"INDIAN TAX STRUCTURE- NEW REFORMS AND IMPLICATIONS"

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INTRODUCTION

The origin of the word Tax is derived from "taxation" which means an estimate. Tax is collected from the public by public authorities for public purposes. Tax is classified into different types such as property tax, income tax and corporate tax etc. A body has been constituted under the Income Tax Act 1961. After Indian Independence in 1947, the law makers have got in various tax reforms. On the top notch, it has also undergone a radical change and some of the changes are as follows, reducing tax liability, reduction in corporate tax rate and after GST came into effect many central and state taxes were subsumed. The following are the central taxes that are subsumed: Service tax, Central Excise Duty and Central Sales Tax and when it comes to the state it is VAT or Sales, Octroi tax and Purchase tax etc. All the taxes collected by the government shall be used for the betterment of the citizens, social, economic and military welfare etc. There's always a conflict between the tax payer and the tax collector due to the irrational tax structure. The authorities constituted under the Indian Tax Act mainly have been embodied to collect tax and make sure that they don't do any tax planning or evasion and when it comes to solving issues they have their own tribunal and appellate tribunal. The individual shall receive income from their employer only after the prescribed percentage of tax is collected. There are different tax slabs and for an individual to decide under which slab he/she falls depends on their income.

EVOLUTION OF TAX SYSTEM POST- INDEPENDENCE ERA

Tax gained importance and was given priority in the second half of 1980's and they later started bringing in many reforms and many steps were taken by the Indian Government to rationalize the taxing system. India back then had high import tariffs, excise duty and high redistributive income tax rate. After India got it its independence, it was then realized that a change should be brought in and all the ambiguities shall be removed. They came up with a process of planning and they shall decide how much to invest, where to invest, how much to save and in what forms to invest. Trade policy was liberalized during the 1980's and during the 1980's growth was seen in the industrial sector.

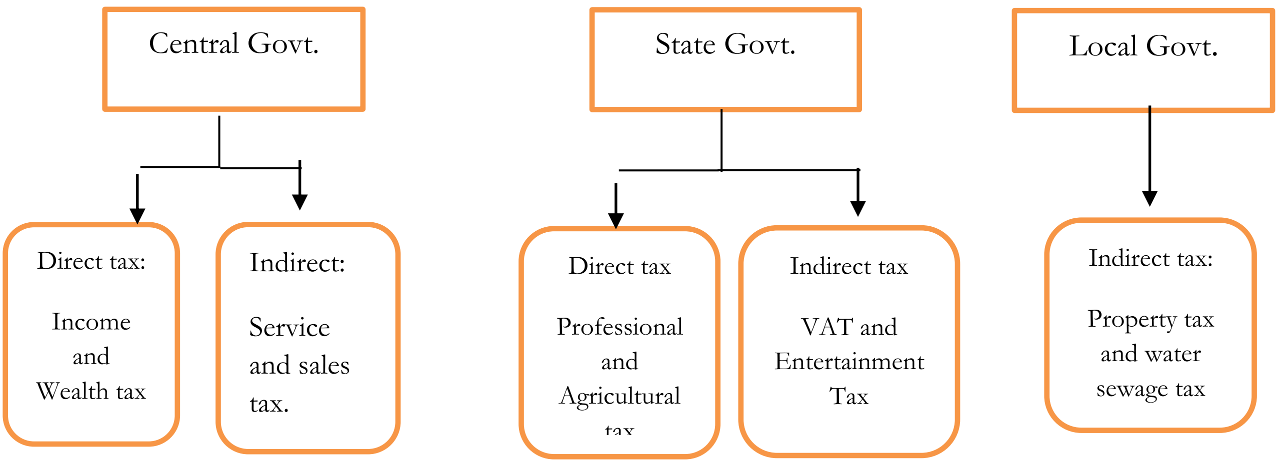
The salient features of Indian Tax system are as follows,

1. Equity Considerations: The Indian tax structure at times violates the equity though the Indian Tax system is considered to be a progressive one. During 1993-1994 the burden was quite heavy on the population who fall under the below poverty line.

2. Lacking Administrative efficiency: Tax back then was not administered properly. Since it wasn't administered properly it led to unscrupulous elements like avoiding payment of tax or tax evasion. Sometimes misinterpretation of tax laws can also lead to corruption.
3. Narrow Coverage: According to the Planning commission of India, the direct tax would cover only 1% of the working population. Likewise, excise duty on products like textile and tobacco etc. are being paid by very small section of the consumers.
4. Inter- sectoral Imbalances: People are taxed on basis of the income they receive. Some are taxed whilst some are not taxed. For example agricultural farmers do not pay tax and there are both rich and poor farmers. The rich farmers are escaping from payment of tax and this is how it is imbalanced.
5. Predominance of Indirect taxes: The government receives more indirect taxes while direct taxes play a secondary role. Taxes are collected by both the central government and the state government. Higher revenue is collected by the Indian Government through indirect taxes.
6. Multiplicity and Haphazard: The Indian Tax system is haphazard because of the multiplicity of both the direct and indirect taxes. This had led to tax avoidance and tax evasion.
7. Heavy Incidence: According to a study conducted by the Indian chamber of Commerce, Calcutta, it learned that taxation incidence is more on the individuals and corporate. The study shows that 0.5% of the population bears the personal tax and 0.2% pays the 80% of the total tax.[1]

TAX STRUCTURE IN DIFFERENT COUNTRIES

India: In a developing country like India, the taxation policies must should maximize its economic efficiency and minimize its impediments. The Indian Tax Structure is explained through the figures drawn below.



[1] Charvi Gulati, 'Essay on India Tax Structure' (*Micro Economics Notes*, no date) <http://www.microeconomicsnotes.com/essay/essay-on-indian-tax-structure/1112> accessed 9 April 2019

The Above Figure represents the different taxes collected respectively by the Central, State and Local Government. Apart from this, the local authorities have certain power. Certain taxes have been subsumed with the implementation of GST. *China:* China has a good structured tax system after reforms. China has so far been a communist country and it completely depends on the taxes collected from its citizens. The taxes collected in China shows an impact on the economic and social conditions there. There are 26 types of taxes in china and they are divided into 8 categories, Resource tax, Agricultural tax, Behavioral Tax and Custom duties etc. The individual income tax in china is pretty complicated and tax is imposed based on your income, your duration of time in china. China is the only country in the world that imposes tax based on worldwide income. [2] *USA:* Taxes in the US are collected by both the local and the state government. The more there is an increase in income they shall be subjected to higher tax rates. A regressive tax system is when the income paid in taxes decreases when the person's income increases. Whereas, a proportionate tax system is everybody pays the same amount of tax regardless of their income. There is federal income tax as well which was ratified through the 16th amendment in 1913. It levied taxes on all sources of income like wages, salary self-employment income, dividends and interest received. The taxes are incurred on the individual's income. The dependency relies more on the direct tax than the indirect tax. [3] *Mexico:* The United Mexican States is also called as Mexico. In Mexico taxes like corporate taxes, alternative minimum taxes and income tax is imposed on its citizens. The income tax in Mexico is a progressive tax i.e. from 1.92% to 30%, the corporate tax is 30% and the alternative minimum tax is 17.5%. The regular income is charged which included capital gain in it. [4]*UK:* United Kingdom has high administrative efficiency and their taxing system is pretty simple. In the United Kingdom, tax is levied at 2 levels i.e. one at the central level and the other is by the local government. In UK all the citizens have to pay the same tax irrespective of their residency status. However, it has been mentioned as to what sources of income shall be taxable. UK residents are taxed based on his/her worldwide income inclusive of allowances in order to prevent double taxation from certain countries. With respect to non- UK citizens, they shall be taxable only for the income earned from within UK. Income taxes like VAT, fuel duty, corporate tax and income tax is levied by the Central government. Taxes like street parking charges and council tax is collected by the local government. In addition to all these taxes collected, the local government shall receive grants from the Central Government.[5]

[2]Inter nations , 'Taxation in China' (*Inter Nations- Connecting Global Minds*, no date) <https://www.internations.org/china-expats/guide/29458-social-security-taxation/taxation-in-china-17872> accessed 7 March 2019

[3]Brian roach , 'Taxes in the United States: History, Fairness, and Current Political Issues' [2010] Nil(Nil) Global Development And Environment Institute Tufts University

[4]Deloitte, 'Taxation and Investment in Mexico- Reach, Relevance and Reliability ' (*Mexico Taxation and Investment 2016*, 2016)<https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/international-business-support/deloitte-cn-ibs-mexico-tax-invest-en-2016.pdf> accessed 8 March 2019

[5]Expatica- taxation, 'A complete guide to the UK tax system' (*Expatica*, 28 Jan 2019) <https://www.expatica.com/uk/finance/taxes/a-complete-guide-to-the-uk-tax-system-758254/> accessed 8 March 2019

NEW REFORMS IN INDIAN TAX STRUCTURE

There are major changes that have been brought in by the Indian government in recent times. Recently, the government in its budget 2019 has made amendments with respect to taxation on income which has been explained in the table below,

Income tax law previously i.e. current I-T slab

Income Tax Slab	**Income Tax Rate in %**
Income up to 2,50,000	NIL
Income between 2,50,000-5,00,000	5%
Income between 5,00,000-10,00,000	20%
Income above 10,00,000	30%

Income Tax Law proposal by current government

Income Tax Slab	**Income Tax rate in %**
Income up to 5,00,000	NIL
Income up to 10,00,000	10%
Income up to 20,00,000	20%
Income above 20,00,000	25%

IMPLEMENTATION OF GST

The Constitution Amendment Bill for Goods and Service act has been approved by the President of India on 3rd Aug, 2016 and in the Lok Sabha 8th Aug, 2016. There has been plethora of amendments ever since the statutory body under the Central Board of Revenue Act 1924 had been constituted. The objectives of tax are as follows, to reconstruct the income tax department in order to increase the efficiency and productivity, to simplify the tax laws and to widen the tax base. Goods and Service act was first introduced in the budget 2006-07. Article 246A of the Indian Constitution says that, the parliament as well as the state legislature has the power to make laws with respect to goods and services tax imposed by both the Union and the State.

The salient features of GST are as follows,

1. A council named the GST council has been constituted and it would recommend the Union and the States on taxes and different taxes levied by the centre, state and the local bodies.
2. IGST shall levy tax and that shall be collected by the centre on inter-state supply of the goods and services.

3. All the laws, collection mechanism and procedures shall be strictly implemented and would be harmonized to the extent possible.
4. GST is mostly known as a "destination based consumption tax" and this would be applicable for the supply of goods and services.
5. GST shall not be applicable for the goods like alcohol, liquor and five other petroleum products i.e. high speed diesel, natural gas, aviation turbine, motor spirit and crude.
6. GST shall be levied on goods like tobacco and their products. Apart from GST the centre has the power to levy central excise duty on such products.
7. A tax payer whose aggregate turnover is 20 lakh per year shall be subjected to exemption. For states like Sikkim and other north eastern states if the turnover is 10 lakh per annum, then they shall be subjected to tax exemption.
8. Every tax payer shall take the input tax credit of the taxes paid and can utilize the same for the payment of the output tax.
9. The inter-state supply of goods and services would be subjected to IGST in addition to the applicable custom duties.
10. The registered persons shall assess by him the tax payable and furnish a tax return for each tax period.
11. GST has provided the small dealers with the composition scheme.
12. All the registered users shall be given a PAN based TIN number which shall be applicable to both the SGST AND CGST.
13. The tax payer can pay the tax through various modes of payment i.e. through debit card and net banking etc.[6]

GST ON OUTPUT − GST ON INPUT TAX = NET GST.

GST AND ITS ECONOMIC IMPLICATIONS

With the implementation of GST it would be easier to collect taxes and identify the defaulters. It would lead to decrease in corruption and increase in revenue to the government. Burden of tax between the goods and services industries. There will be an increase in the manufacturing sectors and reducing the cost would result in increase of the exports. Single tax system would make the compliance and monitoring tax easily. This would certainly reduce tax evasion and it would result in better investments

[6]Raju choudhary, 'Features of GST, Salient Features of GST, Main Features of GST' (*GST INDIA Help*, April 6, 2017)<https://www.gstindiahelp.com/salient-features-gst/> accessed 28 March 2019.

in the manufacturing sector. We can have a track on the movement of goods once the user registers which would lead to reduce the transaction cost of the business. [7]

Positive Impact of GST:

1. Increases tax revenue: The tax compliance will tend to increase and it will widen the tax base. As per the FRBM report (Fiscal Responsibility and Budget Management) the GDP ratio is expected to increase by 2% i.e. the state and central government would have a revenue of rupees 70,000 to 80,000 crores.
2. Reduces Tax Evasion: GST will have a check on all your transfers and transaction so it is impossible for people to evade tax. Also, e-commerce firms are not allowed to evade tax by operating their business from a place where the tax rate is comparatively less.
3. Shows positive effect on BOP (Balance of Payment) and exports: When compared to the present scenario the exporter will get full tax credit which would enable him to quote a good price for their products and services.
4. Removes the inequalities in the markets: After the implementation of GST, there's imposition of same market rate everywhere which would lead to the removal of inequalities in the market.
    a. Simple tax structure and reduces compliance: Implementation of GST will remove all other multiple taxes from the picture and there would be only one taxing system.
5. Sustainable growth in the Economy: GST eliminates all forms of tax distortions which would ultimately lead to sustainable growth of the economy. Simpler taxing system would attract more production investment for growth.
6. Increases the standard of living: According to a study conducted by the NCAER (National Council for Applied Economics and Research) says that if GST will be effectively implemented then that could lift up the GDP growth from 0.9% - 1.7%. If the pricing level reduces in the economy then the consumption level increase and so will there be a growth in GDP.
7. Reduces the Production cost: Full input tax credit would have a favourable impact on the prices and it would reduce the production cost from 15%-20%.
8. Eliminates cascading effect and barrier free tax structure: The cascading effect on the production of goods and services shall be eliminated by GST. It also reduces the supply chain cost.
9. Will lead to optimization and comparative cost advantage: GST will eliminate the inter-state tax which would lead to optimization of physical facilities. The industry will be benefited by cost advantage if the manufacturing is done at full capacity.

[7] Dr Geetanjali Sharma and Miriam George, 'GST-A Game Changer in Indian Tax Structure' [2017] 19(4) IOSR Journal of Business and Management (IOSR-JBM) 61.

Negative Impact of GST:

1. Transfer of pricing issues: Basically, all the transactions are taxed. This would increase the price of transfer from one department to another.
2. Affects the price level of essential goods and services: After the implementation of GST, the prices shall tend to increase.
3. Negative effect of Working capital: All the firms are supposed to make payment of tax for every transfer which will shoot up the working capital.
4. **4.** Affects real estate: GST would increase the cost of new homes by 8% and reduce the demand to about 12%.[8]

Benefits of GST:

1. To the Government:
    a) Simple taxing system.
    b) Makes use of efficient resources.
    c) Broadens the tax base.
    d) Easier compliance and collection of revenue is easier.
2. To the Consumer:
    a) People tend to purchase more goods due to the reduction in prices.
    b) Savings increases due to the decrease in costs.
    c) Elimination of cascading effects of taxes results in reduction in cost of goods and services.
    d) Increase in real income.
3. To Trade:
    a) Fewer tax rates and many exemptions.
    b) There shall be development in Common Economic Market or Common National Market.
    c) There is reduction in collection of multiple taxes.
    d) Competitiveness increases for the domestic markets.
    e) Neutralization of taxes especially for exports.
    f) Mitigation of double taxing.
4. Will remove the custom duties imposed on the exports
5. Since there is transparency, the customers will know the amount of tax they are paying.
6. Revenue for the government increases due to increase in the tax base.
7. This encourages the producers to purchase more raw materials from different registered dealers and shall get everybody under the purview of taxation. [9]

[8]Madhu bala, 'GST in India and its Impact on Indian Economy' (*Research Gate*, February 2nd, 2018) <https://www.researchgate.net/publication/324573464_GST_in_India_and_its_Impact_on_Indian_Economy> accessed 29 March 2019.

GST COUNCIL

Article 279(1) of the Indian Constitution states that a GST council shall be instituted by the President within 60 days of the commencement of Article 279A. GST shall be governed by the GST council. They shall govern all the principles related to the threshold limits, special rates for certain states, place of supply, rates of goods and services and imposing rates when any natural disaster or calamity occurs. The council consists of the following members,

1. The Union Finance Minister, currently Arun Jaitley will be the chairperson.
2. The Union Minister of the State who shall be in charge of the Revenue of Finance.
3. Other such ministers appointed by each State Government or the Minister in charge of Finance or taxation. [10]

MAJOR REFORMS WHICH SHALL COME INTO EFFECT FROM 1ST APRIL, 2018:

1. The Tax rebate previously was 5,000 rupees which has now been decreased to 2,500 rupees per year for all the tax payers whose income is up to 3,50,000 (earlier 5,00,000).
2. Payment of rent by any individual or HUF of rupees 50,000 shall not be subjected to tax audit requirement- deduction of TDS @ 5%.
3. Deductions under section 80HH has to be from gross profits and gains before computing the income specified in sections 30 to 43D of the Act.
4. Exemption of tax on interest for senior citizens from 10,000- 50,000 which have been newly inserted under section 80 TTB.
5. No person shall receive more than 2, 00,000 in cash- Section 269ST.
6. Every company whose turnover increases or is 250 crores shall pay 25% corporate tax.
7. Payment of expenses by cash has been reduced from 20,000 to 10,000.
8. IT-returns shall be filed on time and any filing of IT return will result in payment of a fine which is Rs- 5,000.
9. For all those individuals whose income is up to 5, 00,000 or 5, 00,000 shall file a single paged tax return form.
10. Aadhar number should be disclosed while filing IT returns.[11]

[9]Sherline ti, ' INDIAN TAX STRUCTURE AND RELEVANCE OF GST (GOODS AND SERVICE TAX)' [no date] 5(6) International Journal of Commerce, Business and Management (IJCBM) 119
[10]No author, 'Goods and Services Tax Council Meeting – GST' (*Clear tax*, Mar 19, 2019) <https://cleartax.in/s/gst-council> accessed 31 March 2019
[11]Karan Khatri, '13 changes in Income Tax applicable from 1st April, 2018' (*Tax Guru*, 3 April 2018) <https://taxguru.in/income-tax/13-major-changes-in-income-tax-applicable-from-1st-april-2018.html> accessed 31 March 2019

HIGHLIGHTS OF INTERIM BUDGET 2019-20

DIRECT TAX PROPOSALS

1. There shall be a decrease in Standard deduction i.e. from 50,000- 40,000.
2. Income up to 5, 00,000 shall be exempted from paying tax.
3. TDS shall be raised from 10,000 to 40,000 on post office deposits/ Bank.
4. More than 23,000 crores tax relief to all the middle class taxpayers.
5. Existing rates of income shall continue.
6. Tax exemption on notional rent on a second self -occupied house.
7. Housing and real estate sector to boost-
    a) TDS deduction of tax to be increased from 1, 80,000 to 2, 40,000.
    b) Tax exemption on unsold inventories and notional rent has been exempted from one year to two years.
    c) For capital gains up to two crores, it has increased investment in one residential house to two residential houses.
    d) Tax benefits can be claimed for affordable house benefits till 31st March 2020, under section 80-IBA of the Income Tax Act.

INCOME TAX:

1. 80% growth in tax base- i.e. from 3.79 crores to 6.85 crores in five years.
2. The tax collection has been doubled in five years from 6.38 lakh Crore in 2013-14 to 12 lakh Crore this year.
3. In the previous year 99.54% of the income tax returns accepted as were filed.
4. Technology based intensive project was got approval from the government. In 2 years the return shall be processed in 24 hours and refund is to be issued simultaneously.
5. Benefits that were given to the middle before are as follows,
    a) Interest shall be deducted for a self- occupied house has been raised from 1.5 lakh to 2 lakh.
    b) The limit of basic exemption has been increased from 2 lakh to 2.5 lakh.
    c) The tax rate has been reduced for those who fall under the income slab of 2.5 lakh- 5 lakh from 10% to 5%.
    d) Deductions for savings under section 80C of the income tax increased from 1 lakh to 1.5 lakh.
    e) Standard deduction of Rs. 40,000 has been introduced for the salary class.
6. Special Incentives for the start-ups and small scale business:
    a) The tax rate for about 99% has been reduced to 25%.

b) The compliance process has become simpler.

c) Profit rate has been reduced from 8%- 6% with the aim of promoting less cash economy.

d) Presumption taxation of business the threshold has been raised from 1 Crore to 2 Crore.

e) The benefit has for the first time been increased to small professional business fixing the threshold limit to 50 lakh.

GST

1. Inter-state movement of goods has been made easier, hassle free and efficient.
2. It made India turn into one common market.
3. Implementation of GST led to higher collection, increase in tax base and ease of trade.
4. Reduction of tax rates which is of daily use is now in the 0%- 5% slab.
5. Exemption for the small scale doubled from 20 lakh to 40 lakh.
6. Small scale traders can opt for the composition scheme under the GST whose turnover is up to 50 lakh.
7. Small scale that has a turnover of 1.5 Crore pay only 1 % flat rate and file annual return.
8. 90% of the GST payers who run businesses are allowed to file quarterly return.
9. The average monthly tax collection this year per month is 97,100 Crore and in the first year it was 89,700 per month.[12]

HIGHLIGHTS OF THE UNION BUDGET

1. Television channels shall be launched in order to promote new start- up's and help in matchmaking funds.
2. 1 Crore Rupees worth loans to be proposed to MSME's.
3. The pension benefit under the PM Karam Yogi Maan Dhan Scheme will be extended to 3 Crore retailers which requires only Bank and Aadhar Card number.
4. The Excise duty of fuel is likely to be hiked by 1 rupee.
5. 20 Rupee coin is to be introduced.
6. Aadhar card is sufficient to file I-T returns.
7. 5 lakh rupees amount limit has been announced for the tax payers and those citizens earning 2 – 5 crores and above 5 crores there will be an increase in the tax rate by 3% and 7% respectively.
8. The GST on the electric vehicles are likely to be decreased by 5% and any loan taken to buy electric vehicles then 1.5 lakh income tax deduction on interest on loan taken to purchase electronic vehicle.

[12]Press information bureau, 'Highlights Of Interim Budget 2019-20 ' (*Ministry of Finance*, no date) <http://pib.nic.in/newsite/PrintRelease.aspx?relid=187934> accessed 2 April 2019.

9. 1.5 lakh deduction on loan for those citizens buying an affordable house.
10. Aadhar Cards shall be provided to the NRI citizens holding Indian Passports once they arrive in India.
11. Any funds raised by start-ups shall not require scrutiny by the Income Tax Department.
12. 50 Lakh crores has been proposed for the infrastructure of the Railways.
13. 70 Lakh crores has been proposed for the recapitalization of the public sector banks.
14. By 2022, every rural family shall be provided with the facility of electricity and clean cooking facility.
15. To make India's education the best in the world and focus on bringing in International students.
16. The disinvestment target is 1.05 lakh Crore.
17. Global Investors happen to meet in India. [13]

CONCLUSION

Due to multiplicity of taxes in India, the tax imposed by the government has resulted in difficulties to the person paying tax. India usually relies a lot on the indirect taxes due to which problems like inequality and economical problems arose. It is the prime duty of the income tax department to up with programs like tax awareness so that it makes it easier for an individual to understand the various tax structures effectively. There's a call for the income tax department to simplify the tax system and consolidate the tax laws in the country. With the introduction of GST several taxes like service tax etc have been abolished and it also decreases tax evasion. The tax payers cannot afford to escape paying tax because ever since the introduction of GST, everything has been subjected to online payment.

[13] The Hindu, *Highlights of Union Budget 2019,* July 5th 2019, Retrieved from https://www.thehindu.com/business/budget/highlights-of-union-budget-2019-20/article28291942.ece