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The Impact of Indian Taxation System on Its Economic Growth

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Introduction
Today Indian taxing system is going a revolutionary change owing to spreading the wings of Indian business into global market. Indian government is paying its full attention to liberalize the taxation system and at the same time closing the loopholes to disable the intruders to evade the taxation system. So as to enlarge the revenue to government exchequer and flourish the overall business scene.

Main Words- Progressive taxation, Regressive taxation, Direct tax, Indirect tax, Wealth tax, Income tax

Broadly taxing system may be classified into three parts;

a. Progressive taxation system
b. Regressive taxation system
c. Proportional taxation system

Progressive taxation implies 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 lesser income.

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

Proportion tax means a taxing system of charging tax on a fixed proportion irrespective of level of amount on which tax is to be levied. Thus the same tax rate applies to different persons having different taxable amounts.[2]

Tax may be levied on natural persons like individual .Hindu undivided family artificial entities like Firm, association of persons, company, society etc and also on goods and services. Thus, another classification of tax we found into direct tax and indirect tax.

Direct tax means a type of tax which is paid by a person directly to the government. For example income tax and wealth tax in India.

Indirect tax means tax on goods and services tax which are paid by a person to the producer, seller or service provider who is liable to pay the same to the account of Government. For example customs duty, excise duty, VAT, service tax, entertainment tax etc in India. Now a modern system of taxing all "good as and services tax" is about to be introduced. This will replace all existing enactments relating to goods and services.[3]

Taxing system in India

In India, progressive and proportional taxing systems are followed. In Indian tax law, slab wise taxability arises somewhat for income tax while proportional tax is applicable for other taxes, for example excise duty, customs duty, VAT, service tax, wealth tax etc. Further under income tax, lottery income, and long term capital gain, and in some cases short term capital gain is taxed under proportional taxation system. Again the income of assesses such as for companies firms etc. proportional taxation system is applied while for individual and cooperative ,society, progressive taxation system is followed. [4]

Among **direct tax** only two types of taxes are in existence today, namely income tax and wealth tax.

Income tax

Under Indian income tax law both flat rate (proportional tax) and slab rate (progressive tax) applies. Tax is computed on total income. On lottery income, long term capital gain, and in some cases short term capital gain is taxed under proportional taxation system. Again the income of assesses such as for companies firms etc .Proportional taxation system is applied while for individual and cooperative society. Progressive taxation system is followed.

Wealth tax

Wealth tax is levied at 1% on the net wealth of individual. Hindu undivided family and company if net wealth exceeds Rs 30 lakhs on the valuation date. it is payable in every assessment year based on valuation of net wealth on the respective valuation dates. Valuation date means last day of the corresponding previous year relating to each assessment year. Net wealth is computed as the difference between value of assets and the value of liabilities. Assets include House, Motor, car, Jewellery, Urban land, and cash in hand and Yatch boat and air craft.

Among there **indirect tax** regime important ones are Excise duty, service tax custom duty and sales tax.

Excise duty is levied on manufacture or production of excisable goods in India at the rates specified in Central excise tariff act. It is based on value added concept since it includes the provision of input tax credit covered under CENVAT credit rules.

Customs Duty

Customs duty is levied on goods imported or exported from India at the rates specified in customs tariff act. Import means bringing into India from a place outside India. India while export means taking outside India. India includes territorial waters of India which extends up to 12 nautical miles from the base lines. [5]

Service tax

Service tax is a type of indirect tax which levied on services .it is consumption based destination tax. It is governed by chapter 5 and chapter 5-A of the finance act 1994 as amended is levied @ 12% of gross value of taxable service. Additionally education cess @ 2% and higher education cess @1% is also payable. Thus, the effective rate of tax comes out to 12.36%.

Sales tax

Sales tax is the older version of VAT. Under Sales Tax System. Tax was levied on entire selling prince and not on value added. Thus, there was double taxation effect under sales tax system. Even now sales tax is prevalent in inter-state sales.

VAT

VAT is the short version of value added tax. It is a type of indirect tax which is levied on sale of goods with a state. VAT is a modern system of taxing goods which has been introduced to replace the existing sales tax system. Under VAT system tax is levied on the value added at each stage of production on distribution. Thus, it is a multi-point taxation system on value addition. It has been introduced to avoid cascading (double taxation) effect one to check tax evasion.[6]

Goods and service tax (GST)

Till now in India, there are separate enactments for goods and services. Efforts are being made to consolidate the taxing system for entire goods and services. Goods and service tax has evolved as a modern taxing system. It is a composite taxing system which covers all goods and services for specified transaction. This New Act will replace all direct taxes being presently levied on all goods and services by central as well as state government. However, this new act is yet to be implemented in India.

Tax collection patterns in India

Gross tax collection in India is more or less stagnant after financial year 2009-10, if we take it as % of GDP (TABLE-1). To meet the challenges, the Government is financing its fiscal deficit by cutting down its expenditure. This is not only lowering down the capital formation in the country but also adversely affecting the overall economic growth. The patterns of indirect collection is also not showing any favourable growth (Table -2) .Shortfall has not only incurred in tax collection but also in non- debt receipts .

The impact of direct tax on economic growth

The direct tax is one of the important sources of government revenue. Further it also impacts directly the disposable income of individuals. If direct tax rate is increased by the Government, people start saving for investment purposes. Due to this behaviour of individual’s income generation process of economy is hampered. Particularly this is true for luxury commodities .this decreases the production of luxury commodities in the economy and as a result also adversely affects the GDP and standard of living. However on the position sides, if proper deductions are allowed based on investment it leads to capital formation in the country. Thus positive sides of direct taxes the economics growth.

a. Better capital formation.
b. Inducement of saving and investment.
c. Survey of government revenues growth.
d. Increase in planned expenditure of growth.
e. Decreases inflation rate due lesser availability of disposable income to persons.
f. Timely availability revenue to the government.

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 and efficiency of the producers, since to maintain their demand they will have to put their fill efforts towards cost cutting measures. Further, these efforts of producers also bring proper utilization of resources in the economy. The consumers are at freedom to select products at their choice. Thus healthy competition also grows in the economy. Thus, broadly following are the positive side if indirect taxes on the economics growth;

a. Better utilization of resources.
b. Increases in efficiency of producers.
c. Growth of healthy competition in the market.
d. More freedom of choice to the consumers.
e. Increase in demand for luxury goods.
f. Increase ion standard of living of people.

Conclusion

Government of India is required to open more investment options in income tax law to increase capital formation in the country. There is high need to consolidate and simplify the tax laws. Income Tax Department should run tax payers awareness programmes so that a common person may understand the tax law and procedures. Provision for minimum taxes should also be incorporated for person other than company except for individual like for societies , firms and LLPs etc. it should reduce tax rates on edibles so that inflation rate may be brought down on food items . Government should enlarge the tax regime to capture effectively the middle and lower business class. The area of wealth Tax needs to be enlarged to cover more people in its regime. The poor people should be tried to be freed from indirect tax regime while more indirect taxes should be imposed on rich class s to reduce income inequality gap. Today, there is no separate tax provision for limited liability partnership firm. It is treated like other partnership firm. Due to its peculiar feature and being an entity entirely different from partnership firm separate provision are needed to tax this entity. [7]

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