

## Indian Tax System

### Introduction:

Being the vital base of any economy, taxation determines much about resource allocation, public finance, and social welfare.

The Indian taxation system has emerged with decades of concern towards fiscal challenges, inequities, and compliance. However,

there is tax evasion, corruption, and a very complex framework for compliance facing the taxation system in India.

### KEY STATISTICS

#### Revenue Distribution in India (2023-24)

- Direct Taxes, Income and Corporate Tax: Rs.16.6 lakh crore (56% of total revenue).
- GST Collection: Rs.18.1 lakh crore (35% of total revenue).
- Excise Duties and Customs: Rs.5.8 lakh crore (9%).

#### Tax-to-GDP ratio

- India: ~10.5% (2023); considerably lower than the global average of 15-18%.
- Comparisons:
  - USA ~25%
  - Germany ~23%
  - China: ~18%

#### Taxpayer Base in India

- Registered GST taxpayers over 12.8 million.
- ~85 million or about 6% of population, people filing income tax.

### Tax Perspective Contribution to GDP by Sector

- Agriculture: ~16% of GDP (with low tax revenue).
- Industry and services: Account for the majority share of tax revenues.

### Tax Evasion and Corruption in India.

#### Forms of Tax Evasion

- Cash transactions occur regularly in the real estate, retail, and unorganized sectors.
- Significant underreporting of income, especially from self-employed persons and small businesses.
- Shell companies use: to hide income and consequently evade the taxes charged.
- Offshore Accounts: Siphon profits to tax havens like Mauritius and Singapore.

#### Estimated Tax Evasion Losses

- Approx. Rs.75,000 crore annually due to evasion.
- Black money in cash-based transactions constitutes ~12-15% of GDP.

#### Effects of Corruption

- Delayed tax refunds, bribery to get lower assessments, and favoritism all damaged revenue collection.
- India ranked 63rd globally but has serious corruption problems in its tax administration.

### Comparing Tax Regimes across Countries

## Factor India USA Germany China

- Tax-to-GDP Ratio ~10.5% ~25% ~23% ~18%
- Personal Tax Rates 5-30% 10-37% 14-45% 3-45%
- Corporate Tax Rates 15-22% 21% 15-30% 25%
- GST/VAT 0-28% No (Sales tax varies by state) 19% VAT 13% VAT
- Digitalization High (GST, e-filing) Moderate (e-filing available) High High
- Compliance Level Very Low (6% of population) High (~50% of adults file tax returns) High Average

## ADVANTAGES AND DISADVANTAGES OF THE INDIAN TAX SYSTEM

### Benefits

- Revenue Generation for Development: Public welfare, infrastructure, and defense monies.
- Simplification by GST: Consolidated various taxes, thus eliminated cascading effects.
- Encourage investments: Low corporate tax rates entice foreign investments.

### Disadvantages

- Low Tax Base: Only ~6% of the population pays direct taxes.
- Complex structure: Frequent changes in GST rates and slabs confuse taxpayers.
- High Dependence on Indirect Taxes: Regressive impact on lower-income groups.

## Results of Tax Evasion

### Monetary Impact:

- Loss in government revenue: around 2-3% of GDP annually.
- Higher fiscal deficits and borrowing requirement.
- Reduced funding for infrastructural and welfare-related projects.

## Impact on GDP

- This translates to around ~0.5-1% annual growth in GDP lost to evasion and corruption.

## Social Inequalities

- That is, high evasion by the rich imposes a fiscal burden on compliant taxpayers.
- Scarce poverty alleviation and public health resources.

## Impact on This Concept Major Changes:

- Goods and Services Tax: 2017
  - A simplified indirect tax regime but had initial compliance headaches.
  - More formalization of the economy.
- Digital Tax Reforms
  - Increased transparency with faceless assessments.
  - Reduced corruption, but resisted by old taxpayers.
- Demonetization, 2016
  - Proposed to tackle black money; partial success only.
  - Cashless transaction reduces, but has a limited long-term impact.

## Recommendations to Improve:

- Expanding the Tax Base to include high-income farmers and small businesses in the tax roll.
- Simplify compliance. Easy filing process and constant GST rates.
- Anti-Evasion Measures: Solidifying AI and data analytics are used to track the pattern of evasion.
- International Cooperation Agreements with tax havens for offshore tax avoidance.

Conclusion:

The taxation system in India depicts amalgamation in the strength of steps undertaken while it is plagued by challenges.

Although reform of GST and corporate tax cuts improved efficiency, evasion and corruption still prevail. Sustainable

growth and equity in the taxation landscape can be achieved through digitalization, expansion of the tax base, and

best practices around the world.