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## Indian tax structure: An analytical study

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### Abstract

Tax is the most important sources of revenue for the government of any country, the development of any country's economy largely depends on the tax structure it has adopted. A Taxation Structure which facilitates easy of doing business and having no chance for tax evasion brings prosperity to a country's economy. However, a tax system that allows for tax evasion and discourages ease of doing business inhibits the expansion of the economy of the nation. As a result, the taxation system has a big impact on how a country develops. India has a sophisticated tax system. According to the Indian Constitution's provisions, the three levels of government share the authority to impose taxes and charges. The Indian tax system has undergone several modifications, yet it is still very far from becoming the perfect tax system. Numerous issues, including tax evasion, reliance on indirect taxes, black money, and the creation of a parallel economy, indicate that considerable changes to the Indian tax system are needed in the near future to solve these issues. The investigation in the paper that follows is entirely supported by secondary data. Various statistics are taken from the Indian government's various websites. In India, it is clear that there are several taxes and numerous tax collecting agencies. Additionally, it is evident that indirect taxes are more heavily relied upon than direct taxes for tax collection. Both direct taxes and indirect taxes have benefits and drawbacks.

**Keywords:** Direct taxes, indirect taxes, tax structure of India, taxation, tax collection

### Introduction

After independence of India in 1947, India has developed into open market Economy country. In early 1991's started the process of Liberalization, Privatization and abolished unwanted restriction on foreign trade and Investment. It has saved to accelerate the country's growth rate with a forecast to rise to 7.5% in financial year ending 2015 – 2016. (Business knowledge resource online, 2015) India has a well-developed tax structure. The power to levy taxes and duties is distributed among the three tiers of Government, in accordance with the provisions of the Indian Constitutions. In addition to income tax (state governments may impose taxes on agricultural income), the Union Government is also authorized to levy customs duties, central excise taxes, sales taxes, and service taxes. State governments primarily levy the following taxes: Land Revenue (levy on land used for agricultural or non-agricultural purposes), Stamp Duty (duty on property transfer), State Excise (duty on manufacture of alcohol), Sales Tax (tax on intra-State sale of goods), Duty on Entertainment, and Tax on Professions & Callings. The Local Bodies have the authority to charge taxes on real estate (buildings, etc.), Octroi (tax on the entrance of products for use or consumption within the Local Bodies' jurisdiction), markets, and services like water supply, drainage, etc. In the wake of economic reforms, the tax system in India has under gone a radical change, in line with the liberal policy. Some of the changes include: rationalization of tax structure; progressive reduction in peak rates of customs duty; reduction in corporate tax rate; customs duties to be aligned with ASEAN levels; introduction of value added tax; widening of the tax base; tax laws have been simplified to ensure better compliance. Tax policy in India provides tax holidays in the form of concessions for various types of investments. These include incentives to priority sectors and to industries located in special area/ regions. Tax incentives are available also for those engaged in development of infrastructure.

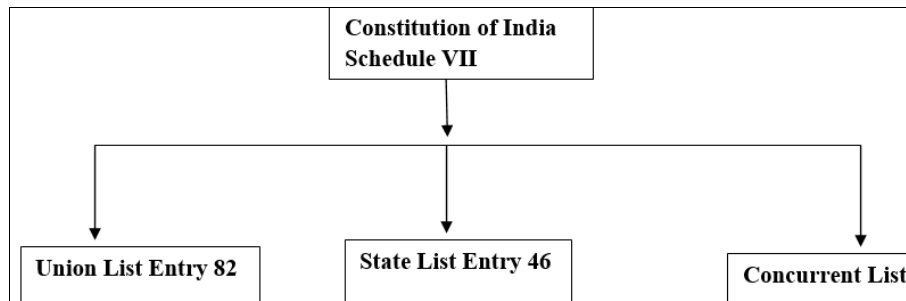
Taxes are what we pay the government for goods and services. The government spends this money for all the tasks that are expected of it. military, economic and social infrastructure, basic utilities, welfare, etc.

Article 246 read with Article 265 of the constitutions of India empowers the central Government to imposed taxes and make laws on taxes on income other than agriculture income.

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**1. Union List:** Parliament has the exclusive power to make laws on the matters contained in Union List.

Entry 82 of the Union List gives power to the parliament to make laws on “Taxes on income other than agricultural income”.

**2. State List:** The Legislatures of any state has the exclusive power to make laws on the matters contained in State List.

Entry 46 of the State List gives power to the State Legislative to make laws on “Taxes on agricultural income”

**3. Concurrent List:** Both parliament and State Legislatures have the power to make laws on the matters contained in the concurrent list.

In India there are two types of Tax, one is Direct Tax and other is Indirect Tax.

**Direct Tax:** Direct tax means those tax levied on Income and wealth of an Assessee. Direct tax means those which are directly paid by an Individual and organization to imposing authority. The direct Taxes in India are implemented by Central Board of Direct Taxes (CBDT).

There are following example of direct taxation available in country

1. Corporation Tax
2. Taxes levied on Income
3. Estate duty
4. Interest Tax
5. Wealth Tax
6. Gift Tax
7. Land Revenue
8. Agricultural Tax
9. Hotel receipt tax
10. Expenditure tax

**indirect Tax:** Indirect Tax are levied on Goods and Services. Indirect tax means those which are indirectly paid by Final consumption of goods and services. Tax burden can be shifted to another party. GST is an example of indirect tax in India. Indirect Taxes in India are implemented by Central Board of Indirect Tax and Custom (CBIC).

In spite of Many reforms, Indian Tax structure faces many complexities and problems like multiplicity of taxes, dominance of indirect taxes, adhocism, bias in incidence of taxes, complexity and corruption, imbalance in tax system, lack of built in elasticity, squandering away of resources.

**Need of the study**

The development of any country’s economy condition depends upon directly on the country’s Taxation system or structure of that country. A Taxation policy or Taxation structure which provides easy of doing business and having no chance tax evasion brings prosperity to a country’s economy. On the other aspect taxation policy which has provisions for tax evasion and the one which does not provides ease of doing business slows down the growth of country’s economy. So as taxation policy plays a predominant role in country’s growth and development. There is always requires for study of the taxation structure to make the taxation structure more simple.

**Statement of the problem**

Indian taxation system or structure has gone through many reforms and still it is very far ahead from being a ideal taxation structure. Many challenges face like Tax evasion, Reliance on indirect taxes, Black money, existence of parallel economy shows that Indian taxation structure requires some major changes in the future ahead to address all this problems.

**Objectives**

1. To study the taxation structure of India
2. To identify the different taxes collected
3. To study the amount incurred on collection of taxation
4. To study the amount of revenue which is collected from various types of Taxes
5. To study problems in the existing taxation structure

**Research methodology**

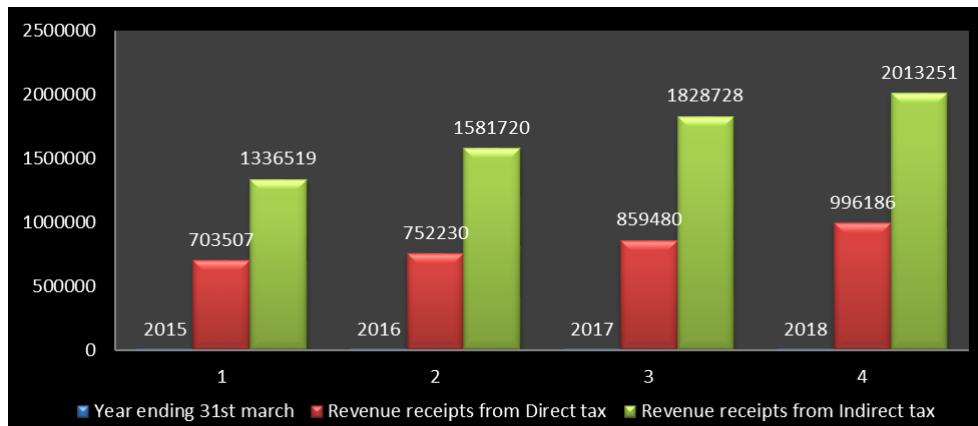
This Research paper is purely based on secondary data. Various figures are obtained from the different internet website of Government of India.

**Analysis of Indian Tax structure**

**Table 01:** Following are the details of the amount raised from Direct Taxes and Indirect taxes by both central and state Government (Rs in Crore)

Year ending 31 <sup>st</sup> march	Revenue receipts from Direct tax	Revenue receipts from Indirect tax
2015	703507	1336519
2016	752230	1581720
2017	859480	1828728
2018	996186	2013251

**Source:** (public finance statistics, ministry of finance report 2018) figures in approx



**Graph 1:** Chart showing revenue generated from Direct tax and Indirect tax

### Interpretation

From the above table No - 01 and chart No - 01 it is clear that there is more dependence on indirect taxes for revenue collection than direct taxes.

It is almost clear from the above graph and table that the amount of indirect taxes is double from the amount receive from direct taxes.

Over dependence on indirect taxes is clear visible

I will be understanding the advantage and Disadvantage of both direct and indirect taxes.

### Advantage of indirect taxes

Indirect taxes are levied or imposed on sellers, manufacturers and ad traders but their burden is imposed on the consumers of the goods and services and thus This Consumers are the final tax payers. They are convenient from point of view as tax payer as he pays indirect taxes in small amounts. Also they are convenient to Government as they collect these taxes in lumpsum from the manufacturers.

### Disadvantages of indirect taxes

**Inequitable:** The Burden of indirect tax is more on poor people than rich people. Hence indirect taxes are considered to be inequitable.

**Uneconomical:** As government has to make a lot of expenses for collection of the indirect taxes.

**Uncertainty:** Amount of indirect tax collection cannot be predicted as increase in indirect tax result in increase in prices of the commodity.

**Inflationary:** As indirect taxes increase the prices of the commodity, The are considered as inflationary.

**Non-Awareness:** There is lack of awareness among the tax payers of indirect taxes as on no body knows that he is paying taxes as it is including in the price.

**Evasion:** There are more chances of tax Evasion as Manufacturers can collect taxes from people and pay only fewer taxes with the understanding of government officials.

**Discourage industries:** The raw material used by the industrial sector is taxed indirectly. Similarly finished goods are taxed which increase the price of the product or services for demand reduced. In this situation indirect taxation discourage industries.

**Unfair profit:** The manufacturers or producer enhance price of commodities to maintain there profit rate or margin. So burden is on final consumers.

**Unemployment:** Owing to increase or enhance in price of goods and services, demand gets reduced discouraging industries as a result of which unemployment industries.

### Advantages of Direct taxes

**Equitable:** The burden of direct taxes also have their own advantages and disadvantage.

**Economical:** The cost of receipt of direct taxes is very low than indirect tax. Generally they are collected at source. So direct taxes are economical.

**Certain:** There are certainty on the amount of different direct taxes to be collected from both the sides. Tax payers know their income and thus know the amount of taxes they would be required to pay. Similarly tax authorities also know about the income expected from direct taxes.

**Productive:** Direct Taxes are productive in nature. As the community grows in numbers and prosperity, the returns from direct taxes also grow.

### Findings

1. There is a various number of taxes in India and different collecting authorities causing multiplicity of taxes in India.
2. There is a much dependence on indirect taxes for revenue generation. The amount collected from indirect taxes is nearly twice the amount collected from direct taxes.
3. Both indirect tax and direct tax have their own advantages and disadvantages.
4. Under direct taxes, the major components of taxes are corporation tax and taxes on income.
5. Under indirect taxes, the major components are customs, excise duty and service taxes.
6. The amount expended on collection of taxes is increasing year on year.

### Conclusions

Due to various types of taxes in India there is unhappiness among people of india regarding tax structure and tax policy. Taxes by union Government, State Governments and

the local Govts have resulted in difficulties and harassment to the assessee. He has to contact several authorities and maintain separate records for each of them.

An ideal tax policy must follow Adam Smith's canons of taxation. But due to over dependence on indirect taxes, the tax system suffers from the problems like inequality, regressive, uneconomical inflationary etc.

The tax structure has failed to stop tax evasion and curb the growth of parallel economy, white paper issued by Indian government on black money in 2012 tells that parallel economy exist the same amount of India GDP.

### Suggestions

1. Government should focus more on structural reforms than policy reforms.
2. GST should be implemented soon to reduce the various number of indirect taxes and facilitate easy of doing business.
3. There should be effective implementation of anti Tax evasion Bill.
4. Innovative Tax system like Banking Transaction Tax system suggested by Arthakranti Pratishtan should be given serious thought upon as they can be future alternatives.
5. Administrative expenses incurred on tax collection needs to be brought down by making reduction in there number of taxes and tax collection authorities.

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