

Indian Tax Structure – An Analytical Perspective

Rajitram Yadav

Shri G.P.M. Degree College of Science and Commerce, Andheri, Mumbai, Maharashtra

Abstract: *All citizens of a country are required to pay taxes. In order to provide the government with resources that enable it to develop policies aimed at economic development as a whole, taxation is an essential tool. Income tax is an important source of revenue and has been used effectively to remove inequalities in the labour market. Different objectives of taxation may move in different directions, each desirable on its own .. A comprehensive and coherent fiscal system should be set up by the state to meet its specific needs and objectives, in such a way as to ensure that they are balanced. The purpose of this Paper is to examine the current tax system in India and recent reforms that have been undertaken.*

Keywords: Direct taxes, Indirect taxes, tax collections, revenue, savings, economy.

I. INTRODUCTION

Historical reasons have led to a tax system that is unorganised, irregular and unpredictable in India. India's alien rulers taxed the people to the benefit of their coffers and also for Royal luxuries of the state. The principal source of revenue in the royal treasury was land. Additional taxes have been introduced ad hoc in the past. There has been little effort to establish a uniform tax system under Britain's rule. The taxes policies of the British provinces were considerably different from those of the native kings.. Following independence, the Indian tax system had been extensively examined and all possible attempts were made to bring it into line with equality, fairness and prosperity, in addition to ensuring enough revenue for administration's financing as well as on meeting needs of Economic Development. The Indian constitution entered into force on 26 January 1950. It is, in its own way, a Federal structure. The states in which this residual power lies in the centre are clearly distinguished from the sources of Union revenue. The Constitution is the supreme law of India, and that's why all laws are based on it. The Union and the Member States shall be entitled to collect and manage taxes pursuant to their constitutions According to Taxation Enquiry Commission, the division of tax powers and distribution of revenue resources between the centre and states can be termed as the 'Tax System'

II. REVIEW OF LITERATURE

Nishant Gauge and Katdare (2015) The amount of revenue collected from different types of taxation over a period of four years was found in the article, "India's Tax Structure: An Analytical Perspective". In his study, it was found that indirect taxes were almost two times as much collected as direct taxes. His study found that structural reforms, rather than policy reforms, should be the focus of government.

Sherline T.I (2016)) in the research paper, " Indian Tax Structure and Relevance of GST" analysed the basic tax structure in India and the relevance of GST. This paper revealed that cascading tax revenues have differential impact on firms in the economy with relatively high burden on those not getting full offsets.

Pramod Kumar Pandey (2017) conducted a study titled, "The Impact of Indian Taxation system on its Economic Growth" to evaluate the impact of both direct and indirect taxes on economic growth of India. The study reveals that there is lack of coordination between the Central board of direct taxes and Central board of Excise and Customs and thus it is highly needed that these two departments must be consolidated into one.

Note:

Nishant Gauge and Katdare, "Indian Tax Structure – An Analytical Perspective", International Journal in Management and Social Science", ISSN: 2321-1784, Vol.03, Issue 09, Sep.2015

Sherline T.I, "Indian Tax Structure and Relevance of GST", International Journal of Commerce, Business and Management< ISSN: 2319-2828, Vol.5, No.6, Nov-Dec 2016.

Pramod Kumar Pandey, "The Impact of Indian Taxation system on its Economic Growth" Scientific Society of Advanced Research and Social Change, ISSN 2349-6975, Vol.3, Issue 1, January-June 2017

Need of the study

Taxation is an instrument of considerable power that has a number of uses, and all advanced states recognized this in the post Second World War era. In addition to its primary aim of increasing revenue, it can serve as the means by which compensation, imports and exports are regulated in order to reduce inequality or speed up development. For the population of India, a well structured tax system is available. The most important source of revenue for the government is taxes. These funds are put to use for different purposes and projects aimed at the country's development. During the last decade, India's taxation system has undergone a great deal of reform. As a result of rationalising the rates and simplifying tax legislation, better compliance with taxes has been achieved, as well as easier taxation payments and more effective enforcement.. As taxation structure plays an important role in country's development, there is always need for study of the taxation structure to make the taxation structure more simple thanearlier.

Statement of the problem

As early as 1917, Prof.Seligman remarked, "the tax reform is every where in air". It is also evident that the need for a reform of the tax system in India has come to light at an early stage, and several committees have been set up over time with regard to different aspects of taxation. The introduction of the Goods and Services Tax in India has brought about structural changes to the indirect tax system. Similarly, a reform of the direct taxation has to be undertaken now. Many problems like multiplicity of taxes, dominance of indirect taxes, adhocism, bias in incidence of taxes, complexity and corruption, imbalance in tax system, lack of coordination, lack of built-in-elasticity, squandering away of resources, administrative inefficiency and corruption show that Indian taxation system requires some major reforms in the future ahead, addressing all these problems.

Objectives

- To study the tax structure in India
- To identify the amount of revenue collected from different types of taxes
- To analyse the revenues from taxable sources and non taxable sources
- To identify the amount spent for tax collection

II. RESEARCH METHODOLOGY

This study is purely based on secondary data. Various figures are obtained from the different websites of Government of India. Other secondary sources include text books, journals, on-line published articles, information from the local newspapers and internet search engines, unpublished articles.

Classification of taxes

In India, the tax structure consists of direct taxes as well as Indirect Taxes. Direct taxes are levied on taxable income earned by individuals and corporate entities, the burden to deposit taxes is on the assesses themselves. On the other hand, indirect taxes are levied on the sale and provision of goods and services respectively and the burden to collect and deposit taxes is on the sellers instead of the assesses directly.

Some of the direct taxes prevailing in India:

- Income tax
- Corporation tax
- Dividend tax
- Capital gains tax
- Wealth tax
- Gift tax
- Estate duty or Inheritance tax
- Land revenue
- Agricultural Income tax
- Professional tax

Some of the indirect taxes prevailing in India:

In India, the GST is an indirect tax which replaces a number of indirect taxes. On 29 March 2017, the law on taxation of goods and services was adopted by Parliament. The Act entered into force on 1 July 2017; the Indian Goods and Services Tax Law imposes a comprehensive, multistage based destination tax applicable to every value addition.

Indirect taxes which are not included in GST:

- Basic Customs duty
- Exports duty
- Road & Passenger tax
- Property tax
- Stamp duty
- Electricity duty

Differences between direct tax and indirect tax

Incidence of direct tax is directly on the taxpayer. Incidence of indirect tax is on traders or manufacturers, but shifted to buyers of goods or services later on.

Shifting of burden is not easy in case of direct taxes and tax payer has to bear the tax. The indirect tax can be shifted to other individuals.

In case of direct taxes, scope for evasion is high through falsification of accounts and suppression of income. Scope for tax evasion is low in case of indirect taxes, as the tax forms part of product or service price.

Direct tax may reduce inflation, whereas indirect tax may enhance inflation.

Direct taxes adversely affect the taxpayers' ability to save and invest. In case of indirect taxes, savings and investment may be increased due to reduction in the usage of non essential goods or services.

Direct taxes are progressive taxes which reduce inequalities, whereas indirect taxes are regressive taxes which enhance inequalities.

In case of indirect taxes, by heavily taxing harmful articles such as cigarettes, liquors etc., the government can divert the purchasing power of people towards the useful articles and thereby create beneficial consumption pattern.

Direct taxes are usually complex with a lot of exemptions, procedures and provisions which may necessitate assistance of professional accountants and auditors involving higher administrative costs, whereas indirect taxes involve lesser administrative costs due to convenient and stable collections.

Indirect taxes have a wider coverage as all members of the society are taxed through the sale of goods and services, while direct taxes are collected only from people in respective tax brackets.

Indirect taxes allow the government to expect stable and predictable returns and bring almost every member of society into the fold, something that the direct tax could not do. However, it is important for the country that taxes be levied both directly and indirectly as these are intimately linked to the broader economy. As a result, it is important for the government to collect these taxes so that they are well taken care of and enjoyed by the country.

III. CONCLUSION

A lack of administrative efficiency is a serious problem with the Indian tax system. In order for a well designed, planned and coordinated tax system to be developed, there is no coordination of the different taxes. India's direct taxation rate is a very large one, but the contribution to its overall tax revenue is relatively small. In order to reduce tax evasion and avoidance, steps need to be taken. India's new Goods and Services Tax marks a significant step towards achieving the country's long-held goal of economic liberalization.

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