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Impact of Income Tax on the Revenue on the Government of India

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Abstract: *In the absence of income, the government cannot fulfil its functions in any way. There are too many activities that need to be undertaken and demand a high level of government expenditure. It will require tax revenues in order to meet this expenditure. One of the main sources of public revenue is taxation. Taxes don't originate from a moment ago. It's been levied all the way back to time. During the year 2010-11 the total returned filed was about Therefore, in order to increase public revenue, a number of measures are being undertaken by the Government aimed at bringing more and more people into the tax system. In order to increase the income tax base in India, a number of reforms have been introduced into the taxation system. This report is essentially concerned with the impact of different taxation reforms on income collected through tax, as well as trends and patterns in India following the reform period. The income tax data for the years 1991-92 to 2018-19 are taken into account in this study. That is to say, a period of 28 years.*

Keywords: Tax revenue, Income tax, Tax reform, Trends and patterns.

I. INTRODUCTION

Funding is needed for each government to carry out its activities. There's a federal form of government in India, i.e. there's a separate government at the central level, different states have their own governments, while local bodies have local governments. The role of the state has become even more important in today's scenario. In order to carry out all these activities that lead to a complete development of the nation and society, it is now incumbent on the government. Without sufficient sources of revenue, such activities would not be possible to carry out in the major economic sectors for its overall development and thus incur large amounts of government expenditure. There is an enormous demand for public revenues to meet this expenditure. The income of the Government comes from different sources, referred to as public revenue. There is a significant place for taxes at these sources. Tax revenues make up the bulk of government revenue. There's plenty of economists like Adams, Bastable and Seligman., Taussing, Dalton etc, hold the unanimous opinion that “the tax is a compulsory payment to the Government by taxpayer without any expectation of some specified return.”

1.1 Types of Taxes

Income tax:

On the basis of gross income less deductions, exemptions or credits, income tax shall be calculated. Businesses and individuals are subject to this charge. Income Tax Act, 1961 imposes tax on the income of the individuals or Hindu undivided families or firms or co-operative societies (other than companies) and trusts (identified as bodies of individual’s associations of persons) or every artificial juridical person . It is entirely depending upon the person's residence status whether his income shall be taken into account as a whole in India's total income. The residence status may be divided into two parts, 1 resident and 2 non resident. A person's residence may be further split into two parts, one of which is a regular resident and the other an unidentified resident. The impact of the various tax reform on income taxation is essentially dealt with in these papers.

(Wealth tax, Estate tax, Corporate tax, Gift tax)

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Indirect tax

An indirect tax is one that a taxpayer may be able to pass on to another. It's going to cause commodity prices to rise. Below is a list of some direct taxes.(**Sales tax, Value added tax, Service tax, Customs duty, Central excise duty, SST)**

History of Income tax in India

Independent India continued to benefit from the Income Tax Act of 1922. The Income Tax legislation has been very complex due to numerous changes in the course of the early post independence period. Tax evasion was common during this period, and it cost a great deal to collect taxes. In 1956, the government of India referred the Income Tax Act to a Law Committee for simplification, rationality and revenue focus. A committee of the Direct Taxes Administration has also been established to propose measures aimed at minimising any inconvenience caused by assessments and prevention of tax evasion. In 1959, the Committee submitted its report. The recommendations of the Law Commission and the Enquiry Committee were examined and extensive tax reform program was undertaken by the Government of India under the supervision of Prof. Nicholas Kaldor. The Income Tax Bill 1961,prepared on the basis of the Committee's recommendations and suggestions from Chamber of Commerce, was introduced in the Lok Sabha on 24.4.1961. It was passed in September 1961 by Lok Sabha. The Income Tax Act 1961 came into force on April 1, 1962. It applies to whole of India including the state of Jammu and Kashmir. It is a comprehensive piece of legislation having 23 Chapters, 298 Sections, various sub sections and 14 schedules. Since 1962, it has been subjected to numerous amendments by the Finance Act of each year to cope with changing scenario of India and its economy.

Recent tax reforms

The government has undertaken to implement such recommendations in stages at various times. In the area of personal income taxation, the maximum marginal rate was drastically reduced, tax bands were simplified with low rates and exemptions increased. Moreover, various incentives have been rationalised and the scope of the TDS has been widened by the government.. Some new taxes have been introduced such as Minimum Alternative Tax and Dividend Distribution Tax, Securities Transaction Tax, Fringe Benefit Tax and Banking Cash Transaction Tax. However, Fringe Benefit Tax and Banking Cash Transaction Tax were withdrawn by Finance Act, 2009.The Income tax administration was restructured with effect from August 1, 2001 to facilitate the introduction of computer technology. Further, keeping in mind the global developments, the department has made considerable efforts for reforming the tax administration in recent years. Some important measures in this direction are

1.2 Objective of the study

- To analyze the impact of tax reforms on income tax.
- To study trends and patterns of Income tax in India in the post liberalization period.

II. RESEARCH METHODOLOGY

The research is based on secondary data which is collected from Handbook of Statistics on the Indian Economy published by Reserve Bank of India, Reports published by Department of Revenue, Ministry of Finance, Government of India, Directorate of Economics and Statistics (DES), Planning Commission publication, various issues of budget, various committee's reports, economics surveys, books, website, etc.The table no:01 clearly depicts the data of income tax collection ,total direct tax and total tax revenue(direct tax+ indirect tax) of the central government as taken by handbook of statistics on Indian Economy, published by RBI and from the Income Tax Department ,Ministry of Finance .The data reveals that the revenue from income tax increased from Rs. 6731 crore in 1991-92 to Rs. 529000 in the year 2018-19(as per the budget estimates) with a CAGR of 16.87% , It has an increasing trend over the study period .The total direct tax increased from Rs. 15207 crore to Rs. 1150000 crore with the CAGR of 16.71% ,while the total tax revenue increased from Rs. 50069 crore to Rs. 1480649 crore with CAGR of 12.86%.In the financial year 1991-92 the Income tax collection was 44.26 percent of the total direct tax which has increased to 46 percent in the year 2018-19 while it(income tax) was 13.44 percent of the total tax figure in the year 1991-92 which has increased to 35.73 percent in the year 2018-19

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III. CONCLUSION

On the basis of the study it can be concluded that the measures undertaken by the government like introduction of mandatory quoting of Permanent Account Number (PAN),e-filing of returns, e-TDS, e-payment, Tax Information Network (TIN), Annual Information Return (AIR) for high value transaction, etc are devised mainly to widen the tax base by bringing more people under the net of Income tax. To increase tax revenues, by increasing the number of taxpayers, to improve the efficiency of taxation administrations, to encourage them to pay taxes voluntarily, to promote a taxpayer friendly atmosphere or simplification of procedures were key objectives of various tax reforms. As shown in this study for 28 financial years, these reforms have significantly increased the amount of income tax collected However, there is an urgent need to create a more transparent and inclusive administration without corruption, friendlyness and fewer discriminations. In addition, people should be made more aware and conscious of Indian tax legislation so that they can create such an environment for paying their due taxes, avoiding taxation evasion or being proud to comply with the obligations imposed on them.

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