

Study on Tax System in India and Its Impact on Economic Growth

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Abstract – The general growth and development of any nation is the most significant capacity of the government. Every one of the exercises which establishes growth and development needs money. Government raises money through taxes. In the expressions of Dalton "Tax is a necessary commitment forced by a public authority independent of the definite measure of administration rendered to the tax payer consequently and not forced as a punishment for any legitimate offense". Tax is perpetual instrument for gathering revenues. The gathering of taxes is separated into direct and indirect tax. Income tax is ordered into direct tax. Tax is the real wellspring of income for the government, the improvement of any nation's economy to a great extent relies upon the tax structure it has received. A Taxation Structure which encourages simple of working together and getting no opportunity for tax evasion conveys flourishing to a nation's economy. This Research Study studies the tax system in India and its impact on economic growth.

Keywords: Taxation System, Taxes, Tax, Economic Growth, Money, India, Direct and Indirect Tax etc.

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I. INTRODUCTION

After Independence in 1947, India has formed into open Market Economy. In Early 1990's started the Process of progression and diminished controls on outside exchange and venture. It has served to quicken the nation's development rate with a gauge to ascend to 7.5% in money related year 2015/16. In the wake of monetary reforms, the tax system in India has under gone an extreme change, in accordance with the liberal policy. A portion of the progressions incorporate:- legitimization of tax structure; dynamic decrease in pinnacle rates of customs obligation ; decrease in corporate tax rate; customs duties to be lined up with ASEAN levels; presentation of value added tax; extending of the tax base; tax laws have been rearranged to guarantee better consistence. Tax policy in India gives tax occasions as concessions for different sorts of ventures. These incorporate incentives to need areas and to enterprises situated in unique zone/locales. Tax incentives are accessible likewise for those occupied with improvement of infrastructure.

India has a well-created tax structure. The ability to levy taxes and duties is appropriated among the three tiers of Government, as per the arrangements of the Indian Constitution. The principle taxes/duties that the Union Government is enabled to levy are: - Income Tax (aside from tax on agricultural salary, which the State Governments can levy), Customs

duties, Central Excise and Sales Tax and Service Tax. The essential taxes required by the State Governments are: - Sales (tax on intra-State clearance of goods), Stamp Duty (obligation on exchange of property), State Excise (obligation on production of alcohol), Land Revenue (levy on land utilized for agricultural/non-agricultural purposes), Duty on Entertainment and Tax on Professions and Callings. The Local Bodies are enabled to levy tax on properties (structures, and so on.), Octroi (tax on section of goods for use/utilization inside zones of the Local Bodies), Tax on Markets and Tax/User Charges for utilities like water supply, drainage, and so forth.

Taxation is an indispensable instrument in the fiscal arsenal of the government. By taxing the wealthy classes of society as indicated by their ability, the government gathers the revenue and then spends on administrations which are valuable to the network all in all. Taxing individuals, is certifiably not another marvel created by the cutting edge governments. It is fascinating to see that even crude and old social orders could flaunt taxation so as to release their public commitments and address the issues of security. The benefit of a dealer or the animals of an agriculturist were exposed to a type of taxation in the old days. Amid the Vedic occasions, the rule of taxation or the strategy for gathering consumption by falling back on taxation was a perceived need and a significant government work in whatever

structure it may have been upheld. The essential goal of requiring taxes is to raise revenue by exchanging resources from the public to the government. Nonetheless, this goal might be adequate just on account of created nations. The point of the tax policy in a creating nation ought to likewise be to evacuate the disparities of incomes in the general public. This rule of equity accept more significance in India, where the desire for equity of income is extraordinary. The tax policy ought to confer incorporated in adaptability with the tax structure and furnish proceeding with most extreme revenue profitability reliable with the ideal growth rate. The inherent adaptability woven into the tax structure gets the extra revenue to the state as income ascends without as often as possible going for administrative authorization and in the meantime accommodates an enemy of inflationary component. The inherent adaptability of a specific tax relies upon the width of the tax base with respect to national income, the responsiveness of the tax base to change in national income, and the rate structure of the tax. So the tax policy should go for most extreme conceivable inherent adaptability in the tax structure, particularly in creating nations where the requirement for the additional resources is pressing.

The tax structure of creating nations ought to be designed to the point that it isn't just instrumental in activating reserve funds yet additionally it doesn't unfavorably influence the prompting to contribute. Additionally, tax policy, other than going for economic growth, should assume a positive job in realizing economic soundness, allocative productivity, and ideal income appropriation in immature nations. It ought to be recollected that in spite of the fact that the essential point of tax policy is to raise revenue with rising income and to expand public reserve funds for gainful capital arrangement, it should endeavor to accomplish some ideal economic and social goals. The n current theory and system of taxation in India are to a great extent dependent on the British practice. Nonetheless, after the freedom, there was an extreme change in the government frame of mind towards the tax structure and policy. Under the British standard, the point of tax policy was just to raise assets for running the government, presently the goal isn't just to gather revenue yet in addition such accumulation is to fit in with certain financial policies went for accomplishing most extreme social great.

Tax system ought not to contain a predisposition for a specific group of taxpayers. It is not necessarily the case that dynamic rate of taxation is inapplicable. The second thought is that the tax system must have appropriate economic impacts and ought not debilitate the motivator to work, spare, and go out on a limb. The third prerequisite is that the tax system must be far reaching and basic and must make for effectiveness of the organization and anticipate expansive scale tax evasion.

II. IMPORTANCE OF TAX IN INDIA

Taxation, burden of obligatory collects on people or entities by governments. Taxes are collected in pretty much every nation of the world, basically to raise revenue for government expenditures, in spite of the fact that they fill different needs too. In present day economies taxes are the most significant wellspring of governmental revenue. Taxes contrast from different wellsprings of revenue in that they are obligatory requires and are pathetic—i.e., they are commonly not paid in return for some particular thing, for example, a specific public administration, the clearance of public property, or the issuance of public debt. While taxes are probably gathered for the welfare of taxpayers all in all, the individual taxpayer's obligation is autonomous of a particular advantage got. There are, in any case, significant exemptions: finance taxes, for instance, are ordinarily exacted on work income so as to finance retirement benefits, restorative installments, and other government managed savings programs—which are all liable to profit the taxpayer. On account of the possible connection between taxes paid and benefits got, finance taxes are now and then called "contributions" (as in the United States). By the by, the installments are usually obligatory, and the connection to benefits is now and then very powerless. Another case of a tax that is connected to benefits got, if just freely, is the utilization of taxes on engine powers to finance the development and upkeep of streets and roadways, whose services can be delighted in just by devouring taxed engine energizes. Amid the nineteenth century the predominant thought was that taxes should serve for the most part to finance the government. In prior occasions, and again today, governments have used taxation for other than simply fiscal purposes. One valuable approach to see the reason for taxation, owing to American economist Richard A. Musgrave, is to recognize goals of asset distribution, income redistribution, and monetary solidness. (Financial development or improvement and worldwide aggressiveness are now and again recorded as independent objectives, yet they can for the most part be subsumed under the other three.) Without a solid explanation behind impedance, for example, the need to diminish contamination, the primary goal, asset designation, is facilitated if tax policy does not meddle with market-decided allotments. The second target, income redistribution, is intended to diminish imbalances in the conveyance of income and riches. The goal of adjustment—actualized through tax policy, government expenditure policy, monetary policy, and debt the executives—is that of keeping up high work and value steadiness.

Both immediate and backhanded taxes are significant for our nation as they are connected with the general economy. Both are gathered by the central and particular state governments as indicated by the sort of tax exacted and are

significant for the government just as development point of view of the nation.

III. TAX STRUCTURE IN INDIA

India has a well-created tax structure. The ability to levy taxes and duties is disseminated among the three tiers of Government, as per the provisions of the Indian Constitution. ... Likewise it is seen that there is significant reliance on indirect taxes for tax accumulation than the direct taxes.

In India, the Taxes are grouped in to two kinds, direct taxes and indirect taxes.

Direct Taxes are those which are paid directly by the individual or association to the imposing authority. They are levied on income and profits

Indirect Taxes are those which are not paid directly by the individual or association to the imposing authority. They are levied on goods and services and not on income and profits.

A) Direct Taxes

- ◆ Taxes on income
- ◆ Corporation tax
- ◆ Interest Tax
- ◆ Estate duty
- ◆ Gift Tax
- ◆ Wealth Tax
- ◆ Agricultural tax
- ◆ Land Revenue
- ◆ Expenditure tax
- ◆ Hotel receipts tax

B) Indirect Taxes

- ◆ Union excise duties
- ◆ Customs
- ◆ State Excise duty
- ◆ Service tax
- ◆ General Sales tax
- ◆ Stamp and registration fees

- ◆ Entertainment tax
- ◆ Taxes on purchase of sugarcane
- ◆ Taxes on vehicle
- ◆ Taxes and duties on electricity
- ◆ Taxes on goods and passengers

IV. CONSTITUTIONAL PROVISION OF TAX IN INDIA

The constitutional provisions relating to taxation forces of various taxes of govt. in India are very unpredictable. The constitutions makes intricate and complex courses of action identifying with the conveyance, between the union and the states of taxes the intensity of acquiring and provision for gifts in-help by the union to the states. The hidden theory of these game plan is to put at the transfer of the two tiers of government satisfactory financial assets to empower them to release their separate obligations under the constitution.

Constitutional Provisions of Income Tax:

Taxation of Income in India might be characterized into two general classes: a) Taxation of non-farming income a central subject and b) Taxation of agricultural income a matter of state enactment. The two pertinent sections in rundown 1st union rundown of the seventh timetable of constitution which engage the parliament to levy income tax are: Entry 82, "taxes on income other than agricultural income" and Entry 85 company tax. As per Article 366 (6) of the constitution enterprise tax implies any tax on income, so far as that tax is payable by organizations" (The constitution of India, seventh calendar list 1st)

Distribution of Tax Powers: Article 265 of the constitution of explicitly states that no taxes will be lived or gathered aside from by the specialist of law. Passages 82 to 92B of rundown 1st in the seventh timetable arbitrator to the taxation forces of the union government.

V. TAX SYSTEM IN INDIA

India has a well-created tax structure with plainly delineated authority among Central and State Governments and neighborhood bodies. Central Government levies taxes on income (aside from tax on agricultural income, which the State Governments can levy), customs duties, Central Goods and Services tax (CGST) and Integrated Goods and Services Tax (IGST). Neighborhood bodies are enabled to levy tax on properties, octroi and for utilities like water supply, drainage and so forth. State Good and Services Tax (SGST), stamp obligation, state excise, land revenue and profession

tax are levied by the State Governments. Indian taxation system has experienced huge reforms amid 2017. The various indirect taxes have been subsumed in the new Good and Services Tax which was actualized from first July 2017. With the execution of GST right around 17 sorts of indirect taxes have been canceled making the indirect tax consistence a lot simpler and free from administration. The government presented Goods and Services Tax (GST) in 2017 which is the most significant tax reform in free India till date. Prior, governments levied different state and central taxes for benefiting different services or purchasing various goods. The taxation was perplexing and negating rules empowered a few people to dodge taxes through escape clauses in the system. After the presentation of GST, higher percentage of assesseees was gotten the taxation umbrella and it made harder for dodgers to escape from paying taxes. Likewise tax rates have been supported and tax laws have been rearranged as of late, bringing about better consistence, simplicity of tax installment and better authorization. The procedure of legitimization of tax organization is progressing in India.

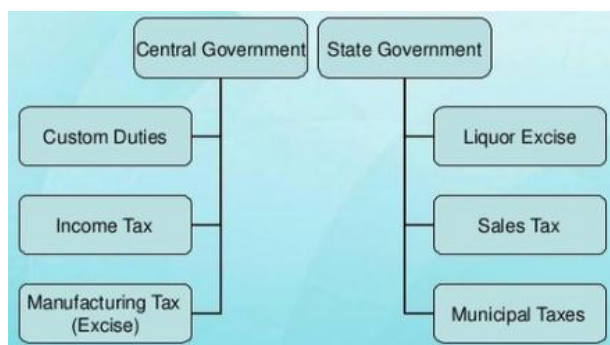


Figure 1.1: Indian Tax System

VI. TAX AUTHORITIES (DIRECT AND INDIRECT TAX)

The authority to levy taxes is partitioned between the Union government and the State Governments under the applicable Acts. The Union Government levies direct taxes, for example, individual income tax and corporate tax, and indirect taxes like custom duties, excise duties and central sales tax. The States are engaged to levy State sales tax and other nearby taxes like entry tax, octroi, and so on. In India, the authority to levy taxes is partitioned between the Union government and the State Governments under the applicable Acts. The Union Government levies direct taxes, for example, individual income tax and corporate tax, and indirect taxes like custom duties, excise duties and central sales tax. The States are enabled to levy State sales tax and other nearby taxes like entry tax, octroi, and so on. In contrast to most creating nations, which were guided in their tax reforms by multilateral agencies, for example, the International Monetary Fund, Indian tax reforms have to a great extent borne a domestic brand.

Accordingly, notwithstanding when the government looked for help from multilateral financial foundations, the proposals of these establishments did not directly convert into an agenda for tax reform. In spite of this, the tax system reforms were comprehensively in congruity with international patterns and exhortation proffered by master gatherings and was tuned in to international prescribed procedures. Unavoidably tax policy in the nation has reacted to changing improvement methodology throughout the years and to the changing worldwide situation. A portion of the progressions amid recent years incorporate decrease in excise duties in post worldwide financial and economic emergency, arrangement of custom levies to the dimensions prevailing in ASEAN nations, presentation of Service tax in 1994-95 other than presentation of the Constitution(115th Amendment) Bill in the Lok Sabha in March 2011 to operationalize 'Goods and Services Tax'(GST).

Tax structure in India is a three level federal structure. The central government, state governments, and neighborhood metropolitan bodies make up this structure. Article 256 of the constitution states that "No tax will be levied or gathered with the exception of by the authority of law". Henceforth, every single tax that is gathered requirements to back by a going with law.

Strikingly, the tax system in India follows its root to the prehistoric messages, for example, Arthashastra and Manusmriti. As proposed by these original copies, the taxes paid by ranchers and craftsmans in that period would be as agricultural produce, silver or gold. Based on these writings, the establishment of the cutting edge tax system in India was conceptualized by the Sir James Wilson amid the British guideline in India in the year, 1860. Be that as it may, post-independence the recently settled Indian Government at that point welded the system to move the economic advancement of the nation. After this period, the Indian tax structure has been liable to a large group of changes.

For a smooth execution of the Indian tax system, there are bodies devoted to it. Prevalently known as the revenue specialists.

- ◆ **CBEC:** The Central Board of Excise and Customs manages policy definition with respect to levy and gathering of customs and central excise duties and administration tax.
- ◆ **CBIC:** Post GST execution, the CBEC has been renamed as the Central Board of Indirect Taxes and Customs (CBIC). The principle job of CBIC is helping the government in policy-making matters identified with GST.
- ◆ **CBDT:** The Central Board of Direct Taxes is a piece of the revenue office under the

Ministry of Finance. It has a two-crease job. One, it gives significant thoughts and inputs to arranging and policy as to direct tax in India. Second, it helps the Income Tax division in the organization of direct taxes.

VII. IMPACT OF TAX SYSTEM ON ECONOMIC GROWTH

Close by the hypothetical demonstrating on ideal tax structure an exact writing has created in the course of recent decades analyzing the impact of the direct to indirect tax ratio on economic activity. The observational discoveries are differed and not constantly reliable. While more seasoned investigations will in general find less noteworthy economic impacts of taxes, later examinations will in general find critical impacts of the direct versus indirect tax blend on different results. These distinctions in results have to do with the example time of the examinations yet additionally with the strategy utilized.

Impact on labor supply, costs and yield: A prior paper in this writing is by Atkinson and Stern (1980), who utilize an all-inclusive direct expenditure system with United Kingdom Family Expenditure Survey information to look at the impact of a decrease in income taxes and an expansion in the VAT on labor supply and welfare. For labor supply they locate a net increment in labor supply by those with the most astounding pay rates, with the income tax cut expanding hours and the VAT change decreasing them. The examination of welfare changes demonstrates that the advantages of a change from income tax to VAT would stream to those with higher wages.

The most grounded proof yet that direct versus indirect tax decisions matter is with regards to dynamic endogenous growth settings; this proof focuses to the fact that exchanging the tax blend toward consumption taxation and far from income taxation has critical growth impacts or dynamic efficiency gains. In the sections underneath we overview a portion of this experimental work, which has been for the most part completed with information from OECD nations.

With little uncertainty the most usually thought impact, yet by and by disputable, of high dependence of tax systems on direct taxes versus indirect taxes is its negative impact on economic growth. In the survey of the writing above we have seen that a number of ongoing investigations give experimental proof, though not constantly reliable, of the adverse long haul growth impacts of direct taxes, especially corporate income taxes and dynamic personal income taxes. Our objective here is to investigate all the more explicitly the potential job of the direct to indirect tax ratio on economic growth. To extrapolate from the latest exact writing we ought to

foresee that higher direct tax to indirect tax ratios should prompt lower rates of economic growth every other thing being equivalent. The experimental writing on economic growth is huge and consistently developing.

VIII. CONCLUSION

As a result of globalization and the expanding international portability of the factors of creation, particularly of capital, there has been a ton of interest in the writing contemplating FDI (foreign direct investment) streams and how corporate income taxes and other direct taxes may influence these streams. Subsequently the decision of tax structure and specifically the direct to indirect tax ratio can be foreseen to have conceivably critical impacts on FDI flows. Dynamic personal income taxes will in general pull back relatively increasingly private income amid economic developments and less so amid contractions of the economy. Likewise, corporate income taxes return higher revenues when profits are high in the development period of the business cycle yet they drop extensively in the contraction stage. Then again, indirect taxes, for example, the VAT or excises, do not have these balancing out highlights. To investigate the job of tax structure regarding the direct to indirect tax piece on macroeconomic stability, we utilize a basic relapse model in which we relapse the unpredictability of economic growth, estimated by the standard deviation of GDP growth rate inside each subsample period, on the direct to indirect tax ratio and a lot of other logical factors.

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