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The Study of India's Tax System Analytical

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Abstract - ***How a nation collects its taxes may have significant effects on its economic growth. The Indian tax system is sophisticated. According to the Indian Constitution's provisions, the three levels of government share the authority to impose taxes and duties. This study, which relies on secondary sources, analyzed tax revenue from fiscal years 2013–14 through 2017–18, classifying it into direct tax, indirect tax, and its subtypes. The ratio of taxes to GDP is also analyzed.***

Keywords- Revenue, Direct Tax, Indirect Tax, GDP, etc.

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INTRODUCTION

The primary goal of India's tax system is to generate enough money to cover the government's costs for things like public services and administration. A taxation is a tool for lowering personal consumption and shifting funds to the state for massive infrastructure projects. It's also utilized to level economic playing fields by narrowing wage and wealth gaps.[1]

Scheme of Taxation in India

Article 246 of the Indian Constitution lays out how the various levels of government in the country share legislative authority. Within its three lists, India's Constitution lays out who is responsible for what in terms of the country's tax system. [2]

- List – I cover those areas where legislation is made by the Indian Parliament.
- List – II includes the jurisdictions assigned to state legislatures.
- List – III questions the potential for cooperation between India's state governments and parliament.

Concept of Tax

'Tax' comes from the Latin word 'Taxo,' which means 'to weigh' or 'to assess. Taxes are the obligatory monetary charges imposed by the government on various forms of income, goods, services, activities, and deals. The government relies heavily on taxation to fund programs that improve the lives of its citizens. In India, taxes are collected both at the federal and state levels. Local governments like the Municipality also levy a few small levies. No tax must be imposed or collected without the due process of law, as guaranteed by Article 265 of the Constitution. As a result, legislation at either the Federal or state level is required to support every kind of tax.[3]

Benefits of Taxes in India

The Indian tax system is an important component of the country's infrastructure since it promotes economic growth. Paying your fair share of taxes allows you to do things like:

1. One benefit of paying taxes is that it facilitates receiving compensation in the event of an accident or other mishap.
2. Second, tax revenue is crucial to the government's ability to provide a decent quality of life for its citizens.
3. For those who are willing to pay their fair share of taxes, life insurance policies may be purchased with benefits ranging from fifty thousand to one million rupees.
4. The Individual Tax Return (ITR) serves as evidence of income when applying for a loan or credit card, making tax payment a prerequisite for these financial products.

Types of Taxes in India

In India, there are two main categories of the taxation imposed by the Central and State governments:

- Direct Taxes

- Indirect Taxes

In India, you'll pay both direct taxes on your income and indirect taxes on your spending. Whether a person, a HUF, or a corporation, the direct tax duty must be paid by the earning party.[4]

Businesses that sell services and goods are the primary collectors of indirect taxes. As a result, these organizations are liable for making indirect tax deposits.

Direct Taxes: To put it simply, a direct tax is paid straight from the taxpayer to the tax collector (generally the government). It is impossible to pass the buck on a direct tax on someone else. The burden of making the required tax payment rests squarely on the shoulders of the assessed person or entity.

Direct tax administration, including policy development, is the responsibility of the Central Board of Direct Taxes.

The real estate tax, personal property tax, income tax, asset tax, fringe benefits tax, gift tax, capital gains tax, etc., are all examples of direct taxes paid by a taxpayer to the government.

Indirect Taxes: Indirect tax may signify several different things. An indirect tax, in the common meaning, is collected by an intermediary (such as a retail shop) from the person who ultimately pays the economic cost of the tax (the end customer) (such as the consumer).

Once the intermediary receives the tax money, they submit a tax return and send it to the government. In this context, indirect tax refers to a tax that is not collected by the government directly from the individuals (legal or natural) who are subject to the tax.[5]

Different Types of Direct Tax

India receives over half of its budget income from direct taxes. Of course, income tax isn't the sole kind of direct taxation. Direct Taxes in India come in the following forms.:

- Income Tax
- Capital Gains Tax
- Corporate Tax

Other Taxes come under Direct Tax

The incomes of people in India cover a wide spectrum. That's why it's fair to tax people differently according to their income levels. Various tax rates apply to different income brackets under the Income Tax Act. In this context, "tax slabs" refers to several categories. Both your age and your income level might affect which tax bracket you fall into. Income tax brackets are adjusted annually at the Central Government's Budget Session.[6]

1. Capital Gains Tax

Only gains from the sale of a capital asset are subject to capital gains tax. Capital gains tax rates vary from one sort of gain to the next. The Capital Gains Tax is split into two categories under the Income Tax Act of 1961:

Short-Term Capital Gains Tax

Long-Term Capital Gains Tax

Short-term capital gains are when the assets are sold within a specified period, for example:

The acquisition and subsequent sale of shares in less than a year.

Exchanged for cash within 36 months after purchase, debt mutual fund shares

Any real estate or gold sold within 36 months after the acquisition

A long-term capital gain or loss is the result of the sale of an asset after a certain period has elapsed.

You may be eligible for the indexation benefit on long-term capital gains, depending on the asset type. By adjusting your capital gains for inflation, indexation lowers your effective tax rate.

2. Corporate Tax

Businesses and other legal entities that file their tax returns as corporations are subject to corporate taxation. Another rate is based on the company's annual revenue slab.

Income*	Turnover less than or equal to Rs 4 billion in FY 2018/19		For other domestic companies		Foreign companies	
	Base Rate	Effective#	Base Rate	Effective#	Base Rate	Effective#
Less than Rs 1 crore	25	26	30	31.2	40	41.6
More than Rs 1 crore but less than Rs 10 crore	25	27.82	30	33.38	40	42.43
More than Rs 10 crore	25	29.12	30	34.94	40	43.68

Different Types of Indirect Taxes in India

The Indian government's most reliable and greatest income stream has always been indirect taxes.

There are a variety of indirect taxes that have been and are being used in India's tax system.

- Service Tax
- Indian Excise Duty
- Value Added Tax (VAT)
- Customs Duty
- Securities Transaction Tax (STT)
- Stamp Duty
- Entertainment Tax

Numerous products and services in India are no longer subject to indirect taxes such the service tax, value-added tax, and excise duty. Rather than having many sales taxes, there is now only one, known as the Goods and Services Tax.[7]

Goods imported into India from other countries, and in certain situations, those exported out of India, are subject to customs duty tax.

Exchanges of financial securities are subject to the Securities Transaction Tax (STT). Securities such as stocks, mutual fund shares, futures contracts, and options contracts are examples of equities. All trades involving the buying and selling of securities are subject to this tax. Stamp duty and STT must be paid even when securities are traded off-exchange or over the counter.

Investors and traders alike may save money on both their short- and long-term capital gains taxes thanks to STT.

The transfer of property within a state is subject to a stamp duty imposed by the state government. Use it as evidence that you possess the asset or security in a court of law.

Transactions in India's entertainment industry are subject to a tax that is both a federal and state responsibility. Entertainment venues and industries will include the likes of new film releases, athletic events, concerts, amusement parks, theaters, etc.[8]

REVIEW OF LITERATURE

Mario Mansour (2015) has analyzed the current state of taxes and revenue collection in the MENA region. He concluded that indirect tax revenue has played a little role as a revenue generator, whereas income tax has helped offset some of the money lost due to trade liberalization.. [9]

Kumat, (2014) the scope of the Indian tax system and the difficulties that lie ahead, as the subject of his research paper. He advocates for a unified consumption tax structure. He adds that increasing the efficiency of India's tax system is still a top priority. [10]

Jha, (2013) In his study of the Indian tax system and its impact on businesses and individuals, recommends raising direct taxes on the wealthy to make up for the decline in revenue from indirect taxes. He also calls for the regulation of corporate tax avoidance methods including transfer pricing.[11]

William G. Gale, Benjamin H. Harris (2011) The conclusion is drawn that revenue increases will be an essential component of any solution to the fiscal crisis confronting any nation by analyzing the possibilities and obstacles that the fiscal problem generates for generating revenues and changing taxes. [12]

Rao, (2005) study, "Tax system reforms in India: success and problems ahead," zeroes in on the progress made at both the federal and state levels. He says these changes are just the start, and that much more work has to be done to improve the tax system. [13]

Goyal,(2018) has said that the GST is the most significant tax reform in India since 1947. The complexity of GST compliance, as shown by the report, may leave taxpayers bewildered. In addition, India's GST Structure has a variety of tax brackets rather than a single uniform rate. For GST to be successfully implemented, the researcher believes that the current IT infrastructure must be modernized. [14]

Agrawal, (2018) has researched the advantages and disadvantages of India's GST. According to the study's findings, the Goods and Services Tax (GST) would help the Indian economy expand and make running a company less cumbersome. The Goods and Services Tax (GST) would streamline the country's logistics and supply chain and bring about the necessary rise in state-based tax parity. [15]

Nayyar & Singh, (2018) has said that the GST is a game-changing tax reform that would unite the whole nation under a uniform tax levy. According to the study, the Goods and Services Tax (GST) would improve India's tax revenue by removing obstacles between the federal government and state governments on the issue of taxes. The analysis also pointed up problem spots that the government should address to make GST a success. [16]

Vij, (2018) has highlighted the issues plaguing the present Goods and Tax system, noting that businesses are having trouble with things like monthly reports, the GSTN site, and many tax slabs and that the GST has failed to combat corruption and tax fraud even as new forms of tax evasion emerge. The paper focuses on what has to happen next and what the government must do to ensure that GST is a benefit for the economy rather than a hindrance. [17]

Yadav & Shankar, (2018) has elucidated how the GST Structure put in place in India stands apart from any other system in the world. In India, the Goods and Services Tax (GST) system is administered by the GST Council and is founded on the federal concept. Each state's finance minister serves on this organization, and the country's finance minister chairs the group. The study's author stresses the importance of some variables, including industry adaptation, technological infrastructure, and the ability of government employees to troubleshoot, for the tax to be successful. The global business community as a whole will examine the ramifications of this change. [18]

OBJECTIVES

- To examine the tax structure and tax-to-GDP ratio of India.
- To study the tax revenue collection in terms of direct and indirect taxes.
- To study the contribution of direct and indirect taxes in total tax revenue collection.

METHODOLOGY

This research paper is purely based on secondary data. Various figures are obtained from the newspapers, journals, websites, and annual reports of the Ministry of Finance of the Government of India.

DATA ANALYSIS

From Rs. 648966 crores and Rs. 1230177 crores in 2013–14 to Rs. 996185 crores and Rs. 2015743 crores in 2017–18, Table 1 demonstrates a rise in direct tax collection and indirect tax collection. The combined amount of direct and indirect taxes rose from Rs. 1879143 crores in 2013–14 to Rs. crores in 2017–18.

Table 1: Tax Revenue Collection in India (Rs. in Crore)

Year	Direct Tax	Indirect Tax	Total
2013-14	648966	1230177	1879143
2014-15	703508	1336518	2040026
2015-16	752231	1583252	2335483
2016-17	859481	1831969	2691450
2017-18	996185	2015743	3011928

According to Table 2, direct taxes made up 33.35% (on average) of the total tax revenue collected, while indirect taxes made up 66.95% (on average) of the total revenue. This demonstrates that the amount collected via indirect taxes is almost twice as much as the amount collected through direct taxes.

Table 2: Percentage Share of Direct and Indirect Taxes in Total Tax Revenue

Year	Direct Tax	Indirect Tax	Total
2013-14	34.54	65.46	100
2014-15	34.49	65.51	100
2015-16	32.21	67.79	100
2016-17	31.93	68.07	100
2017-18	33.07	66.93	100
Average	33.25	66.75	100

Table 3 demonstrates that the primary source of direct tax revenue collection is corporation tax, which is followed by income tax, land revenue, agricultural tax, and hotel receipt tax. While other taxes helped direct tax income in 2017–18 reach Rs. 8189 crores.

Table 3: Direct Tax Revenue Collection (Rs. in Crore)

Types	2013-14	2014-15	2015-16	2016-17	2017-18
Corporation Tax	394678	428925	453228	493924	538745
Income Tax	237870	258374	280323	345779	433494
Estate Duty	0	0	1	0	0
Interest Tax	8	6	5	0	0
Wealth Tax	1007	1086	1079	0	0
Gift Tax	1	0	0	0	0
Land Revenue	9021	8773	10798	12109	15543
Agricultural Tax	149	90	99	102	113
Hotel Receipts Tax	64	73	83	91	100
Expenditure Tax	1	1	4	0	0
Others	6160	6170	6612	7476	8189

Table 4 demonstrates that the general sales tax, followed by union excise duties, service tax, custom duty, and state excise duty, is the biggest contribution to indirect tax revenue collection. While other taxes helped the government collect Rs. 15008 crores in indirect taxes in 2017–18.

Table 4: Indirect Tax Revenue Collection (Rs. in Crore)

Types	2013-14	2014-15	2015-16	2016-17	2017-18
Customs	172085	188016	210338	217000	245000
Union Excise Duties	169455	189038	287149	386415	405920
Service Tax	154780	167969	211414	247500	275000
State Excise Duty	85557	94178	106598	117925	134173
Stamp & Registration Fees	80528	87050	96203	96388	107804
General Sales Tax	475131	506106	550987	632474	710798
Taxes on Vehicle	37471	40927	46842	53581	62766
Entertainment Tax	2198	2385	2731	2905	3428
Taxes on Goods & Passengers	19578	19614	23373	26584	17023
Taxes & Duty on Electricity	22485	25733	31093	33112	36330
Taxes on the Purchase of Sugarcane	163	1148	1532	3242	2493
Others	10745	14354	14990	14841	15008

The average ratios for direct taxes to GDP, indirect taxes to GDP, and total taxes to GDP are 5.66, 11.38, and 17.04, respectively, according to Table 5. This indicates that indirect taxes contribute more to India's GDP than direct taxes do.

Table 5: Tax-GDP Ratio

Year	Direct Tax	Indirect Tax	Total
2013-14	5.78	10.95	16.73
2014-15	5.64	10.72	16.36
2015-16	5.46	11.50	16.96
2016-17	5.59	11.93	17.52
2017-18	5.83	11.79	17.62
Average	5.66	11.38	17.04

CONCLUSIONS

India relies on indirect taxes to collect taxes. The primary source of revenue for direct taxes is corporation tax. The primary source of indirect tax revenue is general sales tax. Indirect taxes make up a larger portion of the GDP than direct taxes. To increase direct tax contribution to total tax revenue collection, the government should implement structural reforms. The need to harmonize and streamline tax laws is great.

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