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REVIEW ARTICLE

DESIGN OF TAXATION AND TAX REFORMS IN INDIAN CONTEXT

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ABSTRACT:

Taxation system reforms are a crucial component of a country's development. The taxation system in India has undergone a series of revisions. The rationalization of tax rates, coupled with the streamlining of tax regulations, has led to improved compliance, simplified tax payment processes, and enhanced enforcement measures. There have been notable reforms implemented in both the direct tax system and the indirect tax system in India. Following each change, it becomes imperative to assess its efficacy. There are multiple metrics for assessing the impacts of changes, with the tax-to-GDP ratio being regarded as a prominent metric. One of the primary goals of tax reform initiatives has been to increase the ratio of total tax to GDP in order to achieve fiscal consolidation and improve resource allocation. Currently, the Government of India is striving to enhance its income collection and prevent excessive taxation from burdening investors. In this article, design of taxation and tax reforms in Indian context has been chronicled.

KEYWORDS: Taxation, Tax, Reforms, India.

INTRODUCTION:

During the 1980s and 1990s, developing nations undertook a diverse range of significant economic changes. These reforms included tax reforms as a crucial component. Many domestic and global forces motivated the tax reforms. Over the past twenty years, there has been a significant reevaluation in emerging nations regarding the government's involvement in fostering economic development. There was a noticeable trend toward allocating a more significant role to the private sector, which included overseas firms. This necessitated a reassessment of the tax system's framework. Numerous governments faced mounting pressure to curtail fiscal deficits in order to preserve macroeconomic stability in light of diminishing external aid. Development assistance from multilateral development agencies necessitates deficit reduction as a prerequisite. The inclusion of tax system reform and the containment of public expenditure as fundamental objectives has been a consistent feature in nearly all adjustment programs. Various motivations, including the aspiration to uphold or improve international competitiveness, drove tax reforms as an increasing number of developing nations endeavored to engage in the phenomenon of globalization.

LITERATURE REVIEW:

Afonso, A., Jalles, J.T. & Venâncio, A. (2021). We conducted an empirical evaluation of the impact of structural tax reforms on the efficiency of government expenditure in a sample of 18 OECD economies from 2006 to 2017. After calculating input spending efficiency scores, we assess the significance of narrative tax changes in relation to public sector efficiency within a panel framework. Our analysis reveals that the average input efficiency scores range from 0.6 to 7. Specifically, we observe that higher tax rates, particularly for PIT, have a negative impact on public sector efficiency. We still link increases in tax rates to lower public sector efficiency, particularly for PIT, even after accounting for endogeneity. However, increasing the tax base improves public sector efficiency. During periods of economic expansion, increasing the CIT base and reducing PIT rates have a positive effect on public sector efficiency. Conversely, during recessions, efficiency improves when both PIT and VAT bases increase and the CIT rate rises. [1]

Elina Kanungo (2019). The government commonly defines a tax as a financial obligation it imposes on individuals or property owners within a nation. The allocation of tax authority within the constitutional framework serves as the foundation for India's tax system development. As per the stipulations outlined in the Indian Constitution, the government possesses the authority to impose taxation on both individuals and organizations. Taxing is a mandatory financial obligation imposed by the taxing body of India, as mandated by legislation enacted by the legislature or parliament. India has a tax system consisting of three tiers, namely the central government, state governments, and local government entities. We can categorize taxes into two fundamental forms: direct taxation and indirect taxation. A tax system known as direct taxation collects revenue directly from the taxpayer and then remits it to the government. Transferring the burden of direct taxes to another party is not a viable option. It encompasses many forms of taxation, such as income tax, capital gain tax, corporate tax, and wealth tax, among others. An intermediary, like a retail business, collects indirect taxes like custom duty, excise duty, service tax, and GST (Goods and Service Taxes) from the consumer, who ultimately bears the economic cost of the tax. [2]

M. Govinda Rao, R. Kavita Rao (2016). Tax systems worldwide have experienced substantial transformations during the past two decades, as numerous countries with different ideologies and degrees of development have implemented reforms. Many factors drove the initiation of tax reforms in the mid-1980s and their subsequent acceleration in the 1990s. In numerous developing countries, the urgent fiscal imbalance was the primary catalyst. We used tax policy as a primary tool to address significant fiscal constraints. For some countries, the shift from a centrally planned economy to a market economy required extensive tax adjustments. In addition to efficiency considerations, the tax reforms required the resolution of two key challenges: the substitution of public enterprise profits with tax income as the primary source and the alignment of tax policy with shifts in the development plan. Another driving factor was the process of internationalizing economic activity, which emerged as a result of the growing phenomenon of globalization. Globalization resulted in a substantial decrease in tariffs, necessitating the search for alternatives to this crucial and readily manageable source of income. Conversely, globalization highlighted the importance of reducing both the efficiency and compliance expenses associated with the tax system. The tax reforms implemented during the Thatcher-Reagan era had a significant influence on the tax reforms observed in developing nations. [3]

Luigi Bernardi and Angela Fraschini (2005). This article is a component of a broader study on the taxation practices of Southeast Asian countries, conducted under the oversight of. V. Tanzi. India is a federal republic characterized by its large size, high population density, and poverty. However, in recent years, it has entered a phase of development known as the catching-up stage, exhibiting remarkable rates of GDP growth. The general government budget exhibits fundamental imbalances, resulting in a persistently high level of public debt. Public expenditure, primarily focused on general services, defense, and the facilitation of economic endeavors, allocates approximately 25 percent of the Gross Domestic Product (GDP), rather than prioritizing public health and welfare initiatives. The national and state governments equally distribute the fiscal strain, which accounts for approximately 17 percent of the GDP, in line with the per capita GDP. The tax system's structure bears resemblance to the early stages of the Musgravian system. The tax system is primarily characterized by a complicated framework of taxation on goods and services, which poses challenges in transitioning towards a value-added tax (VAT) structure. Direct taxation is still in its early stages, both in terms of its magnitude and its organizational framework. Import duties continue to be significant. There is a complete absence of social contributions. The tax system in a country such as India presents several challenges, with the most significant being the excessive prevalence of a complex and outdated indirect taxing system, as well as the fiscal interdependencies across different levels of government. The process of modernizing and enhancing the Indian tax system commenced in the early 1990s; nevertheless, the reform remains mostly unfinished. The introduction of VAT, which has been widely adopted in other emerging countries, is a notable example, although it is not the only one. [4]

Azizul Islam (2001). This study aims to elucidate the underlying ideas that have shaped the recent tax reforms implemented in emerging nations in Asia. This analysis provides a critical evaluation of the alleged justification behind these measures and highlights certain concerns associated with them. This study first examines the evolving perception of taxes as a macroeconomic instrument, as well as the underlying ideas that have guided recent tax reforms. Subsequently, it examines the consequences of implementing these principles on the magnitude and organization of taxation. The report concludes with a succinct summary of the primary issues tackled. [5]

DESIGN OF TAXATION AND TAX REFORMS IN INDIAN SCENARIO:

In Latin, the term 'tax' originates from the words 'taxare' or 'taxo'. It denotes the act of assessing something's value or worth. The government imposes taxes to fund the operation and provision of services by the state. The government imposes and gathers these taxes for the acquisition or exchange of goods or services. Taxation has a crucial role in generating revenue for the state, making it a fundamental component of any governmental administration system.

The robustness of an economy is contingent upon the efficacy of its tax system. An equitable tax system has the potential to drive a country's economic expansion and prosperity. Consequently, this leads to increased happiness and productivity among the population. A sound taxation policy increases GDP by allocating, distributing, and stabilizing resources.

There exist two distinct categories of taxation, namely direct and indirect. Direct taxes refer to the funds that an entity directly transfers to the government, such as income tax and property tax. On the other hand, indirect taxes are the funds that an entity transfers through intermediaries. The imposition of a service tax by the government of India exemplifies an instance of an indirect tax.

Taxation serves a purpose beyond the mere generation of governmental money. Furthermore, it is significant in terms of economic and political development. In recent years, India has implemented a series of comprehensive reforms aimed at enhancing compliance, such as the implementation of the Goods and Services Tax (GST), reducing the corporate tax rate, and gradually eliminating exemptions. Initiatives like the Place of Effective Management and the Black Money Act demonstrate how these reforms also aim to mitigate tax evasion.

India predominantly exhibits a lack of tax compliance. The tax payment rate of 4.9%, which amounts to 6.08 crore individuals, falls well below the targeted threshold of 23%. In the context of India, the stated net national income stands at a mere 15.5%. In FY 2017-18, the tax-to-GDP ratio stood at 17.82%, which is still lower than that of emerging countries (21%), and far lower than the OECD average (34%). The income tax exemption threshold has undergone a constant increase, resulting in the subsidization of affluent individuals through the provision of services, sometimes referred to as income tax. Before the recent announcement of tax reductions, the

perception of India as a jurisdiction with a heavy tax burden, characterized by a corporate tax rate exceeding 30%, was common. The legitimacy of the state is undermined by tax evasion and corruption. It fosters a perception among the populace that public resources are being squandered, hence diminishing the inclination to contribute. Inadequate tax administration is regarded as a significant obstacle to achieving efficient and equitable tax collection in the nation. Due to insufficient technical proficiency and financial means, as well as corruption.

Government Accountability examines the state's responsibility to establish the necessary circumstances for widespread prosperity by delivering vital services and safeguarding the less privileged through redistribution. In countries that adhere to tax codes, the government is held more responsible for its population. Therefore, there is an improved delivery of vital services to individuals.

Taxation is a reciprocal association that forms an integral part of the social contract. It is the responsibility of citizens to hold the state accountable. In the event that a person fails to make payment, they assume the role of a free rider, thereby absolving themselves of any responsibility for the provision of substandard services by the state. In the event that he leaves the military, his desire to hold the state accountable diminishes. The intricate tax framework effectively facilitates the ability of huge corporate entities to manipulate the system through the utilization of their internal tax specialists, hence enabling them to employ tax avoidance tactics. Historically, tax laws have categorized taxpayers only based on their financial capacity, mostly for the sake of administrative efficiency. People have rarely attempted to distinguish between high-risk and low-risk income, legal and illegal revenue, and recurring and non-recurring income. Taking into account these subtleties in tax policy would enhance the fairness of the system. An example of an oddity that requires attention is the treatment of income derived from government securities, which is considered one of the most secure sources of investment, on equal footing with high-risk business income or shareholder income.

Revenue refers to the monetary compensation that an individual or corporation obtains in return for delivering a product or service. Since the Maurya kingdom era, India has had a formal tax system in place. The affluent segment of the population allocated one-sixth of their earnings towards taxation. According to historical accounts, the concept of taxation can be traced back to

the Manu Smruti, an ancient Indian text predating the reign of the Mauryas. The Mughal invaders that followed introduced their own taxation system. The non-Islamic population of the region faced the notorious Jezia tax. Akbar abolished it in India.

The British colonial administration introduced the income tax in India in 1860. Its purpose was to compensate for the financial losses incurred by the government as a result of the 1857 revolt. The yearly tax on both earned income, like wages, salaries, or commissions, and unearned income, like dividends, interest, or rent, is known as the income tax concept. Progressive income taxes serve the dual purpose of funding a government's operations and promoting a more equitable distribution of wealth creation within a population. Additionally, it functions as a protective measure against potential changes in the economic cycle. We can classify income tax into two fundamental categories: personal income tax and corporate income tax.

India enacted the Income Tax Act in 1886, and since then, it has undergone further amendments and enhancements. In 1918, following the conclusion of the First World War, a new Income Tax Act was enacted to address the lasting consequences of the war's economic destruction. The income tax act remained in effect until 1922, at which point it was superseded by a different act. The Income Tax Act had further modifications after a span of 40 years and 15 years subsequent to India's attainment of independence from British colonial rule. The Income Tax Act of 1961 was enacted and became effective on April 1, 1962. This region encompasses the entirety of India, including Sikkim, Jammu, and Kashmir. The bifurcation of the Central Board of Revenue resulted in the creation of a distinct entity known as the Central Board of Direct Taxes, which operates under the provisions of the Central Board of Revenue Act, 1963.

At present, the Indian government imposes income taxation under five overarching categories:

- Salary income
- Revenue generated by an individual's company or occupation
- Capital gains revenue
- Property revenue
- Income derived from alternative sources

Each subsequent administration amends the Act with the goal of funding government activities and attempting to achieve a more equitable distribution of income. An evident characteristic of the Income Tax Act of India is the exemption of agricultural income from taxation in India. In India, as well as in other nations, the assessment of income tax is assessed on a yearly basis for the preceding fiscal year.

India's tax system is now structured into three tiers. Both the national government and the state government have the authority to impose taxes. The delegation of taxation to local governing bodies, such as municipal corporations and gram panchayats, can be carried out by the state government. The Indian tax system is widely regarded as one of the most intricate globally, encompassing several forms of taxation such as income tax, wealth tax, property tax, gift tax, sales tax, value-added tax (VAT), custom duty, excise duty (now replaced by GST), corporate tax, income tax, and numerous other taxation mechanisms. This particular factor accounts for the significant demand for income tax consultants, GST consultants, auditors, and other experts in India.

As a nation progresses, its requirements diverge. India is not an exception. Undoubtedly, as the country progresses, India's tax framework will undergo numerous improvements. The implementation of the Goods and Services Tax (GST) in India on July 1, 2017, marked a significant shift from the previous central and state indirect tax systems, namely VAT, excise duty, and service tax. Over 160 countries have implemented the Goods and Services Tax (GST), starting with its introduction in France in 1954. Therefore, we can confidently assert that GST is a well-established and proven taxing system, and India need not be unduly concerned about its efficacy.

The government, whether at the central, state, or municipal level, imposes taxes that have several significant qualities. As the government imposes any type of tax for the betterment of the nation, it is legally obligatory to make tax payments. Individuals contribute financially to their nation's advancement and development through taxation. The Indian government allocates funds earned via taxation to support essential sectors such as healthcare, infrastructure, and defense. Tax collection's goal is to promote the welfare and advancement of society as a whole. Taxation should not be biased against particular individuals. The allocation of funds for disaster upkeep and rescue is an important component of tax revenue. The individual pays the tax from their earned income

or wealth. The individual only pays the tax when they generate income. Individuals who fail to meet a certain minimum income threshold, as determined and subject to periodic adjustments by the government, are exempt from some tax obligations, such as income tax. The collection of tax revenue has a crucial role in stimulating economic growth. The allocation of tax revenue by the government towards infrastructure development, such as roads, railroads, power stations, and dams, serves as a means to foster economic growth within the nation.

CONCLUSION:

Significant transformations have occurred in the tax systems of countries with diverse economic systems and varying levels of development over the past two decades. The rationales behind these reforms have varied among countries, and the focus of these reforms has fluctuated throughout time, influenced by the prevailing development strategy and ideology of each era. Following the implementation of reforms, it becomes imperative to assess their efficacy. There are multiple metrics for assessing the impacts of changes, with the tax-to-GDP ratio being regarded as a prominent metric. The tax-to-GDP ratio represents the percentage of tax revenue that the government generates compared to the GDP of a country. Policymakers utilize this ratio to assess and contrast tax revenues across different years. Ideally, it is desirable for this ratio to remain somewhat stable.

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