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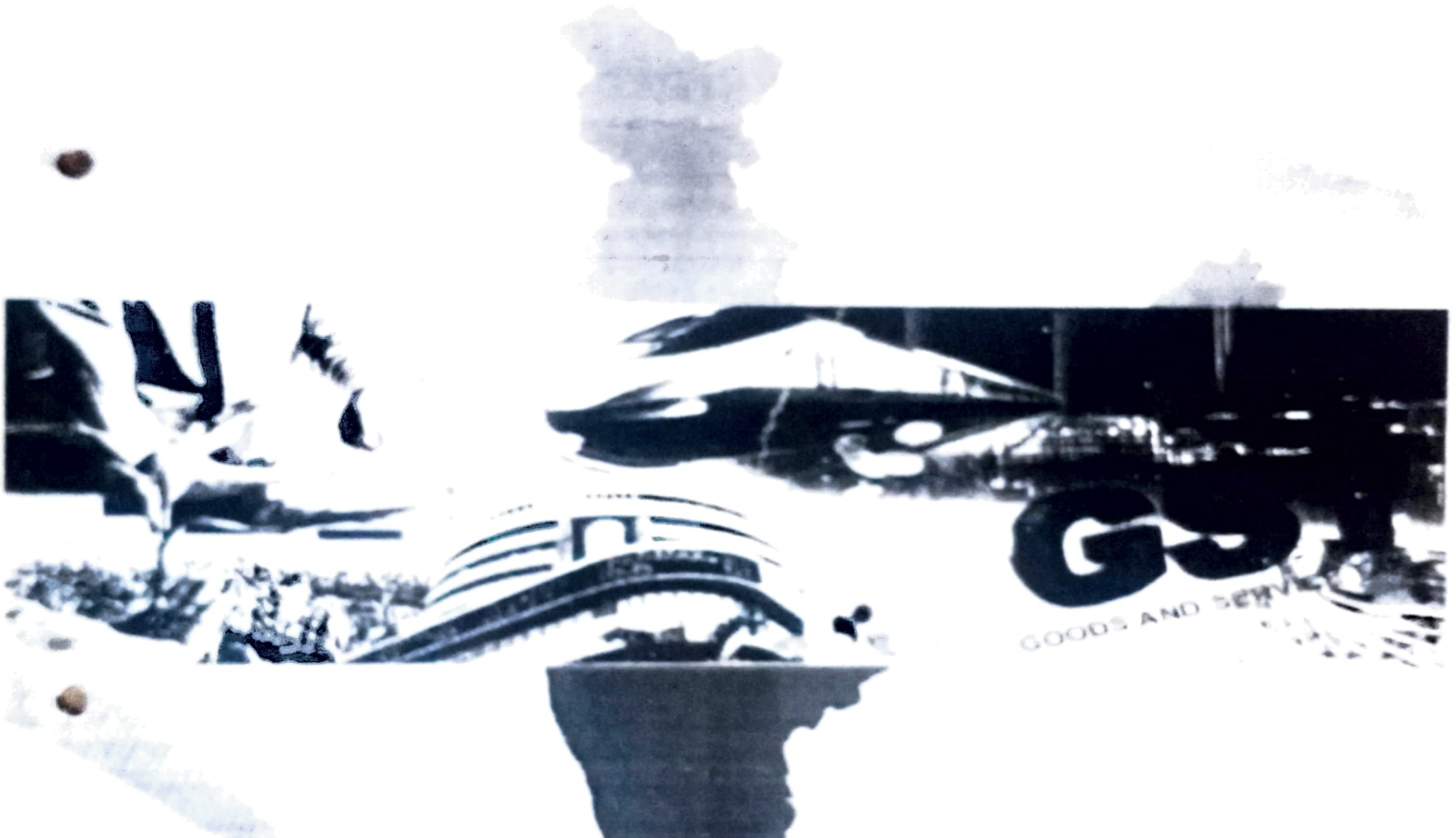
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CHANGES IN TAX SYSTEM AND INDIAN ECONOMY



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Dr. Ujjwala Deore

Principal,

Smt. Pushpatai Hiray Arts, Sci. & Comm.

Mahila Mahavidyalaya, Malegaon Camp, Dist. Nashik

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Revolution in the Tax System of India

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Abstract :

Indian Economy is a developing mixed economy. It is the world's sixth largest economy by nominal GDP and the third largest by Purchasing Power parity. Above all things depends on the tax system its depends upon fiscal competence so tax system play a vital role in every developing country Government economic activities depends on tax revenue. The previous indirect tax system has the demerits about collecting sufficient tax revenue, transparency and accessibility while GST fulfills it. On the other hand the present status of Tax reforms have their roots in the past development and history of the taxes in ancient, medial and modern tax system in India. So present research paper try to study the tax system in ancient, medial and modern India.

Keywords : GST, VAT, Excise Duty, Revenue, Growth.

Introduction :

Indian Economy is the fastest growing Economy in the world. For the future growth, sequential development and financial resources, it is very important to changes the tax structure. Because of the great relationship between tax revenue and growth rate. So Indian government take a decision to apply GST in 122nd amendment on 1 July 2017. On the other hand the present status of tax reforms have their roots in the past development and history of taxes in ancient, medial and modern India present research paper focus on history, development and reforms concerning Indian Tax structure along with the tax GST.

Objectives :

- 1) To know history of Indian Tax structure.
- 2) To know new tax reforms.

Research Methodology :

The data are collected through various secondary sources like reports of Government, working committees and also from books, research papers, news papers, journals and websites, etc.

Tax :

Kautily's Opinion :

Taxation should not be a painful process for the people. There should be leniency and caution while deciding the tax structure. Ideally government should collect taxes like a



honeybee, which sucks just the right amount of honey from the flower so that both can service. Taxes should be collected small and not in large portion.

Taxes in Ancient India :

References of tax structure in Ancient India are found in Arthshatra famous work of Kautilya.

Taxes in ancient India received both in cash and collected by local officers. King collect the tax revenue and allocate for welfare state. Major sources of revenue of the king was land tax, octoroi etc.

Kautilya's Quotes on Taxes :

- 1) Custom duty which consists of import duty Export duty and octoroi and other gate tolls.
- 2) Transaction tax (Vyaji) including manavyaji (transaction tax for crown goods).
- 3) Share of production (Bhaga) including 1/6th share (Shadbhaga).
- 4) Tax (Kara) in cash.
- 5) Taxes in kind (Prahkara) including labour (vishti) supply of soldiers (Ayudhiya)
- 6) Countervailing duties or taxes (Vaidharana).
- 7) Road cess (Vatani).
- 8) Monopoly tax (Parigha).
- 9) Royalty (Prakriya).
- 10) Taxes paid in kind by villages (Pindkara).
- 11) Army maintain tax (Senabhaktham).
- 12) Surcharge (Parsvam).

Taxes During British Rule :

Prior to 1947, India was a dependency of the United Kingdom and encompassed the entire area which now forms the three countries of India, Pakistan and Bangladesh. The tax system of British India reflected characteristics of a traditional agricultural economy. Revenue of the Central Government were dominated by custom duties as domestic requirements for manufacture goods were met mostly by import, chiefly from Britain and on the common wealth countries. Import duties were levied on almost all items of imports where as major items subject to expert duties were jute and tea in which India enjoyed near monopoly in the world market varies custom and tariff encashment were passed from time to time. But the following two were the main – 1) The sea Custom Act 1978. 2) The Tariff Act – 1934. After Independence, the sea custom Act and other allied encashment were repealed by a consolidating and amending legislation entitled the Custom Act,- 1962. Similarly the tariff Act 1934 was repealed by the custom Tariff Act-1975.

Another important source of tax revenue for the Central Government was excise duty levied on a few commodities. Excise Taxation in its modern form dates back to 1894. Among the Direct Taxes, the only important source of revenue was the Income Tax introduced in India by the British in 1860 to overcome the financial difficulties created by the events of 1857. As for the British Indian provinces, the chief source of income was land revenue followed by provincial excise mainly on liquor. Although under the Government of India Act, 1935, Provincial Governments had been authorized to levy sales tax, it formed a



very low component of their till Independence. The province of Bombay levied a tax on the sale of tobacco in 1938. A retail sales tax on motor spirit and lubricants was imposed by central provinces in the same year. A multipoint general sales tax was levied in Madras province at the rate of half per in 1939 under the madras general Sales Tax Act.

The princely states did not form part of the structure of public finance of British India. They had separate budget separate source of revenue. The maritime states imposed their own customs duties.

Taxes in Independent India :

The constitution of India makes elaborate arrangements relating the distribution between the centre and the state of taxes, the power of borrowing, and provision for grant in aid by the centre to the state. Article 265 of the constitution makes clear that no tax shall be operated without authority of law. Entries 82 to 92B of list I in the seventh schedule to the constitution refer to the taxation powers of the union government entries 45 to 63 list II in the same schedule mention the fiscal powers of the State Government. List III does not deal with taxation. So the centre and the state have no concurrent power of taxation. The constitution does not provide for any taxation powers to the local governments The taxes generally assigned to local governments are property taxes, octroi and taxes on vehicles.

Tax Structure :

Direct Taxation :

Taxes on Income and Wealth :

In India taxes levied on income and wealth by the Central Government alone are important. Though the state government have the power to levy a tax on agriculture incomes, yet in practice this tax has not developed a major source of the state. Only personal income tax and corporation tax are important.

- 1) **Personal Income Tax :** Personal Income Tax is levied on the incomes of individuals, Hindu families, unregistered firms and other associations of people.
- 2) **Corporation Tax :** Corporation tax is levied on the incomes of registered companies and corporations.

Taxes on wealth and capital :

- 1) **Estate Duty :** Estate Duty was levied on total property passing on the death of a person Central Government decided to abolish it with effect from April 1, 1985.
- 2) **Annual Tax :** An annual tax on wealth was first introduced in May 1957 it is levied on the excess on net wealth over exemption of individuals, joint Hindu families and companies.
- 3) **Gift Tax :** The gift tax was liable on all donations except the ones given by the charitable institutions, governments companies and private companies. Gift tax has been abolished on gifts made on or after October 1, 1998.

Indirect Taxes :

- 1) **Custom Duties :** Central Government now levies duties on both import and exports on advalorem basis.
- 2) **Excise Duty :** An excise duty is in true sense a commodity tax because it is levied on production and has absolutely no connection with its actual sale. Thus in its form, it is



very much different from a sale tax. They increased revenue elasticity and paved the way for an eventual adoption of value added Tax (VAT). In the budget for 2000-2001 the finance minister replaced the multiple MODVAT system by a single central value added tax.

- 3) **States' Excise Duty** : The state have exclusive Jurisdiction over the excise duties on alcohol and narcotics.
- 4) **Service Tax** : Service tax was introduced in 1994-95 on three services, telephone services, general insurance and share broking.
- 5) **Value Added Tax** : The indirect taxation enquiry committee was constricted in July 1976, under the chairmanship of L. K. Jha. For suggesting reform in the taxation system. It is opinion 'advelorem' taxes are superior to specific taxes due to their higher income elasticity. The state level VAT being implemented presently has replaced the erstwhile sales tax system of the state.

The efforts to reform India's tax system began in mid 1980s when the government announced a long term fiscal policy, 1985. This policy recognized that the fiscal position of the country is going downhill and there was a need to make changes in the taxation system. In that decade, a technical group to revised and realize the central excise duties was established and this led to introduction of modified system of value added tax (MODVAT) in 1986. To realize the custom duties/the harmonized system of the classification of goods was introduced.

Reforms in tax system :

- Raja chelliah committee.
- Vijay Kelkar Committee
- Administration of Direct tax
- Personal Income Tax
- Corporation Tax
- Wealth Tax
- Key Direct Tax Reforms
- Tax Information Network (TIN)
- Online Tax Accounting system (OLTAS)
- Other initiatives in Direct Taxation
- Sevottam Efficient grievance redressal faster refunds.
- Indirect Tax reforms –
- Reduction in Custom duties
- Central Excise
- Service Tax
- Goods and Service Tax

Goods and Services Tax (GST) is so far the biggest tax reform in the country. At present the GST bill have passed and it is come into force from July 1, 2017

Conclusion :

Tax administration has progressed and moves to be covered in reforming the tax system. It is continuous exercise for improving revenue, transparency, productivity and accessibility.



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