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An Examination of Tax Reforms in India From A Critical Perspective

Khushboo Mishra[1] and Dr. Shailesh Pathak[2]
Research Scholar, Department of Commerce[1]
Research Guide, Department of Commerce[2]
Sunrise University, Alwar, Rajasthan, India

Abstract: *This study examines direct and indirect tax developments in India after 1991. This paper examines the Tax Reforms Committee, established by the Indian government in 1991,'s major tax reform proposals. Thus, the major tax reforms in India in recent years have been examined. The 2002 and 2003 Tax Reform Task Force ideas were carefully examined. This article also discusses the Goods and Services Tax, which replaced many indirect taxes in India in 2017. The author observes that the 1991 tax reforms cost the Indian government immediate money. A bigger tax base, tougher anti-evasion legislation, enhanced tax administration, and increased tax compliance have led to a considerable increase in individual and corporate income taxes in recent years. However, low GST collection has led to indirect tax revenue decline. The author believes indirect taxes like entertainment taxes, auto taxes, and stamp and registration fees, as well as direct taxes like land revenue and agricultural income tax, may be increased.*

Keywords: GST, Direct Tax Code, Corporate Tax Reforms

I. INTRODUCTION

Sometimes tax systems fluctuate dramatically in nations with different economic structures and growth. Several governments launched large tax changes in the mid-1980s, which escalated in the 1990s for different reasons. Many developing nations change taxes to generate funds for financial issues. Temporary tax incentives don't help establish a long-term tax system. Most transitional and emerging countries have changed their tax regimes to compete globally. The move from market-based resource allocation to centralised economic planning has demanded considerable tax system reforms. These tax changes seek to make taxes the government's main income source rather than public business profits and adapt to a market-based economy to boost global competitiveness.

India's tax rules now support growth and development. To achieve fair income distribution and quicker economic development, Early Plan tax policy supported investments and savings. Market-based economic improvements in 1991 reformed the federal tax system. The Tax Improvement Committee recommended extensive direct and indirect tax revisions in 1991. These tax reforms lowered marginal tax rates, raised revenue, and simplified the tax code. Tax adjustments Committee substantial tax modifications have been done in various direct and indirect tax categories. India's tax reform approach is evolving to meet its changing demands and goals.

Objectives of the Study

Against the backdrop of the aforesaid observations, the objectives of the present study are:

- To review the available literature regarding tax reforms in India;
- To critically examine the significant tax reforms undertaken in India in the areas of both direct taxes and indirect taxes;
- To assess the implementation of tax reforms since 1991 and the economic benefits arising therefrom;
- To make an analysis of certain critical issues and future challenges; and
- Finally, to offer necessary suggestions or recommendations.

II. REVIEW OF LITERATURE

The literature on India's tax reform initiatives is evaluated. Rao (2000) reviewed the history of the Indian tax system, important direct and indirect tax innovations, their revenue and egalitarian effects, and their effectiveness. The author examined tax changes until 1990. Next, tax changes since 1991 and their revenue and implementation effects were addressed. Rao concluded with the Indian tax system's existing and future issues.

Indian tax history and system were analyzed by Rao (2005). Rao explored institutional and historical impacts on Indian tax legislation. According to the author, systematic tax legislation revisions started after India's 1991 macroeconomic crisis. Indian tax collections and modifications' implications on direct and indirect taxes were examined. Rao finished with pragmatic tax measures including extending the base, cutting rates, and enhancing administration.

Shah and Joshi (2017) say reducing tax evasion and simplifying business boosts the economy. Rate cuts, revenue base increases, and administrative improvements were made. The authors examined how India's 2017 GST affects several industries. The Goods and Services Tax would combine indirect taxes and set off input tax credits and service taxes, helping manufacturers and consumers, the authors stated. The GST should increase federal and state revenue by expanding the tax base and compliance.

Rani (2014) examined India's major tax reforms since 1991. Author includes government income, wealth, VAT, sales, excise, customs, and excise tax changes. The Direct Tax Code will unify income, wealth, and dividend distribution taxes to boost voluntary tax compliance and tax-to-GDP ratio, Rani said. Rani says the Indian government has increased tax collecting, tax base, and administration since 1991.

Vasanthagopal (2011) evaluated India's July 1, 2017 GST. GST was thoroughly examined in numerous Indian industries. The report noted that GST has changed India's banking and tax systems.

Kumar (2014) evaluated India's GST pillars. He stated GST streamlined India's tax system, integrated indirect taxes, and established a single market.

Samantara (2018) assessed India's GST and taxes on goods and services. The author analyzed how GST impacts real estate, cars, insurance, hotels, hospitals, pharmaceuticals, vehicles, and petroleum. GST advantages include reduced compliance costs for small firms, a wider tax base, lower mass-consumption tax rates, higher government tax receipts, etc. GST is limited despite its advantages. The GST eradicated market inefficiencies, tax multiplicity, and tax cascading, creating a single Indian market, according to the author.

Tax Reform Measures till 1990

India has implemented several tax modifications since independence. Tax Reform Committees oversee tax modifications and often mention efficiency, although its main goal is to raise adequate tax money for development. First to propose and execute tax improvements was the 1953 Tax improvements Committee. This reform sought to fund the Second Five Year Plan (1956–60), boost savings and investments, and redistribute incomes. The 1971 Direct Taxes Committee advocated a substantial marginal tax rate cut. In 1972, the Indirect Taxes Enquiry Committee aimed to simplify indirect taxes.

Current tax mindset keeps marginal tax rates high despite rationalization efforts. The marginal tax rate with surcharge was 93.5 percent in the early 1970s. The highest marginal wealth tax rate of 8% promoted tax avoidance and evasion. According to the Direct Taxes Enquiry Committee, the marginal tax rate dropped to 77% in 1974–1975 and 66% in 1976. Rao (2000), pages 65–66, reports that the top wealth tax rate dropped to 2.5%. The biggest indirect tax shift before 1991 was the 1986 MODVAT conversion of union excise taxes (Rao, 2000, p.66). After first applying to a few commodities, MODVAT was extended to encompass others.

Tax Reforms since 1991

As said, systematic tax reform in India began following the 1991 macroeconomic changes. Dr. Raja J. Chelliah chaired the Tax Reform Committee formed by the government in August 1991 to propose Central tax changes. The Tax Reform Committee recommended reducing the rates of all major taxes, such as income taxes, corporate taxes, customs, and excises; broadening the tax base for all taxes by reducing concessions and exemptions; converting domestic production taxes into VAT; rationalizing or simplifying tax laws and procedures; and building an efficient inform system. Importantly, most TRC recommendations have been adopted over time.

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Reform of Direct Taxes

Personal income taxes redistributed economic activity until the mid-1970s. As earnings climbed, eleven income tax brackets rose from 10% to 85% in 1973-1974. With a 15% surcharge, the maximum marginal income tax rate for people earning above Rs. 2,000,000 was 97.5 percent. Income tax rates were simplified to three slabs (20, 30, and 40% in 1992-1993) and 10%, 20%, and 30% in 1997–1998 after 1991. Like the wealth tax, the top marginal rate dropped to 1%.

Corporation taxes eliminated the difference between tightly owned and broadly held businesses. In 1993-94, company tax rates were unified into one 40% rate, reduced to 35% in 1997-98. Firms were taxed on dividends, not shareholders. Individual owners were taxed on dividends again in 2000-2001. This policy changed again in 2003-2004 with corporate dividend tax. Many of the companies received investment allowances, depreciation allowances, and other tax deductions for operating in underdeveloped countries, making them "zero-tax businesses." In 1997-1998, the Minimum Alternate Tax taxed corporations' "Book Profits." MAT-paying firms may deduct it from future income taxes.

Reform of Indirect Taxes

Excise taxes before 1991 were complicated by rates and ad valorem charges. Tax Reform Committee suggested rate harmonization and ad valorem specialty tax conversion in 1991. According to Rao (2005, p.996), eleven tax rates were reduced to three in 1999-2000, with a select "luxury" items subject to two non-vatable additional rates. They were added to CENVAT together with three supplemental excises on specified commodities in 2000–2001.

Before 1991, variable rates and quantitative import limitations reduced customs revenue. Import taxes varied from 0% to 400%, with 10% exceeding 120%. The TRC suggested 5–50% tariff and tax decreases. After the 1991 TRC recommendations, quantitative import restrictions were relaxed and the maximum import tariff was decreased from 400 percent to 50 percent by 1995–96. These substantial customs tariff adjustments changed the nation's foreign commerce strategy.

The 1994–1995 service tax included phones, stocks, and non-life insurance. Services grew throughout time. The 2002–2003 service tax rate was 10%, up from 7% in 1994–1995. The Expert Group on Taxation of Services recommended taxing all services and offering input tax credits.

Tax changes in states were not coordinated with federal initiatives. State governments sometimes formed tax reform committees, but their changes were often ad hoc and driven by revenue concerns rather than tax modernization. Budget limitations and credit agency demands delayed state tax revisions until the late 1990s. A significant tax change began on April 1, 2005, when the state implemented VAT and rationalized and simplified sales tax.

Recent Reforms in the Tax System

India created a tax reform task committee in September 2002 and a fiscal responsibility task force in 2003. Both Task Forces were headed by Vijay Kelkar. Increasing tax exemption limits and a "two-tier" income tax structure; reducing corporate tax rates; implementing a three-rate structure for basic customs duties (5%) for raw materials, 8% for intermediate goods, and 10% for finished goods; and levying comprehensive service taxes, excluding a few services from the "Negative list." were reforms proposed by the Kelkar Committee. Vijay Kelkar's Task Force conclusions enhanced the Tax Reforms Committee's 1991 task reforms. India has implemented tax adjustments based on 1991 TRC and 2002 Kelkar Committee recommendations.

General, senior, and super senior income tax exemptions been increased following TRC and Kelkar Committee recommendations. Previously, income tax slab rates were 10, 20, and 30%, but in 2020-21 and 2021-22, they were 5, 20, and 30%. In previous years, surcharge rates for taxable profits beyond Rs. 50 lakhs were 10, 15, 25, and 37%. Health and Education cess increases by 4%. Tax revenues from higher surcharges and Health and Education Cess fund government aims and development.

Corporate taxes have been stable since 1997-98, when they were decreased to 35%. Local and multinational enterprises pay 30% and 40% flat taxes. By using depreciation allowance, investment allowance, and tax benefits for being in backward regions, several businesses paid no taxes. Companies' "Book profits" determined 1997-98 Minimum Alternate Tax. These companies paying MAT may deduct it from their taxes in future years. If applicable, MAT is 15% of book profits + surcharge. However, domestic companies' shareholder dividend tax rules vary often. Distribution of dividend tax responsibilities from individuals to corporations and vice versa has changed throughout time. Domestic firms that declare or distribute dividends must pay dividend distribution tax under Section 115-O of the Income Tax Act, although shareholder-recipients are exempt.

Tax experts suggest replacing the Income Tax Act, 1961 and other wealth tax and dividend distribution tax legislation with the Direct Tax Code to streamline India's direct tax regulations. The proposed direct tax policy broadens the tax base by limiting tax exemptions and concessions, deleting tax avoidance loopholes, and managing tax evasion. Direct taxes should boost tax-GDP ratio, GDP growth, equity, administrative burdens, and compliance costs. The planned direct tax code change has yet to happen. The government died and the direct tax code bill was not passed after being submitted in 2010 and revisited in 2014. The government created an expert panel to design a new direct tax legislation in 2017. The committee gave its conclusions to Finance Minister Nirmala Sitaraman on August 19, 2019, however they were not released.

Over time, Union excise duty has been rationalized. Ad valorem taxation and lower tax rates apply to many commodities. Maximum excise-dutied items are eligible for CENVAT input tax credit. The Task Force on Indirect Taxes (2002), directed by Mr. Vijay Kelkar, recommended the Central excise tax structure with four rates: 0, 6, 14, and 20% for different products, commodities, and objects. Union excise duties are frequently updated. On July 1, 2017, India implemented the GST, replacing various indirect taxes, including excise duty. India no longer taxes excise except petroleum and alcohol.

After import duty tax changes, peak rates declined considerably. In 1990-91, the average nominal tariff was 125 percent and the highest was 355 percent, according to Rao (2005, p. 998). The peak rate declined to 30% in 2002-03 and 25% in 2003-04." The Task Force on Indirect Taxes (2002) suggested four 2004-05 customs duty rates: Essential commodities are 0%, raw materials and intermediate products 10%, and consumer durables 20%. Import taxes were to drop to 5% for basic raw materials, 8% for intermediate products, 10% for finished goods, and 20% for consumer durables by 2006-07. Since the Task Force on Indirect Taxes (2002) recommendations, numerous import categories have retained lower rates. The Finance Minister boosted furniture, electronics, toy, footwear, and other customs taxes in the 2020 Union Budget. Import tariffs are being increased to protect local firms, restrict non-essential imports, and increase government revenue. Import taxes on various raw goods and inputs have been reduced. Basic, countervailing, special, and anti-dumping duties were levied before the 2017 GST. GST currently only collects IGST and basic customs duty on imported goods.

Without legal authority, the Central government taxed some services in 1994. Under Entry 97 of List 1, the Centre invoked its residual taxation powers. The Eighty-eighth Constitution Amendment Act, 2003 introduced service taxes to the Union List. Service tax has been levied on numerous diverse services with high tax collection potential since then. In 2013-14, service tax was 12% of taxable services and 15% from 1 June 2016. Assessees may deduct input tax credit from output service tax. The GST replaced the service tax on July 1, 2017. GST now covers goods and services.

The Vijay Kelkar-led Task Force on Indirect Taxes (2002) supported Centre and State VAT implementation. On June 18, 2004, the Union Finance Minister and State Finance Ministers agreed to replace sales tax and other levies with a standard VAT. Along with State VAT implementation, the Central government will cut the CST from 4% to 2% and remove it in 2006-07. The US VAT was implemented on April 1, 2005, with four rates: gold, silver, and other precious stones; essential items and industrial inputs; and 12.5% commodities not covered by other schedules. Essential requirements and local items were VAT-free or 0% taxed. VAT exemption was also extended to retailers with a 5 lakh turnover. The States were supposed to pass on VAT benefits such tax rate reductions and input tax credit to consumers. GST superseded VAT and other indirect taxes.

India passed the GST on July 1, 2017, to address indirect tax concerns. Indirect taxes were formerly levied on goods from manufacture to consumption. Additionally, shipping taxes on such goods varied by state. Products and services are taxed equally by the Centre and States. Since the GST removed cascading taxation and tax multiplicity, it has helped reduce indirect tax anomalies. Four elements make up GST:

The Central Goods and Services Tax allows taxes to be levied and collected by the Center on goods and services supplied between states;

The State Goods and Services Tax permits taxes to be levied and collected by the State on goods and services supplied within the State;

The Integrated Goods and Services Tax permits taxes to be levied and collected on goods and services supplied between states; and

The Union Territory Goods and Services Tax permits taxes to be levied on goods and services supplied within the Union Territory.

According to Samantara (2018, P.56), GST would eliminate market distortions, make India a single market, and make indirect taxes clear and efficient. It should boost economic development, create more jobs, and raise government taxes by expanding the tax base and collecting more taxes. In summary, GST may help the government convert India into a manufacturing, investment, and R&D powerhouse while increasing income.

Revenue Implications of Tax Reforms

Tax receipts plummeted during the 1991 recession. The change lowered the tax-to-GDP ratio by decreasing rates and without increasing the tax base. "Despite huge deficits," Rao says, "the tax ratio declined from 15.8 percent in 1991–92 to the lowest level of 13.4 percent in 1997–98 and fluctuated around 13–14 percent until 2001–02." To reduce deficits, next-era tax hikes were considered. New Center and State budget projections show the tax-to-GDP ratio rose 1% to 152% in 2003–04. Since significant tax changes, the tax-to-GDP ratio has not restored to pre-1991 levels. Revenue collection dropped shortly after India's 1991 tax changes, despite expectations.

Direct tax income has skyrocketed after 1991 tax reforms. Income tax collection has increased despite lower corporate and individual rates. "The share of revenue from direct taxes showed a significant increase as a proportion of GDP as well as total tax revenue," Rao 2000. Direct taxes made up 14% of income in 1990–1991, but 24% in 1997–1998. Tax management, compliance, and public sector salary increases may have enhanced direct tax collection. Reduced indirect tax revenue lowers tax-GDP. The 1991 tax changes reduced import tariffs. Customs revenue should fall. Excise tax measures were poorly planned to counterbalance customs revenue losses.

Central taxes to GDP rose from 10.2% in 2010–11 to 10.6% in 2015–16 and 11.2 percent in 2017–18. After growing rapidly in 2017–18, central taxes to GDP declined to 10.97 percent in 2018–19 and 9.88 percent in 2019–20. reduce economic growth may reduce the central tax-to-GDP ratio. Also, direct tax revenue has risen. GST deficits have affected indirect tax receipts recently.

Critical Issues and Reflections thereon

From past transactions, we know major Indian tax developments since 1991. Personal income tax revenue has skyrocketed. Government measures to grow the tax base, curb tax evasion, raise TDS, and improve tax administration may have produced this significant rise in direct taxes. Company tax revenues have risen since 1991. The Minimum Alternate Tax, lower marginal tax rates, and rationalization of firm assessees' investment and depreciation allowance tax preferences enhanced revenue.

Before the 1917 Goods and Services Tax, Union excise tax-to-GDP fell. Revenue productivity fell owing to union excise duty changes. Recent Union excise revenue-to-GDP has hardly increased. Transport vehicles, basic metals, chemicals, petroleum products, and electrical and electronic gadgets provide 75% of excise tax revenue (Rao, 2005, p. 1007). Concentration of products makes certain industries pay excessive excise taxes.

Import taxes and tariffs dropped after tax reform. Central government simplified customs charges under WTO. Import customs duty revenue is falling. Reduced oil, lubricants, and petroleum import taxes have lowered collection rates.

India established the GST on July 1, 2017, solving indirect tax system difficulties such "tax on tax" and tax duplication. GST revenues surged in August 2017, but declined in April 2020 due to shutdown and revenue loss. GST revenues have risen since September 2020, signaling economic improvement.

III. CONCLUDING OBSERVATIONS

The analysis suggests that many tax changes are needed to boost revenue production and equity. Although direct tax revenue has grown, tax evasion and avoidance may be reduced and taxes simplified and rationalized to boost it. Samantara (2020, p. 59) suggests raising agricultural income tax and land revenue. Taxing agricultural revenue like other wages makes sense without affecting poor peasants. To simplify and rationalize direct tax law and increase government tax revenues, tax professionals recommend the Direct Tax Code.

To increase local industrial competitiveness, streamline indirect taxes like customs and excise. Indirect taxes including stamp, registration, car, and entertainment taxes may rise.

The reason for area-based exclusions for specific enterprises must also be assessed. Area-based exclusions promote business relocation to exempted regions, causing uneven industrial development. Tax revenues and tax bases are reduced by exemptions.

Indian tax administration is difficult, resulting in poor compliance and expensive expenses. In Alagappan (2019, p. 42), the government spends a lot on tax collection, and it continues growing. Thus, tax regulations and procedures must be streamlined, information-based tax administration introduced, and cashless transactions promoted. These actions will lower India's high tax collection costs, increase compliance, and raise government revenue.

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