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SHORTCOMINGS OF TAX SYSTEM IN INDIA



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6,573	2	157	6,732	3,340	1,866
9,768	582	701	11,051	11,615	6,292
6,271	1,037	943	8,251	7,274	5,024
23,522	938	557	25,017	27,091	24,638
26,603	8,446	8,838	43,887	40,687	30,867
1,275	542	950	2,767	2,645	2,481
26,767	6,559	5,970	39,296	32,899	26,448
19,542	2,055	49,287	70,884	65,286	57,535
11,537	3,783	12,602	27,922	26,323	26,459
3,175	4,410	6,633	14,218	13,909	13,044
1,308	104	85	1,497	1,250	
136,341	28,458	86,723	251,522	232,319	194,654
64,558	2,450	2,234	69,242	52,234	48,183
200,899	30,908	88,957	320,764	284,553	242,837
38,706	20,481	32,979	72,166	90,606	74,027
27,832	10,266	19,798	47,896	45,951	34,555
66,538	30,747	52,777	149,062	136,557	108,582
267,437	61,655	141,734	470,831	421,110	351,419
			(3,884)	(4,168)	
			466,847	417,226	347,251
45,644	24,480	45,116	115,240	107,748	101,227
			355,596	309,472	250,190

ABSTRACT

In today's world, every government aims at maximizing the welfare of their country. Developed countries vouch for more power and money while the developing countries attempt to strengthen their economy which apparently requires sound infrastructure and efficient financial policies. A majority of Indians find the prevalent effective tax rates in the country to be very high, which is apparently a major contributory factor in tax evasion and generation of black money. According to a study made by Gupta & Gupta in this regard, when average tax rates have increased by 1%, the size of black economy as compared to white economy increases by

3.16%.

The opinion of people of India is that high tax rates, corruption in public sector units, multiple tax rates and inefficient tax authorities are the catalyst of tax evasion. Hence, as stated above simplification of tax procedures, removal of loopholes in tax system, proper processing of information available under the annual information return etc are some of the measures for improving Indian tax compliance for which it is necessary to structure a transparent, friendlier and less discriminatory administrative system.

KEYWORDS : Shortcomings, Tax System, Developed countries, inefficient tax authorities.

INTRODUCTION :

In today's world, every government aims at maximizing the welfare of their country. Developed countries vouch for more power and money while the developing countries attempt to strengthen their economy which apparently requires sound infrastructure and efficient financial policies. Hence, it is undisputable that Government budget, which is an annual statement showing item-wise estimates of receipts and expenditure during a fiscal year, is paramount in planning developmental activities. Revenue receipts which are a classification of budgetary receipts mostly encompass revenue generated from various types of taxes levied by the government. Although, Non-tax revenue are also collected, yet revenue generated from taxes form a major portion of the income of any government.

Taxes are compulsory payment made by people and companies to the government without reference to any kind of direct benefit in return. The taxes are categorized in Direct and Indirect taxes. Direct taxes refer to those taxes that are imposed on property and income of an individual or a company whereas Indirect taxes are those taxes which affect the income and property of individuals and companies through their consumption expenditure.

However, it is found that although tax slab in India lower when compared to other countries there is no dearth of Indians who indulge in the practice of tax evasion. In fact, such infamy is not just prevalent in the Indian Subcontinent, but also has rest of the world in its clutches. Hence, the question arises as to why people engage in this illegitimate act?

HYPOTHESIS:

A majority of Indians find the prevalent effective tax rates in the country to be very high, which is apparently a major contributory factor in tax evasion and generation of black money. According to a study made by Gupta & Gupta in this regard, when average tax rates have increased by 1%, the size of black economy as compared to white economy increases by 3.16%.

High commodity taxation is equally responsible to induce tax evasion in the country. Black money is generated by cheating the exchequer which also affects the ability of the government to undertake sovereign and welfare functions. According to estimates made by the Parliament standing committee on finance and black money, the black money in circulation 1994-95 works out to be 11,00,000 crore. If average rate of tax is taken at 30%, it results in loss of tax of Rs.3,30,000 crore to the government which apparently indicates the huge magnitude of yearly loss of revenue.

TAX EVASION IN INDIA:

Taxes are a major source of income for the government of India, a practical means of raising revenue to finance the government expenditure on various goods and services that Indians want. Tax revenue form about 17% (2012-13) of the total national income of India owing the figure to a revenue of more than Rs.17,18,000 crore collected both by the Central and the State government.

List of states of India by projected own tax revenues by their government for the years 2010-15.

Rank	State	Tax Revenues
1	Maharashtra	4518 billion
2	Andhra Pradesh	3234 billion
3	Uttar Pradesh	2964 billion
4	Tamil Nadu	2734 billion
5	Karnataka	2526 billion
6	Gu jarat	1796 billion
7	West Bengal	1699 billion
8	Rajasthan	1507 billion
9	Kerala	1382 billion
10	Haryana	1363 billion
11	Madhya Pradesh	1272 billion
12	Punjab	1180 billion
13	Chhattisgarh	724 billion
14	Jharkhand	707 billion
15	Odisha	662 billion
16	Bihar	370 billion
17	Jammu and Kashmir	346 billion
18	Assam	322 billion
19	Uttarakhand	322 billion
20	Himachal Pradesh	274 billion
21	Goa	233 billion
22	Tripura	47.25 billion
23	Arunachal Pradesh	27.11 billion
24	Meghalaya	45.92 billion
25	Manipur	26.85 billion
26	Nagaland	17.76 billion
27	Mizoram	15.47 billion
28	Sikkim	13.68 billion

However as impressive as the amount appears to be, it is a far cry from reality. The fraction of tax-payers in India-which has a population of approximately 121 crore- is less than 3% which shows the reliance of the country on a very narrow population base. The revenue so generated is highly inadequate to finance government spending which has resulted in accumulation of external debts of nearly Rs.22,00,000 crore. This strange anomaly is sired by the formidable challenges that India as a developing nation faces.

One of the biggest reasons is occupational distribution of the working population in the country. Nearly 49% of the working population is engaged in the Primary Sector (agriculture and allied activities) and 24.3% in the Secondary sector (Industries). A huge proportion of work force in these sectors have fluctuating and meagre earnings and are mainly paid off the book, which unequivocally makes calculation of income tax a daunting task. Moreover, the agricultural sector whence nearly 14% of the national income of India originates, is mostly exempt from paying income tax. Hence the tax system is unable to tap the rising revenue from this sector. Secondly, the cumbersome nature of procedure of payment of direct taxes, which involves maintenance of separate accounts, poses problem for a major chunk of population owing to lack of knowledge and slow pace of computerization in the Indian subcontinent. Moreover, the convoluted nature of direct taxes in the nation often requires expert assistance of tax advisers which is not exactly accessible to everyone. This gives impetus to general feeling of wariness regarding taxes.

The highly uneven distribution of income in India has caused concentration of endless wealth in the hands of a few who, through widespread corruption and political power often influence the system to be favourable to them and deftly exploit the loopholes therein to evade taxes. Owing to undeclared sources of earnings of conglomerates, bureaucrats and politicians, the assessment of their earnings is nearly impossible. Hence, the actual payment of taxes may not be strictly according to the ability to pay. It has over the years given rise to huge accumulation of black money which according to some studies is estimated to be generated at the rate of 50% of the country's GDP. Another shortcoming of the tax system in India is the regressive nature of Indirect Taxes. It is levied on all commodities, which means that rich and poor are taxed alike. Moreover, lack of an efficient tax administration manned by a competent, well-trained staff further adds to the woes of India in its goal to improve the taxation system.

Widespread tax evasion adversely affects the Indian economy as:

1. Tax evasion is the cause of considerably slow pace of development of Indian economy.
2. It also results in considerable loss of revenue to the government and abets inflation.

SUGGESTIONS:

The numerous problems faced by the country on its quest to establish and unbiased, effective tax system can be solved by a few stringent steps undertaken by the government. One of the biggest and safest way of transferring black money to safe vaults of banks in foreign countries is through NGOs. Big business houses and politicians donate huge sum of money to specific NGOs-which they have already infiltrated- in the name of charity. However, these donations find their way outside the country to high-profile safe accounts of Swiss Banks and likes. Hence for prevention of accumulation of black money in such safe haven, it is imperative to keep a close watch on as to where money of these donations are utilised.

Moreover, it is equally important to keep a check on unilateral transfers and online bank transactions as these too play a vital role in generation of black money. A transparent and effective

taxation structure should be designed fulfilling international norms. The effectiveness of tax system in India is also severely undercut by a plethora of exemption and deductions which should be reduced.

Granting of tax holidays should be carefully evaluated as it is not uncommon to find conglomerates employing various tactics for tax avoidance using tax holidays as incentive. Tax holidays also provide a strong impetus to establish short-run projects to exploit the benefit of such exemptions. Moreover, the duration of tax holidays is often abused by the businessmen.

Furthermore following steps can also be taken to find a mutual consensus for the situation:

1. Seizure and raids.
2. Heavy penalties to those who evade taxes.
3. PAN (Permanent Income Tax Account Number) PAN card should issue to the employed person who do the job because PAN card may be issue for the purpose of tax only so that we can check the proper tax is paid or not and there is not any situation of tax avoidance and tax evasion.
4. Nationalization of audit.
5. Rationalization of structure of indirect tax.
6. Rousing national conscience against tax evasion.
7. Agricultural income should be taxable because maximum persons shows their personal income as agricultural income and these will lead to increase the tax evasion.
8. Tax slab rates percentage should be decrease because the India is a developing country and the economy of India is not compared to the other developed country. So tax rate should be decrease.

LIMITATIONS.

1. Incomplete Questionnaire gives a negative impact on research.
2. Respondents do not give responses timely some one give take socially acceptable and sweet answers and try to cover realities
3. Collected data by third party may not be reliable so the data are not accurate & reliable.

CONCLUSION:

This study has surveyed the opinion of income tax professionals and tax payers regarding tax evasion in India. They were of the opinion that high tax rates, corruption in public sector units, multiple tax rates and inefficient tax authorities are the catalyst of tax evasion. Hence, as stated above simplification of tax procedures, removal of loopholes in tax system, proper processing of information available under the annual information return etc are some of the measures for improving Indian tax compliance for which it is necessary to structure a transparent, friendlier and less discriminatory administrative system. Further there is also a need to educate the people about Indian tax laws and instil in them a sense of pride and responsibility in participating in nation building process by paying taxes.

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