ₹20 lakhs per annum. Thus in order to find the approximate GST revenue loss of the Government the average turnover for the various sellers is taken and on that amount a flat rate of GST at 1% is applied (assuming all the sellers opt for composition scheme) and multiplied with the number of respondent taxable under GST: There were around 40 street vendors who had turnover ₹20 lakhs per annum. The average turnover for these 40 vendors is ₹37,85,571 per annum. Thus, GST revenue lost on account of Street vendors per annum

$$\begin{aligned} &= 40 \times ₹37,85,571 \times 1\% \\ &= ₹15,14,228 \text{ p.a.} \end{aligned}$$

Thus, the loss of revenue of the Government on account of GST amounts to ₹15.14 lakhs per annum approximately based on the sample data.

### 1.3. Licensing fees

As per the Food Safety and Standards (Licensing & Registration of Food Businesses) Regulations, 2011, the guidelines were laid down regarding the fee structure for the Food Business Operators ('FBO') who are covered under the criteria of a) Registration b) License. The FBOs who are covered under the criteria of license are further categorized for the State and the Central license (however Central licensing requirement arises only when the annual turnover exceeds ₹20 crores, hence the same is ignored). The fee structure for the licensing & registration is as follows:

Fee for Registration (All who fall under the criteria of registration) – ₹100

Fee for State License (Under State Licensing Authority) for Food Vendors and Others Category – ₹2000[1].

Thus, on an average the Government licensing and registration fees for a food vendor is ₹2100 (₹100 + ₹2000). Total fees on 98 food vendors from our survey:

$$= ₹2100 \times 98 = ₹2,05,800$$

In respect to the garments vendors and vendors under other category, based on the KMC rules the average cost of licensing of a small shop on a per annum basis is around ₹3000 to ₹5000[2,3]. Thus, total losses of revenue on account of Non Food street vendor's category for 102 stalls in the survey:

$$= ₹4000 \times 102 = ₹4,08,000$$

Therefore, total licensing fees loss of Government:

$$\begin{aligned} &= ₹2,05,800 + ₹4,08,000 \\ &= ₹6,13,800 \text{ p.a.} \end{aligned}$$

Thus, the Total Revenue loss of the Government on account of the operation of these vendors is as follows:

$$\begin{aligned} &= \text{Loss from Income Tax} + \text{Loss from GST} + \text{Loss from fees \& charges} \\ &= ₹1,23,54,420 + ₹15,14,228 + ₹6,13,800 \\ &= ₹1,44,82,448 \text{ p.a.} \end{aligned}$$

The total revenue loss of the Government on account income tax, goods & services tax and licensing fees for street vendor operation based on the sample data study of 200 respondents amounts to ₹144.82 lakhs per annum approximately.

## 2. Share of revenue loss of the state and central government

The approximate total revenue loss of the government on account of non payment of taxes by the street hawkers is ₹144.82 lakhs per annum as ascertained from the study of 200 samples. The distribution of the share of loss between the State and the Central Government can be illustrated in Figure 5. The share of loss of revenue of the Central Government amount to ₹131.11 lakhs and that of the State Government amount to ₹13.70 lakhs approximately.

Figure 5. Share of revenue loss of the state and central government

Particulars	Central Government	State Government
Income Tax	Rs. 1,23,54,420	-
GST	Rs. 7,57,114	Rs. 7,57,114
Licensing Fees	-	Rs. 6,13,800
<b>Total</b>	<b>Rs. 1,31,11,534</b>	<b>Rs. 13,70,914</b>

## 6. Recommendation

The most effective solution to the issue of street hawkers is the implementation of tax deducted at source model of revenue collection for all expenditure similar to the one followed in Australia along with that the digitalisation of all transaction such that physical currency transaction is replaced with digital currency. This method will be the most efficient method of eradication of non taxed black money and also will form as the means for proper monitoring of transaction in tax perspective by the various revenue agencies of the Government. However, this method requires uninterrupted internet connectively across the country along with a certain level of computer literacy among the population. Thus this method though being the best possible solution seems like a utopian concept at the current state of affairs of the country.

The possible solution to the street hawker problem could be adoption of models similar to the once implemented by the developed Western nations. It is highly recommended that these street hawkers should be issued licenses and the licenses issued should be limited in number much like the city public transport licenses which are exclusive in nature. This will ensure that the number of street hawkers in a city is within acceptable limit which can be revised. The government should also draft rules regarding the portions of the footpath these vendors can occupy and the space they should leave vacant for pedestrians. In respect to the taxation aspect it would be highly effective to introduce schemes similar to Presumptive Taxation Scheme under section 44AD of the Income Tax Act, 1961 wherefore Income Tax would be payable as a percentage of gross turnover of the vendors during the year, since maintaining detailed records is not possible. In the Assessment Year 2017-18 and 2016-17 the rates of Presumptive Taxation Scheme under the said section was 6% and 8% [4-6] of gross turnover respectively. In respect to Goods and Services Tax these vendors could be provided with Composition Scheme. The Government should also implement proper control measure for ensuring strict adherence to these rules and deviations should be penalised. In case these measures are properly implemented a significant part of the Street Hawkers problem in our cities can be solved effectively for a long term.

## 7. Conclusion

The general perception of common people is that street hawkers are extremely poor and that they do not earn enough money is very deceptive. Though there are some street hawkers who are very poor but there is a significant section of Street hawkers who earn more money than an average salaried person, but the irony is that they are never put under the tax scanner and asked to pay taxes.

Through this study the grim picture of the operations of the street hawkers has been projected, these operations in the economy is never acknowledged, recognised or held accountable. The fact is that the turnover and the income of this section of the economy are huge and it is wrong that such huge operations are overlooked at every level of administration. It is the duty of every individual citizen to pay their taxes and when huge sections of the society chronically escape the liability, it shows deep rooted flaws in our system. Further, the disturbing fact is that the administration is aware of such activities and chooses to overlook the same for their personal gains. It is worth noting that the Government officials are particularly not interested to solve the issues with Street Hawkers. On one hand the street hawkers cannot be completely eradicated since they not only form the livelihood of a large number of people, they also provide significant benefit to the society at large. The measures towards complete legalisation of street hawkers could possibly stop the illicit income of the Government officials from these street hawkers, thus the recognition and legalisation of street hawkers are chronically delayed.

The Government should recognize the operations of the Street hawkers and also compel them to pay taxes while making the system more transparent to curb the rampant corruption prevalent. On the other hand, in India according to the Central Board of Direct Taxation released data only 4,98,68,380 income tax returns have been filed during the Assessment Year 2017-18, to put it into perspective this is only 3% of the total population in the country. Among the returns filed during the said year only 85% of the tax payers had disclosed taxable income. Further during the Assessment year 2016-17, only 4,94,87,559. Income tax returns were filed, of which only 81% of the returns had declared taxable income. Thus, it is evident that in our country let along the number of taxpayers actually paying taxes, the number of juristic persons actually filing return of income is extremely poor. Basis the findings of the survey one can observe the magnitude of income that is escaping taxes every year and this only pertains to a small sample from the unorganised sector in the economy. When we consider this trend and factor it with the entire nation one can understand the sheer volume and the gravity of this issue and it is worth noting that this is not only the case with street hawkers but with a significant section of the economy having sources of income under the head income from business and profession. The government must take up significant corrective measures to tap the potential of the nation but more so to bring in tax equity and justice among its citizens.

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