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Original Research Paper

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PERSONAL INCOME TAX COMPLIANCE BEHAVIOUR - AN INDIAN PERSPECTIVE

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ABSTRACT This paper deals with the concept of tax compliance from Indian perspective. The objective of this paper is also to provide a brief overview of Indian current tax structure and trends in India's personal income tax compliance behaviour. Along with this, various factors of compliance behaviour derived from previous studies have also been listed and more importantly the measures that need to be taken by tax authorities and government to increase compliance also discussed in later part of this paper.

KEYWORDS : Personal Income Tax, Compliance Behaviour

INTRODUCTION

In India, taxes constitute two third of the total revenue. In the meanwhile, a nation's tax equilibrium is primarily determined by compliance, and India is not an exception to this rule. Two aspects can be used to understand compliance. It is simply doing as instructed in the strict meaning, and in the more general sense, it is abiding by a regulation, specification, policy, standard, or legislation. Simultaneously, tax compliance refers to the ability and willingness of taxpayers to abide by tax regulations, which are established at a specific time and location by situational conditions, legal environment, and ethics. In general, people perceive taxes as a hardship, and they often want to minimize their tax liability or avoid paying any at all. Additionally, the tax rates were high in the early years. Before the 1980s, income tax rates might reach up to 97.75 percent, including the surcharge. However, the arrangement has since become very different. Even with the tax rates diminished our nation still does not have the ideal tax culture, which is defined as the acceptable tax behaviour and conventions as well as the mindset and actions of both taxpayers and tax collectors. An attempt has been made to bring together the current study's findings about individuals' tax compliance behaviours, with a focus on income tax in the context of the present economic scenario.

Review of Literature

The paper carried out an extensive review of literature relating to determinants of personal income tax compliance behaviour, determinants of tax compliance and non-compliance behaviour along with tax structure variables. An attempt has been made to summarise the important studies and works carried in this regard.

Saumen Chattopadhyay and Arindam Das-Gupta (2002) has made a detailed study about Compliance Costs and Compliance Behaviour of Taxpayers in India with special reference to personal income tax. The objective of this study is to examine the extent to which non-compliance with the personal income tax is due to high compliance costs. On account of findings of the study many useful suggestions were given to the notice of concerned authorities to increase the compliance level.

Natrah Saad (2009) empirically analysed about the role of fairness perceptions in tax compliance behaviour of Salaried Taxpayers in Malaysia after Implementation of the Self-Assessment System. The results of the study revealed that taxpayers perceived the current income tax system as fair but there was no conclusive evidence that such a perception had an influence on compliance behaviour. Instead, attitudes and subjective norm were found to be most influential.

Mohd Rizal Palil (2010) studied about tax knowledge and Tax Compliance determinants in Malaysia. The primary objective of this study is to explore the importance of tax knowledge and to establish its place amongst the determinants of Tax Compliance in Self-Assessment Scheme Findings of research had indicated that in Self-Assessment Scheme, taxpayers tend to comply less when compared with direct assessment. This study also provides further evidence that tax knowledge is important in Self-Assessment Scheme and significantly affects Tax Compliance in a positive direction and developing tax knowledge further would probably help to increase Tax Compliance.

Palil and Mustapha (2011) studied about the concept of Tax Compliance and has elaborated it from various perspectives. The objective of this paper is to provide further understanding in Tax Compliance discipline by reviewing previous international literature. The paper begins with the concepts and the definitions of Tax Compliance and tax non-compliance followed by measure of national Tax Compliance in various countries such as India and Austria. This paper also discusses the various definitions of Tax Compliance provided by previous authors from various backgrounds and countries from 1960s. The measures that need to be taken by tax authorities and government to increase compliance also discussed in later part of this paper.

Hery and Jasman (2019) investigated the effect of perceived tax equity, social and moral norms and legal sanctions that is penalty magnitude toward tax compliance intentions. This study consisted of 75 individual taxpayers who work as employees in Jakarta, Indonesia. The result of this study shows that equity perception, moral and Social Norms as well as Penalty Magnitudes have a positive and significant effect towards tax compliance intentions.

Gatra Bagus Sanubari (2020) explored the effect of attitudes on compliance, subjective norms, taxpayer's perceptions of government, knowledge of taxes on the intention to comply, and tax compliance on individual taxpayers at PT Pembangkitan Jawa Bali. The results of the study obtained from 301 individuals showed that the attitude towards compliance and tax knowledge positively affected the intention to obey. It is also drawn from the study that the attitude towards compliance and the intention to comply had a positive effect on tax compliance.

1. Research Gap

The literature survey indicates that, though there are many research works were carried on Direct Taxes Compliance issues, there is no specific research work conducted and reported on Personal Income Tax Compliance issues to Indian context based on recent trends such as tax base and ITR filing statistics. Hence, an analysis has been made on the Personal Income Tax Compliance issues with Indian perspective.

2. Objective of the Study

- To study the personal income tax structure in India.
- To explore the current trends in income declaration, ITR filing and payment of taxes in India.
- To analyse and bring out a brief overview of the mediating factors on Personal Income Tax Compliance in India.
- To suggest measures for developing tax culture as well as to increase the degree of tax compliance in India.

3. Research Methodology

The current analysis has been designed on secondary data. The paper is based on review of literature, reports, statistical figures and other supportive data are collected from books, journals, research papers and working papers.

4. Data Interpretation

4.1 Tax Compliance and Non-compliance

Tax Compliance can be defined as taxpayer's ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, Tax Compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time.

Tax non-compliance is defined as taxpayer's failure to remit a proper amount of tax. perhaps on account of the complexity or even. Non-compliance is also perceived as the failure of a taxpayer to report the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time. Non-compliance of tax can also be termed as failure to comply with tax laws or report inexact income, the act of claiming incorrect deductions, relief and rebates or paying the incorrect amount of tax beyond the stipulated frequencies of time.

Determinants of Tax Compliance

From the extensive research and previous works carried, handful number of determinants have been identified and those determinants can be categorized as follow,

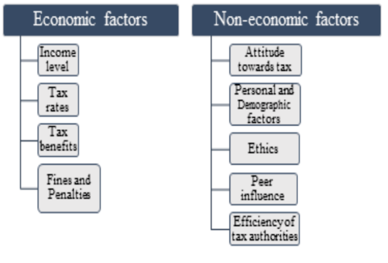

Figure : 01

4.2 Personal Income Tax structure in India

Personal income tax is a type of tax that the central government charges on the income earned during a financial year by the individuals and businesses. The tax calculation is based on the income slab rates applicable during that financial year. The Finance Act, 202425 has made a prominent change to the income tax structure by retaining old tax regime and introduced a new optional tax regime. The old tax regime provides 3 slab rates for levy of income tax which are 5%, 20% tax rate and 30% for different brackets of income. The individuals have been given the option to continue with this Old tax regime and they can claim deductions of allowances like Leave Travel Concession (LTC), House Rent Allowance (HRA), and certain other allowances. Additionally, deductions for tax saving investments as per section 80C (LIC, PPF ,NPS etc) to 80U can be claimed. Standard deduction of Rs 75,000, deduction for interest paid on home loan.

Table no - 01

Income Range	Tax rate	Tax to be paid
Up to Rs.2,50,000	No Tax	No tax
Between Rs 2.5 lakhs and Rs 5 lakhs	5%	5% of your taxable income
Between Rs 5 lakhs and Rs 10 lakhs	20%	Rs 12,500+ 20% of income above Rs 5 lakhs
Above 10 lakhs	30%	Rs 1,12,500+ 30% of income above Rs 10 lakhs

Source: Union Government Budget 2024-25

New tax regime introduced for Individual and HUF wherein no tax is payable on income up to Rs. 3 Lakhs annually. Those between Rs. 3 Lakhs and 7 Lakhs are subject to 5 per cent tax; those earning between 7 Lakhs and 10 lakhs rupees, 10 percent tax; those earning between 10 Lakhs and 12 lakhs rupees, 15 percent tax; those earning between 12 Lakhs and 15 lakhs rupees, 20 percent tax; those earning 15 Lakhs and 30 percent rate. Here also tax rebate of is provided in case of small taxpayers earning income up to Rs. 7,00,000.

Income Tax Return Forms for Individual Assessees

An income tax return is a form that enables a taxpayer to declare his income, expenses, tax deductions, investments, taxes etc. The Income Tax Act, 1961 makes it mandatory under various scenarios for a taxpayer to file an income tax return.

The Seven ITR Forms are:

- ITR-1: Individuals (residents) having income from salary, one house property, other sources, agricultural income less than Rs 5,000 and with a total income of up to Rs 50 lakh
- ITR-2: Individuals/HUFs not having any business or profession under any proprietorship
- ITR-3: Individuals/HUFs having income from a proprietary business or profession
- ITR-4: Individuals/HUFs having presumptive income from business or profession

4.3 Data showing number of returns filed by Individual assessees.

Table No. 02

Sl. No.	Annual Income	Number of returns filed	Percentage
01	Nil Returns	10,60,699	1.80
02	₹0 to ₹ 2,50,000	88,58,737	15.08
03	₹2,50,000 to ₹5,00,000	2,78,03,793	47.35
04	₹5,00,000 to ₹10,00,000	1,50,59,696	25.64
05	₹10,00,000 to ₹ 50,00,000	55,04,667	9.37
06	₹50,00,000 to ₹ 1 Crore	2,59,026	0.44
07	₹1 Crore to ₹ 50 Crores	1,63,434	0.27
08	Above ₹ 50 Crores	3,426	0.05
	Total returns filed	5,87,13,458	100.00

Source: CBDT data.

5. Major Findings of the Paper

- It is an admitted fact that in India, tax culture is lacking. Despite considerable efforts for widening the tax base, still the number of taxpayers in our country, is about 8.27 crore people which is 6.25 per cent of the over 132 crore population, which is too small for a country like ours. In contrast, in the U.S., about 45 per cent of the population pays taxes.
- About 72.99% of the total returns filed by individual assessees income is between the range of 2,50,000 to 10,00,000. It shows that majority of the tax payers belong to middle income level group.
- The present taxpayer's behaviour towards payment of lawful tax is gradually increasing now a days. Supportive evidence to this was given by the IT department where 5.95

crore ITRs for Assessment Year 2020-21 were filed till January 10, 2021, as compared to 5.67 crore ITRs filed for the previous Assessment Year by September 10, 2023.

- From the supportive data it is found that filing of tax returns by individuals for 2021-22 has slowed in the current year, while filing by businesses and trusts has increased. The reason encountered for this development is Covid 19 pandemic.
- In India E-filing Income tax was introduced in September, 2004. The Income Tax Department provides the facility for electronic filing (e-filing) of an income tax return. It definitely eased the process of filing and payment taxes online and paved for the increase in the degree of tax compliance.

6. Suggestions

- A proper tax culture can develop only when taxpayers and tax collectors discharge their obligations equally well. Hence, an effort has to be made to develop tax culture among tax payers and to discharge lawful obligations among tax collectors.
- Recent studies have figured out a fact that taxpayers feel that tax is a burden and the tax payers are being treated harshly and the disciplinary provisions in the tax laws are applied ruthlessly against them. This is reason why the number of non-filers of tax returns is increasing. Government and the Income Tax department has to work towards making tax laws payer friendly.
- If one learns the basic rules, he or she feels comfortable in making compliance, and fear about income tax department may remain no longer. It is necessary to frequently organize meaningful and well-designed taxpayer's education and assistance programmes making available to the taxpayers.
- What is really needed on the part of the tax professionals also is to advice their clients on the present tax scenario. They play a vital role in educating the taxpayers as to why they should pay right amount of tax.
- In India, at present, Direct tax and Indirect tax laws are being taught to commerce, management and law students only. Necessary steps have to be taken by the concerned authorities to include Tax laws as common syllabus in the universities so as to build a tax culture at the root level.

CONCLUSION

Compliance issues in a tax system have been an important aspect of research across the globe. Since each nation has its own tax structure, tax laws and regulations and also its own procedure to manage tax compliance levels, the factors mediating tax compliance behaviour appear to differ among nations. Usually, economic factors have both positive as well as negative impact on compliance behaviour. Though number of studies have been carried identify the factors that influence upon tax compliance behaviour, the concerned authorities that is the government and the CBDT should think about the characteristics of non-compliant taxpayers to assess and review the present regulations accordingly. A proper tax culture can develop only when taxpayers and tax collectors discharge their obligations equally well. Hence, there is a need for creating a good tax culture among the tax payers as well as building good relationships between tax collectors and taxpayers to look for improved general tax compliance levels.

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