

Tax System in India and its impact on Indian Economy and Indian Union Budget

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Abstract

The present paper studies the overview of the Indian Tax System. Government imposes taxes for the use and services of the country. Taxes provide Revenue to the Government through Direct and Indirect Taxes. Direct tax is those Taxes that an entity remits to the Government directly, including income tax, property tax, etc. Indirect taxes are those that an entity remits through third parties such as Excise Duties, Value Added Tax, Goods and Services Tax, Custom Duties is an example of Indirect Tax imposed by Government of India. The main objective of the article to examined the importance of the Tax System for the Growth of Indian Economy and improves the Public Revenue in Indian Union Budget. The paper also studies the progress of the Indian Tax System will undergo many refinance because goods and services tax has replaced Indian Union Government Indirect Tax first Excise Duties was replace into Value Added Tax, and VAT was replaced into Goods and Services Tax. In this paper, methodology is based on secondary sources of data from 2010-11 to 2019-20.

Keywords: Tax, Direct and Indirect Tax, Public Revenue, Tax Policy, Indian Union Budget.

Introduction

In Indian Economy, tax consists of Direct and Indirect tax which plays an important role to increase the public Revenue in Indian union budget (Bose & Bhanumurthy, 2015). Tax Policy is an important tool to increase national income of the country and achieve a correct pattern for identification of standard function of the Economy in public sector (Anand & Ravallion, 1993). Direct and indirect tax and various components is a very important for the growth of the tax system in India and also developed the Economy of the country as well as increase the Public Revenue in Indian Union Budget (Nayyar & Singh, 2018).

Review of Literature

- (Rao, 2000). Examined "The major changes in several countries over the last two decades due to the several reasons." The main objective of the study is to analyse the evolution of the Tax system in India. The study also describes the introduction of the new reforms of direct and indirect tax and also improves the tax system remains a major challenge in India.
- (Khurana & Sharma, 2016). Explained "the idea of GST is to replace existing tax such as Value-Added Tax, Excise Duties, Service Tax, and Sales Tax." The main objective of the study is the impact of GST in the present tax scenario in India. The study also further explores various benefits of GST.
- (Haghooei, 2019). Studied "the tax and its impact on the economic system in India." The main objective of the study that the tax system is one of most significant factors which play an important role in investment. In this study, an analytical descriptive research method has been used to contribute to developing the Economy of the country.

Objective

According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study. The objectives of the paper are:

- ❖ To understand the tax system in India.
- ❖ To analyses the direct and indirect tax.
- ❖ To understand the benefits of the direct and indirect tax in Indian Economy.

Methodology

Research methodology the study focuses on extensive study of Secondary data collected from Handbook of Statistics on Indian Economy, RBI, Indian Economy Survey, Central Statistical Office and National Statistics Office.

Analysis

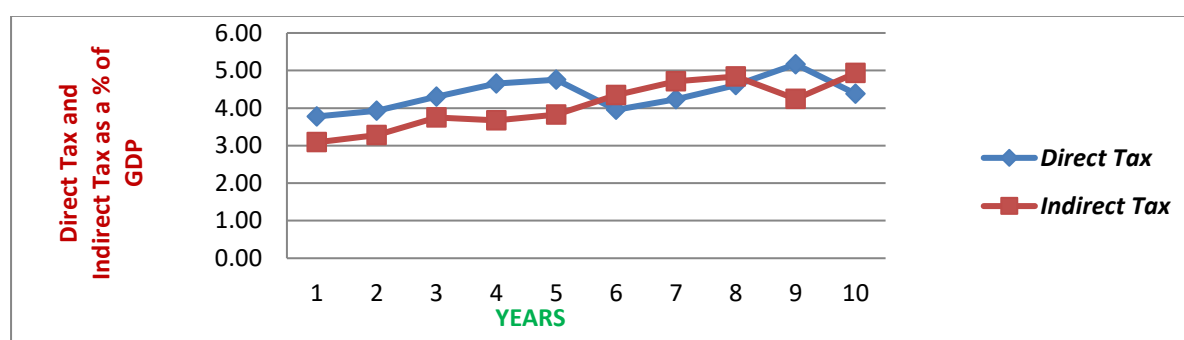
Table: 1. Direct Tax and Indirect Tax as a percentage of GDP of the Union Government of India.

Year	Direct Tax	Indirect Tax
2010-11	3.78	3.09
2011-12	3.93	3.28
2012-13	4.30	3.75
2013-14	4.65	3.67
2014-15	4.75	3.83
2015-16	3.95	4.35

2016-17	4.24	4.71
2017-18	4.61	4.84
2018-19	5.17	4.24
2019-20	4.38	4.93

Source: Select Direct Tax and Indirect Tax of the Union Government of India, (As a percentage of GDP), Handbook of Statistics on Indian Economy 2020-21, and Reserve Bank of India, Budget documents of the Government of India and Finance Accounts (various issues), National statistical office (NSO) and Central Statistical office (CSO).

Figure-1



Source: Researcher's compilation based on the table.1

The above table: 1 and graph: 1 show the condition of Direct Tax and Indirect Tax as a percentage of GDP in Indian Union Government from 2010-11 to 2019-20. Direct tax was estimated to 3.78% in 2010-11 and then it was continuously increased to 4.75% in 2014-15 with the help of the implementation of FRBM ACT and after that it was reduced to 3.95% in 2015-16 due to demonetization. Again, it was increased to 5.17% in 2018-19 with the help of the introduction of the GST and then it was reduced to 4.38% due to Covid-19. While as Indirect tax was estimated 3.09% in 2010-11 and it was increased to 3.75% in 2012-13 with the help of the implementation of VAT and then it was reduced to 3.67% in 2013-14 due to the Taper Tantrum crisis-2013 and after that it was increased to 4.84% in 2017-18 with the help of GST. Again, it was reduced to 4.24% in 2018-19 due to Covid-19 and it was increased to 4.93% in 2019-20 because of the improvement of GST.

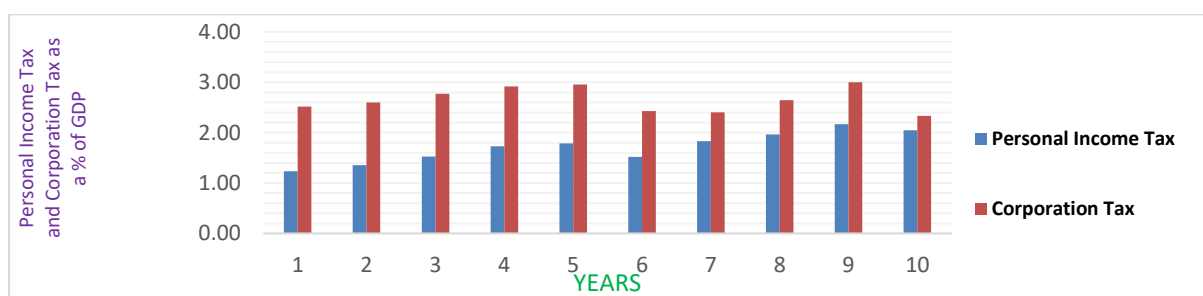
Table: 2. Personal Income Tax and Corporation Tax as a percentage of GDP of the Union Government of India.

Year	Personal Income Tax	Corporation Tax
2010-11	1.23	2.52
2011-12	1.35	2.60

2012-13	1.52	2.77
2013-14	1.73	2.92
2014-15	1.79	2.96
2015-16	1.52	2.43
2016-17	1.83	2.40
2017-18	1.97	2.65
2018-19	2.17	3.00
2019-20	2.05	2.33

Source: Select Personal Income Tax and Corporation Tax of the Union Government of India, (As a percentage of GDP), Handbook of Statistics on Indian Economy 2020-21, and Reserve Bank of India, Budget documents of the Government of India and Finance Accounts (various issues), National statistical office (NSO) and Central Statistical office (CSO).

Figure-2



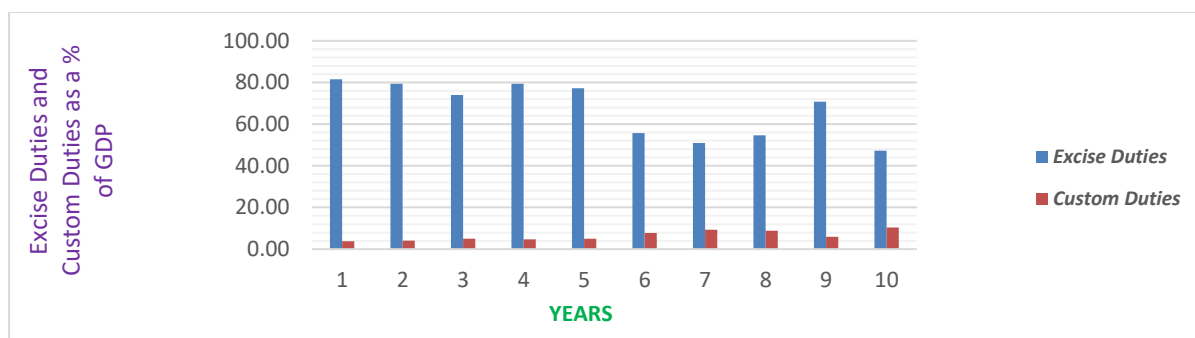
Source: Researcher's compilation based on the table.2

The above table: 2 and graph: 2 show the condition of Personal Income Tax and Corporation Tax as a percentage of GDP in Indian Union Government from 2010-11 to 2019-20. Personal Income tax was estimated to 1.23% in 2010-11 and then it was continuously increased to 1.79% in 2014-15 with the help of the implementation of FRBM ACT and after that it was reduced to 1.52% in 2015-16 due to demonetization. Again, it was increased to 2.17% in 2018-19 with the help of the introduction of the GST and then it was reduced to 2.05% due to Covid-19. While as Indirect tax was estimated 5.52% in 2010-11 and it was increased to 2.96% in 2014-15 with the help of the implementation of VAT and then it was reduced to 2.40% in 2016-17 due to the Demonetization and after that it was increased to 3.00% in 2018-19 with the help of GST. Again, it was reduced to 4.33% in 2019-20 due to Covid-19.

Table: 3. Excise Duties and Customs Duties as a percentage of GDP of the Union Government of India.

Year	Excise Duties	Customs Duties
2010-11	81.57	3.79
2011-12	79.39	4.13
2012-13	74.02	5.06
2013-14	79.37	4.63
2014-15	77.27	4.96
2015-16	55.80	7.79
2016-17	51.02	9.24
2017-18	54.65	8.86
2018-19	70.73	5.99
2019-20	47.34	10.42

Source: Select Excise Duties and Custom Duties of the Union Government of India, (As a percentage of GDP), Handbook of Statistics on Indian Economy 2020-21, and Reserve Bank of India, Budget documents of the Government of India and Finance Accounts (various issues), National statistical office (NSO) and Central Statistical office (CSO).

Figure-3

Source: Researcher's compilation based on the table.3

The above table: 3 and graph: 3 show the condition of Excise Duties and Custom Duties as a percentage of GDP in Indian Union Government from 2010-11 to 2019-20. Excise Duties was estimated to 81.57% in 2010-11 and then it was reduced to 74.02% in 2012-13 due to the financial crisis and after that it was increased to 79.37% in 2013-14 with the help of FRBM Act. Again, it was reduced to 51.02% in 2016-17 due to the Demonetization and then it was increased to 70.73% in 2018-19 with the help of GST. Again, it was reduced to 47.34% in 2019-20 due to the Covid-19. While as Customs Duties was estimated 3.79% in 2010-11 and it was increased to 5.06% in 2012-13 with the help of the implementation of VAT and then it was

reduced to 4.63% in 2013-14 due to the Taper Tantrum crisis-2013 and after that it was increased to 9.24% in 2016-17 with the help of GST. Again, it was reduced to 5.99% in 2018-19 due to Covid-19 and it was increased to 10.42% in 2019-20 because of the improvement of GST.

Findings

The major findings of the study are as follows:

- The present study will improve disclosure of economic transactions.
- The tax system and its various components will mitigate cascading and double taxation thus enables better compliance. It will also lead to transparency in tax system resulting in difficulty of tax evasion.
- It ensures uniformity of tax system across the country.
- It will also redistribute the burden of taxation equitably among manufacturing and services.

Suggestions

- Tax payer must be aware about the importance of the tax system of the country.
- Indian Union Government should construct a proper monitoring system for monitoring the dummy registrations and refund problems.
- Indian Union Government also must be analyse their revenue neutral rates, revenue implications as well as compensation packages.
- The research suggested that the Government must be check whether tax reform increase its both direct and indirect tax to its Revenue

Conclusion

It can be concluded from the above discussion that direct and indirect is very important for the economic development and growth of the country (Ray, 2012). Tax system is one of the main sources of the income of the country (Boadway, 2004). The present study also describes the tax reform is very important to improve the tax system of the country (Saad, 2014). The present paper also studies the reform of VAT and GST through which Government also increase it indirect tax. In nutshell reform of tax system in India is very important for improve the Economy of the country and increase the public Revenue in Indian Union Budget. (Vasanthagopal, 2011).

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