A STUDY ON IMPACT OF DIRECT TAX REFORMS IN INDIA

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Abstract

Evolution of Indian Tax System the Assignment System. The assignment of tax powers in the constitution provides the framework for the evolution of the tax system in India. It assigns most of the broad-based and mobile tax bases to the center. These are taxes on non-agricultural incomes and wealth, corporation tax, customs duties, and excise duties on manufactured goods. States tax powers include taxes on agricultural incomes and wealth, sales taxes, excises on alcohol, taxes on motor vehicles, passengers and goods, stamp duties, registration fees on transfer of property, and taxes and duties on electricity. Of these, sales tax is the most important and contributes 60 percent of states tax revenue. The evolution of tax policy within the framework of planned development strategy had important implications. After demonetization come across the tax powers and reforms assign and provide growth of economy. First, tax policy was directed to raise resources for the public sector without regard to efficiency implications. The achieving a socialistic pattern of society on the one hand and the attempt pursuit of a multiplicity of objectives complicated the tax system with adverse effects on both efficiency and horizontal equity. Finally, poor information system was both the cause of selective Central and state Tax system applicable of the tax system and its effect.

Keywords: *Indian Tax Systems, Evolution, Development Strategy, Effects and Efficiency.*

Introduction

Tax system the world over have undergone significant changes during the last twenty years as many countries across the ideological spectrum and with varying levels of development have undertaken reforms. There have been major changes in Tax systems of countries with a wide variety of economic systems and levels of development of the every country. The motivation for these reforms has varied from one country to another and the trust of reforms has differed from time to time depending on development strategy and philosophy of the times in the Reforming the Tax system. In many developing countries, the immediate reason for tax reforms has been the need to enhance revenues to meet impending fiscal crises and also to be develop the economic aspects.

Thus, the system has to adjust to the requirement of a market economy to ensure international competitiveness. The transition from a public sector based, heavy industry dominated, import substituting industrialization strategy to one of allocating resources according to market signals has necessitated systemic changes in the tax system. Globalization is the one of the most important factor to consider as a economic development. In an export-led open economy, the tax system should not only raise the necessary revenues to provide the social and physical infrastructure but also minimize distortions. Thus, the tax system has to adjust to the requirements of a market economy to ensure international competitiveness.

Meaning of Tax Reforms

Tax Reforms is the process of changing the way taxes are collected or managed by the government and is usually undertaken to improve tax administration or to provide economic or social benefits.

Review of Literature

Stephanie A. Sikes And Robert E. Verrecchia (2012) discussed about the study was Prior literature predicts a positive relation between firms' expected pre-tax rates of return and investor-level capital gains tax rates. We show that this relation is more nuanced than suggested by prior literature and that in three circumstances the relation can actually be negative. The first circumstance is when a firm's systematic risk is very high. The second circumstance is when the market risk premium is very high. The third circumstance is when the risk-free rate of return is very low. The circumstances arise because, in addition to reducing investors expected after-tax cash proceeds, capital gains taxes reduce the risk that investors associate with the expected after-tax cash proceeds.

Jenny Phan (2013) this paper briefly discusses each of these justifications and why each may be flawed. The ten principles of good tax policy are applied to the preferential treatment of capital gains to evaluate its merits. However, tax on any gain was deferred while the taxpayer held the property and, thus, perhaps justifies a non-preferential rate. The next justification for a preferential rate is that part of the gain actually represents inflation rather than any real purchasing power. The last justification is that a lower capital gains rate serves the goal of encouraging investments, which in turn, creates jobs and facilitates economic growth. However, there is no evidence that a lower capital gains tax rate leads to economic growth.

Ming-Min Lo (2015) in this study we applied classical linear regression model and DID model while minimized the effects of international markets to investigate the short-term and long-term lock-in effects following the announcement of the capital gains tax for securities in Taiwan stock market. The challenge of balancing the interests of different groups has made the capital gains tax for securities difficult to implement. The empirical results showed the evidence that the changes in trading volume of the Taiwan stock market exhibited negative short-term and long-term lock-in effects caused by the capital gains tax for securities as compared with those in Hong Kongs stock market. The overall impacts of the tax appear to have generated a loss greater than the gain.

Objective of the Study

The present study is carried out with the following objectives

- To Study on various aspects of Direct Tax Reforms system in India and to analyze the various aspects of Tax Reforms in developed countries.
- To examine response from the experts regarding implementation and administration of Direct Tax Reforms in Tamil Nadu.
- To analyze the current Direct Tax Reforms and its impact of Tax administration for Direct Tax Reforms.
- To study the problems and prospects of administration of the proposed Tax Reforms in the years to come.

Statement of the Problem

The basic framework for the tax system in independent India was provided in the constitutional assignment of tax powers. Tax system through reform the various aspects likes slap

changes as well as reform the tax systems. The important features of tax assignment are the adoption of principle of separation in tax powers between the central and state governments. Both central government and state government has the power to levy the major broad based and mobile tax bases, which include taxes Direct tax are wealth, corporate income taxes, customs duties, excise duties. Every decision from the viewpoint of maximizing Indian economic development.

Scope of the study

The study is conduct to analyze the Tax Reforms effectiveness of implementing direct Taxes. It covers the opinions of the Tax payers, traders, manufacturers and consumers. It brought to light the beneficial impacts of Tax Reforms of direct Taxes. Tax is important revenue of the every country. Tax reform is main influence in Economic growth within the country. This study evaluated that reason for transition from Reform of Direct Taxes.

Research Methodology

This Research Based on Descriptive in nature. The study shall be based on the secondary data with respect to historical perspective, tax policy and its structure, Present status, and International Comparison.

Direct Tax Reforms

- **Tax Information Network (TIN):** On behalf of the Income Tax Department, the National Securities Depository Limited (NSDL) established Tax Information Network (TIN). This is a source of the countrywide tax related data. The basic idea behind establishing TIN was to modernise collection, processing, monitoring and accounting of direct taxes using information technology. TIN has three subsystems viz. ERACS, OLTAS and CPLGS.
- **Electronic Return Acceptance and Consolidation System (ERACS):** ERACS consists of a system for interface with the taxpayers (TIN Facilitation Centres that is TIN-FC) and an internet supported system for upload of electronic returns of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) and Annual Information Return (AIR) to the central system of TIN.
- **Online Tax Accounting System (OLTAS):** OLTAS is used for upload to the central system the details of tax deposited in numerous tax collecting branches across the country every day. Central PAN Ledger Generation System (CPLGS) It is the central system that merges the details of TDS/TCS and advance tax into the PAN.
- **e-TDS & e-TCS:** TDS refers to Tax Deduction at Source. The third parties deduct tax at source and then deposits it at pre-determined bank branches. Since 2004–2005, it has been made mandatory to file TDS returns electronically for the operators, the Government as well as corporate sector. Further, the Income Tax Act, 1961 states that when tax is collected at source by the seller from the buyer, it is named TCS (Tax Collected at Source). Under the scheme named 'Electronic Filing of Returns of Tax Collected at Source Scheme, 2005', the corporate and Government deductors have to pay electronically or physically to NSDL.

Principles Tax Reform

- **Fiscally Responsible:** Tax reform should not increase federal deficits or debt. Reforming taxes in a way that worsens our fiscal condition is counter-productive because increasing our national debt harms economic growth. Ideally, lawmakers should pursue policies that improve our already unsustainable fiscal outlook over the short and long run.

- **Pro-growth:** Tax reform should support economic growth, productivity and competitiveness. This can be done by eliminating market-distorting loopholes and improving incentives to work and invest.
- **Realistic:** Tax reform should be evaluated with realistic assumptions. Lawmakers should use non-partisan CBO scoring and consensus economic assumptions, wait for full scoring before voting, and avoid gimmicks that obscure the true fiscal and economic impact of legislation.
- **Comprehensive: Reform should be comprehensive** tax cuts are not tax reform. Lawmakers should seize the rare opportunity to reform our outdated tax code by enacting comprehensive changes to both individual and corporate taxes that can have a significant positive effect on the economy. Well-designed reform would pair rate reductions with the elimination or modification of tax expenditures to make the code more supportive of economic growth and improve our fiscal outlook.
- **Fair:** The benefits of tax reform should be widely shared, with the most economically vulnerable protected. Our tax code is riddled with preferences that help some constituents while hurting others reform can level the playing field and eliminate unfair distortions.
- **Simple:** Tax reform should increase simplicity. Our tax code is overly complex. Lawmakers can reduce the burden of compliance while increasing efficiency and transparency.
- **Permanent:** Reform should enact permanent changes to the tax code. American companies and individuals depend on certainty, predictability and permanency in the tax code to make important operating and investment decisions. Policymakers should not sidestep the **"Byrd Rule"** by proposing fiscally irresponsible policies that sunset before the 10-year budget window.
- **Bipartisan:** Bipartisan tax reform would be more durable and long-lasting. Tax reform that does not include support from both parties is subject to continued political battles, making it less certain, thereby reducing the benefit to the economy.

Effectiveness of Demonetization in India Ratings for GDP

- India Ratings lowered its 2016-2017 GDP forecast stating that PM Modi's demonetization move will lead to an erosion Rs 1.5 trillion from the economy.
- "We have revised GDP growth forecast for 2016-17 to 6.8%, 100 basis points lower than earlier projection of 7.8%.
- The downward revision is a fallout of the disruptions caused at various levels in the economy due to the de-legalisation of banknotes from November 9, which according to our analysis can cost economy a Rs 1.5 trillion," it said.
- It said the measure, which the government claims root out black money, is likely to destroy Rs 4.004 trillion worth of cash held in black money and fake currencies.
- This constitutes a mere 12% of the black economy, leaving 88% of black money to remain in the system.
- Global experience has shown that the impact of such measures have been fairly short-lived as it does not attack or plug the mechanism that gives rise to black income, the report said.
- The nation has tested demonetization twice in the past, first in 1946 and then in 1978. It pointed out that the investment will be worst affected due to the demonetization.
- Investment, particularly private investment, which is already down and out due to various reasons, will face the brunt of the de-legalisation. We now expect gross fixed capital formation for this year to grow at 2%, down 306 bps from our earlier projection," the agency said.

Administration of Direct Tax

- The taxpayer services should be extended both in quality and quantity and taxpayers should get easy access through internet and email.
- PAN (Permanent Account Number) should be expanded and it should cover all citizens.
- Block assessment of search and seizure cases should be abolished.
- To clear the backlog, the department should outsource the data entry work.
- All returns and issue of refunds should be completed in a four month period. Dispatch of refunds should be outsourced.
- Government should establish a Tax Information Network to modernize, simplify and rationalize tax collection, particular TDS and TCS.
- Abolish the requirement of Tax Clearance Certificate on leaving the country.
- Empower CBDT with appropriate administrative and financial powers.

Personal income tax

- Increase in exemption limit to Rs.1 lakh for the general categories of taxpayers and further exemption for senior citizens and widows.
- Rationalize income tax slabs, eliminate surcharge on personal income tax.
- Incentives' home loans by providing interest subsidy on home loans @2%.
- Increase deduction under Section 80CCC for contribution to pension funds.

Corporation Tax

- Reduce the Corporate tax to 30% for domestic companies and 35% for foreign companies.
- The listed companies should be exempted from tax on dividends and capital gains.
- Increase rate of depreciation for plant and machinery.
- Abolish Minimum Alternate Tax.

Wealth Tax

- Abolition of wealth tax.

Highlights of Union Budget 2018-2019

- No changes in personal income tax slabs.
- Salaried tax-payers to get a standard deduction of 40,000 in lieu of transport allowance and "other medical expenses".
- 2,000-crore fund for development of agri markets.
- All senior citizens will now be able to claim benefit of a deduction of 50,000 for any medical insurance.
- For critical illnesses, the deduction has been increased to 1,00,000.
- Free power connections to 4 crore homes under Saubhagya Yojana.
- Eight crore free gas connections for poor women through Ujjwala Yojana.
- Govt. to implement minimum support price for all crops; It is hiked to 1.5 times of production costs.
- Govt. to contribute 12% of wages of new employees for all sectors.
- New flagship National Health Protection Scheme, providing a health insurance covers of 5 lakh per family per year announced.

- Railway capex for 2018-19 set at 1.48 lakh crore.
- Disinvestment target for this year set at 80,000 crore.
- Automatic revision of emoluments parliamentarians every five years, pegged to inflation.

Conclusion

These low growth rates can be partly attributed to counterproductive tax policies that undermine long-term growth by discouraging saving and investment. Although broad tax reform is needed to address the deficiencies in the tax code, many economists believe that reducing the capital gains tax rate is an important step in the right direction. Tax reform should increase the economic benefits and also revenue. The effects of a capital gains tax reduction should not be over stated, nonetheless, its beneficial effects on the economy would make a significant contribution to long-term growth. After Demonization to tax reforms to attend lot of modification in Indian Tax system. The principle of tax neutrality, the demand elasticity of the subject of taxation such as stock should be analyzed and the taxation structure of these securities market as a whole should best systematically and comprehensively improved.

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