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TAX SYSTEM IN INDIA : ORIGIN, STRUCTURE AND ISSUES

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ABSTRACT

The present research is intended to critically examine different aspects of the tax system in India. As observed by the author, despite a clear-cut division of powers of taxation between the Centre and the States as per Constitutional provisions, the Indian tax system has been extremely complex due to the existence of multiple taxes, numerous tax compliance rules and provisions, inefficient tax administration and several other issues. In addition to reviewing the available literature on the subject, the present paper attempts to trace the historical evolution of the Indian tax system during three different periods - taxes in ancient India, taxes during British rule, and taxes in independent India. Although the taxation powers of the Union government and the States have been clearly provided in List 1and List 2of the Seventh Schedule of the Constitution of India, these original tax provisions have undergone several changes from time to time through necessary Constitutional Amendments. Attempts have also been made in this research paper to provide a description of direct taxes including Income tax, Corporation tax, Wealth tax, Gift tax, Estate duty, and other taxes on capital and property, and indirect taxes such as Customs duties, Excise duties, Sales tax, Service tax, Value added tax (VAT), and Goods and services tax (GST). In the end, the research paper describes certain critical issues and challenges related to tax reforms in India and also suggests necessary steps that should be taken by the government to streamline the tax system further.

Key words : Critical issues, Direct taxes, Historical evolution, Indirect taxes, Tax structure.

1.Introduction

Taxes as sources of revenue for different nation-States have existed since the dawn of civilization. Simply stated, a tax is a financial levy or charge imposed upon different categories of taxpayers including individuals, Hindu Undivided Families, partnership firms, companies, associations of persons or bodies of individuals, local authorities and artificial juridical persons. Taxes are imposed upon the taxpayers so that a government would be able to perform the traditional functions of maintaining defence and law and order, undertaking various welfare and development programs, and making provision for various public services or utilities. In addition to fulfilling the primary needs of taxation, taxes are also utilised as a powerful tool for reducing inequalities in distribution of income, encouraging production and distribution of essential commodities and services, encouraging import substitution and export promotion, and thus improving the general economic condition of the public at large. A government requires adequate financial resources to meet these objectives, and thus, taxation can be regarded as a means of transferring money from private individuals and legal entities to the government. In the words of Sury(2006), “Taxation is necessary because what the government gives it must first take away.”

In the Indian context, it may be noted that the Constitution of India has provided for a clear-cut division of powers of taxation between the Union government and the States. In view of the large population of India, the Indian tax system has been relatively complex with the existence of multiplicity of taxes, excessive tax compliance rules and regulations, inefficient tax administration, and a number of accompanying problems. According to Alagappan(2019), the “Indian tax system has been unorganised, unregulated and unplanned due to historical reasons.” On account of these problems, various committees were constituted in India at different times to bring in necessary tax reforms. The GST (implemented in India from 1st July 2017) has brought about certain fundamental, structural changes in the indirect tax system in India. In fact, the tax rates under GST for various goods and services have been rationalised, and the new system of taxation has resulted in increased tax base for the economy, better tax compliance and increased tax revenues for the government. Similar efforts are being made to bring in tax reforms in the area of direct taxes too. It is worthwhile to mention that only about 1% of the total population in India are paying taxes. Therefore, there is an urgent need to control tax evasion and widen the tax net through simplification of direct tax laws and better tax administration. In addition to the Direct Tax Code (DTC), several other tax reforms have been proposed by tax experts with a view to increasing savings and investments in the economy and thereby enhancing the economic growth of the country.

2.Objectives of the Study

In the light of the aforesaid objectives, the present paper is intended to :

1. review the literature relating to different aspects of the tax system in India;
2. examine the historical evolution of the Indian tax system;
3. discuss the structure of taxation in India;
4. examine certain crucial issues and challenges related to the aforesaid aspects; and
5. finally, draw certain meaningful conclusions and offer necessary suggestions.

3.Review of Literature

The present section is intended to make a review of literature regarding the overview of the tax system in India, its structural aspects and various challenges that lie ahead. Kumat(2014) provided an overview of the tax system in India and various issues and challenges associated with it. According to him, there is a need to develop coordinated system of consumption tax and also improve the productivity of the Indian tax system.

Pandey(2017) studied the impact of both direct and indirect taxes on the economic growth of India. The findings of his study revealed that there is lack of coordination between the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). Therefore, Pandey suggested that these two departments should be merged into a single department or unit.

Sherline(2016) attempted to analyse the Indian tax structure as well as the relevance of Goods and Services Tax (GST) in India. The study revealed that the cascading effects of taxes had differential impact on various firms operating within the economic system with relatively higher burden on those firms that did not get full offsets.

Ghuge and Katdare(2015) studied the tax structure in India in terms of three tiers of government that are empowered to levy and collect taxes - the Union government, the State governments, and the local bodies. The findings of their study indicated greater dependence on indirect taxes as a source of revenue collection than on direct taxes. In fact, the total amount of revenues collected from indirect taxes was nearly twice the amount of revenue collected from direct taxes. In view of several problems associated with the present tax structure such as multiplicity of taxes, tax evasion and the consequent growth of parallel economy, the authors suggested that the government should focus its attention on structural reforms rather than on policy reforms. In addition, the administrative expenses incurred on the collection of taxes must be brought down through elimination of multiplicity of taxes and several layers of tax collection authorities.

Jha(2013) specifically studied the effects of Indian tax structure on both individual and corporate assessees. According to him, there is an urgent need to reduce excessive dependence on indirect taxes while the levy of direct taxes on the super rich should be increased sufficiently so as to compensate for the loss of tax revenues. Jha further stated that the corporate assessees' efforts to evade taxes through transfer pricing and other techniques must be curbed as much as possible.

Alagappan(2019) studied the tax structure in India and its ramifications. In addition to analysing the differences between direct taxes and indirect taxes, the author analysed the details of revenue collections from these two types of taxes over a period of four years and found that the revenues received from indirect taxes were nearly twice the amount of revenues collected from direct taxes. While corporate tax and income tax contributed a maximum share of total collection from direct taxes in 2016-17, union excise duties, customs duty and service tax constituted a maximum proportion of revenue collection from indirect taxes in the same year. Although direct tax rates were very high in India, the contribution of direct taxes to the total tax revenue has been very low. Therefore, the authors suggested that necessary steps should be taken to check both tax avoidance and tax evasion in India.

Ghuge and Katdare(2016) made a comparative study of the tax structure in India with those of five foreign countries such as USA, UK, South Africa, Mexico and China. The basic parameters used for comparison purposes included tax to GDP ratio, tax rates, time required for tax compliance, number of tax payments, ease of tax payments, ease of doing business etc. The research findings pointed to the fact that India lagged far behind the above-mentioned foreign countries, in most of the selected parameters. In view of these serious problems of taxation, there is an urgent need for government actions in simplifying the tax structure and eliminating multiplicity of taxes.

4.Background of the Indian Tax System

The historical development of the tax system in India can be analysed in terms of three different periods - taxes in ancient India, taxes during British rule, and taxes in independent India. In his famous treatise 'Arthashastra', Kautilya described various taxes that existed in ancient India. **Taxes in ancient India** were imposed both in cash and in kind and were collected by the local officers. The main sources of tax revenue for the emperors during the ancient period included octroi, land tax, taxes on gambling houses, liquor shops and on certain professionals such as dancing girls. In 'Arthashastra', Kautilya referred to commodity tax, which may be quoted as follows :

"Taxes in cash and kind included are :

1. Customs duty (Sulka) which consists of import duty (Pravesya), export duty (Nishramya) and Octroi and other gate tolls (Dwarabahiri Kadeya).
2. Transaction tax (Vyaji) including manavyaji (transaction tax for crown goods).
3. Share of production (Bhaga) including 1/6th share (Sadbhaga).
4. Tax (Kara) in cash.
5. Taxes in kind (Pratikara) including labour (Vishti) supply of soldiers (Ayudhiya).
6. Countervailing duties or taxes (Vaidharana).
7. Road cess (Vartani).
8. Monopoly tax (Parigha).
9. Royalty (Prakriya)
10. Taxes paid in kind by villages (Pindakara).
11. Army maintenance tax (Senabhaktam).
12. Surcharges (Parshvam)."

During the British rule, our country had a vast territory consisting of the currently existing three countries including India, Pakistan and Bangladesh. The Indian territory comprised both the Princely States and the British Indian provinces. The tax system prevailing during the British period was dominated by customs duties as India was dependent upon imports of manufactured goods from UK and other Commonwealth countries for meeting its domestic requirements. While import duties were imposed on all import items, export duties were levied upon export items. In fact, the major export items that were subjected to export duties were tea and jute in which India was the leading supplier in the international market. Another major source of tax revenue for the Indian government was the levy and collection of excise duty on certain commodities. In 1894, excise duty at the rate of 5% ad valorem was levied on cotton yarn of more than 20 counts. Subsequently, excise duty was charged on motor spirit and on kerosene in 1917 and 1922 respectively. Several other manufactured goods that were subjected to excise duties during the succeeding years included sugar, matches, steel ingots, tyres, tobacco, vegetable products, tea, coffee, betel nut, cigarettes, cotton cloth, etc. With regard to direct taxes, income tax was the only major source of revenue for the Central Government, and it was levied by the British Rulers in 1860 in order to meet the excessive financial burden arising due to the Sepoy mutiny in 1857.

It may be noted that the major source of revenue for the British Indian provinces was land revenue, followed by provincial exercises. Although the provincial governments were authorised to levy sales tax, it constituted a very low proportion of their total revenue collection till Independence. The Princely States were not a part of the structure of public finance of the British government since they had their separate budgets and separate sources of revenue.

5.Taxes in Independent India

According to Article 265 of the Constitution of India, "no tax shall be levied or collected except by the authority of law", which means that taxes cannot be charged or collected in India without explicit legislation to this effect. The Seventh Schedule to the Constitution provides for elaborate arrangements for the distribution of financial powers between the Centre and the States, including distribution of taxes, the borrowing powers and the provision for grant in aid by the Centre to the States. The basic objective of making these arrangements is to place adequate finances at the disposal of the two tiers of governments so as to enable them to fulfil their respective duties or responsibilities towards the Indian citizens. Entries 82 to 92C and 97 of List 1 in the Seventh Schedule to the Constitution provide for the taxation powers of the Union government such as levy and collection of income tax, corporation tax, excise duties, estate duty, terminal taxes on goods and passengers, stamp duty in respect of bills of exchanges, cheques, promissory notes, etc., taxes on the sale and purchase of newspapers, taxes on the inter-State sale or purchase of goods, taxes on the inter-State consignment of goods, taxes on services etc. Similarly, the taxation powers of the State governments have been specified in Entries 45 to 63 of List 2 in the Seventh Schedule of the Constitution. These taxation powers of the State governments include their authority to impose land revenue, taxes on agricultural income, taxes on land and buildings, taxes on mineral rights, excise duties on alcoholic liquors and narcotics manufactured within the States, taxes on the consumption or sale of electricity, taxes on the sale or purchase of goods other than newspapers, taxes on goods and passengers, taxes on vehicles, toll taxes, taxes on employment or profession, stamp duties in respect of documents other than those specified in List 1, etc.

It may be noted that even though the State legislatures have the power to impose the taxes specified in List 2, this taxation power has been subjected to certain restrictions imposed by the Constitution itself. For example, Entry 54 of list 2 provides taxation power to the States to levy taxes on the sale or purchase of goods other than newspapers. At the same time, however, Article 286 of the Constitution provides that sales tax cannot be levied or charged by the States on inter-State sale or purchase of goods and on items of imports and exports which have been declared to be subjects of national importance. Similarly, the State legislatures have been authorised to impose tax on profession, trade, calling or employment through Entry 60 of List 2. However, Article 276(2) of the Constitution stipulates that the total amount of such tax payable by a person to a State must not exceed Rs 2,500 per annum.

In addition, it is noteworthy that the original tax provisions as specified in the Seventh Schedule to the Constitution of India (as discussed above) have undergone several changes in the area of both direct and indirect tax laws. The most recent, glaring example of such amendment of tax law has been the implementation of Goods and Services Tax (GST) in India with effect from 1st

July, 2017 through the enactment of the 101st Constitution Amendment Act, 2016. Some of the notable changes in tax laws were effected previously through the 73rd and the 74th Amendment Act in 1993 and 1994 respectively, which gave powers to a Panchayat and to a Municipality to levy and collect certain taxes. The 88th Constitutional Amendment was made in 2003, which empowered the Central government to levy service taxes. Similarly, the existing general sales tax laws were replaced by the Value Added Tax (VAT) in 2005 and other associated VAT rules. The Direct Tax Code (DTC) has been proposed by tax experts with a view to rationalising and simplifying the structure of direct tax laws in India. The fact, however, remains that the Direct Tax Code (DTC) is yet to be enacted or implemented.

6.Tax Structure in India

As noted earlier, India has a two-tier federal structure with division of taxation powers between the Union government and the States as per the provisions of the Constitution. The States normally delegate certain fiscal powers to the local bodies or authorities which do not have any constitutionally sanctioned taxation powers. Generally, the local bodies are authorised to impose tax on properties, octroi tax (tax on goods entering into the limits of local bodies for use or consumption purposes), taxes for utility services such as drainage, water supply etc., taxes on market etc. The tax structure in India may be broadly discussed in terms of two types of taxes : (1) Direct taxes; and (2) Indirect taxes. Direct taxes are charged on the taxable incomes of individuals and corporate entities, and in the case of such taxes the assessees are liable to pay or deposit the tax liability themselves. Indirect taxes are imposed on the sale or provision of goods and services. In the case of indirect taxes, the sellers or providers of goods and services (rather than the assessees) have to collect and deposit the taxes. As mentioned previously, Goods and Services Tax (GST) came into force with effect from 1st July, 2017 and has subsumed many of the indirect taxes which used to exist earlier.

According to Alagappan(2019), “Some of the direct taxes prevailing in India are :

1. Income tax
2. Corporation tax
3. Divided tax
4. Capital gains tax
5. Wealth tax
6. Gift tax
7. Estate duty or Inheritance tax
8. Land revenue
9. Agricultural income tax
10. Professional tax

Some of the indirect taxes prevailing in India are :

1. Basic customs duty
2. Exports duty
3. Road and Passenger tax
4. Property tax

5. Stamp duty
6. Electricity duty"

It would be worthwhile to provide a detailed description of some of the major direct taxes and indirect taxes which exist at present in India (or used to exist earlier). As would be discussed later, the revenue collections from different taxes vary tremendously depending upon the types of taxpayers covered and their incomes and assets. In fact, a well-planned approach towards the rationalisation and simplification of various types of taxes is necessary within the Indian tax structure so as to facilitate widening of the tax base and increase tax revenue collections while ensuring social and distributive justice to the citizens at large. While certain tax exemptions and concessions are to be done away with, there is a need to promote socio-economic justice through the progressive system of taxation and through the required reductions in tax rates on several mass consumption goods and services. In view of the importance of various types of direct and indirect taxes from different angles, the details of these taxes have been discussed as follows :

6.1. Direct Taxes

6.1.1. Income Tax. Income tax is chargeable under the provisions of the Income-Tax Act, 1961. Such taxes are levied on the incomes of various categories of assessees including individuals, Hindu Undivided Families, companies, firms, associations of persons or bodies of individuals, local authorities and other artificial juridical persons during the relevant previous year. Although incomes earned by these assessees during the previous year (starting on 1st of April and ending on 31st March the next year) are to be considered for income tax liability purposes, the assessment proceedings with respect to such incomes including computation of taxable income and tax liability of the assessees have to be completed during the assessment year or the subsequent financial year which comes immediately after the end of the relevant previous year. It may be further noted that the total incomes of assessees will be made taxable at the income tax rates prescribed by the Finance Act passed by the Parliament every year. Such incomes of assessees will be made chargeable to tax only when these incomes are exceeding the exemption limit, which varies in the case of different types of assessees such as normal assessees, senior citizens and super senior citizens. In this connection, it may be further mentioned that the tax liability of an assessee is to be determined on the basis of both his total income and his residential status in India during the relevant previous year.

In calculating the taxable income of an assessee, incomes earned by him under five different heads of incomes (income from salary, income from house property, profits and gains of business or profession, capital gains and income from other sources) have to be calculated after deducting the related expenses under each head of income. After applying the provisions regarding clubbing of income and set off and carry forward of losses, the resulting income would be the gross total income of the assessee. From such gross total income, various deductions have to be allowed under Sections 80c to 80u so as to compute the assessee's taxable income. The tax liability of the assessee has to be determined on the basis of his taxable income provided such income is exceeding the exemption limit; if the taxable income is below the exemption limit, no tax is to be paid by the assessee. In addition, it may be noted that the tax liability of an assessee will be computed after calculating the amount of tax payable as per the income tax rates applicable for the relevant assessment year and adding to that the amount of surcharge, if applicable, and the health and education cess at the current rate of 4%.

6.1.2. Corporation Tax. Such tax is imposed on the incomes of registered companies and corporations in India. As in the case of a partnership firm, a company or corporate assessee is liable to pay tax at the relevant rate on the basis of its total income or taxable income. In calculating the taxable income of a company, various deductions under the relevant Sections are to be made from its gross total income. Similarly, for calculating its tax liability, the amount of tax is calculated as per the relevant income tax rate. At present, the general flat rate of tax is 30% and 40% for a domestic company and a foreign company respectively. After calculating the tax amount, surcharge (if applicable) and health and education cess are also to be added. In addition, it may be noted that a domestic company is liable to pay dividend tax under Section 150 on the amount of dividend distributed by itself to its shareholders. Such dividend income received by the shareholders will, however, be exempted from tax in their hands.

6.1.3. Wealth Tax. Wealth tax is chargeable according to the provisions of the Wealth Tax Act, 1957, on the net wealth of three categories of assessees – individuals, HUF, and companies. Such tax is levied at the rate of 1% of the amount by which the net wealth of the assessee is exceeding Rs. 30 lakh on the valuation i.e. on 31st of the previous year immediately preceding the relevant assessment year. In calculating net wealth, the gross wealth of the assessee is to be reduced by all debts and liabilities incurred by him in relation to the said assets. Some of the assets which are subject to wealth tax are building (including land attached thereto) used for residential or commercial purposes or as a farm house (situated within 25 kilometres from the local limits of a municipality or a Cantonment Board) or as a guest house, motor car, jewellery, bullion and other precious metals, boats and aircrafts, urban land (with certain exceptions) and cash in hand in excess of Rs. 50,000. As per Section 5 of the Wealth Tax Act, certain assets or deemed assets have been excluded from the scope of wealth tax liability. These exempted assets or deemed assets include property held under a trust, interest in a coparcenary property of the HUF, official residence of a Ruler, heirloom jewellery of an erstwhile Ruler, and money and other assets brought into India by a citizen of India or a person of Indian origin.

6.1.4. Gift Tax. Introduced in 1958, gift tax is chargeable on all donations except those which are given by government companies, private companies and charitable institutions. It is noteworthy that certain gifts have been exempted from the scope of gift tax liability, including gifts to wife, gifts to women dependents at the time of their marriage, donations to certain recognised charitable institutions etc. Gift tax has been abolished with effect from 1st October 1998 due to inadequate revenue collection and also due to the possibility of certain gifts attracting income tax liability under the Income Tax Act, 1961.

6.1.5. Estate Duty. Estate duty was introduced in India in 1953, chargeable on property passing on to heirs on the death of a person. In other words, the property of a deceased person is treated as the estate liable to estate duty. Agricultural land was considered as a property for estate duty purposes only in those States which agreed to a legislation to this effect. Some people used to gift their property to their heirs before death with the mala fide intention of avoiding the payment of estate duty. In order to check this malpractice, the Estate Duty Act, 1953 provided that all properties transferred in anticipation of death could be regarded as part of the estate passing on death. Since revenue collection from estate duty was very negligible and the administrative burden associated with it was too much, the Central Government decided to abolish it with effect from 1st April 1985.

6.1.6. Taxes on Capital and Property. These other taxes on capital and property are levied by the States and the local authorities. The State governments levy and collect land tax or land revenue on the value of land and road tax on motor vehicles, which is used for developing and maintaining State roads. Similarly, the local authorities impose cesses (as a surcharge on land revenue), tax on land and buildings (based on the annual rental value), taxes on the transfer of immovable property (based on property value) and betterment taxes (based on increase in land value arising due to town planning and town improvement).

6.2.Indirect Taxes

6.2.1. Customs duties. The Customs Act, 1962 empowered the Union government to levy and collect duties on both imports and export items. Import duties were more important than export duties from both revenue and foreign trade regulation viewpoint. Import duties are generally levied on ad valorem basis although in the case of some import items, such duties are levied on specific cum ad valorem basis. According to the provisions of customs laws, three types of customs duties are available : (1) Basic customs duty; (2) Additional duty of customs; and (3) Special additional duty. While basic customs duty is levied on goods imported from certain countries, additional duty of customs is charged on goods manufactured in India. Special additional duty is calculated according to the specified rate on the total assessable value of goods imported or manufactured in India. Basic customs duty is chargeable on different import items or goods specified in the first schedule to Customs Tariff Act, 1975, while customs duty on exports is charged on items included in the second schedule to the said Act. It is noteworthy, however, that additional customs duty is now levied under the GBhioods and Services Tax (GST).

6.2.2. Excise Duties. Central Excise duties are available under the provisions of the Central Excise Act, 1944 as per the rates mentioned in different schedules to the Central Excise Tariff Act, 1985. These duties are indirect taxes charged on the wholesale price of goods manufactured or produced in India and are to be paid by a manufacturer at the time of clearance of such goods from the factory premises or the warehouse. Several types of central excise duties are : (1) Basic excise duty, also known as the Central Value Added Tax (CENVAT); (2) Special excise duty; (3) Additional duties of excise; and (4) Cess. It must be mentioned that the States have complete jurisdiction over excise duties on opium, alcohol and narcotics. At present, excise duties have been subsumed under GST in India.

6.2.3. Sales Tax. Sales tax is chargeable under the provisions of the Central Sales Tax Act, 1956. As per this Act, sales tax is of two types: (1) Central sales tax (CST) levied by the Union government; and (2) Sales tax imposed by each State. Central sales tax is payable on sale of goods made by a dealer in the course of inter-State trade and commerce. Such tax is levied in the State in which the movement of goods begins. Thus, even though the central sales tax is imposed by the Central government, the revenue administration is conducted by the State in which it is charged or levied. In addition, it may be noted that sales tax on intra-State sale or purchase of goods (except newspapers) is imposed by a State in which such sale or purchase takes place. In fact, all the States impose sales tax at the relevant rates. At present, CST has been merged under GST in India.

6.2.4. Service Tax. Serviced tax was introduced in India in 1994. This tax is imposed, collected and utilised by the Union government. Initially, it was levied on three services including general insurance, telephone services, and stock brokering services. However, subsequently the scope of service tax has been enlarged through the inclusion of more and more services in the tax net. Therefore, the number of taxpayers and the revenue collected have increased quite significantly over the years. Regarding the levy and collection of service tax, it is imposed on all services except those which are specified in the negative list, and the service provider is liable to pay such tax. Since services constitute more than 55% of the GDP at present, the levy and collection of service tax has contributed significantly to the total tax revenue of the government. It may be noted that an assessee can avail of input tax credit in respect of various services and adjust it against the service tax payable on any of the output services. In addition, it must be pointed out that at present, service tax is not chargeable separately since all the services have been brought under the scope of Goods and Services Tax (GST) liability.

6.2.5. Value Added Tax (VAT). VAT was introduced in India from 1st April, 2005, and it has been adopted by different States and Union territories. In fact, the previously existing State sales tax has been replaced by the State-level VAT that is being charged at uniform rates across all States for various commodities. While the basic VAT rates are 4% (applicable to certain essential items and industrial inputs),and 12.5 percent (applicable to commodities not covered by other schedules), a special rate of 1% is chargeable on gold, silver and other precious stones. Certain goods of local importance and items of basic necessities have been exempted from such tax or put in the zero percent tax schedule. It may be mentioned that VAT laws do provide for allowing input tax credit (ITC) against the output tax payable on various commodities. At present, however, VAT has been subsumed under the provisions of Goods and Services Tax (GST).

6.2.6. Goods and Services Tax (GST). The introduction of GST in India from 1st July, 2017 heralded the beginning of a new era of indirect tax reforms. As noted by Samantara(2018, p.63), GST combined Central and State taxes into a national sales tax, thereby reducing transaction cost and ensuring transparency in transactions as well as payment of taxes. GST subsumed Central and State levies such as excise duty, additional customs duty, service tax, value added tax (VAT), central sales tax (CST), entry tax, luxury tax and Octroi. In fact, GST as a new system of indirect taxes has helped in establishing a common Indian market through the removal of market distortions arising due to multiplicity of taxes and the cascading effects of taxation. A notable feature of GST is that taxes on goods are destination based, being chargeable at the point of consumption of such goods (and not from the production stage or point). According to the provisions of GST, uniform tax rates are being charged for the same goods and services both at the Central and the State level. About the structure of GST in India, it comprises of the following four different components:

1. Central GST (CGST) levied and collected by the Centre on inter-State supply of goods and services;
2. State GST (SGST) levied and collected by the States on intra-State supply of goods and services;
3. Integrated GST (IGST) levied on inter-State transactions of goods and services; and
4. Union Territory GST (UGST) levied on intra-UT supply of goods and services within the Union Territories.

In regard to the fixation of GST rates, the GST Council decided in favour of a four-tier GST rate structure of 5%, 12%, 18%, and 28% with a maximum cab on levy of GST at 40%. While lower tax rates were fixed for mass-consumption and essential goods, high rates were fixed for demerit and luxury goods that would attract a levy of an additional cess. It is noteworthy, however, that the government has been reducing tax rates for various goods and services from time to time in response to public demand.

7.Some Critical Issues

In view of the large population of India, the Indian tax system has been quite complex with numerous taxes prevailing and the multiple tax rates thereon. Although several tax reforms have been undertaken from time to time to rationalise and to simplify the tax structure so as to ensure socio economic-justice to different categories of taxpayers, the tax system in India is still not perfect or free from limitations. In this context, it becomes necessary to analyse certain significant issues as given below :

1. It has been observed that the revenue collection from indirect taxes has been nearly double the amount of revenue collected from direct taxes (Alagappan, 2019, p.43; Ghuge and Katdare, 2015, p.242). Although the rates of direct taxes in India are high, their contribution to the total tax revenue collected is not satisfactory. In fact, the number of taxpayers filing income tax returns every year has been quite low against the large population of the country. Therefore, efforts need to be made to check tax evasion i.e., bring more and more taxpayers into the income tax bracket through better tax administration.
2. As observed by Alagappan(2019), corporate tax and income tax are the major components of direct taxes and contributed 97.41 percent of the total revenue collected from direct taxes in 2016-17 while other direct taxes such as land revenue, agricultural income, wealth tax, gift tax, etc. contributed merely 2.59 % of the total revenue collection from direct taxes. Therefore, there is a need to focus attention on increasing revenue collection from other direct taxes, especially agricultural tax and land revenue.
3. Another notable feature of the Indian tax structure is that a major portion of revenue collected from indirect taxes is contributed by general sales tax (GST), Union excise, service tax and customs duty. Therefore, there is a need to enhance revenue collection from other indirect taxes such as stamp and registration fees, tax on vehicles, entertainment tax, etc.
4. Finally, it is noted that the government expenditure on collection of taxes has been quite excessive, and this expenditure has been increasing from year to year. Therefore, there is

a need to reduce such expenditure through the elimination of multiplicity of taxes as well as tax on tax. It is noteworthy, however, that this problem has been mitigated to a large extent by the levy of Goods and Services Tax (GST) in 2017.

8.Summary and Conclusion

The present research has been highly illuminating in that it has traced the evolution of the tax system in India through three different periods - taxes in ancient India, taxes during British rule, and taxes in independent India. In addition, attempts were made to present a critical analysis of the Indian tax structure in terms of various types of direct taxes and indirect taxes. A detailed description of direct taxes including Income Tax, Corporation tax, Wealth tax, Gift tax, Excise duty and certain other taxes on capital and property was made. Similarly, the research analysis included an elaborate discussion of such indirect taxes as Customs duties, Excise duties, Sales tax, Service tax, Value Added Tax (VAT),and Goods and Services Tax (GST). In addition, certain important features of the Indian tax structure were highlighted - predominance of indirect taxes in terms of their contribution to the total revenue collected (as against direct taxes), relatively larger revenue contribution of such indirect taxes as General sales tax (GST), Union excise, Service tax and Customs duty.

The findings of the present study point to certain important steps which may be taken by the government to streamline the Indian tax system further. As stated earlier, only about 1% of the total population in India are paying taxes and, therefore, the number of tax returns being filed every year has been comparatively low. Although the direct tax rates are high, the total revenue generated from such taxes is not up to the mark. Therefore, there is a particular need to check both tax avoidance and tax evasion through better tax administration.

As noted earlier, the contribution of certain direct taxes and indirect taxes to the total tax collected in India has been quite insignificant. Therefore, there is ample scope for enhancing revenue generation from certain direct taxes such as agricultural income and land revenue. At present, agricultural income of an assessee is taken into consideration for income tax rate purposes only. However, there is ample justification for taxing agricultural income to a limited extent only without causing hardship to the poor peasants. Similarly, there is a need to augment revenue collection from such indirect taxes as stamp and registration fees, entertainment tax, tax on vehicle etc. The introduction of Goods and Services Tax (GST) with effect from 1st July 2017 has removed many of the anomalies that existed in the area of indirect taxes such as multiplicity of taxes, cascading effects of taxation, and so on. In fact, the GST has facilitated the establishment of a common Indian market with uniform tax rates for various goods and services across different States and Union territories. At the same time, however, there is a paramount need to implement the Direct Tax Code (DTC) that has been proposed by tax experts to simplify the laws pertaining to the structure of direct taxes in India. The Direct Tax Code will subsume various direct tax laws such as the existing Income Tax Act 1961, the Wealth Tax Act, 1957 and other direct tax laws. This significant reform in the area of direct taxes is expected to simplify the tax structure further and result in increased tax revenues for the government.

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