INDIAN JOURNAL OF LEGAL REVIEW

VOLUME 4 AND ISSUE 2 OF 2024

INSTITUTE OF LEGAL EDUCATION

INDIAN JOURNAL OF LEGAL REVIEW

APIS – 3920 – 0001 | ISSN - 2583-2344

(Free and Open Access Journal)

Journal's Home Page – https://ijlr.iledu.in/

Journal's Editorial Page - https://ijlr.iledu.in/editorial-board/

Volume 4 and Issue 2 of 2024 (Access Full Issue on - https://ijlr.iledu.in/volume-4-and-issue-2-of-2024/)

Publisher

Prasanna S,

Chairman of Institute of Legal Education (Established by I.L.E. Educational Trust)

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

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INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]

VOLUME 4 AND ISSUE 2 OF 2024

APIS – 3920 - 0001 *(and)* ISSN - 2583-2344

Published by

Institute of Legal Education

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TAXATION SYSTEM IN INDIA

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BEST CITATION - AYUSHI KASHYAP & UJJWAL KUMAR SINGH, TAXATION SYSTEM IN INDIA, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR),* 4 (2) OF 2024, PG. 406-417, APIS – 3920 – 0001 & ISSN - 2583-2344.

Abstract

The objective of this research is to thoroughly analyse many facets of the tax system in India. According to the author's observation, although there is a well-defined allocation of taxing authorities between the Central government and the State governments as stated in the Constitution, the Indian tax system has been very The tax system is intricate since it involves many taxes, numerous tax compliance regulations and procedures, ineffective tax administration, and various other concerns. Furthermore, this study aims to examine the historical progression of the Indian tax system across three distinct time periods: taxes in ancient India, taxes during British colonial rule, and taxes in post-independence India. This analysis is complemented by a thorough assessment of existing literature on the issue. The Constitution of India explicitly outlines the taxing rights of both the Union government and the States in List 1 and List 2 of the Seventh Schedule. However, these basic tax laws have been modified throughout time by Constitutional Amendments. This research paper includes a description of various types of taxes, including direct taxes like Income tax, Corporation tax, Wealth tax, Gift tax, Estate duty, and other taxes on capital and property. It also covers indirect taxes such as Customs duties, Excise duties, Sales tax, Service tax, Value added tax (VAT), and Goods and services tax (GST). The study report ultimately outlines key concerns and obstacles pertaining to tax changes in India, while also proposing essential measures that the government should do to enhance the efficiency of the tax system.

Key Words: Critical issues, Direct taxes, Historical evolution, Indirect taxes, Tax structure.

INTRODUCTION

Taxes have been a means of generating money for various nation-states since the beginning of human history. In essence, a tax is a monetary imposition or fee levied on various groups of taxpayers, such as individuals, Hindu Undivided Families, partnership businesses, and enterprises. These are groups of people, organisations, government bodies, and legal entities. Taxes are levied on taxpayers to enable the government to fulfil its traditional responsibilities of ensuring national security, keeping law and order, implementing social welfare and development programmes, and providing public services and utilities. Taxes serve not only to meet the basic requirements of taxation, but also to effectively address income inequality, stimulate the production and distribution of essential goods and services, promote domestic production and reduce reliance on imports, and ultimately enhance the overall economic well-being of the population. In order to achieve its objectives, a government needs sufficient financial resources. Taxation may thus be seen as a method of moving funds from private persons and legal businesses to the government. According to Sury (2006), taxation is essential because the government must collect funds before it can distribute them. It is important to recognise that in India, the Constitution has established a distinct separation of taxing authorities between the central government and the state governments. Due to India's substantial population, the tax system in India has become rather intricate, with several taxes, burdensome tax compliance

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standards, ineffective tax administration, and various associated issues. Alagappan (2019) states that the Indian tax system has lacked organisation, regulation, and planning owing to historical factors.
Due to these issues, many committees were established in India at various times to implement essential tax changes. The implementation of the Goods and Services Tax (GST) in India on 1st July 2017 has resulted in significant and fundamental changes to the country's indirect tax structure. The tax rates for different products and services have been simplified and adjusted under the GST system. This new taxation system has led to a larger tax base for the economy, improved tax compliance, and greater tax revenues for the government. Similar endeavours are underway to implement tax reforms in the realm of direct taxes as well. It is important to note that just around 1% of the whole population in India is contributing taxes. Hence, it is imperative to regulate tax evasion and expand the revenue base by simplifying direct tax legislation and enhancing tax administration. Aside from the Direct Tax Code (DTC), tax experts have suggested many other tax reforms to promote savings and investments in the economy, thereby boosting the country's economic growth.

LITERATURE REVIEW

This section aims to provide a literature review on the tax system in India, including an overview of its structure and the issues it faces. Kumat (2014) presented a comprehensive analysis of the tax structure in India, highlighting the multitude of concerns and challenges that are interconnected with it.
Using it. He suggests the necessity of establishing a synchronised system of consumption tax and enhancing the efficiency of the Indian tax system. In a study conducted by Pandey (2017), the influence of both direct and indirect taxes on the economic growth of India was examined. The study's findings indicate a deficiency in coordination between the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). Thus, Pandey proposed the consolidation of these two departments into a one department or unit. Sherline (2016) endeavoured to examine the Indian tax framework and assess the significance of Goods and Services Tax (GST) in India. The study found that taxes had varying effects on different companies in the economic system, with a greater burden on enterprises that did not receive full offsets. In their study, Ghuge and Katdare (2015) examined the tax system in India, focusing on the three levels of government responsible for imposing and collecting taxes: the Union government, the State governments, and the local bodies. The results of their investigation revealed a higher reliance on indirect taxes for generating income compared to direct taxes. Indeed, the aggregate sum of revenues obtained from indirect taxes was approximately double the amount of income obtained from direct taxes. Considering the various issues related to the current tax system, such as the existence of several taxes, tax evasion, and the subsequent expansion of an unofficial sector, the authors propose that the government should prioritise structural adjustments above policy reforms. Furthermore, it is imperative to reduce the administrative costs associated with tax collection by eliminating redundant levies and many levels of tax collecting authority. Jha (2013) conducted a focused investigation on the impact of the Indian tax system on both individual and business taxpayers. He argues that it is crucial to decrease the excessive reliance on indirect taxes and instead, significantly raise the imposition of direct taxes on the extremely wealthy in order to offset the decline in tax receipts. Jha emphasised the need to effectively restrain corporate assessees from engaging in tax evasion through transfer pricing and other methods. Alagappan (2019) conducted a study on the tax framework in India and its consequences. The author not only examined the distinctions between direct taxes and indirect taxes, but also scrutinised the

specifics of revenue generation from these two tax categories over a span of four years. The findings revealed that the income derived from indirect taxes was approximately double the amount obtained from direct taxes. In the fiscal year 2016-17, the largest percentage of direct tax revenue came from corporation tax and income tax, while the majority of indirect tax revenue was generated by union excise charges, customs duty, and service tax. Despite the high direct tax rates in India, the proportion of direct taxes to the overall tax collection has remained significantly low. Hence, the authors proposed that it is imperative to implement measures to combat both tax avoidance and tax evasion in India. Ghuge and Katdare(2016) conducted a comparative analysis of the tax framework in India in relation to five international nations, namely the USA, UK, South Africa, Mexico, and China. The fundamental criteria utilised for comparative analysis encompassed the tax to GDP ratio, tax rates, duration of tax compliance, number of tax payments, simplicity of tax payments, convenience of conducting business, and other relevant factors. The research findings indicated that India significantly trailed behind the aforementioned international countries in the majority of the examined metrics. Given the gravity of these taxation issues, it is imperative for the government to take immediate action in streamlining the tax system and removing the proliferation of taxes.

BACKGROUND

The tax system in India has evolved over three distinct periods - ancient India, British rule, and independent India. Kautilya, in his renowned treatise 'Arthashastra', delineated the several levies prevalent in ancient India. In ancient India, taxes were levied in both monetary form and in the form of goods, and were collected by local officials. During the ancient time, the emperors primarily relied on many types of tax collection, including octroi, land tax, taxes on gambling houses, wine stores, and some professionals such as dancing ladies. In the book 'Arthashastra', Kautilya mentioned the concept of commodity tax, which can be summarised as follows: "The taxes, both in the form of cash and goods, are included in this."

1. Customs duty, also known as Sulka, encompasses import duty (Pravesya), export duty (Nishramya), as well as Octroi and other gate tolls (Dwarabahiri Kadeya).

2. The transaction tax, known as Vyaji, encompasses the manavyaji, which is the transaction tax specifically applied to royal items.

3. Distribution of production, including a one-sixth share.

4. Payment of tax (Kara) in the form of physical currency.

5. Taxes in kind, such as the provision of labour (Vishti) and the supply of troops (Ayudhiya), are included.

6. Countervailing tariffs or taxes (Vaidharana) are imposed to offset the negative effects of subsidies provided by foreign governments to their domestic industries.

7. Road cess (Vartani) is a tax imposed on road users.

8. Tax imposed in a monopoly situation (Parigha).

9. Monarchy (Prakriya)

10. Villages pay taxes in the form of goods or services (Pindakara).

11. Senabhaktam refers to the levy imposed for the purpose of maintaining the army.

12. Additional fees (Parshvam).

Under British administration, our country encompassed a wide region that included the present-day nations of India, Pakistan, and Bangladesh. The Indian territory encompassed both the Princely States and the British Indian provinces. During the British colonial era, the tax system in India was primarily influenced by customs taxes. This was because India relied heavily on imports of manufactured products from the United Kingdom and other Commonwealth nations to satisfy its domestic

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needs. Import tariffs were applied to all imported goods, while export charges were placed on exported goods. Tea and jute, which India dominated in the global market, were the primary export goods that faced export tariffs. Another significant means of tax generation for the Indian government was the imposition and collection of excise duty on certain goods. In 1894, a 5% ad valorem excise levy was imposed on cotton yarn with a count higher than 20. Later on, excise tax was imposed on motor spirit in 1917 and on paraffin in 1922. Additional manufactured items that were subject to excise duty in subsequent years included sugar, matches, steel ingots, tyres, tobacco, vegetable products, tea, coffee, betel nut, cigarettes, cotton fabric, and more. Regarding direct taxes, the Central Government relied only on income tax as its primary source of revenue. The British Rulers introduced this tax in 1860 to address the significant financial strain caused by the Sepoy revolt in 1857. The primary source of income for the British Indian provinces was land. Revenue, then provincial exercises. Prior to Independence, the provincial governments had the authority to impose sales tax, but it accounted for a small fraction of their overall income collection. The Princely States operated independently from the British government's public finance system, as they maintained their own budgets and income streams.

TAXATION IN INDEPENDENT INDIA

As per Article 265 of the Constitution of India, taxes cannot be imposed or gathered in the country unless there is a specific law authorising it. The Seventh Schedule of the Constitution contains detailed provisions the allocation of financial authority between the central government and the state governments, which includes the distribution of taxes, the ability to borrow funds, and the supply of financial assistance from the central government to the state governments. The primary goal of establishing these arrangements is to provide sufficient financial resources to the two levels of government, allowing them to effectively carry out their respective obligations towards the Indian population. Entries 82 to 92C and 97 of List 1 in the Seventh Schedule to the Constitution grant the Union government the authority to impose and collect various taxes. These include income tax, corporation tax, excise duties, estate duty, terminal taxes on goods and passengers, stamp duty on bills of exchanges, cheques, promissory notes, and other similar documents, taxes on the sale and purchase of newspapers, taxes on the inter-State sale or purchase of goods, taxes on the inter-State consignment of goods, and taxes on services. Similarly, the Constitution has outlined the specific taxation authorities of State governments in Entries 45 to 63 of List 2 in the Seventh Schedule. The taxation powers of State governments encompass the ability to levy land revenue, taxes on agricultural income, taxes on land and buildings, taxes on mineral rights, excise duties on alcoholic liquors and narcotics produced within the States, taxes on the consumption or sale of electricity, taxes on the sale or purchase of goods other than newspapers, taxes on goods and passengers, taxes on vehicles, toll taxes, taxes on employment or profession, and stamp duties on documents not specified in List 1, among other things. It is important to acknowledge that while the State legislatures have the authority to levy the taxes mentioned in List 2, this power is limited by specific limits set by the Constitution. As an illustration, Entry 54 in list 2 grants the States the authority to impose taxes on the sale or purchase of goods, excluding newspapers. Simultaneously, Article 286 of the Constitution stipulates that the States are prohibited from imposing or collecting sales tax on the interstate sale or purchase of products, as well as on imports and exports that have been designated as matters of national significance. Furthermore, Entry 60 of List 2 grants the State legislatures the power to levy taxes on professions, trades, callings, or employments. Nevertheless, according to Article 276(2) of the Constitution, the maximum annual tax due by an individual to a State cannot exceed Rs 2,500. Furthermore, it is important to mention that the

initial tax regulations outlined in the Seventh Schedule of the Constitution of India (as previously described) have seen several modifications in both the realm of direct and indirect tax legislation. An illustrative instance of tax law modification is the introduction of Goods and Services Tax (GST) in India, which came into force on July 1, 2017, after the adoption of the 101st Constitution modification Act, 2016. The tax laws underwent significant modifications with the implementation of the 73rd and 74th Amendment Acts in 1993 and 1994, respectively. These amendments granted the authority to Panchayats and Municipalities to impose and collect certain taxes. The 88th Constitutional Amendment, enacted in 2003, granted the Central government the authority to impose service taxes. In 2005, the Value Added Tax (VAT) was introduced, replacing the previous general sales tax legislation along with other related VAT regulations. The tax experts have developed the Direct Tax Code (DTC) in order to streamline and simplify the direct tax regulations in India. Nevertheless, it is still the case that the Direct Tax Code (DTC) has not been passed or put into effect.

TAX STRUCTURE IN INDIA

India has a federal system consisting of two tiers, where the ability to tax is divided between the Union government and the States according to the Constitution. Typically, the States assign certain budgetary powers to local entities or authorities that lack such powers. Constitutionally authorised authorities to impose taxes. Typically, local authorities have the power to levy taxes on properties, octroi taxes (taxes on products brought within the jurisdiction of local authorities for use or consumption), taxes for utility services such as drainage and water supply, and taxes on markets. The tax structure in India may be essentially categorised into two categories of taxes: The two types of taxes are direct taxes and indirect taxes. Direct taxes are imposed on the taxable incomes of people and corporate entities. In the case of these taxes, the persons or businesses responsible for paying the taxes must do it directly. Indirect taxes are levied on the sale or provision of goods and services. Indirect taxes require the sellers or suppliers of goods and services to collect and deposit the taxes, rather than the individuals being assessed. The Goods and Services Tax (GST) was implemented on July 1, 2017, replacing several previous indirect taxes. Alagappan (2019) identifies many direct taxes now in existence in India:

1. Personal income tax
2. Tax on corporate profits
3. Tax on distributed dividends
4. Tax on profits from the sale of assets
5. Tax on wealth
6. Tax on gifts
7. Estate duty or Inheritance tax refers to a tax imposed on the transfer of assets from a deceased person to their heirs or beneficiaries.
8. Land revenue refers to the money generated by the use or ownership of land.
9. Agricultural income tax is a tax imposed on the income earned from agricultural activities.
10. Occupational tax

The indirect taxes currently in effect in India include the following:

1. Basic customs duty

2. Export duty

3. Road and passenger tax

4. Property tax

5. Stamp duty

6. Electricity duty

Providing a comprehensive summary of the various direct and indirect taxes now or formerly in existence in India would be beneficial. Later on, we will analyse how the money collected from various taxes might range significantly based on the categories of taxpayers included, as well as their incomes and assets. Efficiently streamlining and simplifying different tax categories is crucial in the Indian tax system to

effectively expand the tax base and enhance tax revenue, while also ensuring fairness and equality for all citizens. Although certain tax exemptions and concessions will be eliminated, it is necessary to achieve socio-economic fairness through a progressive taxation system and by reducing tax rates on various commodities and services that are widely consumed. Given the significance of various forms of direct and indirect taxes from several perspectives, the specifics of these taxes are outlined below:

DIRECT TAXES

Income Tax. The Income-Tax Act, 1961 imposes a levy on income tax.These taxes are imposed on the earnings of several types of taxpayers, such as individuals, Hindu Undivided Families, corporations, firms, organisations of persons, or bodies of individuals. Local authorities and other legal entities throughout the preceding year. The incomes earned by these individuals during the previous year, which runs from April 1st to March 31st of the following year, are taken into account for income tax purposes. However, the assessment process for these incomes, including the calculation of taxable income and tax liability, must be completed during the assessment year or the subsequent financial year immediately following the end of the relevant previous year. It is important to mention that the whole earnings of taxpayers will be subject to taxation at the income tax rates specified by the Finance Act enacted by the Parliament annually. These incomes of taxpayers will only be subject to taxation if they surpass the exemption limit, which varies depending on the kind of taxpayer, such as regular taxpayers, senior citizens, and super senior citizens. It should be noted that the tax obligation of a taxpayer is calculated based on their total income and their residence status in India during the relevant prior year. When determining the taxable income of an individual, the earnings received in five distinct categories (salary, house property, business or profession profits and gains, capital gains, and other sources) must be calculated by subtracting the associated expenses for each category. Once the rules for combining revenue and offsetting and carrying forward losses are applied, the resultant income will be the entire income of the taxpayer. To calculate the taxable income, deductions are allowed under Sections 80c to 80u from the gross total income. The tax liability of the taxpayer must be calculated based on their taxable income, but only if that income exceeds the exemption limit. If the taxable income is below the exemption level, the taxpayer is not required to pay any taxes. Furthermore, it is important to mention that the tax obligation of a taxpayer will be determined by first calculating the tax amount based on the income tax rates that are relevant for the specific assessment year. This calculated amount will then be increased by any applicable surcharge and the current rate of 4% for health and education cess.

Corporate tax. This tax is levied on the earnings of registered firms and corporations in India. Similar to a partnership business, a corporation or corporate assesse is obligated to pay tax at the applicable rate based on its total income or taxable income. When determining a company's taxable income, deductions specified in the applicable sections must be subtracted from its gross total income. Similarly, to determine its tax obligation, the tax amount is computed based on the applicable income tax rate. Currently, the standard tax rate is 30%, while local companies are subject to a tax rate of 40%, and international companies are subject to a tax rate of 40%. Once the tax amount has been calculated, it is necessary to include any relevant surcharge as well as the health and education cess. Furthermore, it is important to acknowledge that a domestic firm is obligated to pay dividend tax according to Section 150 on the specific amount of dividend that it distributes to its shareholders. The stockholders will be excluded from paying tax on the dividend income they receive. **Wealth Tax**. The Wealth Tax Act of 1957 imposes a tax on the net wealth of three types of taxpayers: individuals, Hindu Undivided Families

(HUF), and corporations. This tax is imposed at a rate of 1% on the portion of the assessee's net wealth that exceeds Rs. 30 lakh, based on the valuation as of the 31st of the previous year before the relevant assessment year. When determining net worth, the total value of the assessee's assets should be decreased by any obligations and liabilities associated with those assets. The assets that are liable to wealth tax include residential or commercial buildings (including attached land) located within 25 kilometres of a municipality or a Cantonment Board, farmhouses, guest houses, motor cars, jewellery, bullion, precious metals, boats, aircraft, urban land (with some exceptions), and cash in hand exceeding Rs. 50,000. Section 5 of the Wealth Tax Act specifies that certain assets or considered assets are not subject to wealth tax liabilities. The assets that are exempted or considered as assets include property held in a trust, ownership in a joint family property of the Hindu Undivided Family (HUF), the official house of a ruler, valuable jewels passed down from a former ruler, and money and other assets brought into India by an Indian citizen or a person of Indian heritage.

Tax on Gifts. Gift tax, implemented in 1958, applies to all contributions with the exception of those made by government enterprises, private companies, and charitable institutions. It is important to highlight that certain presents are not subject to gift tax liabilities. These include gifts to one's wife, gifts to female dependents upon their marriage, and donations to specific approved charity institutions. The abolition of gift tax on 1st October 1998 was prompted by insufficient revenue collection and the potential for some presents to incur income tax obligation under the Income Tax Act, 1961.

Probate tax. In 1953, India implemented estate duty, which is a tax imposed on the transfer of property to heirs upon the death of an individual. Put simply, when a person dies, their property is considered as the estate that is subject to estate duty. Agricultural land was regarded as an asset for estate duty purposes just in the States that consented to laws enforcing this provision. Previously, certain individuals would transfer their property to their beneficiaries prior to their death, with the dishonest goal of evading the obligation to pay estate duty. To investigate this fraudulent activity, the Estate Duty Act of 1953 stipulated that any assets transferred before death might be considered as part of the estate that is inherited at death. Due to the minimal money generated from estate duty and the excessive administrative burden it imposed, the Central Government opted to eliminate it starting from April 1, 1985.

Capital and property taxes. The States and local authorities impose additional taxes on capital and property. State governments impose and gather land tax or land income based on the land's worth, as well as road tax on motor vehicles. These funds are utilised for the development and upkeep of State roadways. In a similar manner, the local authorities levy cesses, which are additional charges on land revenue. They also impose taxes on land and buildings, which are determined by the annual rental value. Additionally, taxes are imposed on the transfer of immovable property, which are based on the value of the property. Furthermore, betterment taxes are imposed based on the increase in land value resulting from town planning and improvement.

INDIRECT TAXES

India has a federal system consisting of two tiers, where the ability to tax is divided between the Union government and the States according to the Constitution. Typically, the States assign certain budgetary powers to local entities or authorities that lack such powers. Constitutionally authorised authorities to impose taxes. Typically, local authorities have the power to levy taxes on properties, octroi taxes (taxes on products brought within the jurisdiction of local authorities for use or consumption), taxes for utility services such as drainage and water supply, and taxes on markets. The tax structure in India may be

essentially categorised into two categories of taxes:

The two types of taxes are direct taxes and indirect taxes. Direct taxes are imposed on the taxable incomes of people and corporate entities. In the case of these taxes, the persons or businesses responsible for paying the taxes must do it directly. Indirect taxes are levied on the sale or provision of goods and services. Indirect taxes require the sellers or suppliers of goods and services to collect and deposit the taxes, rather than the individuals being assessed. The Goods and Services Tax (GST) was implemented on July 1, 2017, replacing several previous indirect taxes. Alagappan (2019) identifies many direct taxes now in existence in India:

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1. Basic customs duty

2. Export duty

3. Road and passenger tax

4. Property tax

5. Stamp duty

6. Electricity duty

Providing a comprehensive summary of the various direct and indirect taxes now or formerly in existence in India would be beneficial. Later on, we will analyse how the money collected from various taxes might range significantly based on the categories of taxpayers included, as well as their incomes and assets. Efficiently streamlining and simplifying different tax categories is crucial in the Indian tax system to effectively expand the tax base and enhance tax revenue, while also ensuring fairness and equality for all citizens. Although certain tax exemptions and concessions will be eliminated, it is necessary to achieve socio-economic fairness through a progressive taxation system and by reducing tax rates on various commodities and services that are widely consumed. Given the significance of various forms of direct and indirect taxes from several perspectives, the specifics of these taxes are outlined below:

Tariffs. The Customs Act of 1962 granted the Union government the authority to impose and gather tariffs on both imported and exported goods. Import tariffs had greater significance than export tariffs in terms of generating income and regulating international commerce. Import tariffs are often applied Taxes are imposed based on the value of the goods, while for some imported commodities, these taxes are imposed based on a specified value in addition to the ad valorem basis. As to the stipulations of customs legislation, there are three categories of customs duties: The three types of duties are: (1) Basic customs duty, (2) Additional duty of customs, and (3) Special additional duty. items imported from specific countries are subject to basic customs duty, whereas items made in India are subject to an extra levy of customs. The special extra duty is determined based on the stipulated rate applied to the total assessable value of products that are either imported or manufactured in India. Customs duty is levied on various imported products or goods listed in the first schedule of the Customs Tariff Act, 1975. Conversely, customs tax on exports is imposed

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VOLUME 4 AND ISSUE 2 OF 2024
APIS – 3920 - 0001 *(and)* ISSN - 2583-2344
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on commodities included in the second schedule of the same Act. It is important to remember that the GBhioods and Services Tax (GST) now includes an extra customs levy.

Excise Taxes. The Central Excise Act, 1944 provides for the availability of Central Excise duties, which are determined based on the rates specified in various schedules of the Central Excise Tariff Act, 1985. These duties refer to indirect taxes imposed on the wholesale cost of items that are made or produced in India. Manufacturers are required to pay these charges when they clear the goods from the manufacturing premises or warehouse. The many forms of central excise taxes include: (1) Basic excise duty, sometimes referred to as the Central Value Added Tax (CENVAT); (2) Special excise duty; (3) Additional duties of excise; and (4) Cess. It is important to note that the States have full authority over the imposition of excise charges on opium, alcohol, and drugs. Currently, excise charges in India have been included into the Goods and Services Tax (GST).

Sales Tax. According to the Central Sales Tax Act, 1956, sales tax must be paid. According to this legislation, there are two forms of sales tax: (1) Central sales tax (CST) imposed by the Union government; and (2) Sales tax charged by each State. Dealers engaged in inter-State trade and commerce are required to pay Central sales tax on the sale of products. This tax is imposed in the state where the transportation of goods originates. Despite the fact that the central sales tax is imposed by the Central government, the State in which it is charged or levied is responsible for the revenue management. Furthermore, it should be observed that a State imposes sales tax on the sale or purchase of products inside its own borders, except newspapers. Indeed, all states enforce sales tax at the applicable rates. Currently, the Central Sales Tax (CST) has been consolidated into the Goods and Services Tax (GST) in India.

Service Tax. The implementation of service tax in India commenced in 1994. The Union government imposes, collects, and utilises this tax. At first, the tax was imposed on three specific services: general insurance, telephone services, and stock brokering services. However, the scope of service tax has been expanded by progressively include other services in the tax net. Consequently, there has been a substantial growth in both the number of taxpayers and the amount of money received throughout the years. Service tax is levied and collected on all services, excluding those indicated in the negative list. The responsibility to pay this tax lies with the service provider. Currently, services make up over 55% of the Gross Domestic Product (GDP). As a result, the imposition and collection of service tax have made a substantial contribution to the overall tax income of the government. It should be noted that a taxpayer can utilise input tax credit for different services and offset it against the service tax owed for any of the output services. Furthermore, it is important to note that now, service tax is not levied separately since all services are now included within the purview of Goods and Services Tax (GST) responsibility.

Value Added Tax (VAT). The implementation of Value Added Tax (VAT) in India commenced on 1st April, 2005, and has been embraced by many States and Union territories. The State sales tax has been substituted by a State-level VAT, which is now imposed at consistent rates throughout all States for different goods. The standard VAT rates are 4% for necessary products and industrial inputs, and 12.5% for commodities not covered by other schedules. However, a special rate of 1% is applied to gold, silver, and other precious stones.

Specific things that are of local significance and essential items have been excluded from this tax or categorised under a zero percent tax rate. VAT rules provide provisions for allowing input tax credit (ITC) to be deducted from the output tax due on certain goods. Currently, Value Added Tax (VAT) has been incorporated into the regulations of Goods and Services Tax (GST). **The Goods and Services Tax (GST)**. The implementation of the Goods and Services Tax

(GST) in India on July 1, 2017 marked the start of a new phase of indirect tax changes. According to Samantara (2018, p.63), the implementation of GST integrated both Central and State taxes into a unified national sales tax. This resulted in a decrease in processing costs and improved transparency in transactions and tax payments. The GST has incorporated many Central and State taxes including excise duty, extra customs duty, service tax, value added tax (VAT), central sales tax (CST), entrance tax, luxury tax, and Octroi. Indeed, the implementation of GST as a novel framework for indirect taxation has effectively facilitated the creation of a unified Indian market by eliminating market inefficiencies caused by multiple taxes and the compounding impact of taxation. An important characteristic of GST is that taxes on items are levied depending on the destination, meaning they are charged at the point of consumption rather than at the manufacturing stage or location. Under the terms of GST, same tax rates are being applied to the same products and services at both the Central and State levels. The structure of GST in India consists of four distinct components:
1. The Centre imposes and collects Central GST (CGST) on the movement of goods and services between states. 2. The States impose and collect State GST (SGST) on the movement of goods and services within their own state. 3. Integrated GST (IGST) is imposed on the movement of goods and services between states. 4. Union Territory GST (UGST) is imposed on the movement of goods and services within the Union Territories.

The GST Council has determined a four-tier GST rate structure of 5%, 12%, 18%, and 28%, with a maximum limit of 40% for the GST tax. Lower tax rates were established for mass-consumption and necessary products, while higher rates were established for demerit and luxury goods, which would incur an extra cess. It is worth mentioning that the government has been periodically lowering tax rates for certain goods and services in response to public requests.

KEY CONCERNS

Due to India's substantial population, the Indian tax system is inherently intricate, with a multitude of levies and varying tax rates. Despite several attempts to streamline and simplify the tax structure in order to achieve socio-economic fairness for diverse groups of taxpayers, the tax system in India is still imperfect and has limits. Given the circumstances, it is imperative to evaluate specific critical matters as outlined below:

1. The amount of money collected from indirect taxes has been almost twice as much as the revenue collected from direct taxes, as noted by Alagappan (2019, p.43) and Ghuge and Katdare (2015, p.242). Despite the high rates of direct taxes in India, their proportion to the overall tax income generated remains unsatisfactory. Indeed, the annual count of individuals submitting income tax returns has been quite modest in comparison to the country's substantial population. Hence, it is imperative to take measures to combat tax evasion, namely by increasing the number of taxpayers included in the income tax category through enhanced tax administration.
2. According to Alagappan (2019), corporate tax and income tax are the primary components of direct taxes and accounted for 97.41 percent of the total revenue collected from direct taxes in 2016-17. In contrast, other direct taxes such as land revenue, agricultural income, wealth tax, gift tax, etc. only contributed 2.59 percent of the total revenue collected from direct taxes. Hence, it is imperative to prioritise efforts towards augmenting income generation through alternative direct taxes, particularly agricultural tax and land revenue.
3. A significant aspect of the Indian tax system is that a substantial amount of income is generated by indirect taxes such as the general sales tax (GST),

Union excise, service tax, and customs duty. Hence, it is imperative to augment the collection of income from many additional indirect taxes, such as stamp and registration fees, car tax, entertainment tax, and so on.

4. The government's spending on tax collection has been too high and has been growing annually. Hence, it is imperative to decrease such expenses by eliminating the duplication of taxes and the imposition of taxes on top of existing ones. It is important to mention that this issue has been significantly reduced by the implementation of the Goods and Services Tax (GST) in 2017.

CONCLUSION

The current research has provided valuable insights by examining the development of the tax system in India across three distinct periods - taxes in ancient India, taxes during British colonial rule, and taxes in post-independence India. Furthermore, efforts were undertaken to provide a meticulous examination of the Indian tax structure include a range of direct and indirect taxes. A comprehensive explanation was provided on direct taxes, which encompass Income Tax, Corporation tax, Wealth tax, Gift tax, Excise duty, and other taxes related to capital and property. In addition, the study investigation extensively discussed several indirect taxes, such as Customs charges, Excise duties, Sales tax, Service tax, Value Added Tax (VAT), and Goods and Services Tax (GST). Furthermore, the Indian tax structure was emphasised for its notable characteristics, such as the significant role played by indirect taxes in generating total revenue (in contrast to direct taxes), and the substantial revenue generated by specific indirect taxes like the General Sales Tax (GST), Union Excise, Service Tax, and Customs Duty. The present study's findings indicate certain crucial measures that the government might do to enhance the efficiency of the Indian tax system. As previously mentioned, the proportion of the Indian population that pays taxes is only around 1%, resulting in a very low number of tax returns submitted each year. Despite the high rates of direct taxes, the overall income generated from these taxes is insufficient. Hence, it is imperative to scrutinise both tax avoidance and tax evasion by enhancing tax administration. As previously mentioned, the proportion of some direct and indirect taxes in the overall tax revenue received in India has been quite small. Hence, there is significant potential for increasing revenue production from certain direct taxes, such as agricultural income and land revenue. Currently, the income derived from agriculture is only used for determining the income tax rate of a taxpayer. Nevertheless, there is sufficient rationale for imposing a moderate tax on agricultural revenue without imposing undue burden on impoverished farmers. Additionally, it is necessary to enhance the generation of income from indirect taxes such as stamp and registration fees, entertainment tax, and car tax. The implementation of Goods and Services Tax (GST) starting from 1st July 2017 has resolved several issues in the realm of indirect taxes, including the presence of several taxes and the cascading effects of taxation. The implementation of the GST has enabled the creation of a unified Indian market, where consistent tax rates are applied to diverse commodities and services in all States and Union territories. Simultaneously, it is crucial to enact the Direct Tax Code (DTC) which has been suggested by tax specialists to streamline the regulations regarding direct taxes in India. The Direct Tax Code would include and replace numerous existing direct tax legislation, including the Income Tax Act of 1961, the Wealth Tax Act of 1957, and other related statutes. This substantial change in the domain of direct taxes is anticipated to further streamline the tax framework and yield augmented tax revenues for the government.

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