

**INDIAN TAX STRUCTURE- AN ANALYTICAL PERSPECTIVE**

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**ABSTRACT**

*Tax is the major source of revenue for the government, the development of any country's economy largely depends on the tax structure it has adopted. A Taxation Structure which facilitates ease of doing business and having no chance for tax evasion brings prosperity to a country's economy. On the other hand taxation structure which has provisions for tax evasion and the one which does not facilitate ease of doing business slows down the growth of country's economy. Therefore as taxation structure plays an important role in country's development. India has a well-developed tax structure. The power to levy taxes and duties is distributed among the three tiers of Government, in accordance with the provisions of the Indian Constitution. Indian taxation structure has gone through many reforms and still it is very far ahead from being a ideal taxation structure. Many problems like Tax Evasion, Reliance on indirect taxes, Black money, existence of parallel economy show that Indian taxation system requires some major reforms in the future ahead to address all this problems. In the following paper, the study is purely based on secondary data. Various figures are obtained from the different websites of government of India. It is seen that there are various number of taxes and different tax collection authorities in India. Also it is seen that there is major dependence on indirect taxes for tax collection than the direct taxes. Both Indirect taxes and Direct taxes have their own advantages and disadvantages.*

Keywords:- Direct Taxes, Indirect Taxes, Tax Structure of India, Taxation, Tax Collection

**Introduction:-**

After Independence in 1947, India has developed into open Market Economy. In Early 1990's Started the Process of liberalization and reduced controls on foreign trade and investment. It has served to accelerate the country's growth rate with a forecast to rise to 7.5% in financial year 2015/16.

(Business Knowledge Resource online, 2015) India has a well-developed tax structure. The power to levy taxes and duties is distributed among the three tiers of Government, in accordance with the provisions of the Indian Constitution. The main taxes/duties that the Union Government is empowered to levy are:- Income Tax (except tax on agricultural income, which the State Governments can levy), Customs duties, Central Excise and Sales Tax and Service Tax. The principal taxes levied by the State Governments are:- Sales Tax (tax on intra-State sale of goods), Stamp Duty (duty on transfer of property), State Excise (duty on manufacture of alcohol), Land Revenue (levy on land used for agricultural/non-agricultural purposes), Duty on Entertainment and Tax on Professions & Callings. The Local Bodies are empowered to levy tax on properties (buildings, etc.), Octroi (tax on entry of goods for use/consumption within areas of the Local Bodies), Tax on Markets and Tax/User Charges for utilities like water supply, drainage, etc.

In the wake of economic reforms, the tax system in India has undergone a radical change, in line with the liberal policy. Some of the changes include:- rationalization of tax structure; progressive reduction in peak rates of customs duty ; reduction in corporate tax rate; customs duties to be aligned with ASEAN levels; introduction of value added tax ; widening of the tax base; tax laws have been simplified to ensure better compliance. Tax policy in India provides tax holidays in the form of concessions for various types of investments. These include incentives to priority sectors and to industries located in special area/ regions. Tax incentives are available also for those engaged in development of infrastructure.

Tax, is the payment we make to the Government, for a good/service. It is this money that Govt uses for all the functions it is expected to do. Military, Infrastructure - Economic and social, Basic amenities, Welfare etc.

In India, the Taxes are classified in to two types, direct taxes and indirect taxes.

Direct Taxes are those which are paid directly by the individual or organization to the imposing authority. They are levied on income and profits

Indirect Taxes are those which are not paid directly by the individual or organization to the imposing authority. They are levied on goods and services and not on income and profits.

A) Direct Taxes

- a) Corporation tax
- b) Taxes on income
- c) Estate duty
- d) Interest Tax
- e) Wealth Tax
- f) Gift Tax
- g) Land Revenue
- h) Agricultural tax
- i) Hotel receipts tax
- j) Expenditure tax
- k) Other's

B) Indirect Taxes

- a) Customs
- b) Union excise duties
- c) Service tax
- d) State Excise duty
- e) Stamp and registration fees
- f) General Sales tax
- g) Taxes on vehicle
- h) Entertainment tax
- i) Taxes on goods and passengers
- j) Taxes and duties on electricity
- k) Taxes on purchase of sugarcane
- l) others

In spite of Many reforms, Indian Tax structure faces many complexities and , problems like multiplicity of taxes, dominance of indirect taxes, adhocism, bias in incidence of taxes, complexity and corruption, imbalance in tax system, lack of built in elasticity, squandering away of resources.

#### **Review of Literature:-**

(Kumat, 2014)in his research paper on Taxation laws of India- overview and fiscal analysis focuses on the overview of Indian tax system and challenges ahead. He thinks that there should be a coordinated consumption tax system. He also states that improving the productivity of Indian tax system continues to be a major challenge in India.

(Jha, 2013)in his research paper on Tax structure in India& its effect on corporate and individual in India suggests that high dependence on indirect taxes should be reduced and direct taxes should be in increased on super rich to compensate the losses. He also states that corporate tax evasion techniques like transfer pricing should be checked.

(Rao, 2005)in his research paper on Tax system reforms in India: achievement and challenges ahead focuses on the union and state level reforms. He state that the reforms are just the beginning and considerable distance in reforming the tax system is yet to be covered

#### **Need of the study:-**

The Development of any country's economy depends directly on the Country's Taxation Structure. A Taxation Structure which facilitates easy of doing business and having no chance for tax evasion brings prosperity to a country's economy. On the other hand taxation structure which has provisions for tax evasion and the one which does not facilitate ease of doing business slows down the growth of country's economy. Therefore as taxation structure plays an important role in country's development. There is always need for study of the taxation structure to make the Taxation structure more simple that earlier.

#### **Statement of the Problem:-**

Indian taxation structure has gone through many reforms and still it is very far ahead from being a ideal taxation structure. Many problems like Tax Evasion, Reliance on indirect taxes, Black money, existence of parallel economy show that Indian taxation system requires some major reforms in the future ahead to address all this problems.

#### **Objectives:-**

- 1) To Study the Tax Structure of India
- 2) To Identify the different taxes Collected
- 3) To Identify the amount incurred on collection of taxes
- 4) To Identify the amount of revenue which is collected from different types of taxes
- 5) To Identify problems in the existing taxation structure

#### **Research methodology:-**

This Research paper is purely based on secondary data. Various figures are obtained from the different websites of government of India.

**Analysis of Indian Tax Structure:-**

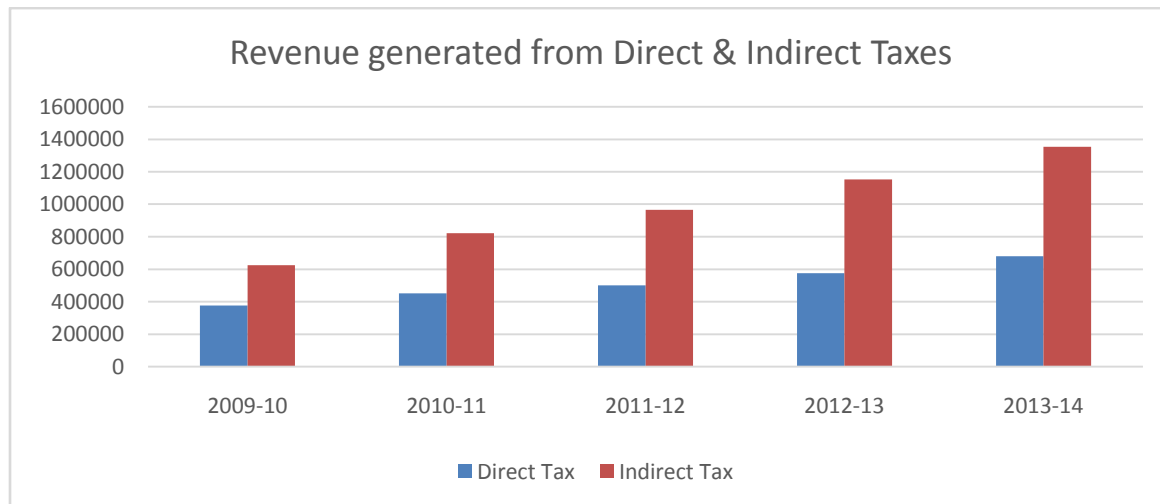
Following are the details of the amount raised from Direct Taxes and Indirect taxes by combined both central and state governments

In Rs crore

Year	2010-11	2011-12	2012-13	2013-14
Revenue Receipt Direct Tax	450822.09	501394.92	574680.54	679297.56
Revenue Receipt Indirect Tax	820843.26	966495.51	1151867.99	1353191.51

Source- (Public Finance Statistics ,Ministry of Finance, 2013-14)

\*2014-15 data is not taken as it is not yet available

**Interpretations:-**

From the above data it is seen that there is more dependence on indirect taxes for revenue collection than direct taxes

It is almost clear from the above graph that the amount received from Indirect taxes is almost double from the amount received from direct taxes

Over dependence on Indirect Taxes is clearly visible

We will be understanding the Advantages and Disadvantages of both Indirect and direct taxes

**Advantages of Indirect taxes:-****Convenient:-**

Indirect taxes are imposed on Manufacturers, sellers and traders but their burden is imposed on the consumers of the goods and services and thus these consumers are the final tax payers. They are convenient from point of view as tax payer as he pays indirect taxes in small amounts. Also they are convenient to government as they collect these taxes in lumpsum from the manufacturers

**Difficult to evade:-**

As in many cases the selling price is inclusive of indirect taxes , it is very difficult to evade these taxes

**Wide Coverage:-** Indirect taxes have more wide coverage than the direct taxes as majority of the goods and services have indirect taxes included in their price. So the consumers have to pay them

**Elastic:-** Some of the indirect taxes are elastic in nature, when government wants to raise the revenue, they increase the indirect taxes.

**Universality:-**Indirect taxes are paid by both rich and poor people so they have the universal appeal

**Pattern of Production:-** By Imposing taxes on certain commodities or sectors, government can control the pattern of production

**Individuals may not demotivated to work and save:-**

As indirect taxes are not depend on Income, Individuals may not get demotivated to work and save

**Disadvantages of Indirect Taxes****Inequitable:-**

The Burden of Indirect Taxes is more on poor people than Rich People. Hence Indirect Taxes are considered to be Inequitable

**Uneconomical:-**

As government has to make a lot of expenses for collection of the Indirect Taxes, This Taxes are Considered as uneconomical. Final Consumer has to pay much higher amount than received by the government.

**Uncertainty:-**

Amount of Indirect Tax Collection cannot be predicted as increase in Indirect Tax Results in Increase in Prices of the commodity and thus reduces the demand of the commodity. Hence there is always uncertainty over the amount of indirect taxes collected.

**Inflationary:-**

As Indirect Taxes increases the prices of the commodity, they are considered as Inflationary. If Government depends more on indirect taxes, then Inflation will keep on increasing.

**Non-Awareness:-**

There is lack of awareness among the tax payers of Indirect taxes as no body knows that he is paying taxes as it is included in the price.

**Evasion:-**

There is more chance of Tax Evasion as Manufacturers can collect taxes from people and pay only fewer taxes with the understanding of government officials.

**Discourage Industries:-**

The raw material used by the industrial sector is taxed indirectly. Similarly Finished goods are taxed which increases the price of the product resulting in demand reduction. In this way indirect taxes discourage industries.

**Unfair Profit:-**

The Producers increase prices of commodities to maintain their profit margin. Hence burden is on consumers.

**Unemployment:-**

Due to Increase in prices, demand gets reduced discouraging industries as a result of which Unemployment increases.

Similarly Direct Taxes also have their own advantages and disadvantages

**Advantages of Direct taxes:-****Equitable:-**

The Burden of direct taxes cannot be shifted hence they are progressive and equitable in nature

**Economical:-**

The Cost of collection of direct tax is low. Mostly they are collected at source. Hence the direct taxes are economical

**Certain:-**

There is certainty on the amount of direct taxes to be collected from both the sides. Tax Payers know their income and thus know the amount of taxes they would be required to pay. Similarly tax authorities also know about the income expected from direct taxes.

**Productive:-**

Direct Taxes are Productive in nature. As the community grows in numbers and prosperity, the returns from direct taxes also grow.

**Means of developing civic sense:-**

In case of Direct taxes the people know that they are paying taxes and it develops consciousness among the people. They know their right to ask government how the government is using the money for development of the nation. Thus Direct Taxes Increases the civic consciousness.

**Disadvantages of Direct taxes:-****Inconvenient:-**

Direct Taxes Pinches the payer. The direct taxes are thus inconvenient. Nobody can help feeling the pinch.

**Evadable:-**

A taxpayer can submit false return and evade the taxes. Hence direct taxes are tax on honesty. Honest people are suffered more in direct taxes than the dishonest people.

**Social conflict:-**

Direct tax encourages social conflict as not every part members of the society has to pay direct taxes.

**Discourage Saving and Investment:-**

Excessive increase in direct taxes may discourage savings and investment which in long term will affect country's economy.

Proportion of different direct taxes under direct taxes heading for the year 2013-14

Name of Direct Tax	Amount collected (Rs Crore)	%age Share in Total Direct Tax
Corporation tax	419520.00	61.75 %
Taxes on Income	240922.10	35.47 %
Estate Duty	0	0.00 %
Interest Tax	0	0.00 %
Wealth Tax	950.00	0.13 %
Gift Tax	0	0.00 %
Land Revenue	11744.01	1.73 %
Agricultural Tax	134.59	0.02 %
Hotel Receipts Tax	90.04	0.01 %
Expenditure Tax	0.00	0.00 %
Other's	5936.82	0.87 %

Source:- (Public Finance Statistics ,Ministry of Finance, 2013-14)

**Interpretations:-**

The Major amount of Indirect taxes is Coming from Corporation Tax and Taxation on Income i. e 62 % and 35 % respectively. All other sources constitute up to 3 % Share of Direct Taxes

Proportion of different Indirect taxes under Indirect taxes heading:-

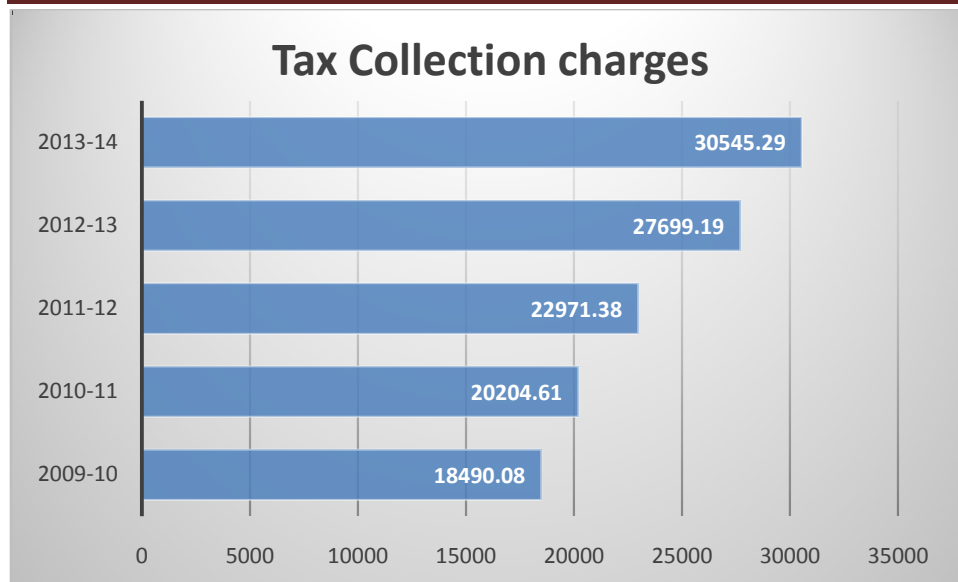
Name of Indirect Tax	Amount collected (Rs Crore)	%age Share in Total Indirect Tax
Customs	187308	13.84 %
Union Excise Duties	196804.95	14.54 %
Service Tax	180141.04	13.31 %
State Excise Duty	98763.22	7.30 %
Stamp & registration Fees	92156.59	6.81 %
General Sales Tax	503653.36	37.21%
Taxes on Vehicle	40668.13	3.00 %
Entertainment Tax	2030.87	0.15 %
Taxes on goods & Passengers	16648.64	1.23 %
Taxes & Duty on Electricity	22009.89	1.63 %
Taxes on Purchase of Sugar Cane	349.41	0.03 %
Others	12657.41	0.95 %

Source:- (Public Finance Statistics ,Ministry of Finance, 2013-14)

Interpretations:- The Largest amount of Indirect Tax is generated from sales tax i.e. 37 % , Service tax constitute upto 13% , union excise duties 15 % , Customs 14 % , State Excise duties 7 % , Stamp and registration 7 % , taxes and vehicle 3 % and remaining all others 4%.

Cost incurred by government on collection of tax in the year 2013-14 (In Rs Crore)



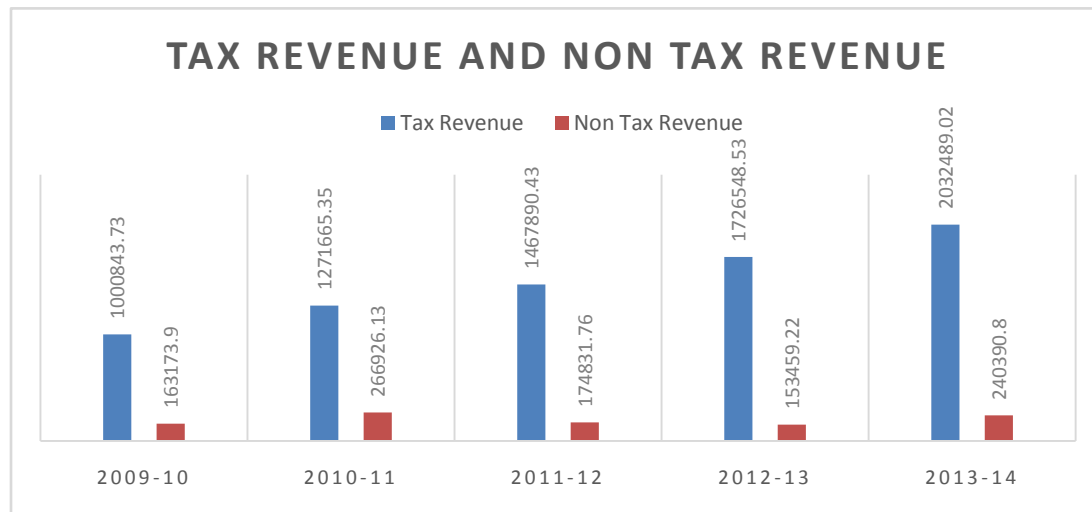


Source:-(Public Finance Statistics ,Ministry of Finance, 2013-14)

Interpretations:-

From the above graph, It is seen that government is expending huge expenses on collection of Taxes and the amount of expenses made on collection are increasing year on year.

Tax revenue as compared with Non Tax Revenue



Source:-(Public Finance Statistics ,Ministry of Finance, 2013-14)

Interpretations:-

From the above graph it is seen that the share of tax revenue in total revenue is 5 to 6 time more than the Non tax Revenue

**Findings:-**

- 1) There is a vast number of taxes in India and different collecting authorities causing multiplicity of taxes in India
- 2) There is a huge dependence on indirect taxes for revenue generation. The amount collected from indirect taxes is nearly twice the amount collected from direct taxes.
- 3) Both direct taxes and Indirect taxes have their own advantages and disadvantages.
- 4) Under direct taxes, the major components of taxes are corporation tax and taxes on income
- 5) Under indirect taxes, the major components are customs, excise duty and service taxes
- 6) The amount expended on collection of taxes is increasing year on year.

**Conclusions:-**

Due to Multiplicity of taxes there is unhappiness among citizens of India regarding tax structure. Taxes by Union Government, State Governments and the local governments have resulted in difficulties and harassment to the tax payer. He has to contact several authorities and maintain separate records for each of them.

An Ideal Tax system must follow Adam Smith's canons of taxation .but due to over dependence on indirect taxes, the tax systems suffers from the problems like Inequality, regressive, uneconomical, inflationary, etc.

The Tax System has failed to stop tax evasion and curb the growth of parallel economy. White paper issued by Indian government on black money in 2012 tells that parallel economy exist the same amount of Indian GDP.

**Suggestions:-**

- 1) Government should focus more on structural reforms than policy reforms.
- 2) GST should be implemented soon to reduce the number of indirect taxes and facilitate ease of doing business in India.
- 3) There should be effective implementation of Anti Tax evasion Bill
- 4) Innovative Tax Systems like Banking Transaction Tax system Suggested by ArthakrantiPratishthan Should be given Serious thought upon as they can be future alternatives
- 5) Administrative expenses incurred on Tax Collection needs to be brought down by making reduction in the number of taxes and tax collection authorities

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