

A Study of Income Tax Policy and Revenue System in India

Ajay Mittal^{1*} Dr. Hari Om²

¹ Research Scholar, OPJS University, Churu, Rajasthan

² Associate Professor of OPJS University, Churu, Rajasthan

Abstract – Indian tax system developed to adjust to the public part commanded import substituting industrialisation for just about 45 years after autonomy must be transformed to encourage the changed open economy. This has required reorientation of the tax system from being simply an income instrument which was frequently specific, optional, separated and confiscatory to the one that is income and in the meantime, limits asset mutilations. The issue of transforming the tax system since monetary liberalization was started was intensified by the need to bring incomes up in the short run and improve income efficiency in the medium term to contain vast holding on fiscal shortages and objectives to balance income misfortunes from decreases in import obligations.

Tax change in India has borne the local brand. However from numerous points of view, it looks like the best practice approach of widening the base, lessening the rates, decreasing rate separation and keeping the system basic. It has made some amazing progress from the limited based, confounded and confiscatory structure that frustrated the impetuses to the one that is undeniably effective. In spite of flip flounders from year to year, the push and direction of reforms have been to enhance income profitability while limiting twists. The most recent couple of years have likewise observed accentuation on enhancing the tax administration and information system. The change to change over the state level sales tax into a goal based VAT this year is a noteworthy activity.

Keywords: Indian tax system, Income Tax Policy, Revenue System, etc.

-----X-----

INTRODUCTION

Tax policy is a basic piece of the fiscal policy of a nation. It relies on social, monetary and political condition of a nation. Indian income tax policy has constantly focused on assembly of income for the Government keeping in see financial objectives of the nation. Tax policy in India gives different tax motivating forces to assembly of reserve funds, advancing interest in need divisions, logical research, keeping up provincial adjust, development of instruction, welfare of senior residents and incapacitated people and so forth. Also, it has been changed every now and then as per changed conditions. In this period of globalization, most creating nations need to end up incorporated with the universal economy. Be that as it may, they confront critical difficulties in this interest, including the need to expand tax incomes. Henceforth tax policy producers need to investigate the predominant conditions in the nation and decide the important blend of taxes that can raise adequate income. Numerous creating nations have progressively started to rebuild their tax systems for this particular reason. In spite of various tax reforms that were

proposed to enhance the monetary and social circumstance by supporting framework and expanding the nature of public goods gave by the government, the circumstance in Uganda stays delicate, and the nation stays among the poorest on the planet.

A standout amongst the most adaptable approaches to raise per capita incomes and to help increments in genuine GDP development rates is through taxation. Taxation is a sovereign right of the state used to exchange assets from private to public use with a specific end goal to accomplish the financial and political objectives of society Jha, A. (2013). Taxation isn't the main means through which governments can create assets to finance public expenditure (Feld, et. al., 2013). Governments can and do "secure assets" directly from the general population. This method would be practicable just in war times, notwithstanding, and would be dismissed by the majority in quiet circumstances. Governments now and again print the cash they have to function (Johannesen, 2014), despite the fact that it is perceived that this method drives swelling. Creating nations make substantial utilization of household and

outside acquiring, yet this isn't a sufficient other option to expanding tax revenues (Kumat, 2014). Most of the general population in creating nations gets low incomes, assuming any, from which the government can't get. What's more, it may not be useful for a government to depend on outside guide as there are numerous malicious results spilling out of help reliance. In this manner taxation rises as a standout amongst the best local devices that governments have direct control over to build up the assets expected to meet their social, financial, and political objectives.

The issue looked by every creating nation - and this obviously - is that creating nations confront numerous bland and particular deterrents in actualizing tax systems that can meet their interesting needs and that will likewise finance the vital level of public spending in the most proficient way (Leyaro, et. al., 2015). Developing nations might want to expand their tax-to-GDP proportions keeping in mind the end goal to decrease spending shortfalls, enhance the services they give, and upgrade the adequacy of their tax structures.

REVIEW OF LITERATURE:

Om Piakash and A.S. Sidhu (2011) express that, in creating economy like India, tax possesses a deliberately imperative position in the general development of the nation, because of its critical commitment to the national exchequer, which is at last spent on the in general development of various divisions of the economy. The investigation breaks down the effect of direct tax reforms on Indian economy as far as different financial markets and contrasts it and the pre-change period. The investigation uncovers that tax reforms presented amid the post-liberalization period couldn't create the outcomes as wanted. The diminishment in direct tax rates couldn't prompt better tax consistence in a much wanted maimer. The analysts opine that, the tax reforms have expanded the quantity of assesseees however the resultant increment in the tax income has not been adequate. The real offer of taxes originates from low income gatherings. This ineffectualness will extend the hole amongst rich and poor and will prompt assist imbalance in the general public. The investigation likewise contends that, there is again a extremely solid need to review the tax change strategies being followed in the post-liberalization period.

Jha, (2013), in his exploration paper on Tax structure in India& its impact on corporate and individual in India recommends that high reliance on indirect taxes ought to be diminished and direct taxes ought to be in expanded on super rich to remunerate the misfortunes. He likewise expresses those corporate tax avoidance procedures like exchange estimating ought to be checked.

Feld, Heckemeyer and Overesch (2013) give an ongoing review of the exact literature on the effect of CIT on obligation financing. They join 48 past investigations and locate a generous effect, with an anticipated peripheral tax impact on the obligation proportion of around 0.27, which implies that a 10 rate point increment in the minor tax rate (e.g. from 25% to 35%) expands the obligation to-resource proportion by 2.7 rate focuses (e.g. from 0.6 to 0.627). Their examination likewise demonstrates that the assessed impact is ordinarily greater when utilizing recreated peripheral tax rates than when utilizing statutory tax rates.

Johannesen (2014) adds to the literature on the capital structure of MNEs by presenting a hypothetical system for half and half instruments, which are dealt with as value in one nation and obligation in another. He demonstrates that organizations can stay away from taxes on venture by utilizing a cross-fringe mixture instrument.

Kumat, (2014), in his exploration paper on Taxation laws of India-diagram and fiscal analysis centers on the outline of Indian tax system and difficulties ahead. He conceives that there ought to be a planned utilization tax system. He additionally expresses that enhancing the efficiency of Indian tax system keeps on being a noteworthy test in India.

Vincent Leyaro and et al (2015), separate the effect of watched sustenance value changes on family usage (welfare) in Tanzania and from this duplicates the welfare affect inferable from tax (taxes and VAT) reforms. The three rounds of the Tanzania Household Budget Survey were used to apply Deaton's system in light of center unit regards and family spending shares. The results show the bona fide cost extended more than 1991-2007 have decreased welfare of the typical family by 20 percent of 1991 income, and the mishap was sensibly similarly scattered between the 2000s. It was found that, they can't develop express associations between tax reforms and private product value changes, to overview how much welfare changes can be cleared up by tax reforms they duplicate the effect of tax changes on nearby value changes.

Da Rin, Di Giacomo and Sembenelli (2011) have considered the authoritative frame reactions to CIT. They ponder business, firm section and corporate income taxation utilizing European information and locate that corporate income taxation has a noteworthy negative impact on passage rates, which measure the proportion of number of firms entering the business to the quantity of dynamic occupants in the business. They contend that for low levels of taxation the greatest main thrust for the impact is the contortion in the authoritative shape. In their most favored detail a lessening in

the corporate tax rate from 30.08% to 27.57% suggests a 0.88 rate point (i.e. 12.5%) expansion in the (mean) passage rate. This relative change in the passage rate is clearly substantially bigger than the comparing change in the tax base.¹⁰ The authoritative shape has been seen to be receptive to different taxes as well.

Panos Hatzipanayotou and et al (2011) build up a splendidly aggressive general-harmony model of a little open economy with creation of private exchanged goods and of a public good which is financed by incomes from exchange and residential taxes. Inside this structure analysts consider the impacts on public good arrangement and on welfare of the accompanying tax reforms: (I) a maker value unbiased diminishment in send out taxes and a comparing increment underway taxes, (ii) a customer cost unbiased diminishment in taxes and a comparing increment in utilization taxes, and (iii) a fractional tax-income nonpartisan change in exchange what's more, household taxes.

CHANGING PARADIGMS OF TAX POLICY AND REFORM:

In the literature on tax outline and change, the reasoning on what constitutes the best tax system and a usage procedure to accomplish it have experienced significant change throughout the years primarily because of the changing part of the state in development and internationalization of financial exercises. Plan of tax policy and change of a current tax administration can be two unmistakably unique activities, not continually creating a similar arrangement of results. It is conceivable to contend that the target of tax change ought to be to graph the course to take a given tax administration to one "ideally" outlined. Be that as it may, history of the current system, and political and managerial limitations could put confines on such a change way. For example, an exhaustive utilization tax of the VAT assortment may be best executed at the national level, in order to maintain a strategic distance from issues identifying with treatment of between state taxation. In any case, the task of tax controls in India could make that change troublesome, if certainly feasible. Change, accordingly, might need to investigate different options, for example, double VAT. The presentation of VAT is an imperative segment of late tax change bundles in a large portion of the nations, particularly with regards to declining accentuation on import levies. Sharp and Ligthart (2002) demonstrate that in little open economies any income unbiased levy cut joined by value nonpartisan goal based VAT will upgrade both net income and welfare. While, this outcome is challenged, particularly with regards to creating economies with critical casual divisions, the level headed discussion does not reach out to situations where VAT looks to supplant a falling kind of sales tax or expansive based extract obligation. In

numerous nations, explanation behind demanding the VAT has to such an extent, if not more, to do with supplanting the falling sort sales taxes, which are frequently, restricted to the assembling stage than to substitute import obligations as a wellspring of income. Much of the time the development of tax base going with the VAT both because of stretching out of the tax to stages consequent to assembling, as likewise the self-upholding nature of the tax have prompted higher income profitability. Regularly, this has reinforced the information base for tax administration bringing about enhanced consistence in different taxes and consequently upgrading general profitability of the tax system.

PATTERNS IN TAX REVENUES OF STATE GOVERNMENT IN INDIA:

In a creating economy like India, where the tax system must be utilized as a vital wellspring of financing development. Accordingly, the middle and also states has been centered on tax income. The Center, a few States are additionally confronting falling apart pattern of tax income, with genuine ramifications on their developmental endeavors. Inadequate income sources, uncontrolled development of current uses, and disappointment of focal exchanges to develop as quick as the States' own particular incomes have been the wellsprings of the irregular characteristics. In numerous regards, the circumstance of tax income in the States is more basic than that at the Center as the States have the essential Constitutional obligation regarding giving fundamental social and monetary services.

The constitution allocates various vital tax assets to focal government and a restricted measure of tax assets to the states. A large portion of the light wellsprings of income are in the domain of focal government. Be that as it may, the fiscal obligations in meeting colossal use stayed with state government. These elements have made intense issue for the fiscal change in the states. RBI (1999) examine underscored the basic idea of unevenness in state finance, originating from the constrained asset base in connection to developing consumption responsibilities. Eleventh Finance Commission (2000) concentrated on a progression of quick and longer-term issues of fiscal illness. The marvel of use development outpacing the development of income, saw in the eighties, was extended in the mid-nineties with stagnating income development and quick extension of use. The total photos of the considerable number of states have demonstrated the huge between state contrasts in tax execution. Ahluwalia (2000) clarified that the development rate of SDP of every one of the 14 states have demonstrated quicker in 1990-98 than 1980-90 however expanded variety between development execution of the states in 1990s. It mirrored the way that wealthier states quickened their development.

IMPORTANCE AND COMPOSITION OF INCOME-TAX REVENUE:

Other than the conventional elements of security, to keep up peace and request, the cutting edge governments need to play out various obligations for all round development of the nation. Every one of these exercises requires enormous assets. Comprehensively, there are three key sources, from where we can finance the government exercises. They are: the taxation, outer and inner borrowings, and benefits of public enterprises¹. Every one of these sources has their benefits and faults. The borrowings cannot be considered as a lasting instrument of asset assembly in light of the fact that at last the government will require to reimburse the obtained sum and then again the government will likewise need to pay enthusiasm on this acquired cash. The public undertakings will most likely be unable to give enough cash for the public exchequer and at first they additionally require expansive ventures. In these conditions, the government needs to keep more prominent dependence on taxation. A standout amongst the most imperative general speculations whereupon most financial experts concur is that developing countries should progressively activate their own interior asset to advance monetary development, and maybe the most vital instrument by which assets might be marshaled, is taxation. The T.N. Raj Committee was additionally of the view that the assets ought to be activated without proceeded with reliance on remote guide. So the method of assets activation through taxation accepts more prominent significance. In spite of the fact that, the tax policy of a nation needs to accomplish a few objectives, still the prime goal of exacting taxes is to activate assets for the public exchequer. In India, taxation has been utilized as a capable instrument of fiscal policy. Taxation alone constitutes the greater part segment of the aggregate spending assets. In, 1960-61, 52.2 for each penny of the aggregate assets originated from taxation. Before delving into the points of interest of the tax income of the governments, an examination of the level of taxation is basic, since it can give a general thought regarding the degree to which the governments have possessed the capacity to redirect the assets from private division to the public exchequer. The GDP is viewed as a good measure of the development of an economy. So the level of taxation might be seen by making a connection between the GDP and the aggregate tax income.

CONCLUSION:

India has a genuinely detailed and entangled structure of Income-Tax. This structure is precarious; with no long haul policy and totally in view of experimentation method. It contains various unnecessary arrangements, which have no utilization and exist simply to entangle the tax structure. A few arrangements are discovered nonsensical,

outlandish and fairly conflicting with the hidden objectives. The government needs to accomplish all the financial objectives through income tax and it appears that the income-tax has turned into a controlling directing of Indian economy. The real segment of aggregate tax income comes through indirect taxes. In the vast majority of the years, more than three-fourth of aggregate tax income has originated from indirect taxes and the commitment of direct taxes has been short of what one-fourth. There is a diminishing pattern in the relative commitment of direct taxes in all out tax income. Like other creating nations, India has additionally kept significant dependence on indirect taxes. Despite the way that the direct taxes discovered moderately lesser dependence of the fiscal system, yet the commitment of income-tax in asset preparation has been critical. The rate commitment of income-tax in focal tax income has diminished however it has expanded in total terms. The lessening in the rate commitment of income-tax in all out focal tax income is because of moderately high increment in indirect tax income. The offer of individual income-tax and partnership income tax is generally equivalent.

REFERENCES:

- Da Rin, Marco – Marina Di Giacomo – Alessandro Sembenelli (2011). Entrepreneurship, Firm Entry, and the Taxation of Corporate Income: Evidence from Europe, *Journal of Public Economics* 95, pp. 1048–1066.
- Feld, Lars P. – Jost H. Heckemeyer – Michael Overesch (2013). Capital Structure Choice and Company Taxation: A Meta-study, *Journal of Banking and Finance* 37, pp. 2850–2866.
- Hatzipanayotou, Panos and et al, (2011). "Trade and Domestic Tax Reforms in the presence of a Public Good and Different Neutrality Conditions", *International Tax and Public Finance*, Vol. 18, No.3. pp. 273-290.
- Jha, A. (2013). Tax Structure in India and effect on corporates. *International Journal of Management and Social Sciences research (IJMSSR)*, 2(10), pp. 80-82.
- Johannesen, Niels (2014). Tax Avoidance with Cross-Border Hybrid Instruments, *Journal of Public Economics*, 112, pp. 40–52.
- Kumat, H. (2014). Taxation Laws of India- An Overview and Fiscal Analysis 2013-14. *Indian Journal of Applied Research*, 4(9), pp. 82-84.
- Leyaro, Vincent and et al. (2015). "Food Prices, Tax Reforms and Consumer Welfare Tanzania

1991-2007", International Tax and Public Finance, Vol.14, No.4, pp. 430 450.

Prakash Om and Sidhu. A S. (2011). "Direct Tax Reforms in India: A comparative Study of Pre-and Post-liberalization Periods". IUP Journal of Public Finance, Vol.9, No.I. pp 54-76.

Corresponding Author

Ajay Mittal*

Research Scholar, OPJS University, Churu,
Rajasthan