

## An Analysis of Tax Structure in India

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Jitendra Kumar\*

### Introduction

Tax can be defined as the charge levied by the government of a country upon its habitants for its support or for the purpose of facilitating the public of that country. It is neither a voluntary payment by the tax payer nor like a donation. Rather it is an enforced payment to the government. On nonpayment of it, the tax payer will be punishable by law. The purpose of taxes is to create welfare for the society by providing public services, protection to properties, defense expenses, economic infrastructure etc. there are four main purposes of taxation which are revenue, redistribution, reprising, representation. In case of direct taxes, the taxpayers are generally more curious to know about their taxed income. That's why they stress the government for the representation of its consumption. Taxes are levied at different rates. These rates of taxes are determined by comparing with income or consumption level. In India, the taxes are labeled in to two sorts, direct taxes and Indirect taxes.

Direct taxes are those which are paid without delay by using the man or woman or employer to the enforcing authority. They are levied on profits and earnings Indirect taxes are those which are not paid at once through the person or company to the implementing authority. They're levied on items and offerings and now not on income and profits. In spite of many reforms, Indian tax shape faces many complexities and, troubles like multiplicity of taxes, dominance of indirect taxes, aphorism, bias in prevalence of taxes, complexity and corruption, imbalance in tax machine, lack of built in elasticity, squandering away of assets.

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\* Research Scholar, Department of Accountancy and Law, Faculty of Commerce, Dayalbagh Educational Institute (Deemed University, Dayalbagh, Agra, U.P., India.

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The basic source for the revenue to the government is from the taxation system of the country which is majorly not voluntary, at least not in Indian tax revenue collection structure. Indirect source of tax revenue collection is much more than the direct source as it is applicable and directly paid by the assessed. The burden of Indirect tax can be shifted so; its collection of revenue is comparatively less than the direct tax revenue collection. Restructuring the tax system at federal level was central to the entire process of economic reforms. Direct tax reforms at federal level formed key component of wider reforms in fiscal and economic sector. Like in other developing countries, in India also the tax reforms aimed at correcting fiscal imbalances (Panday, 2006). The rise of the value-added tax (VAT) around the world has been one of the most important tax developments of recent times. This tax is considered to have advantages compared with other taxes, because it eliminates cascading, allows for zero rating of exports, and is broad based and difficult to evade. A very slightly modified form of VAT was general sales tax (GST) which was imposed in Pakistan in 1991 tax reforms. It was considered that GST was a type of regressive tax but this perception was wrong as they proved to be progressive (Refaqat, 2003). For a global tax to result in a net increase in global aid inclusive of the tax revenue, it has to generate not only a positive income effect but also this effect must be large enough to more than compensate for the tax's excess burden and administrative costs. Whether such a condition can be satisfied by any global tax is highly questionable, or at the very least remains opens empirical issue (H.Zee, 2006).

### **Need of the Study**

There are number of studies focusing on the either aspect of direct taxes and its revenue collection or indirect taxes and its revenue collection and looking for its effect on the overall tax revenue collection of the country, but there is no such study focusing on the both the aspects of revenue collection of the country, so, this arises a need to take this topic as a aspect to study.

### **Objectives**

- To Examine Tax Revenue collection from different types of taxes.
- To Analysis the Impact of Indirect Taxes on Total Revenue.

### **Research Methodology**

This research paper is based on secondary statistics. Various figures are obtained from the different websites of government of India and also from other reports, published research; websites etc. for the purpose of the study for the period of the financial year's i.e. 2006-07 to 2016-17 has been taken. The data has been computed, analyzed and compared with the help of generation and distribution pattern of value added statement and value added ratios. In order to assess the behavior of the data, simple statistical techniques i.e. Regression Analysis has been used to determine cause and affect relationship between the selected variables.

### Research Hypotheses

**H<sub>0</sub>:** Taxes does not have greater effect on total revenue of India.

### Results and Discussion

To study Tax Revenue collection

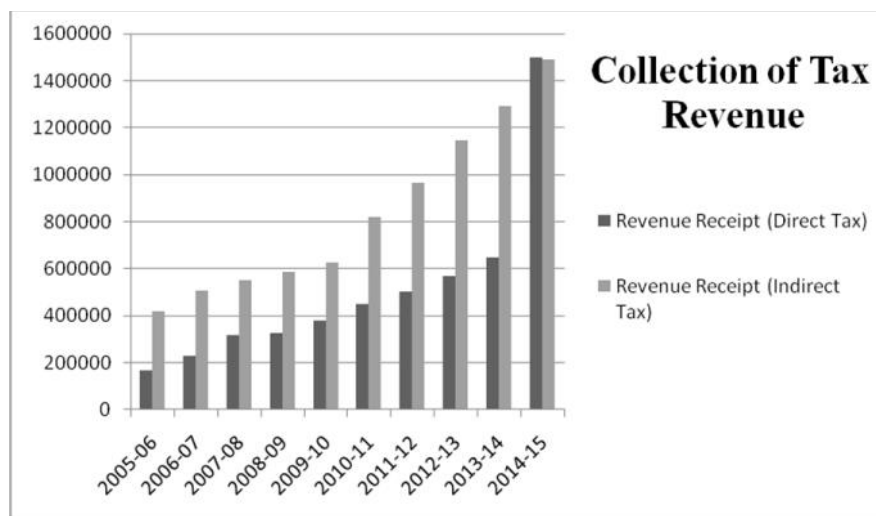
Following are the information of the quantity raised from direct taxes and oblique taxes by means of combined each crucial and kingdom governments

**Table 1: Revenue Receipt**

(Amount in Crore Rupees)

Year	Revenue Receipt (Direct Tax)	Revenue Receipt (Indirect Tax)
2006-07	2,31,376	5,05,331
2007-08	3,18,840	5,51,489
2008-09	3,27,981	5,87,469
2009-10	3,76,995	6,23,849
2010-11	4,50,822	8,20,843
2011-12	5,01,395	9,66,496
2012-13	5,68,717	11,47,400
2013-14	6,46,907	12,93,539
2014-15	14,97,258	14,89,472
2015-16	24,19,085	16,05,732
2016-17	84,78,649	86,36,894

Source: (Public Finance Statistics, Ministry of Finance)



### Interpretations

Form the above table it can be seen that there is more dependency on indirect taxes for revenue collection than direct taxes in India It is clear from the above graph that the amount received from indirect taxes is almost double from that of the amount received from direct taxes.

### Testing of Hypothesis

**H<sub>0</sub>:** Taxes does not have greater effect on total revenue of India.

Linear regression model has been used to test the hypothesis, in this model the total revenue for the financial years 2005-2015 is taken as dependent variable where as Direct and Indirect taxes is taken as independent variable, to look at the cause and effect relationship between Direct & Indirect tax. On applying the model from the available data the following regression results have been obtained-

**Table 2: Model Summary**

Model Summary <sup>b</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.998 <sup>a</sup>	.997	.996	36868.75360	.997	1001.632	2	7	.000	.730
a. Predictors: (Constant), IR, DR										
b. Dependent Variable: TR										

**Table 3: Coefficients**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	23106.422	34282.232		.674	.522	-57958.176	104171.021
	DR	.017	.066	.012	.262	.801	-.139	.173
	IR	1.478	.068	.988	21.854	.002	1.318	1.638
a. Dependent Variable: TR								

### Interpretation

From the above table shows the model summary where the R square is .997 and adjusted R square value is .996. It shows there is positive and significant correlation between Taxes and total revenue. It means 99.6% of difference of dependent variable is described by independent variables. It is also clear that the coefficient value of disclosure index viz. (0.012) is positive and significant. The p-value is less than the table value (.002<.05) at 5% level of significance. So, we reject the null hypothesis which indicated there greater effect of Indirect tax on total revenue of India. Table 3 shows that the regression line can be expressed as:

$Y = 23106.422 + 0.017 \text{ DR} + 1.478 \text{ IR}$  The above equation shows that if the direct taxes are increased by Rs. 1, the total revenue will increase by Rs. 0.017. And if the indirect tax will increase by Rs. 1, the increase in the total revenue would be Rs. 1.478. It shows the multiple effects on revenue by looking at the standardized betas. We come to know that indirect taxes have more statistically significant impact on the total revenue.

### Conclusion

Fiscal policy plays a crucial role for the growth of an economy which is dependent on the proportion of employment of direct and indirect taxes. Taxes are the greatest source of revenue for any government in order to run their operations. By comparing the regression equations, we came to know that the revenue collection from indirect source is generating more revenue than charged by levying direct taxes and India generates its maximum revenue through Indirect taxes. The results of these two types of taxes can be very different. Literature related to the taxes in India supports that the proportion of the indirect taxes is much more than the direct taxes.

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