STUDY ON COLLECTION OF REVENUE FROM INCOME TAX IN INDIA

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Abstract

Without income, the government is unable to carry out its many duties. It must carry out several tasks that will cost the public a lot of money. Public funding is required to cover this expense. One of the key ways the government makes money is via taxes. Taxes have a long history. It has been imposed from the beginning of time. A total of 3.3% of India's population submitted returns in the 2010–11 tax year, compared to 39% for Singapore, 46% for the USA, and 75% for New Zealand.As a result, the government makes several attempts to gradually include more and more individuals in the taxation system in order to raise public money. To broaden India's income tax base, a number of tax changes were implemented in the tax system. The main focus of this essay is on the effects of major tax changes on income tax receipts, trends, and patterns in India after those reforms. The analysis is based on income tax data spanning 28 years, or from the 1991–1992 fiscal year through the 2018–19 fiscal year.

INTRODUCTION

Every government need money to support its operations. In India, there is a federal system of government, meaning that there is a distinct government at the national level, as well as state and local administrations in each of the several states. The function of the government has become far more important in the present situation. The government's primary duty now is to carry out all those tasks that contribute to the general growth of the nation and society. Without sufficient money to incur significant public spending on the key sectors of the economy necessary for its overall growth, these activities could not be carried out. Huge public funding is needed to cover this expense. The term "public revenue" describes the money the government receives from a variety of sources. In these sources, taxes take up a significant amount of space. Taxes make up a significant portion of the government's income. The consensus among many economists, including Adams, Bastable, Seligman, Taussing, and Dalton, is that "the tax is a compulsory payment to the Government by taxpayer without any expectation of some specified return."

Taxes may be roughly divided into two groups:

(I) In a direct tax, the same individual is subject to both the effect and the incidence of the tax.In other terms, a direct tax is a tax that is paid to the government directly by the individual on whom it is levied. The several forms of direct tax include:

Income Tax: The foundation for calculating income tax is gross income minus any credits, exemptions, or deductions. Both corporations and people must pay it. The Income Tax Act of 1961 levies taxes on the income of all artificial juridical entities, including individuals, Hindu undivided families, businesses, co-operative organizations (other than for-profit corporations), and trusts. The inclusion of a person's income in their total income in India entirely relies on where they live. There are two categories of residential status: (1) resident, and (2) non-resident. Ordinary residents and non-ordinary residents are two further categories of residents. The main topic of this essay is how different tax laws affect personal income taxes.

Wealth Tax: A wealth tax is one that is levied on assets or fortune. The amount is deducted

from the person's net worth if it exceeds the minimum exemption level. It is governed by the 1957 Wealth Tax Act. With the assessment year 2016–17, the wealth tax has been abolished.

Estate tax: The whole worth of the money and property owned by a deceased person is taxed at the time of their death, and this tax is known as an estate tax (also known as a death duty). The Estate Duty (Amendment) Act of 1985 removed this tax on March 16, 1985, after it had been in place since 1953.

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

Gift Tax: Except for Jammu & Kashmir, the whole nation is subject to gift tax under the terms of the Gift Act of 1958. It was eliminated beginning on October 1st, 1998. The Income Tax Act of 1961, however, was updated with a new clause in 2004.Which states that if any person or Hindu Undivided Family (HUF) gets more than Rs. 50,000 in a calendar year, gift tax would be assessed.

(A) INDIRECT TAX

An indirect tax is one that the taxpayer may transfer to another party. It causes a commodity's price to rise. The following list includes some indirect taxes.

Types of Indirect tax

Sales Tax: The government of the nation imposes sales tax on the sale or purchase of a certain product. Each State generally follows its own Sales Tax Act and imposes tax at a variety of rates. Value Added Tax (VAT) has mostly replaced sales tax in India's States as of 2005.

Value Added Tax (VAT): When value is added to a product at any point along the supply chain, from manufacture through the point of sale, the product is subject to a consumption tax known as a value-added tax (VAT). The cost of the goods, minus any prices for materials used in the product that have already been taxed, is what the consumer pays in VAT.

Service Tax: The regulations of the 1994 Finance Act, which do not apply to the state of Jammu and Kashmir, are what govern the service tax. This tax becomes operative on July 1st, 1994. The gross or total amount that the service provider charges his clients is subject to service tax.

Customs Duty: The Customs Act was created in 1962 to stop unlawful imports and exports of products. According to the Customs Tariff Act of 1975, as revised from time to time, or any other legislation that is currently in effect, the rate of custom duties is assessed on import and export.

Central Excise Duty: Under the Central Excise Act of 1944 and the Central Excise Tariff Act of 1985, the central government imposes an excise charge. It is assessed on products that are excisable and created in India for household use. 'Excisable goods' refers to the items that are included in the First and Second Schedules of the Central Excise Tariff Act of 1985. Unless you are exempt, the payment is required.

Securities Transaction Tax (STT): All stock exchange transactions are subject to STT. Sale and acquisition of stock shares, equity-oriented mutual funds, and derivatives are all relevant.STT is applicable to long-term capital gains, whereas short-term capital gains are only subject to a 10% STT. However, if he were a dealer, all profits would be regarded as his company, and tax would be assessed in accordance with tax slabs.

All of the aforementioned indirect taxes were combined into the Goods and Services Tax on

July 1, 2017. In India's tax history, it was the most significant tax overhaul.

History of Income tax in India

In order to address the financial crisis that followed the events of 1857, the British government first implemented income tax in its modern form in India in 1860. It was first implemented by the government as a temporary way to raise money under the Income Tax Act of 1860 for a five-year term. For several categories of income, different tax rates were set. It became a license tax on trade and profession in the year 1867. License taxes were once again replaced by income taxes in the year 1869. Due to the assessments' arbitrary nature, there was inequity, public disapproval, and significant tax evasion. In the year 1874, the income tax was abolished. Following the Great Famine of 1876-78, the government passed provincial-level municipal income tax legislation. These Acts were in effect until 1886 after being amended several times.As a result, India's income tax system underwent experimentation from 1860 to 1886.

Pre Independence Period(1886-1947)

A new Income Tax Act that was far better than the earlier Acts was approved in 1886. Till 1918, this Act was in effect with a number of revisions made in various years. A new Act that repealed all the other Acts was enacted in 1918. This Act pioneered the idea of combining income under many headings for the purpose of taxation. The "All India Income Tax Committee" was established by the government in 1921, and on the basis of its recommendations, Act XI of 1922 was passed. In the history of the Indian Income Tax system, this Act marks a turning point. By moving the administration of taxes from the Provincial Governments to the Central Government, this Act elevated income tax to a major topic. The Board of Revenue (Central Board of Revenue) and the Income Tax Department were established at this time and have a clear administrative structure.

Post Independence Period

India after independence remained to be subject to the Income Tax Act of 1922. Due to several modifications throughout the early post-independence period, the Income Tax Act had become quite complex. Tax evasion was common at this time, and tax collection was exceedingly expensive. The Income Tax Act was sent to a Law Commission in 1956 by the Government of India in order to be made more understandable, rational, and revenue-focused. In the meantime, the government also created a Direct Taxes Administration Enquiry Committee to provide recommendations for reducing the burden on the assessees and preventing tax evasion. The Law Commission turned in its findings in September 1958. In 1959, this committee turned in its final report. Under the direction of Prof. Nicholas Kaldor, the Government of India considered the proposals of the Law Commission and the Enquiry Committee and launched a comprehensive tax reform initiative. On April 24, 1961, the Income Tax Bill 1961 was tabled in the Lok Sabha. It was created using the Committee's recommendations and ideas from the Chamber of Commerce. The Lok Sabha approved it in September 1961. On April 1, 1962, the Income Tax Act of 1961 went into effect. It is applicable to all of India, including Jammu and Kashmir. With 23 Chapters, 298 Sections, many Subsections, and 14 Schedules, it is a substantial piece of law. Every year since 1962, the Finance Act has been subject to various revisions to keep up with India's evolving political and economic environment.

RECENT TAX REFORMS

- In India, structural tax changes with the primary goal of addressing the fiscal imbalance

resulted from the economic crisis of 1991. Later, various suggestions for enhancing the income tax system were made by the Tax Reforms Committee, led by Raja Chelliah (Government of India, 1992), and the Task Force on Direct Taxes, led by Vijay Kelkar (Government of India, 2002). The government has sometimes adopted these proposals in stages. The highest marginal rate for the personal income tax has been significantly lowered, the tax slabs have been reorganized with low tax rates, and the exemption threshold has been increased. Additionally, the government expanded the scope of TDS and streamlined a number of incentive schemes. In terms of corporate taxes, the government has lowered rates that apply to both local and international businesses, added intangible asset depreciation, and streamlined several incentive programs. The Minimum Alternative Tax, Dividend Distribution Tax, Securities Transaction Tax, Fringe Benefit Tax, and Banking Cash Transaction Tax are a few of the new taxes that have been implemented. However, the Finance Act of 2009 eliminated the Fringe Benefit Tax and Banking Cash Transaction Tax.With effect from August 1, 2001, the Income Tax Administration was reorganized to make room for the use of computer technology. Additionally, the department has worked hard in recent years to overhaul tax administration while bearing in mind worldwide changes. Following are a few crucial steps in this direction:

- 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

According to the Indian Constitution, the Central Government has the authority to charge and collect taxes under the Income Tax Act, 1961, on income other than agricultural income. According to the Finance Commission's recommendations, the Center and the State Governments split the income tax revenue. A person's entire income from the prior year is subject to income tax at the rates outlined in the Finance Act each 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 that was gathered from the Reserve Bank of India's Handbook of Statistics on the Indian Economy, reports from the Ministry of Finance, the Directorate of Economics and Statistics (DES), the Planning Commission, various budget issues, reports from various committees, economic surveys, books, websites, etc. The linear regression model has been used to examine the trends and patterns of income tax. Methods such as ratios, the combined average growth rate (CAGR), and others are used to examine the increase of the income tax percentage. The research spans a time span of 28 years, or 1991–

1992 to 2018–19.

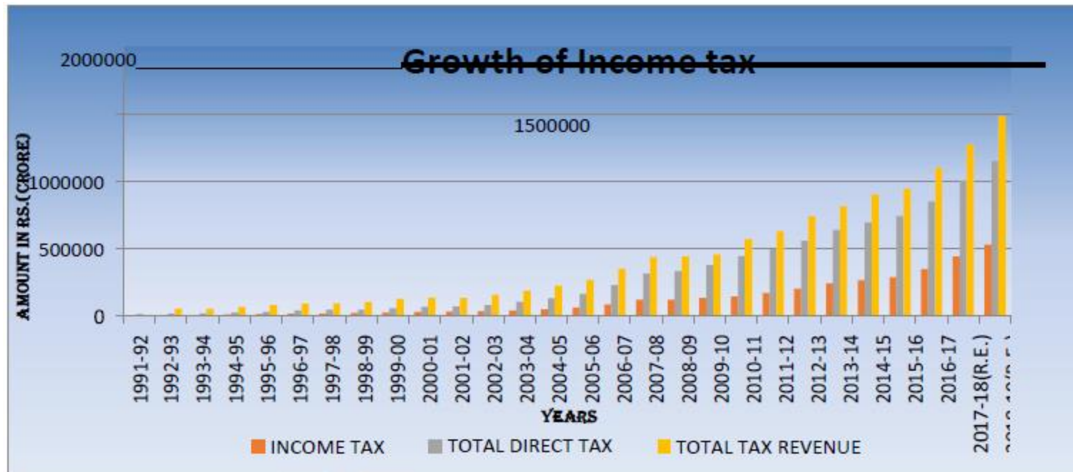
DATA ANALYSIS AND INTERPRETATION

Impact of tax reforms on growth of Income tax in India

TABLE : GROWTH OF INCOME TAX

YEAR	INCOME TAX	TOTAL DIRECT TAX	INCOME TAX TO DIRECT TAX(%)	TOTAL TAX REVENUE	INCOME TAX TO TOTAL TAX 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 figures on income tax collection, total direct tax, and total tax revenue (direct tax + indirect tax) of the central government are clearly shown in table no. 1 as obtained from the Income Tax Department, Ministry of Finance, and the Handbook of Statistics on Indian Economy, issued by the RBI.According to the statistics, income tax revenue rose with a CAGR of 16.87% throughout the research period, from Rs. 6731 crore in 1991–1992 to Rs. 529000 in 2018–19 (according to budget projections).While overall tax income went from Rs. 50069 crore to Rs. 1480649 crore with a CAGR of 12.86%, total direct tax climbed from Rs. 15207 crore to Rs. 1150000 crore with a 16.71% CAGR.Income tax collection represented 44.26 percent of all direct taxes collected in the fiscal year 1991–1992, but that percentage increased to 46 percent in the fiscal year 2018–19. Income tax represented 13.44 percent of all taxes collected in the fiscal year 1991–1992, but that percentage increased to 35.73 percent in the fiscal year 2018–19, which was a significant increase.The ongoing rise in income tax during the research period is also seen in Figure No.01.

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)

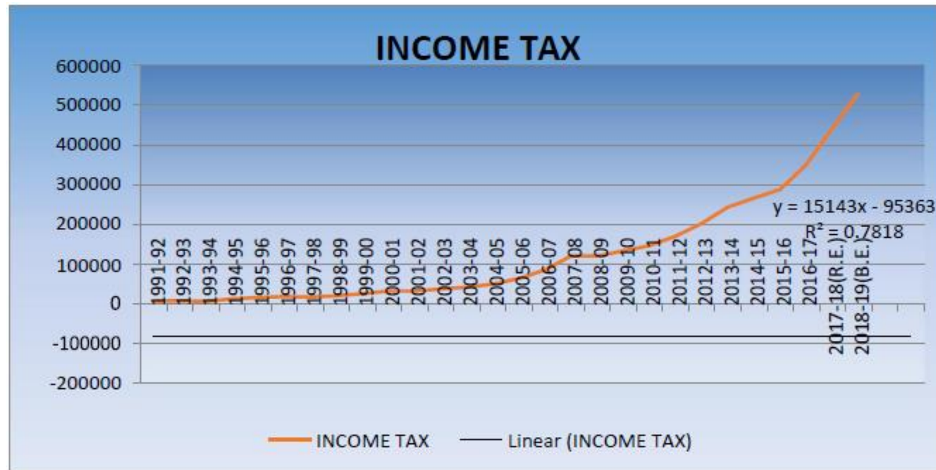
TABLE: TRENDS IN INCOME TAX

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



According to the budget forecasts for each year, the trend line of the Central Government's income tax receipts shown by Table 02 and Figure 02 shows a growth in income tax of Rs. 15143 crore each year from the financial year 1991–1992 to 2018–2019. R2 for the collection of income taxes was 0.78.This illustrates how 78% of the government's income tax receipts were at the time explained. The chart clearly shows that from 1991–1992 to 1997–1998 the real line was above the trend line, demonstrating that the actual income tax collection exceeds the predicted revenue. Again The actual performance is much better than the expected performance during the time period between 2015–16 and 2018–19, which is a positive indicator for both the Indian government and its economy.

CONCLUSION

The study's findings support the conclusion that the government's initiatives, such as the requirement for Permanent Account Number (PAN) quoting, e-filing of returns, e-TDS, e-payment, Tax Information Network (TIN), Annual Information Return (AIR) for high value transactions, etc., are designed primarily to increase the tax base by bringing more individuals into the income tax net.The fundamental goal of numerous tax reforms has been to increase tax revenue via broadening the base of taxpayers, increasing the operational effectiveness of the tax administration, promoting voluntary tax compliance, establishing a taxpayer-friendly environment, and streamlining procedural regulations.The current examination of 28 financial years shows that these modifications have significantly increased the amount of income tax collected. However, there is an urgent need to establish an administrative structure that is more open, uncorrupted, hospitable, and less biased. In addition, the public needs to be educated about Indian tax law and encouraged to pay their fair share of taxes on time, refrain from tax evasion, and feel proud of themselves for carrying out this civic duty. Doing so will result in a significant increase in government revenue that can be used to fund the nation's economic growth.

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