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IMPACT OF INCOME TAX ON THE REVENUE OF GOVERNMENT OF INDIA

Gaurav Kumar Jalan

¹Research Scholar

¹University Department of Commerce

¹Lalit Narayan Mithila University, Kameswarnagar, Darbhanga, Bihar, India.

Abstract: The Government is unable to perform its various functions in the absence of revenue. It needs to perform a large number of activities requiring a huge public expenditure. To meet this expenditure it requires public revenue. Taxes are one of the important sources of public revenue. Taxes are not a recent origin. It was levied dates back to time immemorial. During the year 2010-11 the total returned filed was about 3.3% of the total population of India whereas the ratio of returned filed by Singapore was 39%, USA 46%, and New Zealand 75%. So, a number of efforts are continuously being made by the government to bring more and more people under the regime of taxation, so that public revenue can be increased. A number of tax reforms were initiated in the tax structure to widen the income tax base in India. This paper basically deals with the impact of various tax reforms on the income received by way of income tax and also its trends and pattern in India in the post reform period. The study is based on the income tax data from financial year 1991-92 to 2018-19 i.e a period of 28 years.

Index Terms - Tax Revenue, Income Tax, Tax Reforms, Trends and Patterns.

INTRODUCTION

Every government needs funds to finance its activities. In India there is federal form of government i.e there is a separate government at the central level, different states have their respective state governments while local bodies have local governments. In the current scenario, the role of government has become very crucial. It has become the basic responsibility of the government to perform all those activities which leads to the overall development of the country & society. These activities could not be performed in the absence of adequate revenue to incur huge public expenditure on the important areas of the economy for its overall development. To meet this expenditure, huge public revenue is required. Public revenue refers to the income of the government through various sources. In these sources taxes occupies a prominent place. A major part of government revenue comprises of taxes. Many economists like Adams, Bastable, Seligman, Taussing, Dalton etc, hold the unanimous opinion that "the tax is a compulsory payment to the Government by taxpayer without any expectation of some specified return."

Some definition are as under:

Adam Smith "A tax is a contribution from citizens for the support of the state."

Dalton "A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return"

P. E. Taylor "A compulsory payment to Government without expectation of direct return in benefit to the taxpayer is known as tax'.

Prof. Bastable: 'A tax is compulsory contribution of the wealth of a person or body of persons for the services of public powers.

Seligman "A tax is compulsory contribution from the person to the Government to defray the expenses incurred in the common interest of all, without reference to special benefits conferred"

Taxes are broadly classified into two main categories:

(I) Direct Tax is one in which the impact and the incidence of tax lies on the same person. In other words a direct tax is a tax which is directly paid by the person to whom it is imposed to the government. The various types of direct tax are:

Income Tax: Income tax is calculated on basis of gross income less deductions, exemptions or credits. It is levied on businesses and individuals. Income Tax Act, 1961 imposes tax on the income of the individuals or Hindu undivided families or firms or co-operative societies (other than companies) and trusts (identified as bodies of individuals associations of persons) or every artificial juridical person. Whether an income to be included in total income of a person in India wholly depends on the his residential status. Residential status can be divided in two parts (1) resident (2) non resident. Resident can be further divided into two parts i.e. ordinary resident and non ordinary resident. *This papers basically deals with the impact of various tax reforms on income tax.*

Wealth Tax: The wealth tax is a tax on wealth or property. It is levied on the net wealth of the person if it exceeds the minimum exemption limit. It is governed by Wealth Tax Act, 1957. From the assessment year 2016-17, wealth tax has been abolished.

Estate tax: An estate tax (death duty) is a tax which is levied at the time of death of an individual on total value of the money and property of a person who has died. This tax continued from 1953 to 1985 and has been abolished on 16th march 1985 under the Estate Duty (Amendment) Act, 1985.

Corporate Tax: According to Income tax act 1961, Tax is levied on companies and business organizations in India on the income from their worldwide transactions

Gift Tax: Gift tax is levied under the Gift Act 1958 in all parts of the country except Jammu and Kashmir. It abolished with effect from 1st October, 1998. But in 2004, a new provision was added in the Income Tax Act 1961. According to which the gift tax would be levied if any individual or Hindu Undivided Family (HUF) receives in excess of Rs. 50,000 in one year.

(A) INDIRECT TAX

An indirect tax is one that can be shifted by the taxpayer to someone else. It leads to increase the price of a commodity. Some of the indirect taxes are given below

Types of Indirect tax

Sales Tax: Sales tax is imposed on the sale or purchase of a particular commodity by the government within the country. Generally, each State pursues its own Sales Tax Act and levies tax at various rates. From 2005, most of the States of India replaced sales tax with new Value Added Tax (VAT).

Value Added Tax (VAT): A value-added tax (VAT) is a consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale. The amount of VAT that the user pays is on the cost of the product, less any of the costs of materials used in the product that have already been taxed.

Service Tax: The service tax is levied under the provisions of the Finance Act of 1994 which is not applicable to the state of Jammu and Kashmir. This tax came into effect on 1st July, 1994. Service Tax is levied on the service provider's the gross or aggregate amount charged from his customers.

Customs Duty: For the prevention of illegal imports and exports of goods, the Customs Act was formulated in 1962. The rate of custom duties are levied on import and export under the customs Tariff Act, 1975 which is amended from time to time or any other law for the time being in force.

Central Excise Duty: Excise duty is levied under the Central Excise Act, 1944 and the Central Excise Tariff Act, 1985 by central government. It is charged on excisable goods that are manufactured in India and made for domestic consumption. The goods which are mentioned in the First Schedule and the Second Schedule to the Central Excise Tariff Act 1985 here refer to the 'excisable goods'. It is a compulsory payment unless exempted.

Securities Transaction Tax (STT): STT is levied on all transactions made on the stock exchanges. It is applicable to sale/purchase of equity shares, equity oriented Mutual Funds and derivatives. There is STT on long term capital gain but it is 10 per cent in case of short term capital gain. But if he is a trader, all gain would be considered his business and tax would be charged according to tax slabs.

From 1 July 2017 all the above indirect taxes are merged into one single indirect tax i.e. Goods and services Tax. It was the major tax reform in the tax history of India.

History Of Income tax in India

Income tax in its contemporary form was introduced in India for first time in 1860 by the British Government to overcome the financial crisis following the events of 1857. In the beginning Government introduced it as a provisional measure of raising revenue under the Income Tax Act 1860 for a period of five years. Different tax rates were prescribed for different heads of income. In the year 1867, it was transformed as licence tax on trade and profession. In the year 1869, the licence tax was replaced by Income Tax again. The assessments were made on arbitrary basis leading to inequality, unpopularity and widespread tax evasion. Income Tax was withdrawn in the year 1874. After the great famine of 1876-78, the Government introduced local Acts for income tax in different provinces. With several amendments these Acts remained in force till 1886. Thus, the period from 1860 to 1886 was a period of experiments in the context of income tax in India.

Pre Independence Period(1886-1947)

In 1886, a new Income Tax Act was passed with great improvements than the previous Acts. This Act with several amendments in different years continued till 1918. In 1918, a new Act was passed repealing all the previous Acts. For the first time, this Act introduced the concept of aggregating income under different heads for charging tax. In 1921, the Government constituted "All India Income Tax Committee" and on the basis of recommendation of this committee a new Act (Act XI of 1922) was enacted. This Act is a landmark in the history of Indian Income Tax system. This Act made income tax a central subject by shifting the tax administration from the Provincial Governments to the Central Government. During this period the Board of Revenue (Central Board of Revenue) and Income Tax Department with defined administrative structure came into existence.

Post Independence Period

The Income Tax Act 1922 continued to be applicable to independent India. During the early post independence period, the Income Tax legislation had become very complicated on account of innumerable changes. During this period tax evasion was prevalent and tax collection was very costly. In 1956, the Government of India referred the Act to a Law Commission to make the Income Tax Act simpler, logical and revenue oriented. The Law Commission submitted its report in September 1958 and in the meantime the Govt. also appointed a Direct Taxes Administration Enquiry Committee to suggest the measures for minimizing the inconvenience to the assesseees and prevention of tax evasion. This committee submitted its report in 1959. The recommendations of the Law Commission and the Enquiry Committee were examined and extensive tax reform programme was undertaken by the Government of India under the supervision of Prof. Nicholas Kaldor. The Income Tax Bill 1961, prepared on the basis of the Committee's recommendations and suggestions from Chamber of Commerce, was introduced in the Lok Sabha on 24.4.1961. It was passed in September 1961 by Lok Sabha. The Income Tax Act 1961 came into force on April 1, 1962. It applies to whole of India including the state of Jammu and Kashmir. It is a comprehensive piece of legislation having 23 Chapters, 298 Sections, various sub sections and 14 schedules. Since 1962, it has been subjected to numerous amendments by the Finance Act of each year to cope with changing scenario of India and its economy.

RECENT TAX REFORMS

The economic crisis of 1991 led to structural tax reforms in India with main purpose of correcting the fiscal imbalance. Subsequently, the Tax Reforms Committee headed by Raja Chelliah (Government of India, 1992) and Task Force on Direct Taxes headed by Vijay Kelkar (Government of India, 2002) made several proposals for improving Income Tax System. These recommendations have been implemented by the government in phases from time to time. As regarding the personal income tax, the maximum marginal rate has been drastically reduced, tax slabs have been restructured with low tax rates and exemption limit has been raised. In addition to this, government rationalized various incentive provisions and widened TDS scope. In case of corporate tax, the government has reduced rates applicable to both domestic and foreign companies, introduced depreciation on intangible assets and rationalised various incentive provisions. Some new taxes have been introduced such as Minimum Alternative Tax and Dividend Distribution Tax, Securities Transaction Tax, Fringe Benefit Tax and Banking Cash Transaction Tax. However, Fringe Benefit Tax and Banking Cash Transaction Tax were withdrawn by Finance Act, 2009. The Income tax administration was restructured with effect from August 1, 2001 to facilitate the introduction of computer technology. Further, keeping in mind the global developments, the department has made considerable efforts for reforming the tax administration in recent years. Some important measures in this direction are :

- *introduction of mandatory quoting of Permanent Account Number (PAN),*
- *e-filing of returns,*
- *e-TDS,*
- *e-payment,*
- *Tax Information Network (TIN),*
- *Annual Information Return (AIR) for high value transaction,*
- *Integrated Taxpayer Profiling System (ITPS),*
- *Refund Banker Scheme in certain cities etc.*

The main objective of these reforms has been to enhance tax revenue by expanding the taxpayer base, improving operational efficiency of the tax administration, encouraging voluntary tax compliance, creating a taxpayer friendly atmosphere and simplifying procedural rules.

Scheme of Taxation of Income in India

As per Indian constitution the Central Government possesses the right to levy and collect tax on income other than agricultural income under Income Tax Act, 1961. The proceeds of income tax are shared between the Centre and the State Governments as per the recommendations of the Finance Commission. Income tax is chargeable on the total income of a person in the previous year at the rates prescribed by Finance Act every year.

OBJECTIVES OF THE STUDY

- To analyze the impact of tax reforms on income tax.
- To study trends and patterns of Income tax in India in the post liberalization period.

RESEARCH METHODOLOGY

The research is based on secondary data which is collected from Handbook of Statistics on the Indian Economy published by Reserve Bank of India, Reports published by Department of Revenue, Ministry of Finance, Government of India, Directorate of Economics and Statistics (DES), Planning Commission publication, various issues of budget, various committee's reports, economics surveys, books, website, etc. To study the trends and patterns of Income tax linear regression model has been used. To analyze the growth of income tax - percentage, ratios, combined average growth rate (CAGR) etc., methods are used. The study covers the period of 28 years i.e from 1991-92 to 2018-19.

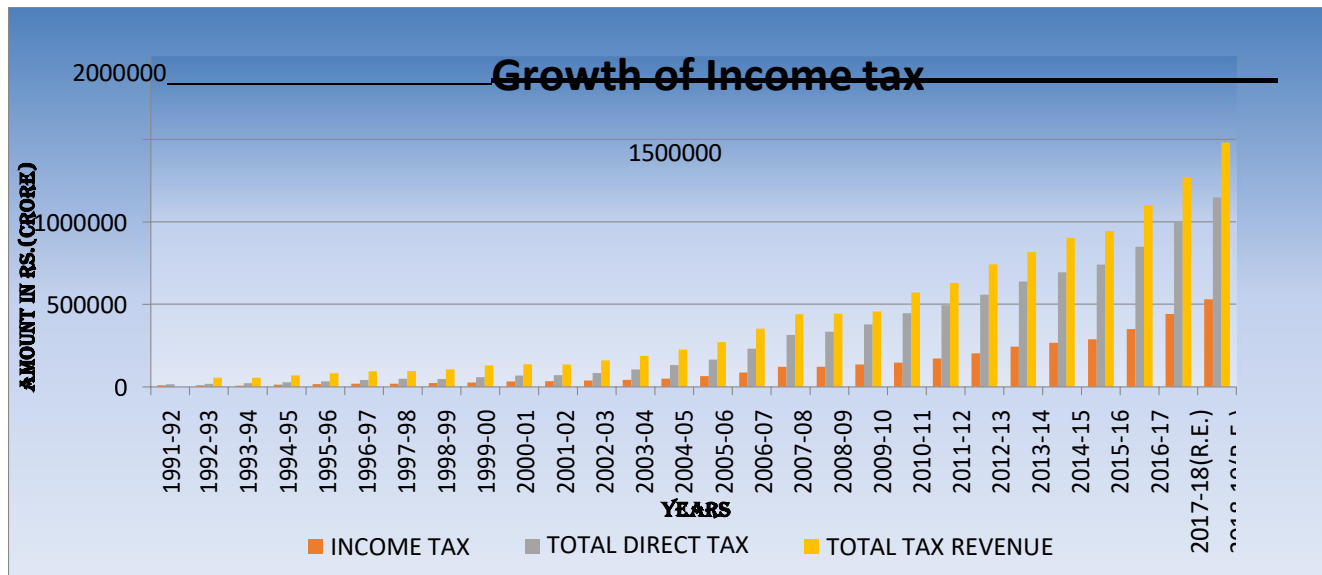
DATA ANALYSIS AND INTERPRETATION

Impact of tax reforms on growth of Income tax in India

TABLE :01 GROWTH OF INCOME TAX

YEAR	INCOME TAX	TOTAL DIRECT TAX	INCOME TAX TO DIRECT TAX(%)	TOTAL REVENUE TAX	INCOME TAX TO TOTAL REVENUE(%)
1991-92	6731	15207	44.26	50069	13.44
1992-93	7888	18132	43.50	54044	14.60
1993-94	6123	20298	30.17	53449	11.46
1994-95	12025	26966	44.59	67454	17.83
1995-96	15592	33563	46.46	81939	19.03
1996-97	18231	40903	44.57	93701	19.46
1997-98	17079	48274	35.38	95672	17.85
1998-99	20240	46600	43.43	104652	19.34
1999-00	25654	57958	44.26	128271	20.00
2000-01	31764	68305	46.50	136658	23.24
2001-02	32004	69198	46.25	133532	23.97
2002-03	36866	83088	44.37	158544	23.25
2003-04	41386	105088	39.38	186982	22.13
2004-05	49268	132771	37.11	224798	21.92
2005-06	63689	165216	38.55	270264	23.57
2006-07	85623	230181	37.20	351182	24.38
2007-08	120429	314330	38.31	439547	27.40
2008-09	120034	333818	35.96	443319	27.08
2009-10	132833	378063	35.14	456536	29.10
2010-11	146258	445995	32.79	569868	25.67
2011-12	170181	493987	34.45	629764	27.02
2012-13	201840	558989	36.11	741877	27.21
2013-14	242888	638596	38.03	815854	29.77
2014-15	265772	695792	38.20	903615	29.41
2015-16	287637	741945	38.77	943765	30.48
2016-17	349503	849713	41.13	1101372	31.73
2017-18(R.E.)	441255	1005000	43.91	1269454	34.76
2018-19(B.E.)	529000	1150000	46.00	1480649	35.73
CAGR	16.87%	16.71%	--	12.86%	--

Figure :01



The table no:01 clearly depicts the data of income tax collection ,total direct tax and total tax revenue(direct tax+ indirect tax) of the central government as taken by handbook of statistics on Indian Economy, published by RBI and from the Income Tax Department ,Ministry of Finance .The data reveals that the revenue from income tax increased from Rs. 6731 crore in 1991-92 to Rs. 529000 in the year 2018-19(as per the budget estimates) with a CAGR of 16.87% , It has an increasing trend over the study period .The total direct tax increased from Rs. 15207 crore to Rs. 1150000 crore with the CAGR of 16.71% ,while the total tax revenue increased from Rs. 50069 crore to Rs. 1480649 crore with CAGR of 12.86%.In the financial year 1991-92 the Income tax collection was 44.26 percent of the total direct tax which has increased to 46 percent in the year 2018-19 while it(income tax) was 13.44 percent of the total tax figure in the year 1991-92 which has increased to 35.73 percent in the year 2018-19 which was really a substantial increase.The Figure no.01 also depicts the continuous increase in income tax throughout the period of study .

TREND AND PATTERN OF INCOME TAX IN THE POST LIBERALIZATION PERIOD

To perform the trend analysis, Linear Regression Model using Least Square Method has been used. Linear Regression Model:

$$Y = a + bx$$

Where Y = Dependent Variable (Tax Revenue/Component) a = Y-intercept

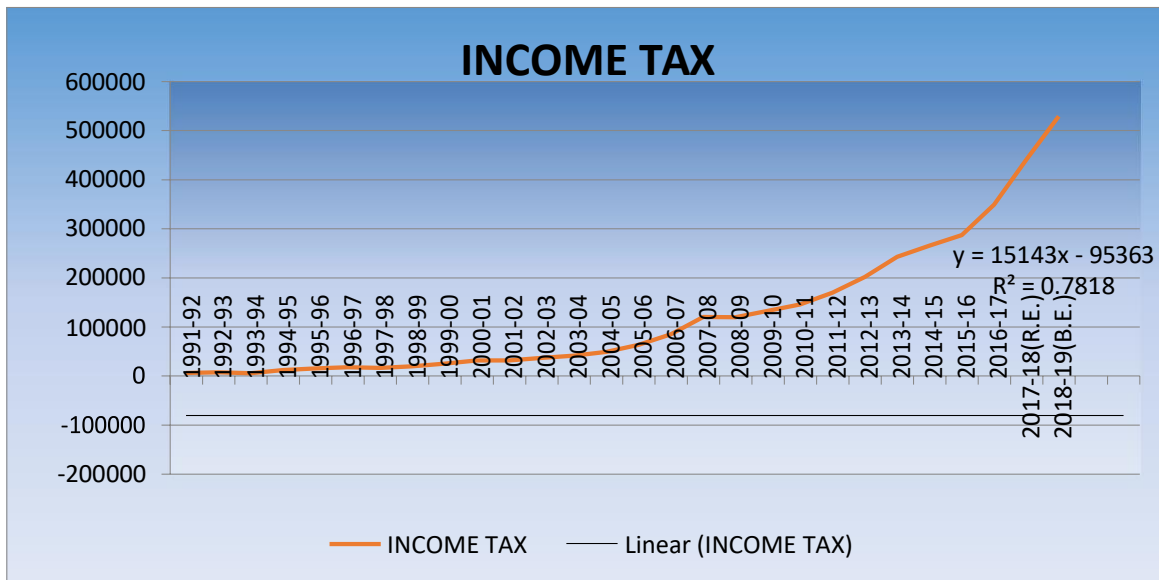
b = slope (rate of change in Y variable for a unit change in x variable) x = Independent Variable (Time)

TABLE:02 TRENDS IN INCOME TAX

Item	Linear Trend Line Equation	R2
Income Tax	$y = 15143x - 95363$	0.781

Source: Based on Author's Calculation

The above table exemplifies the trend and pattern (Linear Trend Line Equation) of Income tax during the period from 1991-92 to 2018-19 which is also depicted through the following figure.FIGURE:02



The trend line of Income Tax revenue of the Central Government as represented by Table- 02 and Figure-02 indicates that Income Tax has been increased by Rs. 15143 crore annually from the financial year 1991-92 to 2018-2019 (as per the budget estimates of the respective year). The value of R^2 for Income tax collection was 0.78. This reflects that 78% variation in Income tax earnings of the government was explained by the time. It is evident from the Chart that during 1991-92 till 1997-98 the actual line was above the trend line showing that actual is more than the estimated revenue from income tax. Again During the period from 2015-16 till 2018-19 the actual performance is much better than the projected performance which is a quite good signal for the government as well as the economy of India.

CONCLUSION

On the basis of the study it can be concluded that the measures undertaken by the government like *introduction of mandatory quoting of Permanent Account Number (PAN), e-filing of returns, e-TDS, e-payment, Tax Information Network (TIN), Annual Information Return (AIR) for high value transaction, etc* are devised mainly to widen the tax base by bringing more people under the net of Income tax. The main objective of various tax reforms has been to enhance tax revenue by expanding the taxpayer base, improving operational efficiency of the tax administration, encouraging voluntary tax compliance, creating a taxpayer friendly atmosphere and simplifying procedural rules. These reforms have led to the increase in income tax collection substantially as revealed by the present study of 28 financial years. Still there is an immediate need of creating a more transparent, free from corruption, friendlier and less discriminatory administrative system. Apart from this the people should also be made much more aware and conscious towards Indian tax law and create such an environment in which they pay their due taxes, avoid tax evasion and feel proud in discharging their duty to pay the taxes like a good citizen which in turn produce substantial amount of government revenue that can be fully utilized for the economic development of the country.

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