

The Impact of Indian Taxation system on its Economic Growth

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Abstract

Tax is a major source of revenue to the government, the development of any country's economy largely depends upon the tax structure it has adopted. A good tax structure economy will help the business in smooth functioning of operations and also it helps to avoid the chance of tax evasion. The Tax structure of an economy plays an important role in a country's development. As per the provisions of the Indian Constitution, the power to levy taxes and duties is distributed among the three tiers of Government. Many problems such as Tax Evasion, Black money, existence of parallel economy etc. shows that Indian taxation system requires some major changes in the near future to overcome all these problems. This research paper evaluates the impact of both direct and indirect taxes on economic growth of India. The study is conducted purely based on secondary sources of data. It is seen that there are various number of taxes and different tax collection authorities are present in India.

Keywords: Direct Taxes, Indirect Taxes, Indian tax structure, Tax Collection, Tax Evasion.

Introduction

Today Indian Taxation System is going a revolutionary change owing to spreading the wings of Indian business into global market. India has a well-structured tax system. According to the provisions of the Indian Constitution, the power to levy taxes and duties is vested among the three tiers of Government. Union Government is empowered to levy tax such as Income tax(except tax on agricultural income), Sales tax, Service tax, Customs duties. The important taxes levied by the State Governments are tax on Agricultural income, Stamp duty, Land revenue, etc. Tax is the compulsory payment we made to the government/ income tax authority, for goods and services. By using these money, Government perform functions such as Infrastructure, building basic amenities, Military, Welfare, etc.

Taxation System may be classified into three parts:

1. Progressive Taxation system

2. Regressive Taxation System
3. Proportional Taxation System

Progressive taxation refers to a taxing system where tax rate increases with increase in income, thus if a person has higher income, he will bear more tax burden due to increased tax rate than person having low income.

Regressive taxation means a taxing system where tax rate reduces with increase in income and thus a person having lesser income faces tax burden due to facing lesser tax rates.

Proportion taxation refers to a taxing system of charging tax on a fixed proportion irrespective of level of amount on which tax is to be levied.

Review of Literature

1. (Jha,2009) in his research paper on the topic Tax structure in India he suggest that high dependence on indirect taxes should be reduced and direct taxes should be increased on super rich to compensate the losses.
2. (Rao,2005) in his research paper on the topic Tax system reforms in India: achievement and challenges ahead focuses on the union and state level reforms. He also state that the reforms are just the beginning and considerable distance in reforming the tax system is yet to be covered.

Objectives of the Study

1. To study Indian Tax Structure
2. To study about the impact of Direct tax and Indirect tax on economic growth

Research Methodology

The data for this study is collected from various secondary sources such as journals, articles, etc. And various graphs and figures are collected from various sites of Government of India.

Impact of Direct Tax on Economic Growth

The direct tax is one of the important sources of revenue to the government. Further it also impacts directly the disposable income of individuals. If direct tax rates are increased by the Government, then the people start saving more money for investment purposes. Due to this behavior of individual's income generation process of economy is hampered, especially for luxury commodities. This reduces the production of luxury commodities in the economy and as a result, it adversely affects the GDP and standard of living. However on the positive aspects, if

proper deductions are allowed based on investments, it leads to capital formation in the country. The following are the positive sides of direct tax on the economic growth:

- Inducement of savings and investment
- Better capital formation
- Decrease in inflation rate

The following are the negative aspects of Direct tax on the economic growth:

- Social conflict
- Inconvenient
- Evidable

Impact of Indirect Tax on Economic Growth

Since the burden of indirect taxes directly fall on the consumers, it directly impacts the cost of goods and services. Thus, indirect tax increases the efficiency of the producers, since to maintain their demand they will have to put their efforts towards cost cutting measures. This effort of producers will also bring optimum utilization of resources in the economy. The following are the positive aspects of Indirect tax on the economic growth:

- Optimum utilization of resources
- Increase in demand for luxury products
- Increase in way of life of people
- Increase in efficiency of producers

The following are the negative aspects of indirect tax on the economic growth:

- Inequitable
- Inflationary
- Evasion
- Non-Awareness

Analysis of Indian Tax Structure

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

In Rs. crore

Year	2016-17	2017-18	2018-19	2019-2020
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Revenue Receipt Direct Tax	859481	996185	1150000	1335000
Revenue Receipt Indirect Tax	1831969	2015743	1116000	1119247

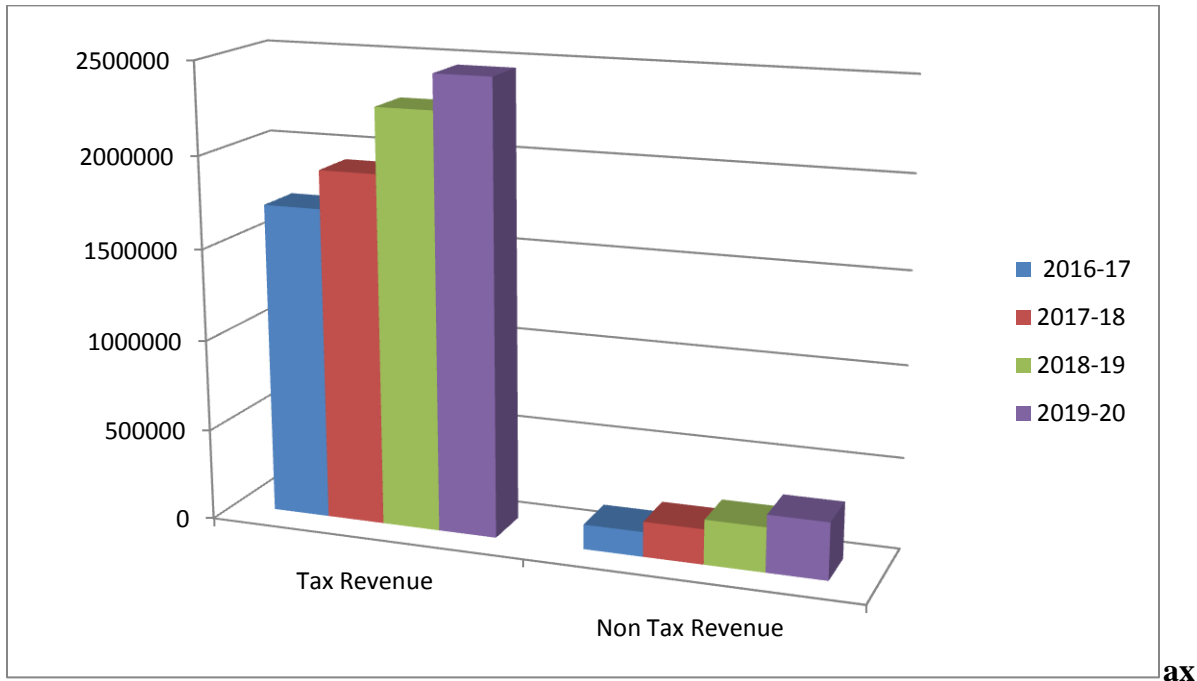
Source-(Public Finance Statistics, Ministry of Finance)



Interpretations:

From the above data, it is found that there is more dependence on Indirect tax rather than direct tax for Revenue

Tax Revenue as compared with Non Tax Revenue



Source:(Public Finance Statistics, Ministry of Finance)

Interpretations:

From the above graph, it is seen that the share of tax revenue in total revenue is 7 times more than the non-tax revenue.

Findings

1. The amount expended on collection of taxes is increasing year by year.
2. High tax evasions, particularly among Business people
3. There is a huge dependence on indirect taxes for revenue generation. The amount collected from indirect taxes is nearly twice the amount collected from direct taxes.
4. GST has resulted in efficiency gains in transport and logistics sector.

Suggestions and Recommendations

1. Government of India is required to open more investment schemes in Income tax law to increase capital formation in the country.
2. It should reduce tax rates on edibles, so that inflation rate may be brought down on food items.
3. Income tax Department should provide awareness programs, so that a common person may understand the tax laws and procedures.

Conclusion

Both Direct tax and Indirect tax are important for our economy. Both are collected by the central and state governments according to the type of tax levied and are important for the government as well as growth perspective of a country. In India, government should focus more on direct tax rather than indirect tax by ensuring proper administration of direct taxes to eradicate tax evasion and tax avoidance.

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