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Present Taxation System In India

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ABSTRACT

The central, state, and municipal governments in India each have different rights under the country's complicated, three-tiered federal tax system, which mostly depends on direct taxes like income tax and indirect taxes like the Goods and Services Tax (GST) to raise money. The GST is one of the most recent reforms that aims to streamline the system, increase revenue production, and remove the inefficiencies brought about by cascading taxes. However, issues like tax evasion and the requirement for a broad-based system still exist. The intricate structure of India's tax system is intended to generate income for the federal and state governments. It is subject to a number of rules and regulations and comprises both direct and indirect taxes.

Key Words: Income tax, GST.

INTRODUCTION:

India's tax system is the legislative framework that allows the government to raise money for administration, public services, infrastructure, and growth. It is an essential component of India's economic system and is crucial to the financial stability and governance of the nation. The procedure by which a government levies money on its people and companies in order to raise money is known as taxation. Taxes must be paid, and failure to do so may result in fines. Important elements include the Goods and Services Tax (GST), excise taxes, and customs duties as significant indirect taxes, and income tax and corporation tax as direct taxes. By lowering complexity and tax evasion, recent reforms particularly the implementation of the unified GST seek to improve revenue productivity, streamline the tax structure, and facilitate commercial transactions.

OBJECTIVES OF TAXATION SYSTEM:

Revenue Generation:

Taxes are the primary source of revenue for government funding of public services and development.

Economic Growth:

Aims to create a tax system that is broad-based, productive, and efficient to promote economic prosperity.

Simplification and Compliance:

Reforms focus on rationalizing tax rates, simplifying laws, and implementing measures like GST to make compliance easier and reduce tax evasion.

Addressing Challenges:

Continual reforms are needed to tackle issues such as the dependence on indirect taxes, tax evasion, and black money to foster a more robust and fair system.

BENEFITS OF TAXATION FOR THE DEVELOPMENT OF A COUNTRY:

The main source of funding for public goods and services like infrastructure, healthcare, education, and defence is taxation. On the other hand, high taxes may deter investment, saving, and employment, which could result in slower economic growth. In order for any nation to develop and function, taxes are essential. The government of India uses the taxes it collects to fund a variety of national development projects and public services. These are the main advantages of taxes.

1. **Revenue Generation for the Government**

- **Primary source of income** for both Central and State Governments.
- Funds are used for:
  - Infrastructure (roads, railways, airports)
  - Public services (education, healthcare, sanitation)
  - Defense and national security
  - Law and order

2. Redistribution of Wealth

- Taxes (especially direct taxes) ensure the **rich contribute more**, helping to **narrow the income gap**.
- Revenue is used for welfare schemes for the poor, marginalized, and vulnerable sections of society.
- Promotes **social equity** and **inclusive growth**.

3. Economic Growth and Development

- Tax revenue funds key development projects, including:
  - Rural development
  - Digital infrastructure
  - Urban planning
  - Industrial parks
- Helps create jobs and boosts the economy.

4. Funding for Public Welfare Schemes

- Taxes support government initiatives like:
  - **PMAY** (housing)
  - **Ayushman Bharat** (healthcare)
  - **MGNREGA** (employment)
  - **Mid-day Meal Scheme** (nutrition)
- Direct benefit to millions of citizens.

5. Encouragement of Savings and Investment

- Certain tax provisions offer **deductions and exemptions** (e.g., under Section 80C), encouraging:
  - Life insurance
  - Mutual funds
  - Retirement savings
  - Home loans

TYPES OF TAXES:

Taxes are of two distinct types: direct and indirect taxes. The difference comes in the way these taxes are implemented. Some are paid directly by you, such as the dreaded income tax, wealth tax, corporate tax, etc., while others are indirect taxes, such as the value-added tax, service tax, sales tax, etc.

Direct taxes:

A direct tax is a type of charge imposed directly on the taxpayer and paid directly to the government by the individuals (legal or natural) on whom it is imposed. A direct tax is one that cannot be moved from the taxpayer to another. A direct tax is one that is levied directly on an individual, organization, or property, and the responsibility for paying it cannot be passed to someone else. The taxpayer bears direct responsibility for paying the tax to the government.

Key Features:

1. **Levied on Income and Wealth** – Charged on earnings (salary, business profit, rent, interest, etc.) and ownership of wealth/property.
2. **Non-transferable** – The liability of tax cannot be shifted; the same person/entity who is taxed must pay it.
3. **Progressive Nature** – Usually based on the principle of ability to pay (e.g., higher income means higher tax rate).
4. **Collected Periodically** – Paid annually or in installments, depending on the type.

Examples of Direct Taxes

- Income Tax – Paid on individual or corporate income.
- Corporate Tax – Paid by companies on their profits.
- Wealth Tax / Property Tax – Levied on ownership of property or wealth.
- Capital Gains Tax – Paid on profit from the sale of assets like land, shares, etc.
- Gift Tax / Estate Duty (in some countries) – Levied on transfer of wealth.

Advantages

- Ensures equity (rich pay more than poor).
- Helps reduce income inequality.
- Provides stable and predictable revenue.
- Makes citizens more aware of their tax contribution, promoting accountability.

Disadvantages

- Sometimes discourages savings and investment (due to high tax rates).
- Possibility of **tax evasion** if enforcement is weak.
- Can reduce motivation to earn more (in progressive systems, higher income means higher tax burden).

Indirect Taxes:

An indirect tax is one that applies to products and services rather than income or wealth. The tax is collected by sellers or service providers at the point of sale, but the final burden falls on consumers because it is included in the price of the product or service.

Key Features

1. **Levied on Expenditure** – Charged when people **buy goods or services**.
2. **Transferable Burden** – The seller or producer pays it to the government, but **recovers it from consumers** through higher prices.
3. **Regressive in Nature** – Affects rich and poor alike since everyone pays the same rate on goods/services, irrespective of income.
4. **Collected Continuously** – Paid during every purchase or service usage.

Examples of Indirect Taxes:

- **Goods and Services Tax (GST)** – Common indirect tax in many countries, replacing VAT, excise, and service tax.
- **Customs Duty** – Levied on imports and exports.
- **Excise Duty** – Charged on manufacturing of goods (in some countries).
- **Sales Tax / Value Added Tax (VAT)** – Applied on sale of goods.
- **Entertainment Tax, Luxury Tax, Fuel Tax, Tobacco/Alcohol Tax** – Applied to specific goods/services.

Advantages

- Convenient for consumers (included in price, paid automatically).
- Wider coverage (every consumer contributes).
- Encourages savings and investments, since it taxes spending, not income.
- Easy to collect through businesses.

Disadvantages

- Regressive – Poor pay the same as rich, leading to inequality.
- Can cause inflation, since it raises prices of goods/services.
- Tax burden may not be transparent to consumers.
- Over-dependence can reduce affordability of essential goods.

Goods and Services Tax (GST):

India's taxation system has undergone major overhaul since the implementation of the Goods and Services Tax (GST) on July 1, 2017. Prior to GST, India had a dual and fragmented indirect tax structure in which both the Central and State governments assessed several taxes, including excise duty, service tax, value added tax (VAT), entry tax, luxury tax, and so on. This frequently resulted in a cascading effect of taxes (tax on tax), making the system complex and burdensome for both firms and customers. The GST was adopted as a comprehensive, destination-based, multi-stage tax with the goal of achieving consistency and creating a single national market. It eliminated the majority of indirect taxes at the federal and state levels, making compliance easier and more effective.

Structure of GST in India:

India has adopted a **dual GST model** due to its federal nature, where both the **Central Government** and the **State Governments** levy GST simultaneously.

1. **Central GST (CGST):** Levied by the Central Government on intra-state supply of goods and services.
2. **State GST (SGST):** Levied by State Governments on intra-state supply.
3. **Union Territory GST (UTGST):** Levied in Union Territories without legislatures.
4. **Integrated GST (IGST):** Levied by the Central Government on inter-state supply of goods and services, as well as imports.

GST Tax Rates:

GST in India is structured under multiple tax slabs to cover different categories of goods and services:

- 0%: Essential items like fresh fruits, vegetables, milk, eggs, etc.
- 5%: Items of mass consumption such as packaged food, medicines, household items.
- 12% & 18%: Standard goods and services, including processed foods, computers, financial services, electronics, etc.
- 28%: Luxury and “sin goods” like cars, tobacco, aerated drinks, and high-end consumer goods.
- This multi-slab system ensures that essential goods remain affordable, while luxury and harmful products are taxed higher.

Benefits of GST:

1. **Elimination of cascading effect** – Earlier taxes were levied on top of each other, leading to higher prices. GST removed this by providing seamless input tax credit.
2. **Uniform tax structure** – GST created a **common national market**, making interstate trade smoother.
3. **Ease of doing business** – Businesses now face fewer compliance hurdles, as GST consolidated many taxes into one.
4. **Digital tax system** – The entire system operates through the GST Network (GSTN), ensuring transparency and reducing tax evasion.
5. **Increased revenue collection** – With a wider tax base and better compliance, GST has enhanced government revenue.

Challenges in GST Implementation:

- **Multiple tax slabs** make the system somewhat complicated compared to single-rate GST systems in other countries.
- **Compliance burden** for small businesses, especially in filing monthly returns.
- **Revenue concerns of states**, which depend on central compensation for shortfalls.
- Some major sectors like **petroleum, electricity, and real estate** are still outside GST's purview, limiting its scope.

Present Scenario about tax system in India:

Currently, GST has become the backbone of India's indirect taxation system. Monthly GST collections are steadily increasing, reflecting better compliance and strong consumption trends. The government is actively considering rationalization of tax slabs by merging the 12% and 18% categories to simplify the structure. Discussions are also ongoing to bring petroleum products and electricity under GST, which could further streamline the system.

Conclusion:

The current taxation structure in India, based on GST, is one of the most significant economic reforms in independent India's history. It has successfully replaced a complex web of central and state taxes with a streamlined, transparent, and efficient system. Although obstacles persist in the form of many slabs and compliance requirements, GST has created the groundwork for a simpler, fairer, and growth-oriented taxing system that will benefit India's economic progress.

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