A DETAILED ANALYSIS OF THE INDIAN TAX STRUCTURE

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ABSTRACT

Taxation is the government's primary source of revenue, and the economic prosperity of every country is primarily determined by the tax structure it has established. A tax system that makes doing business simple and eliminates the possibility of tax evasion benefits a country's economy. On the other hand, on the one hand, there is a taxation framework that allows for tax evasion and on the other hand, there is a taxation structure that does not allow for easy tax evasion. The cost of conducting business inhibits the country's economic progress. Indian taxes have undergone numerous revisions, but it is still a long way from being an ideal taxation system. Many issues, such as tax evasion, reliance on indirect taxes, black money, and the development of a parallel economy, indicate that the Indian tax system will require considerable adjustments in the future to address all of these issues. The author of the following study paper makes an attempt to analyze the evolution of India's taxation system. The research article focuses on the importance of the Goods and Services Tax (GST), which was recently incorporated into the Indian tax framework, and how individuals rely more on indirect taxes than direct taxes.

Keywords - India Tax Structure, Evolution of Indian Tax structure, Direct Tax, Indirect Tax, GST etc.

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I. INTRODUCTION

Since independence, India's tax structure has been changing on a regular basis. We had a record number of Committees investigating the necessary adjustments to the existing tax structure. Even today, one cannot declare that everything is perfectly systematized and that the Indian tax structure and operations are faultless. Taxation is an ancient notion, dating back to the dawn of humanity. The ancient Indian books *'Manu Smriti'* and *'Arthasastra'* contain extensive discussions on taxation. The king, according to Manu Smriti, should organize for tax collection in such a way that the taxpayer does not feel the burden of paying taxes. During the British reign in India, James Wilson developed the modern taxation system in 1860. In the year 1922, more codification was adopted. The system persisted, and in 1961, a new attempt was made when the Income Tax Act of 1961 was passed and brought into effect, which is still in effect with some minor changes by the government's authority. The right of the Indian government to collect taxes is legitimized by the Constitution of India, which allocates tax-levying powers to the Union Government and State governments according to the scheme provided out under the VIIth Schedule. Article 265 limits the state's taxation rights and states that no taxes may be collected without legal authorization. Furthermore, all taxes levied within India must be accompanied by a statute known as the Finance

Bill, which is passed by the Parliament or the State Legislature every year. The Central Board of Revenue Act of 1924 established the Board as a governmental entity charged with the administration of income tax. There have been numerous amendments since then. With the expansion of the tax net, expert committees such as the Indian Taxation Enquiry Committee (192425) and the Taxation Enquiry Commission (1955-34) were formed to make suggestions. The sole objectives of these committees are as follows:

- Simplification of tax laws.
- Widening tax base.
- Restructuring income tax department to increase effectiveness and productivity.

1.1. Research Problem

Indian taxes have undergone numerous revisions, but it is still a long way from being an ideal taxation system. Many issues, such as tax evasion, reliance on indirect taxes, black money, and the development of a parallel economy, indicate that the Indian tax system will require considerable adjustments in the future to address all of these issues.

1.2. Research Question

Whether the current regulations provide the necessary safeguards for increased profitability, and whether they genuinely earn the bare minimum of revenue for the government?

1.3. Hypothesis

No, this study further analyzes further the possible reasons behind such problem

1.4. Literature Review

1. NehaKanojia, A Study on Goods and services Tax in India, This paper discusses on the benefits of GST and its current implication in India. The current system of indirect taxes is not able to implicate tax evasion and distortion. It also indicates how GST is an improvement over VAT and Service Tax.
2. Pratap Singh, Tax Revenue in India , Trends & Issues, this paper discusses the brief history of taxation system in India which is followed by the various trends ranging from the 1980-2017. This paper helps the author to reach the conclusion and effective recommendations for this research paper.
3. Dr Geetanjali Sharma, Mrs.Miriam George, GST- A game changer in Indian Taxation System, The paper discusses on the benefits of GST and its current implication in India. The current system of indirect taxes is not able to implicate tax evasion and distortion. It also indicates how GST is an improvement over VAT and Service Tax.
4. Nishant Ghuge, Indian Tax Structure: An Analytical Perspective, this study is purely based on secondary data. Various figures are obtained from the different websites of government of India.

It is seen that there are various number of taxes and different tax collection authorities in India. Also, it is seen that there is major dependence on indirect taxes for tax collection than the direct taxes. Both Indirect taxes and Direct taxes have their own advantages and disadvantages.

1.5. Scope and Objective

- To Study the Tax Structure of India
- To Identify the different taxes Collected
- To Identify the amount incurred on collection of taxes

- To Identify the amount of revenue which is collected from different types of taxes
- To Identify problems in the existing taxation structure

1.6. Methodology

The type of method that will be used in this paper are doctrinal in nature and the data are collected from the secondary resources like journals, articles, media reports, Books, Case laws and different websites. The secondary resources will be used as a reference to analyze and understand the criticism behind the study of this research paper.

II. TAXATION SYSTEM OF INDIA

India currently has a well-developed three-tier federal tax framework with well defined power between the Central and State Governments, as well as municipal entities. The Central Government charges income taxes (save for agricultural income, which is levied by the State

Governments), customs duties, the Central Goods and Services Tax (CGST), and the Integrated Goods and Services Tax (IGST) (IGST). State governments levy taxes such as the State Goods and Services Tax (SGST), stamp duty, state excise, land revenue, and profession tax. Local governments have the authority to charge taxes on properties, octroi, and facilities such as water supply and drainage. According to the Indian tax system, the government collects taxes from its inhabitants in order to create revenue for public-works projects and to improve the country's economic footprint.

Section 2(24) of the Income Tax Act of 1931 defines "Income" as "the sum of money which any individual or business earns during a specific period of time from the many accessible sources of Income." It signifies that the money received by an individual as pay and compensation from the employer who has hired him to undertake a specific task is his principal source of income. Similarly, in the case of a firm, the revenue earned by fulfilling key business operations is regarded as the company's income. In layman's terms, income is the money received by an individual over a specific period of time.

2.1. Difference between Direct Taxes & Indirect Tax in India

1) The impact of direct taxation is felt immediately by the taxpayer. In the beginning, indirect taxes were levied on traders or producers, but they were eventually levied on buyers of goods or services.

2) In the case of direct taxes, shifting the burden is difficult because the tax payer must suffer the tax. The indirect tax might be passed on to other people.

3) In the case of direct taxes, the potential for evasion is substantial due to account falsification and other means.

4) Income suppression In the case of indirect taxes, the opportunity for tax fraud is limited because the tax is included in the purchase of a product or service.

5) Inflation can be reduced through direct taxation, but it can also be increased through indirect taxation.

6) Direct taxes have a negative impact on taxpayers' ability to save and invest. In the case of indirect taxes, savings and investment may grow when non-essential items and services are reduced.

7) Direct taxes are progressive, reducing inequalities, but indirect taxes are regressive, increasing inequalities.

8) In the case of indirect taxes, by heavily taxing hazardous items such as cigarettes, liquors, and so on, the government can channel people's purchasing power toward useful items, so creating a beneficial consumption pattern.

9) Direct taxes are typically complex, with numerous exemptions, procedures, and provisions that may necessitate the assistance of professional accountants and auditors, resulting in higher administrative costs, whereas indirect taxes have lower administrative costs due to convenient and consistent collections.

10) Indirect taxes have a broader reach because they are levied on all members of society through the sale of goods and services, whereas direct taxes are levied solely on those who fall into specific tax brackets.

2.2. GST as Indirect Tax

GST, or Goods and Services Tax, brought about a lot of favorable developments in India's fiscal sector. Various taxes that were once levied are now defunct. GST ensures that the motto of One Nation, One Tax, and One Market becomes a reality in our country rather than a pipe dream. The cascading impact of tax is a situation in which the end-consumer of any good or service bears the weight of the tax to be paid on the previously calculated tax, resulting in an increased or inflated price. Many of the indirect taxes levied by states and the federal government were merged into the Goods and Services Tax (GST) on July 1, 2017, when it went into effect. GST replaced several taxes, including Sales Tax, Central Excise Duty, Entertainment Tax, Octroi, and Excise Duty. Service Tax, Purchase Tax, and so on. One significant advantage is the simplicity of taxation in India to the government agencies. The following taxes are being consolidated at the central level:

1) Additional Excise Duty
2) Service Tax
3) Central Excise Duty
4) Additional Customs Duty commonly known as countervailing duty and
5) Special Additional Duty on Custom

The following taxes are being consolidates at state level:

1) Subsuming of State Value Added Tax/Sales Tax
2) Entertainment Tax
3) Octroi and Entry Tax
4) Purchase Tax
5) Luxury Tax, and
6) Taxes on lottery, betting and gambling

The Goods and Services Tax (GST) has the potential to boost India's GDP. With the adoption of GST, taxpayers will be able to breathe easier because they will no longer be required to fill out several compliances under different states. The GST regime requires only one registration and one return. Furthermore, it adds significant momentum to the Government of India's MAKE IN INDIA drive by attracting new foreign investment and lowering manufacturing costs through decreased compliance costs and taxes.

III. LEGISLATIVE STATUTE ON INCOME TAX

A. The income Tax Act, 1961

The Income Tax Act was enacted in India in 1961. It is a comprehensive statute with the main objective of governing taxation in the country through many rules and regulations. The legislation specifies how the Indian government administers, levies, recovers, and collects income tax in India. In order to deal with the numerous income tax aspects in India, the act contains 23 chapters and 298 sections[1]. In India, all of the important provisions relating to income tax are included.

Income tax is levied on a person's entire earnings over the course of a fiscal year. Under the Income Tax Act, a person is defined as an individual, a Hindu Undivided Family, a corporation, a firm, or an organization of persons or a body of individuals, whether incorporated or not.

Assesses is a taxpayer who is required by the Income Tax Act to pay taxes or any other sum of money. Section 2(7) of the Income Tax Act of 1961 defines the term assessee. Interest, fines, penalties, and other taxes, among other things, shall be included in the phrase "any other quantity of money." Section 2(9) of the Income Tax Act of 1961 defines "assessment year" as a twelve- month period beginning on April 1st and ending on March 31st of the following year. In layman's terms, the assessment year is the year in which the previous year's revenue is taxed.

B. Finance Act

Every year, the finance minister of India delivers the budget to the Indian parliament. The finance act specifies any changes in income tax slabs and rates that occur each year. When the financial bill is passed through parliament and approved by the president, it becomes the finance act. Many times, some parts of the act do not clearly describe their meaning, and in order to explain their meaning, clarification on that part of the provisions is required. The CBDT[2] produces circulars and notifications on a regular basis in order to close loopholes in the act's provisions, and these notifications and circulars also aid in better understanding the meaning of provisions.

3.1. Income Tax's role in the Indian Economy

In the Indian economy, the direct tax or income tax makes a smaller contribution than the indirect tax. The reason why income tax or direct tax contributions are lower in the Indian economy is that income tax is imposed based on the income produced by the people, and there is also a defined limit of income. If the income earned exceeds the established limit, only income tax is levied on that income; however, in India, the majority of the population earns less than the stated limit, hence their income is exempt from income tax.

[1] The Income Tax Act, 1961.
[2] Central Board for Direct Taxes.

Exclusively a small part of India's overall population earns income that exceeds the stipulated limit, and income tax is levied only on this income. In India, there is a progressive income tax system, which means that a higher rate of tax is levied on the wealthy while a lower rate of tax is levied on the poor. In the small portion of the population whose income exceeds the set limit, a very small number of people fall into the richer section group on whom a high rate of income tax is levied, which is why the direct tax or income tax contributes very little to the Indian economy because a very small amount of revenue is generated from the direct tax or income tax.

On the other side, the reason why indirect taxes contribute more to the Indian economy is that indirect taxes are levied on goods and services rather than on income. People's earnings In the case of indirect taxation, the tax are incorporated into the price of products and services, and the prices are fixed. The fact that prices for goods and services are the same for everyone means that there is no distinction between rich and poor people. Thus, because both the rich and poor pay the same amount for products and services, the same amount of tax is collected from both groups, which ultimately boosts revenue generated through indirect taxes, which are India's main source of tax revenue and play a key part in the Indian economy.

The percentage of revenue earned by income tax can be used to determine how important income tax is in the Indian economy. Over the last six years, income tax revenue has accounted for 40.24 percent of all revenue generated by direct taxation in India.[3]

3.2. Effect of Income Tax on Individual life

Taxation has a significant impact on people's lives in a variety of ways. For example, the imposition of a tax on a person's income reduces the person's disposable income (the amount available to the person to spend as he pleases). When a person's disposable income is lowered, he or she will spend less on basics. As an example, if a person is unable to purchase the basics that help him enhance his working efficiency, his work ability will suffer and he will be unable to earn more, which will have an impact on his saving and investing plans. The impact of imposing tax is more on poor people and less on rich people because poor people's earnings

[3] Economic effect of Taxation, available at https://www.economicsdiscussion.net/government/taxation/economic- effects-of-taxation-top-6-effects/17454 , <accessed on, Nov 28,2024>

are already low, and putting tax on them has a significant impact on their earnings, but rich people's earnings are higher, and charging tax on them has little influence on their earnings.

The imposition of taxes has a negative impact on a person's willingness to work because the taxes imposed on a person's earnings are continuous, which means that the person has to pay tax on his earnings not just once a year, but every year, and the continuation of paying taxes has an impact on his psychology because he feels like there is no benefit in working more hours because he has to give up a portion of his earnings. As a result, people's willingness to work is hampered, and the nation's total output suffers as a result of the people's reduced motivation to work. In this way, it can be shown that imposing a tax on people acts as a disincentive, influencing people's psychology to complete their task to the best of their abilities. And when individuals begin to believe that they will not be able to work longer hours, the nation's living standards will suffer. And this decision to not work longer hours not only impacts people's living standards, but it also has a negative impact on their saving and investment plans, which will be a huge downside for the country's income.

3.3. Rational behind lower collection of Income Tax in India

Lower income collection due to tax evasion could result in the government failing to reach its fiscal deficit target. Tax evasion occurs when a person conceals his taxable income using illicit tactics such as financial statement manipulation, receipts books, sales, and account books. The management of the economy by such groups is aided by black money and tax evasion. Taxation is the government's primary source of revenue, and tax evasion halts the country's economic growth. While it is lawful to avoid paying taxes by taking advantage of deductions and claiming a low income, tax evasion is not. The tax framework must be able to distinguish between the two. The main cause of tax evasion is a high tax rate, which can be reduced by lowering the tax rate. Public party accounts must be audited on a regular basis. Agricultural income that is exempt from taxation is a simple approach to avoid paying taxes by purchasing agricultural land and reporting the income under that heading. A person can own a limitless amount of agricultural revenue without paying a single penny in taxes. If any head is exempt from taxation, it indicates that not only the farmer benefits, but all others who want to hide their money can utilize this head to avoid accountability.

Approximately 60% of Indian inhabitants, according to reports, own agricultural land. Agricultural income is owned by all wealthy people and politicians. By demonstrating agricultural exemption, the majority of black money is turned to white money. This has become a popular method of concealing illicit funds and tax avoidance. The government is well aware of the abuse of this tax-free status. If an appropriate legal structure is constructed to keep track of these difficulties, tax avoidance can be eradicated.

IV. CONCLUSION & SUGGESTIONS

While the tax department is technologically advanced, improvements to the administrative and procedural components may be required. The information and data on which the tax authorities have relied must be made public. The statute should ban departmental authorities and assessing officers from using information obtained from unsubstantiated, private sources in international tax transactions. Because India is a high-tax nation, foreign corporate companies must proceed with prudence before establishing a presence there. Choosing an appropriate mode of sale, determining the type of entity and nature of operations, and appointing distributors.

The government could also strive to provide certain tax benefits to taxpayers in order to stimulate them to earn more by committing more hours to work and working to their full potential. This will not only help to develop the economy, but it will also help to improve the quality of life. The financial situation of taxpayers, but it also has a significant impact on the nation's economy. However, the government should make an effort to increase employment opportunities for people from all walks of life. Due to the fact that there is only a small percentage of the majority of the population pays taxes, although a small percentage of the population evades their tax obligations by making fictitious income statements. To address the issue of black money and tax evasion, all receipts, including agricultural income, should be digitized. A proper mechanism for determining actual agricultural income for the purposes of exemption should be devised.

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Statute

1. Income Tax Act, 1961
2. Finance Act

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