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INDIAN TAX SYSTEM: A LONG LASTING JOURNEY

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Abstract

In India changes in Indian Tax System were warranted. The recent announcement by the Finance Minister about the Direct Tax Code and its application is a matter of great concern for all related. Most Governments in the world are striving to attain long term growth and economic development with taxation as one of the major tools. However, it is necessary to know which components of tax are to be targeted in order to attain economic growth. This study therefore disaggregated the various components of direct and indirect taxes and investigated their effects on Economic Growth in India using time series data from 1977-2015 and the ARDL bounds test approach to co-integration. The study found that in the long run, among the components of direct taxes, personal income tax had no impact on economic growth whiles corporate income tax had a positive statistically significant impact on economic growth. The competitiveness of our economy in general and industry in particular hinges on a system of taxation which, through its progressive approach, optimizes revenue consistent with stimulating industrial activity and consequently growth in our economy. The tax system should be fairly efficient while effecting revenue mobilization in response to growth. And the tax system is efficient if it is income elastic so that revenue grows slightly faster than GDP.

Keywords: *GDP, OECD, ARDL, Indian Tax System, Direct Tax Code, Economic Development.*

Introduction

A tax is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state to fund various public expenditures. (Wikipedia). Taxation Structure of any country is the set of rules and laws set up by that particular country for the collection of taxes from the public and can play a very important role in the proper working of an economy. Indian Tax system earlier gave emphasis on higher rates of Tax and more incentives. But recently, the emphasis has shifted to decrease in rates of taxes and withdrawal of incentives. While designing the Taxation structure it has to be seen that it is in conformity with our economic and social objectives. It should not impair the incentives to personal savings and investment flow and on the other hand it should not result into decrease in revenue for the State.

Historical Background

The Income Tax was introduced in India for the first time in 1860 by British rulers following the mutiny of 1857. The period between 1860 and 1886 was a period of experiments in the context of Income Tax. This period ended in 1886 when first Income Tax Act came into existence. The pattern laid down in it for levying of Tax continues to operate even to-day though in some changed form. In 1918, another Act- Income Tax Act, 1918 was passed but it was short lived and was replaced by Income Tax Act, 1922 and it remained in existence and operation till 31st. March, 1961. On the recommendation of Law Commission & Direct Taxes Enquiry Committee and in consultation with Law Ministry a Bill was framed. This Bill was referred to a select committee and finally passed in Sept. 1961. This Act came into force from 1st.April 1962 in whole of the country. Income Tax Act, 1961 is a comprehensive Act and consists of 298 Sections. Sub-Sections running into thousands Schedules, Rules, Sub-Rules, etc. and is supported by other Acts and Rules. This Act has been amended by several amending Acts since 1961. The Annual Finance Bills presented to Parliament along with Budget make far-reaching amendments in this Act every year. The Indian tax structure, like in any other country, has developed in response to many influences- social, political and economic.

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