



Taxation Laws of India - An Overview and Fiscal Analysis 2013-14

KEYWORDS

TAXATION, ECONOMY, GOVERNMENT, FINANCE, PUBLIC FINANCE, TAX STRUCTURE, COLLECTION

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ABSTRACT

In the modern era Taxes play an important role in Indian Economy. Government has to play an important role in economic development. Government has not only perform its traditional function (Defence, Infrastructure, law and order) but also to undertake welfare and development activities such as health education sanitation rural development water supply etc. It has also to pay for its own administration. All of these function require huge public finance. Taxes constitute the main sources of public finance. The Taxation Structure of the country can play a very important role in the working of our economy. Some time back the emphasis was on higher rates of Tax and more incentives. But recently, the emphasis has shifted to Decrease in rates of taxes and withdrawal of incentives. While designing the Taxation structure it has to be seen that it is in conformity with our economic and social objectives. It should not impair the incentives to personal savings and investment flow and on the other hand it should not result into decrease in revenue for the State.

1. INTRODUCTION :

A tax is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay, or evasion of or resistance to collection, is punishable by law. Taxes are also imposed by many administrative divisions. Taxes consist of direct or indirect taxes and may be paid in money or as its labour equivalent. Tax is the name given to money that the Government organizational income by a government under the authority of the law. Taxation is the inherent power of the state to impose and demand contribution upon collects from us to pay for public services such as education, health, defence, transport and social housing. It is the process by which revenues are generated used to defray expenses of government. The authority of the law in increasing its revenue under purposely used to promote welfare and protection of its citizenry. It is the collection of the share of individual and persons, properties, or rights for the purpose of generating revenues for public purposes. The power of taxation upon necessity and is inherent in every government or sovereignty

2. OBJECTIVES :-

Taxation, system of raising money to finance government. All governments require payments of money-taxes-from people. Governments use tax revenues to pay soldiers and police, to build dams and roads, to operate schools and hospitals, to provide food to the poor and medical care to the elderly, and for hundreds of other purposes. Without taxes to fund its activities, government could not exist.

Throughout history, people have debated the amount and kinds of taxes that a government should impose, as well as how it should distribute the burden of those taxes across society. Unpopular taxes have caused public protests, riots, and even revolutions. In political campaigns, candidates' views on taxation may partly determine their popularity with voters.

Taxation is the most important source of revenues for modern governments, typically accounting for 90 percent or more of their income. The remainder of government revenue comes from borrowing and from charging fees for

services. In addition to using taxation to raise money, governments may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups. Taxation can redistribute a society's wealth by imposing a heavier tax burden on one group in order to fund services for another. Also, some economists consider taxation an important tool for maintaining the stability of a country's economy.

3. Needs of Taxation in India :-

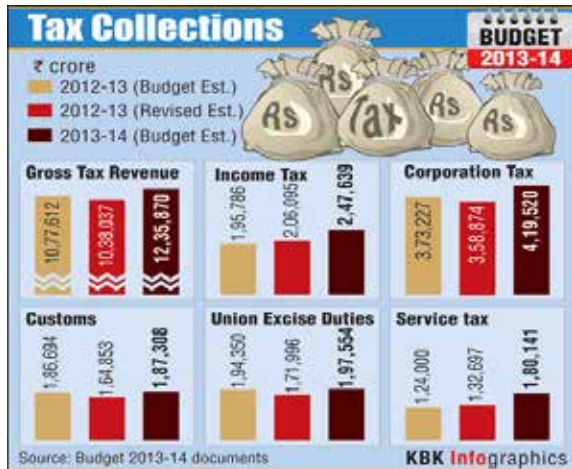
Money provided by taxation has been used by states and their functional equivalent throughout history to carry out many functions. Some of these include expenditures on war, the enforcement of law and public order, protection of property, economic infrastructure (roads, legal tender, enforcement of contracts, etc.), public works, social engineering, subsidies, and the operation of government itself. A portion of taxes also go to pay off the state's debt and the interest this debt accumulates. Governments also use taxes to fund welfare and public services. These services can include education systems, health care systems, pensions for the elderly, unemployment benefits, and public transportation. Energy, water and waste management systems are also common public utilities. Colonial and modernizing states have also used cash taxes to draw or force reluctant subsistence producers into cash economies



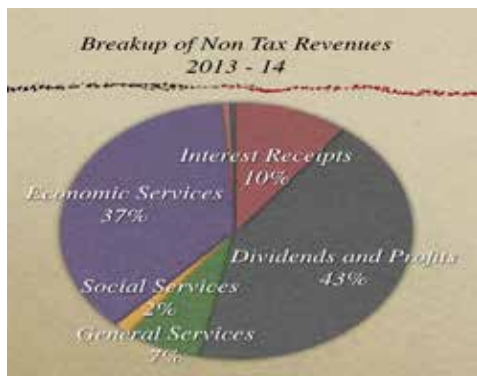
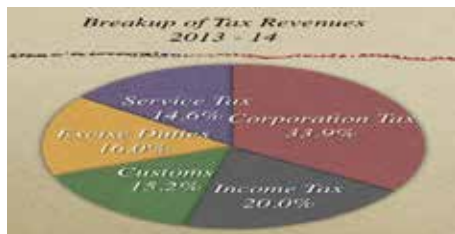
4. Tax Structure and collection of India:-

The tax system in India mainly, is a three tier system which

is based between the Central, State Governments and the local government organizations. India has a well-developed tax structure with clearly separated authority between Central and State Governments and local bodies. Central Government levies taxes on income, customs duties, central excise and service tax. In our present day economy structure Income Tax plays a vital role as a source of Revenue and a measure of removal economic disparity. Our Taxation structure provides for Two types of Taxes --- DIRECT and INDIRECT



India has a well-developed tax structure with clearly demarcated authority between Central and State Governments and local bodies. Central Government levies taxes on income (except tax on agricultural income, which the State Governments can levy), customs duties, central excise and service tax. Value Added Tax (VAT), stamp duty, state excise, land revenue and profession tax are levied by the State Governments. Local bodies are empowered to levy tax on properties, octroi and for utilities like water supply, drainage etc. Indian taxation system has undergone tremendous reforms during the last decade. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The process of rationalization of tax administration is ongoing in India.



According to the Constitution of India, the government has the right to levy taxes on organizations and individuals. However, the constitution states that no one has the right to levy taxes except the authority of law or the parliament. The main body, which is responsible for the collection of taxes, is the Central Board of Direct Taxes, which is a part of the Department of Revenue under the Ministry of Finance of the Indian government. The CBDT functions as per the Central Board of Revenue Act of 1963. In last 10-15 years, Indian taxation system has undergone wonderful reforms. The tax laws have been simplified and the tax rates have been rationalized resulting in better compliance, ease of tax payment and better enforcement.

5. CHALLENGES:-

The most important challenge in restructuring the tax system in the country is to evolve a co-ordinated consumption tax system. After eight years of tax reform, as already mentioned, a number of disquieting features in the tax system still remain. Improving the productivity of the tax system continues to be a major challenge in India. The tax ratio is yet to reach the pre-reform levels. Although the coverage under income tax has shown significant improvement, much remains to be done to reach the hard-to-tax groups. The ratio of domestic trade taxes in particular has continued to decline and this has posed a major constraint in reducing tariffs which is necessary to achieve allocative efficiency. Designing of tariffs itself needs to be re-examined to ensure lower tariffs as well as a low level of dispersion to ensure that effective rates of protection are as intended. Reforms in excise duties have not reached the stage of achieving a simple and transparent manufacturing stage VAT. Much remains to be done to simplify and rationalise the state and local consumption taxes. Concerted efforts are necessary to create a proper management information system and automating tax returns. Above all, tax reforms should become systemic, a continuous process to keep the economy competitive instead of being sporadic and crisis-driven. Tax reform can't be a one shot affair. Tax structures need to change as the environment in which the taxpayers and tax administrations operate, changes. But when radical reforms take place, no change should be made at least for some time unless found absolutely necessary so that the new structure can stabilise and economic agents get time to adjust. That does not seem to be happening in India. The tax system that was put in place with the reforms carried out in the nineties as part of the economic reform programme undergoes changes almost every year, not all of which seem called for. Of course, one problem with India's tax reforms of the 1990s has been that unlike in other reforming countries the tax yield in terms of ratio to GDP fell and shows no sign of recovery

6. CONCLUSION:-

The Government has tried to achieve the objective of social welfare by providing various incentives for education, health, housing, savings, pension schemes, donations, senior citizens and women assesseees, and 260 generating employment etc. These incentives are appreciable as these are related with the basic necessities of a common man. However, in case of some incentives the monetary ceiling seems to be illogical or very low as it has not been revised since a long time e.g. medical expenses, interest on self-occupied housing loan, saving schemes. Certain Rationalization and Simplification Measures have been taken during the study period such as lowering income tax rates in case of all the assesseees, introducing standard deduction at the rate of 30 per cent of net annual value in case of let out house property, providing depreciation on intangible as-

sets etc. powers available with income tax authorities, lack of awareness regarding rights available with tax payers and time consuming and costly judicial process have been identified as main reasons for corruption. A discussion with tax professionals revealed that refund claims pertaining to relatively smaller amounts are settled earlier by tax authorities as compared to refunds of large amounts and there is unreasonable delay in refunds. The respondents have identified high TDS rates and increase in number of returns as main reasons for delay in refunds.

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