

Impact of Taxation as an Aid to Economic Development of Country



Twinkle Goyal

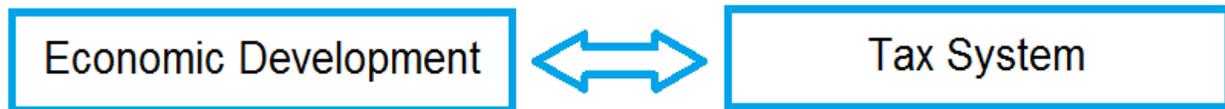
19021141127, MBA (Finance), SIBM-H

Abstract

“It is shortage of resources, and not inadequate incentives, which limits the pace of economic development. Indeed the importance of public revenue from the point of view of accelerated economic development could hardly be exaggerated.” Nicholas Kaldor, Taxation is a very important system implemented in a country and also an important source of revenue to the government. It is also one of the deciding parameter for the economic growth of a country. We know there will be the changes in the Taxation rules and regulations depending on various factors like, GDP, Growth pace in economy, Income of the Country etc. Whereas direct taxes impacts directly the disposable income of a person. The basic objective of this paper is to evaluate the impact of both direct and indirect taxes on the economic growth of a country.

Keywords: economic development, GDP, direct taxes, revenue, evaluate

Introduction



The birth of the word ‘taxation’ is from Latin word ‘Taxare’, which means ‘to assess’. Income Tax in British India was introduced by Sir James Wilson on July 24, 1860. The full proof Income tax came into act in 1886. The Income Tax Act, 1922 is the most comprehensive act, as it introduced the concept of Tax Deducted at Source (TDS), various Tax Rates and Income Tax Commissioner. However, The Income Tax Act, 1961 came into force from April 1, 1962 in Indian Taxation comprising of both Direct and Indirect Taxes in India.

“How does a government go from raising approximately 10% of GDP in taxes to raising around 40%”? In regular process of development, Government not only sometimes increases the taxes, but sometimes have to pronounce changes in the taxation patterns, with increased emphasis on tax bases which are broader, i.e. where exemptions are few.

The CBDT and CBEC were constituted directly linked to the Central Board of Revenue Act, 1963 under The Ministry of Finance in India. Both the boards are the most important in the formulation of Taxation Policy in the country, Tax Collections, Taxation Guidance and Remittance to the Indian exchequer. The Central Board of Direct Taxes and The Central Board of Excise and Customs in India consist of a Chairman and six Members for administration of whole system. The CBEC is the apex body for collection and making taxation policy of indirect taxes, And CBDT is the body constituted for collection and making policy for Direct Taxes to the Government of India.

Increased prosperity is the basis for Economic Growth. The fundamentals of growth in a country are Introduction of new products in the market, Investments in new human and capital, and implementation of new production techniques. Though its effect on the profitability and return on investment cannot be measured effectively. But taxation can affect what choices are made and will be made and ultimately the Economic Growth. In most of the developing economies of the world, the level of taxes has decreased over last some years.

In this Paper, I am going to study about different concepts and implications of taxes. There are various areas which are well dependent on taxation. In the row, First is Gross Domestic Product (GDP) of a Country, how a country’s changes in taxation regulations affect one’s GDP and the pattern of tax collections in the past years. Second, I will also study the types of income; Income from salary, House property, Profits/Gains from Business & Profession, Capital Gains, and other Sources, that are assessed in one’s Income Assessment and the Income tax returns (ITR) and E-returns filled by the Taxpayer like, Sugam, Sahaj, etc. Third, I will also study various tax deductions and concession given in the Indian Taxation system and the concept of Tax Evasion & Tax Avoidance. And at last, we know Indian taxation is going towards various revolutionary changes due to the spread of Indian Businesses in the world/global market. Indian Taxation is going towards curbing the loopholes in system to stop the intruders to evade tax. Full attention is given by Indian government to liberalize the taxation policy so, as to enlarge the overall business

scenario and revenue of the Government. I will see the governments' decisional effectiveness in this direction. So, this will be the flow of the research undertaken.

Objectives of study

The objectives of the Study are:

1. To check the relevance of Taxation System in a country (From both Taxpayer and the Government Perspective).
2. To determine why a Taxpayer feels burdened, when it has to Tax.
3. To check the extent, that a country's Government is effectively using the revenue generated through taxes.
4. To examine the changes announced in The Union Budget 2020 in the Taxation Slabs.

Assumptions of the undertaken Study

To conduct the study and to achieve the objectives following assumptions are made:

1. That the data used in the study are the figures of taxes that are actually collected by the government in an assessment year.
2. That the data that I will be using is authentic and can be relied on, for further research on the topic.
3. That the data, that is collected through various primary and secondary sources is going to make a reliable basis of the research work.
4. There is consistency in the Tax regime that makes it more effective.
5. That all the taxpayers understand the phenomenon of taxation similarly without any difference.

Importance of Study

When it comes to Economic Development of an Economy, the most frequently asked issue is How to create an Industry base that will guarantee an economy, the Economic Development that is self-sustaining, in which taxation regime plays an important role. And also, one thinks/wonders that why a country which has rich resources and where people pay taxes, been Developing or highly Indebted country.

The following study helps us to know the role, taxation plays in a Developing Economy:

1. Taxation is one of the major sources of revenue for a government.
2. Revenues that are made through taxes help the government to perform its obligations more efficiently.
3. Taxation is also one of the important instruments of Fiscal Policy.
4. The undertaken study also reveals that if some other better sources of government revenue are available or not.

5. Helps redistribute income between uneven sectors of an economy by having progressive or regressive taxation regime in place.

6. The undertaken study helps the government to find the focus areas to be focused.

An important role is played by taxation in the nation building as it is one of the major sources of revenue for a country's government. Tax is paid not in the exchange of a specific item. Various Developmental activities taken by the Government are funded by the Taxation revenue.

Yes, changes in taxation slabs and rules & regulations are needed according to the prevailing conditions in the market. And also affect the strong industrial base of a country. This is the beauty of Taxation Regime of a country.

Literature Survey

A. Ist Paper, "*Tax revenue performance and vulnerability in developing countries*" by Morrissey, Armin Schiller, Christian, Ingo Bordon, and Ivankhyna, The analysis in the paper shows that taxes are related to some internal and external indicators, including world market integration, politics, natural resources endowments and their exposure to extraneous shocks..

B. IInd Paper, "*Taxation and Development*" by Timothy Besley, Torsten person, The following paper tests the Taxation system of Developed (Rich) countries, and gives us the following conclusions, that the rich countries have made their investments overtime in a successive manner, these rich countries collect a greater part of income as taxes as compared to poor countries, these countries rely much on Income taxes as compared to trade taxes and these countries collect more tax revenue than poor countries.

C. IIIrd Paper, "*The Impact of Indian Taxation System on its Economic Development*", by C.A. (Dr.) Pramod Kumar Pandey, It briefly talks about how Indian Taxation System is going towards revolutionary changes as the Indian Businesses spreading there wings in the Global markets and How Government of India is paying its full attention towards curbing the loopholes in taxation rules and regulations to make it more attractive.

D. 4th Paper, "*A study of Income Tax in India (Tax payers point of view)*", by Dr. Sopan Kasinath, The paper examines the consistency in the Income Tax Laws, various heads of Income, exemptions given in the Indian Income Tax Laws, the concept of Tax Evasion and Tax Avoidance and at last discussed about various changes in tax regulations due to the changes in The Economy.

E. 5th Paper, "*Effect of Income tax changes on Economic Growth*", by William G. Gale, Andrew A. Samwick, The Authors examines the changes in the Income tax with respect to the Economic Development along with various other concepts and came to the conclusion that, changes in the revenue implication and the taxation system to some extent can have impact on long-term growth.

F. 6th Paper, “Role and Objective of Taxation in an developing economy”, by R. J. Chelliah, In this paper author have presented the taxation from various perspective and presented taxation as an Instrument of Economic Stability. The conclusion of the paper is that no tax system in the world can satisfy all the objectives of a good tax system. For instances, too high progressiveness in the tax system may reduce inequalities but on the other hand, may cause a negative effect national output and employment by damaging the productive efficiency of a nation negatively.

G. 7th Paper, “*The role of tax on Economic Development*”, by Nur Arifah Binti Saidin, In this paper author has presented the factors through which taxation can affect the growth of economy. And in the conclusion it is said that the Asian Government should find the ways to leverage fiscal policy for inclusive growth.

H. 8th Paper, “*Income Tax Evasion- A Theoretical Analysis*”, by Michael G. Allingham, Agnar Sandmo, The paper presented the ways in which a taxpayer reduces its tax obligations by using certain loopholes in the taxation regime.. They provided a conclusion that Income tax provide a large amount of opportunities for tax evasion as compared to other taxes.

Literature Gap/Problem Identification

In the undertaken study I will look into the following problems:

1. The loopholes that are affecting the successful operation of taxation system in India.
2. How to decrease ambiguity in assessing the Income.
3. Problem of Tax evasion and Tax Avoidance.
4. To check relevance of changes in the taxation regimes by the central government.

For that, the following Hypothesis are made:

Hypothesis

Ho: The revenue that is collected by the government which is free from tax evasion and avoidance does not make any significant or large impact on the growth of an economy.

HA: The revenue that is collected by the government which is free from tax evasion and avoidance have a significant or large impact on the growth of an economy.

The study undertaken mainly focus on various taxation rules and regulations, various tax deductions and concessions, their relevance according to the prevailing conditions in the economy. The major part of the study is to verify the relevance of government decisions (About various changes in Taxation Regime) on the Development of an economy of a country.

Methodology

Study Design:

The topic of the research is “Taxation as an economic aid towards Economic Development”. The purpose of doing this study is to check the relevance of tax revenue and the government’s role in administering tax regime. For that, I will be asking the question “Does Tax Revenue is the significant part of revenues collected by the government?” The null hypothesis for the study is that the revenue collected through taxes doesn’t have any significant impact on Development of the economy of a country, while the alternate hypothesis is that the Tax Revenue makes a significant impact on Economic Development of a country.

I will be collecting nominal and ordinal data over the period of this study. I may even discover that some of the data presents itself as ratio data when looking at the Tax revenue as a proportion to GDP. I will mostly likely be looking at a “content analysis”. I will be looking for the trends and patterns that should exist within the data being collected from various sources.

I will be collecting the data through various sources; some of them are vis. Income tax department website, RBI Publications, Union budget 2020, various literatures etc. I will use this to guide the discussion and answer the Hypothesis made.

Population and sample

The populations’ size that is taken into analysis are tax payers at multiple levels. I will mainly take Income taxpayers into account to check the Hypothesis. So I will look for the people who pay taxes and as well as the people who does not pay tax.

Variables and Measures

There are a multitude of variables that will be presented as part of the undertaken study. Some of the variables, which will be taken in the study are; GDP, National Income, Inflation, State of Economy. I will have the Independent variable, which will be Inflation, National income. I will then move to the dependent variable, which would be GDP, Year on year Tax collection. The extraneous variable that will be looked at is the state of economy, changes in the tax regime.

There has to be some kind of control when conducting research in order to get true results out of the variables in the study. I believe if the variables can be controlled my dependent and independent variables will co-exist within the bounds of my study. The relationship among the variables will dictate that increase in national income will have a impact i.e. positive on tax collections.

In my study, the variables that will not be measurable will be the age and gender, personality, and employment of taxpayers. I will operationalize the variables in the research question by looking at other characteristics of the variables.

Data Collection Methods

Multiple locations are used to collect data. Some of these locations will be scholarly articles, business articles, or even Taxation related websites. I will also seek be seeking out information on many of the magazines like “Income tax and Investments” that are well known for their concepts. The Data collection for the study will be collected mainly through Secondary Sources.

The method that may lead to quick collection of data would be the published articles gathered from peer-reviewed and scholarly articles along with the business articles and taxation related websites that publish data related to it. These types of articles and information will have been verified as being accurate.

Data Analysis Methods

For the study, I considered different ways of collecting data, then I tried and narrowed them down to one method.

That is Group Theory Analysis; this method is relevant because it lets the data speak on its own, thereby give finding extra strength that is relevant for analysis.

The Impact of Direct tax on economic growth

One of the important sources of revenue for government revenue is direct tax. It also impacts an individual’s direct disposable income. Let us say if a government increases the rate of direct taxes the people of that country will save their money for investment purposes. And because of this behaviour of an individual, income generation process of an economy can be hampered. This may particularly be true for luxury items.

Thus, mainly the positive effects of direct taxes on economic growth are as follows:

- Better and greater Capital Formation.
- Increase in Government’s revenue.
- Inducement to save and invest.
- Increase in planned government expenditure.
- Revenue availability to the government.

The Impact of Indirect Tax on economic growth

The burden of direct taxes directly falls on the heads of the consumers and also affects directly the cost of goods and services. As a result direct taxes increases the efficiency of producers, since the cost of goods and services increases after indirect tax so, they make efforts towards cutting their costs. And this effort of producer also brings efficient utilisation of resources in a country.

Thus, some of the advantages of indirect taxes on the growth of an economy are as follows:

- Better and efficient utilisation of resources
- Freedom of choice to the consumers
- Growth of healthy competition among producers
- Increased demand of luxury goods

- Increased efficiency of producers

Income Assessment Procedure

Procedure for computing Total Income

1. First of all, we have to ascertain the various incomes which has to be included in total income on the basis of residence.
2. These incomes will be computed according to the various sections of the Act under the Income from Salaries, Income from House Property, Profits & Gains of business and profession, Capital gains and Income from Other Sources.
3. Then the effect will be given to the unabsorbed losses and allowances brought forward from earlier years.
4. From the gross total income deductions allowed under various sections mentioned above will be deducted.
5. The balance will be the total income. This will be rounded as under:

Rounding off of Income: The amount of total income computed in accordance with the provision of the Act shall be rounded off to the nearest multiple of ten rupees.

Chart showing Computation of Total Income

Income as computed under the following heads after set-off of losses:

Heads of Income		Amount
1. Income from salaries	
2. Income from House Property	
3. Profits and Gains from Business or Profession	
4. Capital Gains:		
(a) Long-term capital gains	
(b) Short-term capital gains
5. Income from Other Sources:		
(a) Casual Incomes (ex. Lottery, card games, betting, horse race)	
(b) Other incomes
Gross Total Income	
Less: Deduction under sections 80C to 80U	
Total Income	

Rounded off.....

In brief:

Income tax on total income at the prescribed rates	
Add: Surcharge if any	
Add: Education cess @ 2%	
Add: Secondary and higher education cess @ 1%	
Tax Payable	=====

These incomes will be computed according to the various sections of the Act under the Income from Salaries, House Property, Profits & Gains of business and profession, Capital gains and Other Sources.

Tax assessment

The Tax Rates as per the Union Budget, 2020 are discussed below:

1. The Tax Rates In Case Of Resident Individuals/ Taxpayers In India Whose Age Is Below 60 Years. For The Financial Year 2020-21.

Net income range	Income-Tax rate
Up to Rs. 2,50,000	Nil
Rs. 2,50,000- Rs. 5,00,000	5%
Rs. 5,00,000- Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

2. The Tax Rates In Case Of Senior Taxpayers In India Whose Age Is 60 Years And Above.

Net income range	Income-Tax rate
Up to Rs. 3,00,000	Nil
Rs. 3,00,000 – Rs. 5,00,000	5%
Rs. 5,00,000- Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

3. The Tax Rates In Case Of Super Senior Taxpayers In India Whose Age Is 80 Years And Above.

Net income range	Income-Tax rate
Up to Rs. 5,00,000	Nil
Rs. 5,00,000- Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

New Income Tax slabs that are totally optional will be available to those who forego exemptions applicable.

New optional tax slabs will be beneficial to those who have very less exemptions while calculating their tax obligation. Because if a taxpayer have huge amount of exemptions it have to forego them if he/she want to take the benefit of new tax slabs announced in Union Budget 2020

New optional Tax Slabs are:

Taxable income slabs	Tax rates
Up to Rs 5 lakh	Nil
Rs 5 Lakh to Rs 7.5 Lakh	10%
Rs 7.5 lakh to Rs 10 lakh	15%
Rs 10 lakh to Rs 12.5 lakh	20%
Rs 12.5 lakh to Rs 15 lakh	25%
Rs 15 lakh and above	30%

The tax calculated will be subject to health and education cess of 4%. And Surcharge where total Income Tax exceeds Rs. 5000000 is 10% & where Total Income exceeds Rs. 10000000 is 15%.

Example

Following are the details of Sri XYZ and Sri ABC---Calculate the tax on Total Income for the Assessment Year 2018-19, Previous year 2017-18. The age of Sri XYZ is 58 years while age of Sri ABC is 62 years. The particulars about the income are one and the same. The basic pay of Sri XYZ is Rs. 128500 p.m., while the basic pay of Sri ABC is Rs. 167050 p.m. Transport allowance is 8800 p.m. Professional tax 2400 p.a. Interest on Housing Loan 200000 p.a. savings SPF 50000 and PPF 150000. Principal amount of housing loan is Rs. 150000. HRA is 30 percent of basic pay. They are staying in their own house. They are working at Dehradun. In Central Universities and in some institutions the age of retirement is 65 years.

Solution:

Tax Calculation of Sri. XYZ and Sri ABC for the Assessment Year 2018-19, Previous Year 2017-18.

Step 1. Calculation of total income

E --filling of tax returns is the order of the day. Hence, the taxpayers may file their tax returns through e-filing.

Pay Particulars	Sri XYZ Taxpayer(Age:58)	Sri ABC Taxpayer (Age:62)
Basic Pay 1. 128500*12 2. 167050*12	1542000	2004600
Transport Allowance 8800*12= 105600 Less: exemption 1600*12=19200	86400	86400
HRA: 1. 30% of 50000= 15000*12=180000 30% of 65000= 19500*12=234000	180000	234000
Less: Professional tax: 200*12=	1200	1200

Gross Salary:	1806000	2322000
Less: Interest on Housing Loan	200000	200000
Less: Qualified Savings u/s 80ccc	150000	150000
Taxable Salary Income	1506000	1972000

Step 2. Calculation of tax:

Calculation of tax for Sri XYZ:

Particulars	Sri XYZ Taxpayer(Age:58)
Up to @250000 no tax	-----
Rs.250000-500000@10%	25000
Rs.500000-1000000 @20%	100000
Above 1000000@30%	151800
Total	276800
Add: Education Cess@3%	8304
Total:	277604

Calculation of tax for Sri ABC:

Particulars	Sri ABC Taxpayer(Age:62)
Up to @300000 no tax	-----
Rs.300000-500000@5%	10000
Rs.500000-1000000 @20%	100000
Above 1000000@30%	291600
Total	401600
Add: Education Cess@3%	12048
Total:	413648

Types of Income Tax Returns (ITR)

Forms of Return of Income for the Assessment Year 2018-19 are as follows:

(1) **ITR-1 (SAHAJ) :** For the individuals having Income from A. Salary/Pension, B. one House Property (except loss brought forward from last year), C. Other Sources (excluding winnings from Lottery & Horse Race), (Dividends exceeding Ten lakh rupees), or (Deemed incomes).

Having total income upto 50 lakh rupees.

However an Individual cannot file return in ITR-1 (SAHAJ) in the following cases:

- (a) Income from more than one house property
- (b) Income from Lottery and Race Horses
- (c) Capital Gains

- (d) Agricultural income exceeding 5000 Rs.
- (e) Income from business or profession
- (f) Loss under head 'Income from Other Sources'
- (g) Resident has 1. Assets (including financial interest in any entity) located outside India; or 2. Signing authority in any account located outside India
- (h) Resident having income from any source outside India.

(2) ITR-2: For Individual/HUFs not having Income from Business or Profession under any proprietorship.

However, if the income under the head Business or Profession is in the nature of interest, salary, bonus, or commission or remuneration, by whatever name called, due to, or received by him/her from a partnership firm, he will file the return in Form ITR-2.

(3) ITR-3: For Individuals/HUFs having income from proprietary business or profession.

(4) ITR-4 (SUGAM) : (a) From Eligible Business or Eligible Profession or for presumptive income Business of Plying, Hiring or Leasing Goods Carriage (b)Salary/Pension, (c)Income from House Property (excluding cases where loss is brought forward from previous years)(d)Income from Other Sources (excluding winning from Lottery and Income from Race Horses)

However, a person cannot file return in ITR-4 (SUGAM) in the following cases:

Assessee has:

- (1.) Income from more than one house property
- (2.) Income from Lottery and Race Horses
- (3.) Capital Gains
- (4.) Agricultural income exceeding 5000 Rs.
- (5.) Income from business or profession
- (6.) Income from speculative business
- (7.) Resident has 1. Assets (including financial interest in any entity) located outside India; or 2. Signing authority in any account located outside India
- (8.) Resident having income from any source outside India.
- (9.) Person claiming relief of foreign tax paid.

(5) ITR-5: For persons other than (1) individual, (2) HUF, (3) company, (4) persons filing Form ITR-7.

(6) ITR-6: For Companies other than companies claiming exemption under section 11.

(7) ITR-7: For Companies other than companies claiming exemption, e.g., for charitable institutions, religious trusts, political parties, and claiming exemption under section 10.

Steps for E-Filing of Income Tax Return:

1. Visit www.incometaxindiafiling.gov.in

2. Select the required ITR Form and download Return Preparation Software for the selected Form.
3. Prepare your return offline at your convenience and follow simple steps to upload your Return.
4. On successful upload take the print of the acknowledgement form if the Return is digitally signed or under electronic verification code.
5. In case the Return is not digitally signed, or under electronic verification code, take the print of ITR-V Form (two copies).
6. Send one copy of ITR-V Form duly signed and verified by Ordinary Post or Speed Post within 120 days from the date of filing of the return at the following address:
Income Tax Department, CPC
Post Bag No. 1,
Electricity City Post Office,
Bengaluru-560100 (Karnataka).

Tax Avoidance and Tax Evasion

Tax Evasion:

Suppose a person tries to hide his income by making false claims and with holding information so that he can run from its tax liability or reduce it to the minimum extent that is called Tax Evasion.

Tax Evasion is illegal as well as Immoral, anti-social and anti-national. There are various law provisions that are made to reduce the problem of tax evasion.

The tax evader reduces his taxable by one or more of the following steps:

- (1) Sales unrecording.
- (2) Claiming expenses that are bogus.
- (3) Submission of bogus receipts for charitable donations.
- (4) Non-disclosure of capital gains on assets.
- (5) Non-disclosure of income from 'Benami Transactions'.
- (6) By not showing taxable incomes in return of income.
- (7) By showing excessive or bogus salary payments to near relatives.

In brief to evade tax a taxpayer inflates expenses, suppresses or omits receipts, and claims bogus deductions.

The main reasons for tax evasion are:

1. Deterioration of moral values.
2. The tax management is not accountable for increase in tax evasion.
3. Misutilisation of public funds by Government and its employees.
4. Declaration of voluntary disclosure scheme by the Government time to time. The tax evaders know that in such a scheme he can pay tax at a lower rate and save interest and penalty.
5. The tax management and tax experts help in tax evasion.
6. Imparting no education regarding the advantages of tax payment and disadvantages of tax evasion to the people.

Tax Avoidance:

Tax Avoidance is pretended to be same as tax evasion but there is huge difference in both. Tax Avoidance means the attempts that are made to reduce the tax liability by taking the benefit of certain loopholes in the taxation system that is through legal means. Indian government is making each and every step to stop this growth hampering practice.

However, Hon'ble Supreme Court is of the view that all of these types of devices should be avoided and it is the duty of court to expose those persons.

Impact of Tax Evasion and Tax Avoidance in India

We know that tax is the compulsory public contribution by the citizen of a country and an important source of revenue for government. It is unlawful action which results in the unequal distribution of Income. It brings halt to the economic growth, leading to instability in the economy. The act of tax evasion and tax avoidance is usually associated with informal economy.

Here I will attempt to analyze and try to establish relationship between tax revenue and evasion with respect to revenue collected by the government. The undertook analysis shows that there are large number of tax payers that think tax as a burden may be because they think that the government is not using those revenues effectively.

To analyze this, the primary data is collected by me and some secondary data is collected through journals, books and some other sources. I will be using a total number of 120 respondents that were selected randomly. For analysis, I will use percentage for meaningful analysis of results.

Results:

Out of 120 selected respondents, 81 were male accounting for approx. 67.5 % and 39 were female accounting for approx. 32.5 %. 39.2 % of sample were in the age group of 20 to 30 years, 51.2 % were in the age group of 30 to 40 years, 4.9 % of them were in the age group of 40 to 50 years and 5.1 % of them were in the age group of 50-60 years.

36.7 % were employed in public sector, 7.5 % were self-employed and 46.1 % of them were employed in private sector. 32.5 % were earning between 5 lakhs to 10 lakh rupees annually and 47.5 % were earning above 10 lakh rupees annually. 68.2 % said that they have already paid their tax on or before the due date and rest 31 % had paid after the due date. Almost 79 % of them are saying that the increase of tax from 5% to 10% was a burden to them and rests were not feeling the same.

79.8 % of them said that they need a auditor for filing their I.T returns and rest 18.9 % of them said they don't need. 69 % of the respondents said that they get their I.T returns refund within 3 to 6 months while the rest said that it takes between 6 months to 1 year. 100 % of the people considered paying taxes as a burden and approx. 89 % of respondents had not attempted or thought of evading tax and rest 10.8 % of them had thought of evading it.

Discussion:

The study undertaken shows that the respondents or we can say tax payers belonging to the category of 30 to 40 was relatively high as compared to other groups. And we are implying that this could be possible in every corner of India. This could be seen that there are a large number of respondents employed in the private sector that are bringing home a large amount of pay checks as compared to respondents self-employed in the government and public sector. It can also be seen that there are large number of tax payers that are paying their tax obligation despite thinking it as burden and hence evaded.

Here I also got a contradicting response, where we can see a high number of people complain about taxes but on the other hand pay their tax obligations on time. Therefore this could be inferred that apart from complaining about the taxes they pay taxes may be due to their respect towards the government or may be due to the fear of non-payment.

Conclusion

The primary cause of low government revenue is Tax Evasion. The problem persist in the economy may be due to the inefficient tax structure or may be some of the tax officers that are corrupt because of that most of the economies suffering tax evasion. This has resulted in a large amount of unaccounted money and imbalance in the economy. This problem can be rectified through changes in the tax structure and collection pattern.

If the people are economically sound, they do consider paying taxes. It may be due to the fact that they may be thinking that their tax money doesn't reach the government for social welfare measures. So here we come to the conclusion that the tax revenue collected by the government is not free from Tax evasion and Avoidance.

Effects of Tax Reforms on Economic Growth

The structuring and financing of the tax changes are critical to achieve economic growth. The world have undergone significant changes during the last three decades as many countries differ in their ideology and vary in levels of their respective development have undertaken reforms. There are series of factors that motivated the wave of tax reforms that began in mid-1980s and accelerated in 1990s. The driving force in many developing countries was the pressing fiscal imbalance.

What is a Tax reform?

Tax reform, involves measures to broaden the tax base as well as the reductions in income tax rates; this is done to reduce the use of tax expenditure or other items that narrows down the base. To make the tax structure/system more effective, to improve the tax administration there are some changes that are implemented, those changes are called Tax Reforms.

In other words, this is a process that changes the ways that is tradition in which the taxes are collected and the same is managed by the revenue department of a government. This can include reducing the rates of taxes are reduced for all people by the government, making the system more progressive or we can say less successive. This can be undertaken to make the system more understandable and accountable.

Need of Tax reforms:

Before liberalization in the Indian economy, India's tax regime suffered numerous problems. In 1960s and 1980s these were the numerous problems written as follows:

- There was huge number of exemptions, which were narrowing down the already narrow tax base of India.
- Tax evasion was a big problem, because of high degree of progressiveness and rich needed to pay exorbitant taxes; they were smart enough to evade the tax.
- Double taxation of the dividends was also a common problem those days (the income should be taxed only once).
- When it comes to corporation tax, there was large discrimination between different kinds of companies that discouraged the investments.
- No service sector is under the purview of tax.
- In terms of indirect taxes, there was no VAT, and the excise and custom duties were very high.

The efforts to reform the Indian tax system started in mid 1980s, when the country's government announced a Long Term Fiscal Policy in 1985. This policy was announced taking into view that the country is going through the downturn and there was a much need to change the years old Taxation System.

Tax Reform Committee:

The government of India from time to time appoints Tax Reform Committee to lay out the agenda for reforming India's taxation system. Tax reforms in India were initiated as structural reform process, following the crisis in 1991. In the view point of keeping best practice approaches, the Tax Reform Committee adopted an approach of combining conventional wisdom with economic principles in order to recommend the comprehensive tax reforms.

In a nutshell, the overall conclusion of the Tax Reform Committee was to (i) increase the share of domestic consumption taxes in the total tax base, (ii) efforts to be made to reduce the share of trade taxes in the overall tax revenue, and (iii) to increase the contribution of direct taxes as compared to indirect. Some of the important approaches of the TRC were to reduce the rates of some major taxes viz. Individual and corporate income taxes, customs, and excises to reasonable levels, maintain successivity or progressivity depending on the demand of the economy and taking into view the problem of Tax Evasion

The recommendations that were made by TRC also include recommendations related to tariffs but that were short of developing a co-ordinated domestic trade taxation system in the country. However, the TRC was aware of the problems that were very serious related to tax avoidance and evasion, therefore in that direction also TRC has recommended various suggestions like extension of central VAT to whole sale stage with the revenues from the levies assigned to the states.

Challenges and Shortcomings

After continued years of efforts of tax reform, as already mentioned above, there a large number of disquieting features still there in taxation system. The major challenge that continues in India is improving the tax system. And as far as tax ratio is concerned, the pre-reform levels are yet to achieve. The coverage under Income Tax purpose has significant increase much remains to be done to reach the hard to be taxed groups to rationalize and simplify local and state taxes consumption taxes.

Automating tax audits and proper management system is necessary to be created through concerted efforts. Instead of crisis driven and sporadic, we have to make our economy competitive and that only can be done through implementing systematic tax reforms. For the direct taxes the ratio of revenue has shown upward trend. Apart from decline in tax rates, tax compliance have increased though much increase has come may be due to the increase in public sector wages. The tax revenue in the present is nowhere close to the potential and much remains to be done in this direction by extending the tax net to hard to tax groups. The criteria that is levied for filing the tax returns has increased the number of tax returns from almost half the percent of population to two percent of population, but the corresponding increase in the tax revenue has not been recorded. The exert pressure to increase the standard exemption limit deduction has continued due to inability to bring hard to tax groups into tax net. The scope of rationalizing the saving incentives is also there.

If we see the corporate taxes, there too, it is necessary to minimize tax concessions and preferences to broaden the tax base. The government has started levying the Minimum Alternative Tax (MAT), as the companies started using the provisions for revenue reasons. Due to this one imperfection was cleared in the tax system. But this has complicated the taxation system further. Levying higher taxes on consumable and luxury goods and lower rates on necessities has enormously increased protection to all of these products. The evolution of co-ordinated consumption tax is one of the most difficult challenge in restructuring the taxation system. As tax on different levels follows the principle of separation, because these taxes are levied by center, states, and local governments fall on the same tax base we end up with paying multiple taxes and markup on the tax which is a huge chaotic situation. This can result in non-transparent tax system, besides relative cascading price distortions.

Further reforms recommendations in Tax System

Various task forces and teams in the recent few years have focused on the reforms needed in the taxation system. The Kelkar Task Force and various advisory groups on Tax Policy recently implemented the Fiscal Responsibility and Budget Management Act and this have comprehensively examined the tax system and various recommendations have been made for further reforms. These recommendations, which are called for reducing the tax rates, broadening the tax base, simplifying the tax system and minimizing rate differentiation it means these are in conformity with that of Tax Reforms Committee, although there are some differences on specific recommendations.

As we know the fiscal imbalance in India is enlarging, reforms have to continue to improve long-run revenue productivity therefore, taxation reform is an ongoing process. The reforms will include all the aspects of tax system viz. administrative bodies, tax structure, and various

institutions. Discretion is very difficult in a country where various special interest groups influence policies but yes it can be achieved over a period of time.

Trends in Indian Tax Revenue

1. Number of Tax Returns Filed:

PAN Category	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
AOP	1,01,266	1,06,828	1,47,665	1,62,490	2,07,247	2,05,333
BOI	4,282	4,176	5,556	5,556	6,981	6,537
COMPANY	7,15,005	7,53,508	7,80,470	8,03,990	9,42,834	9,64,862
FIRM	9,60,640	9,92,134	11,10,762	11,81,369	13,93,792	14,09,744
GOVERNMENT	10	35	75	108	239	349
HUF	9,55,457	9,66,500	10,42,522	11,63,543	12,88,544	12,14,410
AJP	8,653	8,784	10,382	10,899	11,455	10,673
LOCAL AUTHORITY	2,815	2,631	3,394	3,483	3,959	3,746
INDIVIDUAL	3,50,43,126	3,74,08,937	4,29,25,794	5,22,05,021	6,45,58,970	6,32,50,002
AOP(TRUST)	1,83,712	1,88,157	2,75,810	2,64,519	2,92,047	2,92,173
TOTAL	3,79,74,966	4,04,31,690	4,63,02,430	5,58,00,978	6,87,06,068	6,73,57,829

In the FY 2017-18 and the earlier once, returns for two years i.e. belated returns for previous years and current assessment year can be filed. Therefore, due to the change in laws from Financial Year 2018-19 only the current year’s returns can be filed. Hence, there is a marginal decrease in returns that were filed in Financial Year 2018-19.

2. Contribution of Direct and Indirect Taxes to Total revenue

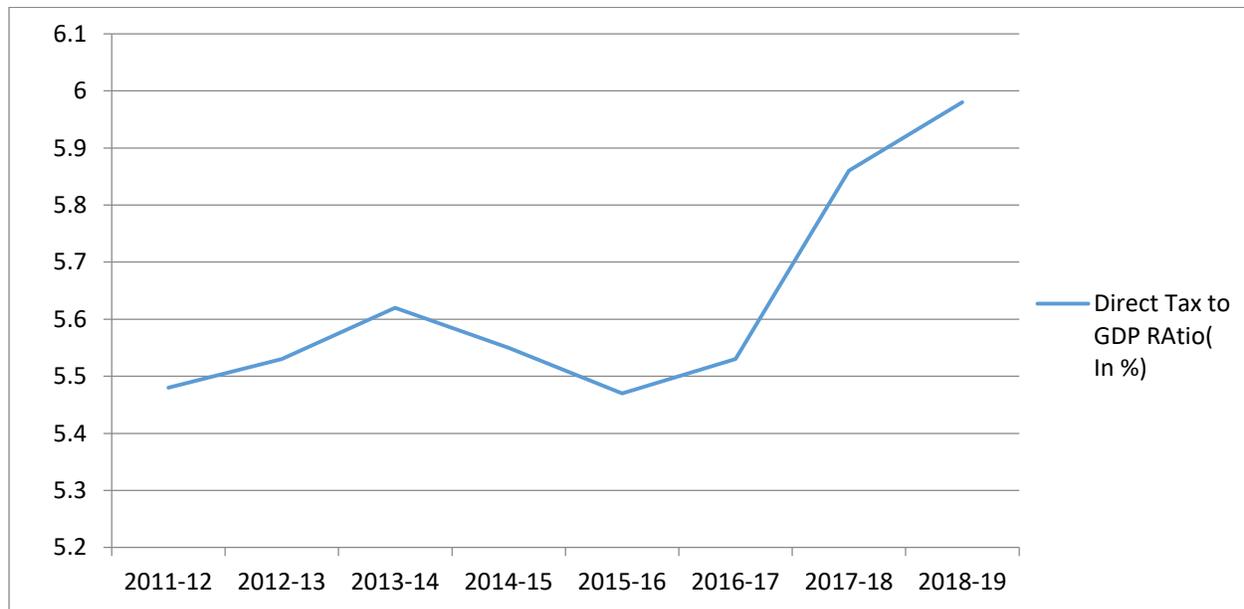
As we can see in the table, the percentage of direct tax to total revenue is less in the initial years but in the later years it has crossed fifty percent of total revenue. This is due to the continuous tax reforms and introduction of GST.

Financial Year	Direct Taxes (Rs. crore)	Indirect Taxes (Rs. crore)	Total Taxes (Rs. crore)	Direct Tax As % Of Total Taxes
2000-01	68,305	1,19,814	1,88,119	36.31%
2001-02	69,198	1,17,318	1,86,516	37.10%
2002-03	83,088	1,32,608	2,15,696	38.52%

2003-04	1,05,088	1,48,608	2,53,696	41.42%
2004-05	1,32,771	1,70,936	3,03,707	43.72%
2005-06	1,65,216	1,99,348	3,64,564	45.32%
2006-07	2,30,181	2,41,538	4,71,719	48.80%
2007-08	3,14,330	2,79,031	5,93,361	52.97%
2008-09	3,33,818	2,69,433	6,03,251	55.34%
2009-10	3,78,063	2,43,939	6,22,002	60.78%
2010-11	4,45,995	3,43,716	7,89,711	56.48%
2011-12	4,93,987	3,90,953	8,84,940	55.82%
2012-13	5,58,989	4,72,915	10,31,904	54.17%
2013-14	6,38,596	4,95,347	11,33,943	56.32%
2014-15	6,95,792	5,43,215	12,39,007	56.16%
2015-16	7,41,945	7,11,885	14,54,180	51.03%
2016-17	8,49,713	8,61,515	17,11,228	49.65%
2017-18	10,02,037	9,15,256	19,18,210	52.24%
2018-19*	11,37,685	9,39,018	20,76,703	54.78%

3. Direct Tax to GDP Ratio

As we know share of Direct Tax in the total tax revenue is increasing year on year may be due to several institutional changes, reforms and introduction of GST. The same has been reflecting in the Direct Tax to GDP ratio, it is increasing year by year as shown in the above chart.



4. Number of Tax Payers over time.

Taxpayer Category	AY 2013-14	AY 2014-15	AY 2015-16	AY 2016-17	AY 2017-18	AY 2018-19
AOP	1,41,212	1,59,640	1,80,321	2,05,725	2,25,599	2,56,689
BOI	6,141	6,986	7,433	8,650	9,246	10,418
COMPANY	7,02,828	7,46,800	7,68,206	8,10,617	8,37,597	8,86,889
FIRM	10,35,688	10,83,515	11,56,136	12,50,519	13,12,488	14,25,375
GOVERNMENT	183	334	485	747	1,308	2,556
HUF	9,60,004	9,99,401	10,55,205	11,19,899	11,35,677	11,87,180
AJP	10,211	10,556	11,098	11,702	11,506	12,106
LOCAL AUTHORITY	5,916	7,118	7,533	8,358	9,096	10,185
INDIVIDUAL	4,95,76,555	5,38,05,146	5,79,70,144	6,55,55,912	7,04,45,510	8,04,45,511
AOP(TRUST)	2,05,758	2,17,092	2,31,781	2,53,070	2,61,531	2,84,578
Total	5,26,44,496	5,70,36,588	6,13,88,342	6,92,25,199	7,42,49,558	8,45,21,487

The figure above shows the taxpayers in the different categories. The number of taxpayers in each and every category is increasing over years. The highest increase in the taxpayer is in the category of government. This shows that the people are becoming aware and they are becoming open towards paying taxes.

Budget 2020, Tax Related Highlights

- A. On an average, because of GST, a consumer saves almost 4% of its income.
- B. In the previous year sixty lakh new taxpayers were added.
- C. In total 40 crore income tax returns were filed.
- D. To lower tax rates and to simplify the tax system for the tax payers, somewhere around 70 among almost 100 income tax deductions and exemptions are removed from the tax structure.
- E. Dividend Distribution Tax (DDT) is now taxable in the hands of investors/recipients. .
- F. Tax on **cooperative societies** reduced to **22%** without exemptions.
- G. 100% tax concession to sovereign wealth funds on investment in infrastructure projects.
- H. Taxes on Cooperative Societies have been reduced to 22% as against 30 % earlier.
- I. FM said that the tax harassment will not be tolerated, so, to end tax harassment a new tax payer charter is to be instituted.
- J. A new optional tax regime is announced/proposed under which individuals foregoing exemptions and the deductions would be taxed at reduced tax rates. New tax slabs that are proposed are as under:

Slab Rates	Rate of tax
Up to INR 2,50,000	Nil
INR 2,50,001 to INR 5,00,000	5%
INR 5,00,001 to INR 7,50,000	10%
INR 7,50,001 to INR 10,00,000	15%
INR 10,00,001 to INR 12,50,000	20%
INR 12,50,001 to INR 15,00,000	25%
Above 15,00,000	30%

- K. The insurance cover that was earlier was of only 1 lakh rupees has been increased to 5 lakh rupees.

Findings and Conclusion

Tax is one of the most important topics in world economics. Tax is the main source of revenue for a government and the revenue collected is used for various developmental activities. Taxation is the combination of tax administration and policy, which is central of successful implementation of fiscal policy and overall management of public sector.

Taxes were collected through Income tax of Individuals, Companies and also through Goods and Services. One way to increase the resources researchers see is the design of tax in a way that it will promote equity and efficiency as far as it is possible. However, tax is seen as a burden and many person attempts to fled their tax obligations. Taxes on goods and services are seen as cause for increase in prices of these goods and services.

In the following analysis I have tried to cover each and every aspect that is related to taxation, which can help to inspect its effects on Economic Growth of a country. In this direction Firstly we have introduced the concept of taxation with the types of taxes prevailing in the country and the types of taxation system. I have also discussed the tax collection pattern in India which shows a positive turn. Then I have also discussed the impact of Direct and Indirect taxes on economic growth of India. The concept of Tax avoidance and Tax evasion problem in the country also have discussed, which had shown that that there are a large number of people who fled taxes because they think it as a burden to them. Then, I have discussed the effect of tax reforms in India, and at broad level I came to the conclusion that the reforms till now are efficient and are giving positive results but a lot more is needed. I have also discussed the highlights of Budget 2020, which are related to taxation, and it shows that government took various steps taking into account prevailing changes in the economy.

The analysis done shows that there is a significant progress in tax reforms in India. Particularly the administration of tax, which has increased the tax revenue to GDP ratio very close to the levels prevailing before the significant reduction in tax rates. Considerable distance is yet to be covered; these small steps are only the beginning towards reforming the years old taxation system. Means reforming the taxation system is the continuous exercise that includes administrative reforms, helps in improving equity, revenue productivity and minimizing distortions.

As tax is administered at local, state and central level, coordinated efforts are needed to reform. Minimization of compliance costs and distortions are the major objectives. The principle of common market should not be violated for that, sub national tax system should be revised. Coordination among taxes on goods and services traded domestically should be there in the spirit of cooperatives federalism.

The coordination among External and Domestic trade taxes must also be ensured to achieve the desired burden of consumption taxes on the community and to have the desired degree of protection to domestic industry. Keeping the tax structure simple and broadening the tax base on the other hand, for both state and central taxes, within the administrative capacity of the

government is a very important thing that should be incorporated while institutionalizing the reforms.

To enhance the soundness, credibility and acceptability of tax system selectivity in tax administration and policy, minimizing discretion, minimizing exemptions and concessions to industries in service sector, phasing out exemptions for small scale industry are all important. It is very crucial for the government to build a proper and efficient information system and to finalize the mechanism to relieve taxes on interstate transaction for improving the efficiency of tax system and the revenue productivity.

Till date the most important tax reform that had taken is in tax administration. Tax policy and its administration is very crucial part of taxation system. In this direction online tax returns filing, information based tax administration, and compiling and matching information are keys to these well needed administrative reforms. Compliance costs should also be reduced and tax administrators should assist taxpayers in this direction.

Tax reforms are assumed as a complex process, because it includes base broadening and tax rate cuts both in it. Some researchers have a theoretical assumption that these tax changes will raise the overall size of the economy but in real, the results are subject to considerable uncertainty and ambiguity. One thing that is often escaped unnoticed is broadening the tax base by eliminating or eliminating tax expenditure that raises the tax burden or the effective tax rate that people and firms face and hence try to operate in the direction opposite to rate cuts. On the other hand, base broadening helps in reallocating the resources from the currently tax preferred sectors to the sectors that have highest economic return, which have a potential to raise the overall economy.

References

I. Website:

- <https://www.rbi.org.in/>
- <https://cleartax.in/s/income-tax>
- <https://economictimes.indiatimes.com/wealth/tax>
- <https://www.icicibank.com/knowledge-base/tax/income-from-salary.page>
- <https://www.bankbazaar.com/tax/how-calculate-taxable-income-from-salary.html>
- <https://www.bankbazaar.com/income-tax.html>
- <https://library.siu.edu.in/>
- <https://www.investopedia.com/terms/i/incometax.asp>
- <https://www.incometaxindia.gov.in/>

II. Literature:

- A. A study of Income Tax in India, (Dr. SopanKosinath)
- B. Students guide to income tax, (Dr Monica Singhanian, Dr. Vinod K Singhanian, Taxmann, 47th edition)
- C. The Impact of Indian Taxation System on its Economic Growth, (C.A. Dr. Pramod Kumar Pandey)

- D. The Politics of Taxation, (Kristian Won Haldenwang)
- E. Administration of income tax in India, (Rekha Mehta, Neha Publishers & Distributors)
- F. Effect of Income tax changes on Economic Growth, (William G. Gale, Andrew A. Samwick)
- G. An empirical evidence for impact of Taxation on economic growth in the European Union, (Desislava Stoilov, Nikolay Patonov)
- H. Income Tax Evasion- A Theoretical Analysis, (Michael G. Allingham, Agnar Sandmo)
- I. India's tax reform: a progress report, Bagchi.A., 1994, (Economic and Political Weekly)
- J. Role and Objective of Taxation in an developing economy, (R. J. Chelliah)
- K. The Impact of Indian Taxation System on its Economic Development, (C.A. (Dr.) Pramod Kumar Pandey)
- L. The Theory and Practice of Tax Reform in Developing Countries, (Cambridge University Press)
- M. Incentives and Institutional Reforms in Tax Enforcement, Dasgupta, Arindam, and Dilip Mukherjee, 1998, (Oxford University Press)
- N. India's Economic Reforms, Joshi Vijay and I.M.D. Little, 1996, (New Delhi, Oxford University Press).
- O. Administrative dimension of tax reforms in developing countries, Bird, R.M, 1989, (London Duke University Press)
- P. Reforms of Domestic Trades in India: Issues and Options, Dr. Amresh Bagchi)