A Study on the Taxation System in India and its Impact on the Economic Growth

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Abstract--- *The aim of this paper is to discuss the taxation system that is followed in India and its impact on Indian economic development. Government considers the tax as an important source of revenue and also major factor that decides the economic growth. Taxes are of two types, direct and indirect taxes. Direct tax works on the disposable income and the indirect tax works on the sale of goods and services. Direct tax has the components of personal income tax and corporate income tax. Indirect taxes consists of excise duty, customs duty etc. Government and policy makers should take a call on which tax is to be targeted to improve the economic growth in the country.*

Keywords--- *Taxation, Economic Process, Growth and Impact.*

I. INTRODUCTION

Indian government is striving to achieve the economic growth and development in the country by making the taxation as major source of revenue. It is the role of the policy makers in the government to divide the taxes in to different types and to decide the components of the taxes to be focused for the economic growth of the nation. There are different types of tax structures followed in India. They are progressive and regressive structure and the other type of taxation is direct and indirect taxes. Progressive taxes will increase with the increase in the income whereas the regressive taxes will vary based on the economic activities of the corporate. Direct taxes will have personal and corporate taxes. Indirect taxes will have different components like excise duty, customs duty, VAT etc. It is stated that corporate tax which is the part of the direct taxes has positive impact on the country's economic growth whereas the personal tax doesn't impact much. Similarly the customs duty which is the part of indirect tax has a considerate impact on the economic development whereas the excise duty doesn't impact much. In the current structure of taxes, all the indirect taxes are combined and called as single tax called Goods and Services Tax (GST). All the structures of taxation should focus on the economic growth of the country. GDP (Gross Domestic Product) is the indicator to assess the economic growth of any country. It indicates the per capita income status. Different methods are used to measure GDP.

Objectives

- To define the taxation system in India
- To discuss different types of taxes levied in India
- To discuss the impact of taxation on economic growth

II. REVIEW OF LITERATURE

Mr. Nishant Ravindra Ghuge, Dr. Vivek Vasantrao Katdare (2016) "A Comparative Study of Tax Structure of India with respect to other countries" –The authors discussed the Indian tax structure and compared it with different

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DOI: 10.37200/IJPR/V24I4/PR2020386
Received: 10 Mar 2020 | Revised: 25 Mar 2020 | Accepted: 10 Apr 2020

nations and their economies. Different parameters like, Tax to GDP Ratio, Tax rates, time required for the Tax compliance, No. of Tax payments , Ease of Tax Payments, and Ease of doing Business etc., are compared and states that in many of these parameters, India is way behind than the countries selected for comparison. M. Bardopoulos (2015)defines that the taxes are the major source of income for the government Tax evasion is a form of resistance by the citizens to avoid the payment of taxes. British income tax represents the vanguard of modern tax, the first known records of tax. VAT is a modern tax but sales tax and customs duties date back to the Roman Empire. VAT is adopted by around 10 nations in 1960s and later it was followed by many nations.

Odd E. Nygard and John T. Revesz (2015): The authors argue that the uniform indirect taxation is unrealistic and thus an optimal tax structure cannot be determined. The empirical-computational support for uniformity in indirect taxation seems to be weak, particularly when the models approach to the real world complexities. It leads to the result that progressive Indirect Taxation is likely to be the optimal solution. Subrahmanya and Urmi (2015) studied the impact of various components of direct and indirect taxes on GDP. They have confirmed from their study that customs duty had a positive impact on economic growth in the short run and excise duty has a negative impact. Considering the direct taxes, economic growth is not having much impact with the personal income tax while corporate income tax had a positive statistically significant impact on economic growth in the long run.

Rajeswari and Susai (2014) studies shows that Tax-GDP ratio has a consistent growth up to 2008-09. There was an impact of economic crisis on tax buoyancy which was enhanced in further years. Their study recommends to mobilize more direct tax revenue instead of indirect taxes.

Taxation System in India

India follows the progressive and proportional taxation system. The direct taxes are progressive where a person pays the tax directly to the government based on his income. Tax rate will vary according to the variation in personal income. Proportionate tax system is meant for indirect taxes. These are the taxes which are paid by a person to the producer of goods or services. The producer or the seller will in turn pay the taxes to the government. Hence it is called as indirect taxes. Customs duty, excise duty, VAT, service tax etc will fall under this category.

Direct Taxes

In India there are two types of direct taxes, income tax and wealth tax. These are the taxes paid directly to the Government by the individuals or corporates.

Income Tax: Income tax for individuals and corporates will be imposed both on flat rate basis and slab rate basis. Total income of individuals which includes annual income, capital gain of long term and short term are taxed based on proportional tax method. For companies, the proportional tax method is levied.

Wealth Tax: Net wealth of individual, Hindu undivided family and company are subjected to wealth tax if the net wealth exceeds Rs.30 lakhs. Wealth tax to be paid on annual basis by valuating the net wealth. The difference of value of assets and liabilities is considered as net wealth. House, land, and cash in hand, jewelry and motor vehicles etc. are considered as assets. Last day of previous assessment year is considered as valuation date on which the net wealth is valuated to assess the wealth tax.

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Indirect Taxes

Indirect taxes are the ones that are paid to the seller or the manufacturer of the goods or the provider of the services. These manufacturers and service providers will pay the tax to the Government based on the volume of sales and services. There are different types of indirect taxes like excise duty, customs duty, service tax and sales tax etc.

Excise Duty: The manufacturers of excisable goods have to pay the excise duty as per the tax rates defined by the Government in the central excise tariff act. These rates are decided based on value added concept.

Customs Duty: The imported goods or the exported goods from India attracts the customs duty as defined in the Customs tariff act.

Service Tax: This is levied on the services based on the consumption and it is a destination tax. This tax varies according to state where the service is provided. Along with service tax, education cess will also be payable.

Sales Tax: this tax was levied on the total selling price. Later it was replaced with Value Added Tax(VAT). In this system tax is assessed based on the value added in the production or distribution at each state. This was introduced to avoid the double taxation in the case of sales tax.

Goods and Services Tax (GST)

Goods and Services Tax(GST) is introduced in India as one of the biggest tax reform. All individual enactments for goods and services are consolidated to introduce GST. This is the composite tax system designed to replace all indirect taxes that are in practice in India. All the indirect taxes like excise duty, customs duty, service tax, sales tax, VAT and CST etc. are combined to avoid the cascaded taxes and to reduce the burden on consumers.

GST has three components named CGST, SGST and IGST.

Central Goods and Services Tax (CGST) is levied on intrastate supply of goods and services and being collected by central government. State Goods and Services Tax (SGST) is levied on intrastate supplies and being collected by State Government. Integrated Goods and Services Tax (IGST) is levied on inter-state supply and sales of goods and services and being collected by the central government.

Tax Collection Pattern in India

India has three different bodies to collect the taxes, Central, State and local bodies. Each entity has defined rules on what are the types of taxes to be collected by each of them. Central Government collects income tax, central excise and custom duties. State Government collects the professional tax, value-added tax, stamp duty and state excise duty. Local bodies will collect the water tax, road tax, property tax and drainage tax and also taxes on small services. Other than these defined bodies, there few revenue authorities dedicated to implement the tax system in India. They are CBDT, CBEC and CBIC. The Central Board of Direct Taxes(CBDT)workd under Ministry of Finance. This board provided inputs for planning and policies related to direct taxes and also helps Income Tax department for its administration.

The Central Board of Excise and Customs (CBEC) formulates the policies related to levying and colleting the

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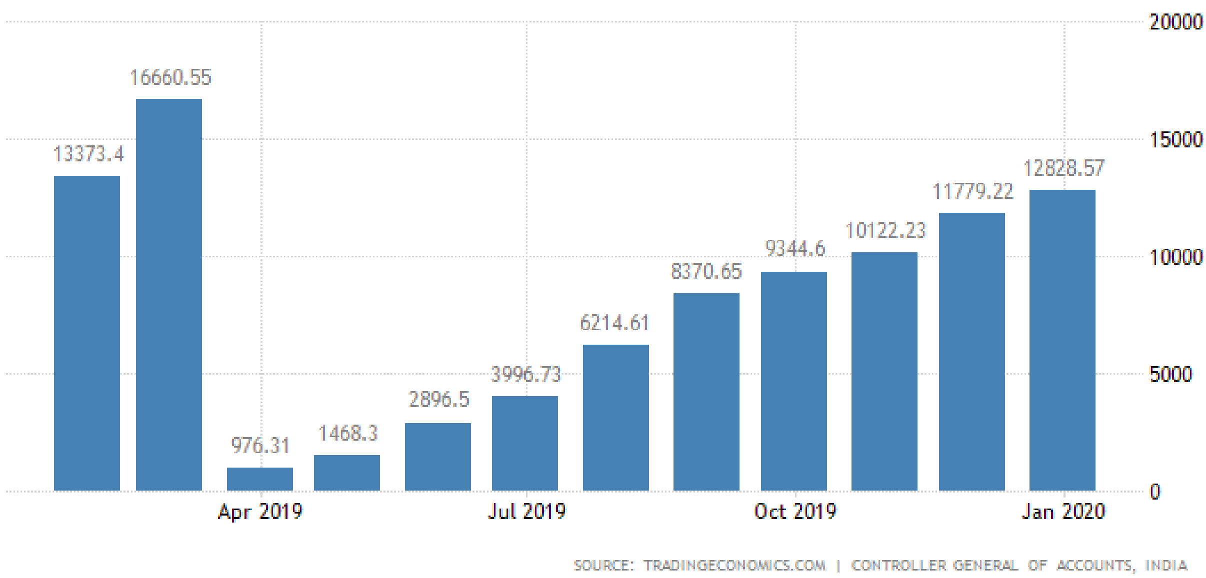
customs duty and central excise duty. After implementing the GST in India, CBEC is changed its name to CBIC (Central Board of Indirect Taxes and Customs). Functions remain the same and additionally assisting in policy making of GST related matters.

Benefit of Taxes

Tax paid by every citizen of the country makes an addition to the resources of the nation and contributes to the economic progress.Tax paying will contribute to the individual savings and investments as the investments attracts the tax exemption thus they will be interested in the investment to reduce the burden of tax.Paying tax in time will work as a proof for availing personal loans and other loans too apart from generating revenue to the government.

It is seen from the following graph that the Government Revenues in India increased to 12828.57 INR Billion in January 2020 from 11779.22 INR Billion in December of 2019. Government Revenues includes all the receipts of the government that includes taxes, custom duties, revenue from state-owned enterprises, capital revenues and foreign aid. The graph of Government Revenues is drawn as a part of government budget balance calculation.



The Impact of Direct Tax on Economic Growth

Government considers the direct tax as one of the important source for generating the revenue. This tax is directly related to the income of the individuals. People will increase their investments to pay less tax if the direct tax rate is increased. This will affect the luxury commodities decreasing its production and affects the GDP. If the direct tax is collected properly, this will reflect the capital information of the nation. Impact of direct taxes on national economic growth are listed below.

- Insists on personal savings and investments.
- Assists to calculate relevant capital information.
- Government can rely on the revenue generation.
- Timely collection of taxes to generate country’s revenue

- Decrease in swelling rate as non-availability of extra cash to the people.
- Impact on aberrant assessment on monetary development.

Impact of Indirect Tax on Economic Growth

Indirect taxes impacts the cost of the goods and services and thus directly burdens the consumers. The manufacturers and service providers will try to improve their efficiency and quality of their goods and services to compensate the tax burden on the consumers. This will help the producers to utilize their resources efficiently and face the competition in healthy manner.

Thus the impact of indirect taxes on the monetary development are listed below.

- Proper utilization of available resources and assets
- Improved proficiency of producers
- Improved standards of living of people.
- Healthy competition among the producers of goods and services
- Vast choice and freedom for the consumers to choose among the variety of products.
- Increases sought after for luxurious products.

Impact of GST on National Economy

All indirect taxes are combined and implemented as GST in India from 1 July 1997. This will have all the benefits of indirect taxes on the economy and also some other benefits which are listed below.

- GST reduces the tax burden on the manufacturers of the goods and assists to increase the production and growth. Tax structure prior to GST prevents the producers to increase their production capacity and retards their growth. Tax credit it provided to manufacturers and thus such problems are solved.
- Transparency of the tax system as the customers will be knowing on the exact tax rates and amount of tax to be paid and on what basis.
- Single taxation will avoid the unnecessary stock of items and roadblocks. Major costs due to buffer stock and costs of warehouses are avoided.
- Revenue of the government increases as the tax base is increased
- Producers will have the facility of input tax credit on buying the raw material.
- Every supplier or producer in the goods and services chain will get the tax credit thus the number of registered dealers and suppliers will be increased and all come under the purview of tax.
- Customs duty is eliminated after implementing the GST. Foreign business will improve and more foreign markets will enter into business with our country as the transaction costs are lowered.

III. CONCLUSION

Implementation of Goods and Services Tax system in India is an important step in the indirect taxes. A bunch of indirect taxes both by central and state government are merged to form the GST. This reduced the burden of double taxation and tax process is made easy for the manufacturers and service providers. End customer or consumer is also

DOI: 10.37200/IJPR/V24I4/PR2020386
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getting benefitted as overall tax burden has come down. This will increase the buying capacity of the consumer thus adding the revenue to the government.

A survey on GST indicates that nearly 10 to 11 types of road transport taxes are eliminated after introducing GST. This reduced the cost of transportation transactions. This will help to increase the per capita income of individuals.

Tax to Gross Domestic Product (GDP) ratio represents the tax revenue generated by the country. Higher the tax to GDP ratio indicates a better economic growth of the country. It is confirmed that the GST scheme will help in increasing the indirect revenues to the government as this scheme enhances the tax compliance and extends the tax paying base that will add to the revenue.

It can be concluded that the GST taxation system has great impact on the sustaining growth of Indian economy because of its transparent character.

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Received: 10 Mar 2020 | Revised: 25 Mar 2020 | Accepted: 10 Apr 2020

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