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TAXATION SYSTEM IN INDIA

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Abstract

This research paper endeavours to investigate and analyse the taxation system in India which began with the enactment of the Income Tax Act, 1961. It attempts to highlight the various taxes that Indians are liable to pay, understand their incidence and implications on the Indian economy and its citizens, and further explore the challenges faced by the Tax Administrator and policymakers in the context of revenue collection, taxation reforms and revenue leakages. In light of recent developments, the paper evaluates the role of intellectual property rights and the taxation framework for startups with the help of comparative international taxation frameworks. It also focuses on the challenges taxpayers may face in light of the Goods and Services Tax (GST) and the efficacy of the Direct Tax Code (DTC) to simplify and reinvigorate the Indian taxation system post-GST. The paper concludes with a few key recommendations in an attempt to modernise the Indian taxation system while ensuring making it more efficient, equitable and inclusive.

Introduction

Taxation forms an integral component of the Indian economy and is a centralized subject encompassing several taxes namely the Income Tax, Agricultural Income Tax, Corporate tax, Stamp duty and the recently introduced Goods and Services Tax (GST). Taxes are levied on various commodities, services and incomes for the purpose of raising revenues to fund the functioning of Government and to promote socio economic development and modernization. Taxes are also essential for providing social security benefits and other essential development programmes.

Taxes in India can be classified into direct taxes and indirect taxes. Direct taxes refer to taxes that are directly paid to the government by the taxpayers (persons or entities earning an income) and include income tax, corporate tax, wealth tax, donor’s tax, etc. Indirect taxes, on the other hand, are those which are paid to the intermediate supplier or producer of goods and services and are then passed on to the Government by the taxpayer or person ultimately buying or using the goods or services. An example of such tax is GST, which is paid to the Trader/Restaurant from whom goods or services are bought.

The taxes that are collected by the Government are used for socio-economic development of India. It provides essential services to its citizens such as education, healthcare, infrastructure as well as providing subsidies and other incentives for promoting various developmental activities. The revenue collected from taxes also helps to promote investments in areas that are necessary for economic growth and prosperity of the country.

Taxation in India began with the enactment of the Income Tax Act, 1961, which was followed by the introduction of several other taxes in quick succession, such as the Value Added Tax, Service Tax, Central Sales Tax and the recently implemented Goods and Services Tax (GST). The Government has also in recent years, implemented important changes and reforms to address the challenges in possible evasions and tax avoidance by citizens and corporations. The Government has introduced measures such as the base erosion and profit shifting (BEPS) to try and combat corporate tax evasion, while the ‘Vivad se Vishwas’ scheme has been introduced to reduce the long-pending disputes in the Direct Tax arena.

The Government has also undertaken a series of taxation reforms from time to time by introducing various schemes and incentives for the promotion of the overall economic development in the country. This paper will analyse the current taxation system in India, with a focus on the challenges and initiatives undertaken for improving the same, and how the recent developments in the taxation system are impacting the Indian citizens and businesses, and provide an assessment of the efficacy of the taxation policies of India

Taxation System in India

The taxation system in India is managed by the Central Board of Direct Taxes (CBDT) which is responsible for the administration of direct taxes, while the Central Board of Indirect Taxes (CBID) is subservient to the Ministry of Finance and administers and monitors the GST regime.

India has a progressive taxation system with different tax slabs; whereby, the higher the income of the taxpayer, the higher rate of taxation is applicable. The Income Tax Act, 1961 governs all taxes in India, which are charged at different rates depending upon the type of income or asset for the purposes of:

1. Salary or income from any source- taxed under the head Income from Salaries
2. Property Income- taxed under the head Income from House Property
3. Business or Profession- taxed under the head income from Business& Profession
4. Capital gains- taxed under the head Capital Gains
5. Other incomes- taxed under the head earnings from "Other Sources"

The Income-tax Act is further supplemented by wealth tax, donations tax and surcharge on all taxes other than the GST levied by the Central Government.

Income Tax

Income tax is the most prominent form of taxation in India and the taxpayers comprise individuals, Hindu Undivided Families, companies, firms and other entities. The Indian Income Tax Act provides for a complex taxation system with different tax slabs and deduction and exemption limitations. The effective tax rate as prescribed in the Income Tax Act is divided into certain brackets ranging from 0% to 30%, based on the quantum of income and age of the taxpayer.

Income Tax has provisions for several deductions for individuals, HUFs, companies and firms. These include deductions for investments and expenditure towards specified employment, business and profession, donations to certain institutions and reliefs from certain head of income.

Corporate Tax

Corporate tax is levied on businesses such as limited companies, co-operatives, corporate societies and small business enterprises. It is currently levied at a uniform rate of 30% of the net income of a company along with 3% education cess. The corporate tax rate varies depending upon the quantum of income and varies from 15% to 43% for companies having income less than 400 crore INR.

Wealth Tax

Wealth tax is imposed on net wealth of a taxpayer in excess of a prescribed limit. It is levied on properties, cash, vehicles and any other form of wealth owned by the taxpayer. The rate of wealth tax has been reduced to 0.25% from 0.50% from the financial year 2016-2017 and is applicable in case of industrial properties, mortgages, deposits with banks and other financial institutions.

Stamp Duty

Stamp duty or property tax is an annual tax imposed by the State governments on real estate holdings and is payable by the owner of the property. The rate at which it is to be paid varies depending upon the value of the property. The stamp duty is charged at either a flat rate or amount based on the value of the property, whichever rate is higher.

The Government of India administers a unified Goods and Services Tax (GST) regime across the country. The GST is the most comprehensive tax reform in India, unifying over a dozen previously existing taxes. It has replaced several old taxes including the Central Sales Tax, Service Tax, Value Added Tax, Luxury Tax, etc. Under the GST Act, the tax rate varies from 0% to 28% and is applicable on the supply or sale of goods or services.

Challenges with the Indian Taxation System

The taxation system in India is plagued by several challenges, some of which include revenue leakages due to tax evasion, absence of clarity in the tax laws, poor enforcement projects and inadequate infrastructure in terms of technology and staff.

One of the biggest challenges that India faces is the low compliance rate of the taxpayers. This has led to huge revenue losses for the Government and a corresponding increase in the fiscal deficit. This has further led to an increase in the burden on the people who pay their taxes sincerely and are thereby unable to take advantage of the deductions and exemptions provided by the Income Tax Act.

The Indian taxation system has also not been able to keep pace with the changing economic environment. This has resulted in outdated legislation and taxation rules which has become a major challenge for the Tax Administrator, apart from preventing citizens from taking full advantage of the taxation policies of the Government.

The absence of a uniform taxation system across the country and especially in the context of GST, has further complicated the taxation process and has impeded the growth of businesses, especially small to medium enterprises. This has also created uncertainty over the taxation rates and compliance processes, thus resulting in litigations and disputes in the taxation arena.

Tax Reforms and Initiatives

The Government has undertaken a series of taxation reforms and initiatives for improving the efficient administration of taxes and improving the Indian tax system. Some of the important initiatives taken by the Government in this regard include:

1. Introduction of Goods and Services Tax (GST): One of the most important reforms undertaken by the Government, GST is a unified indirect tax structure which has replaced multiple taxes, across the country. It has enabled a seamless flow of goods and services and has created a common market across the country.

2. Introduction of Intellectual Property Rights (IPR): The Government has taken important steps in protecting the creation of intellectual property by introducing special provisions in the Income Tax Act. The concept of IPR has become important as several corporates are now investing in research and development and protection of IPR has become a necessity for them.

3. Tax Exemptions for Startups: The Government has taken various steps for promoting the development of startups and encouraging entrepreneurship in the country. Tax exemptions such

as the 80-IAC, Start up India and reduced corporate tax rate for new companies are some of the major initiatives taken by the Government in this regard.

4. Vivad Se Vishwas Scheme: This scheme has been introduced by the Government to provide relief to taxpayers by providing for settlement of disputed tax arrears with waiver of interest and penalty. This scheme has been introduced as a one-time settlement and has been applicable to all cases pending at the Income Tax Appellate Tribunal (ITAT), CESTAT, High Courts and Supreme Court.

5. Direct Tax Code: The Direct Tax Code (DTC) is the current tax code in India and is intended to replace the existing Income Tax Act, 1961. It aims at simplifying the tax administration by introducing self-assessment, removing exemptions and deductions, and setting up a single tax slab rate. This code is expected to make the tax compliance easier and reduce any possible repetitions or tediousness involved in the tax filing processes.

Conclusion

The Indian taxation system has come a long way since the enactment of the Income Tax Act in 1961. The Government has undertaken several taxation reforms and initiatives to simplify the tax administration process, improve the overall tax justice and ensure efficient revenue collection.

The Government must focus on addressing the various issues related to revenue leakages and tax evasion, so as to improve the overall efficiency and ensure compliance. Further, technological advancements and data analytics should be utilised for better revenue collection and taxpayer audits. Further, the Government must focus on simplifying the existing tax laws, providing relief to taxpayers and promoting fairness and economic growth in the country.

In conclusion, the taxation system in India needs to be simplified and made more equitable in order to ensure the effective functioning of the Indian economy by providing a more conducive investment climate and promoting competitive tax structures.

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