

A Study on Indian Revenue Generators

***Dr. Mrs. P. Amarjothi, **Mr. C. Azhakaraja**

**Assistant Professor, Department of Commerce, Madurai Kamaraj University, Madurai – 625 021, Tamilnadu (State), India.*

***M.Phil (Research Scholar), Department of Commerce, Madurai Kamaraj University, Madurai – 625 021, Tamilnadu (State), India.*

Abstract : *India is common law federal country, with separation of powers between the legislature, the judiciary and the executive. There is a division of legislative powers between states and the federation itself under article 246 of the Constitution. Each state has its own executive government, which functions independently from the federal government. In July 1860, James Wilson, the first Finance Member of the Governor General in Council, quoted thus from the authority of Manu while introducing the act for levying income tax in the country, As the leech, the calf and the bee take their food little by little, even so must the King draw from his realm, moderate annual taxes. In 1924, a Central Board of Revenue was created to administer central taxes. The attainment of Independence marked another paradigm shift for taxation.*

Key Words: *Direct Taxes, Indirect Taxes*

I. Introduction

Taxes consist of direct tax or indirect tax, and may be paid in money or as its labour equivalent (often but not always unpaid labour). India has a well developed taxation structure. The tax system in India is mainly a three tier system which is based between the Central, State Governments and the Local government organizations. In most cases, these local bodies include the local councils and the municipalities. According to the Constitution of India, the government has the right to levy taxes on individuals and organizations. However, the constitution states that no one has the right to levy or charge taxes except the authority of law.

Objectives of the Study

- ✓ To supply adequate revenue
- ✓ To study of Indian tax system history
- ✓ To reduce economic inequality
- ✓ To study the tax highlights
- ✓ To achieve a practical and workable tax system
- ✓ To overall study on particular direct taxes and indirect taxes

Review of Literature

National income in government analysis at the International Monetary Fund launched a flood of empirical studies considering with conclusion that in economic terms such countries can indeed tax more, that is, that their 'capacity' to tax exceeds the 'effort' they make to tax that capacity.

In the conventional approach, the only acceptable regional consumption tax is generally thought to be a simple single-stage (preferably retail) sales tax (RST) levied directly on final (resident) consumers, along with perhaps a few excise taxes (Martinez Vazquez, Rider and Wallace 2008). The virtually worldwide replacement of single-stage sales taxes by multi-stage value-added taxes (VATs) in recent years (Bird and Gendron 2007) thus implies that regional governments have largely been squeezed out of this tax field also.

Indeed, as again Kaldor (1963) explicitly noted, one of the principal lessons that has been learned from tax reform experience around the world is precisely that 'political will' is the sine qua non of any successful tax reform (Bird, 2003a) and that a country's tax system reflects its political institutions. In the words of Rodrik et al. (2002) it appears that "Institutions Rule" in this as in other areas of economic development.

Methodology

The present study is mainly based on the secondary data.

Secondary Data

This study data are collecting from secondary data. This secondary data are collecting from books, journals, reports, newspapers and internet.

II. History Of Indian Tax System

In India, the traditional of taxation has been in force in one form or another from ancient times. The word 'kara', which refers to taxes, finds mention in the *Srimad Bhagvatam*. When Chanakya aphorised in the *Artha Shastra*, "*Kosha moolo danda*", he made the important point that the treasury and its inflows are the sources of a government's might. Indeed, the Sanskrit word '*danda*', which translates to the sceptre, is the manifest form of a government's identity, consciousness and conscience.

Manu, the ancient sage and law giver, lay down that traders and artisans should pay one-fifth of their profits in silver and gold, while agriculturists, depending upon their circumstances, were to pay one-sixth, one-eighth or one-tenth of their produce. Kalidasa in the *Raghuvansha* says thus of King Dileepa: "It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold."

Taxation in ancient India "Most of the taxes of Ancient India were highly productive. The admixture of direct taxes with indirect taxes secured elasticity in the tax system, although more emphasis was laid on direct tax. The tax structure was a broad based one and covered most people within its fold. The taxes were varied and the large variety of taxes reflected the life of a composite population."

In the medieval period, the Sultans of Delhi collected taxes under five main categories. The Mughal emperors granted land revenue rights to a *mansabdar* in exchange of promises of soldiers during wartime. The Treaty of Allahabad of 1765 gave the British and the French the right to collect taxes on behalf of the Emperor. Thus, the British system of collectors of land revenues was firmly established well before the disintegration of the Mughal Empire after 1857.

Public administration in India during the latter half of the 19th century saw large shifts and overhauls in its structures and processes. In July 1860, James Wilson, the first Finance Member of the Governor General in Council, quoted thus from the authority of Manu while introducing the act for levying income tax in the country, "As the leech, the calf and the bee take their food little by little, even so must the King draw from his realm, moderate annual taxes."

As we proceeded through this century, the financial obligations of the Raj increased, and the need to revamp the tax system was felt. In 1919, with the introduction of the federal structure through 'Diarchy', taxes on income and some other taxes were made a central subject. In 1922, a paradigm shift occurred with the enactment of a new Income Tax Act that led to the setting up of a comprehensive taxation system with its own administrative machinery. In 1924, a Central Board of Revenue was created to administer central taxes. The attainment of Independence marked another paradigm shift for taxation. The objective of collecting revenues was no longer the preservation or advancement of British interests. After a long hiatus, Indians were going to pay taxes for their own welfare, thus redefining the role of taxation in the country.

The major direct taxes levied by the Centre are tax on personal and corporate income excluding tax on agricultural income for which the authority to levy tax is with the states and wealth tax. The indirect taxes levied and collected by the Centre are Central Excise Duty, customs duty and service tax. A fixed proportion of the taxes collected by the Centre devolve to the states, based on the recommendations of the Central Finance Commission, which is set up every five years to review this sharing mechanism. Presently, 32 per cent of the revenue collected from these taxes is transferred to the states through devolution under the advice of the 13th Finance Commission.

Article 246 (SEVENTH SCHEDULE) of the Indian Constitution, distributes legislative powers including taxation, between the Parliament and the State Legislature. Schedule VII enumerates these subject matters with the use of three lists;

- List- I entailing the areas on which only the parliament is competent to makes laws,
- List - II entailing the areas on which only the state legislature can make laws, and
- List - III listing the areas on which both the Parliament and the State Legislature can make laws upon concurrently.

Separate heads of taxation are provided under lists I and II of Seventh Schedule of Indian Constitution. There is no head of taxation in the Concurrent List (Union and the States have no concurrent power of taxation). Any tax levied by the government which is not backed by law or is beyond the powers of the legislating authority may be struck down as unconstitutional.

The Thirteen (13) heads List-I of Seventh Schedule of Constitution of India covered under Union taxation, on which Parliament enacts the taxation law, are as under:

1. Taxes on income other than agricultural income;
2. Duties of customs including export duties;
3. Duties of excise on tobacco and other goods manufactured or produced in India except (i) alcoholic liquor for human consumption, and

(ii) Opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol,

4. Corporation Tax;

5. Taxes on capital value of assets, exclusive of agricultural land, of individuals and companies, taxes on capital of companies;

6. Estate duty in respect of property other than agricultural land;

7. Duties in respect of succession to property other than agricultural land;

8. Terminal taxes on goods or passengers, carried by railway, sea or air; taxes on railway fares and freight;

9. Taxes other than stamp duties on transactions in stock exchanges and futures markets;

10. Taxes on the sale or purchase of newspapers and on advertisements published therein;

11. Taxes on sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-state trade or commerce;

12. Taxes on the consignment of goods in the course of inter-State trade or commerce.

13. All residuary types of taxes not listed in any of the three lists of Seventh Schedule of Indian Constitution.

The Nineteen (19) heads List-II of Seventh Schedule of the Indian Constitution covered under State taxation, on which State Legislative enacts the taxation law, are as under:

- Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenues;
- Taxes on agricultural income;
- Duties in respect of succession to agricultural income;
- Estate Duty in respect of agricultural income;
- Taxes on lands and buildings;
- Taxes on mineral rights;
- Duties of excise for following goods manufactured or produced within the State (i) alcoholic liquors for human consumption, and (ii) opium, Indian hemp and other narcotic drugs and narcotics;
- Taxes on entry of goods into a local area for consumption, use or sale therein;
- Taxes on the consumption or sale of electricity;
- Taxes on the sale or purchase of goods other than newspapers;
- Taxes on advertisements other than advertisements published in newspapers and advertisements broadcast by radio or television;
- Taxes on goods and passengers carried by roads or on inland waterways;
- Taxes on vehicles suitable for use on roads;
- Taxes on animals and boats;
- Tolls;
- Taxes on profession, trades, callings and employments;
- Capitation taxes;
- Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling;
- Stamp duty.

Provisions have been made by 73rd Constitutional Amendment, enforced from 24th April, 1993, to levy taxes by the Panchayat. A State may by law authorize a Panchayat to levy, collect and appropriate taxes, duties, tolls and the like.

Similarly, the provisions have been made by 74th Constitutional Amendment, enforced from 1st June, 1993, to levy the taxes by the Municipalities. A State Legislature may by law authorize a Municipality to levy, collect and appropriate taxes, duties, tolls and the like.

III. Highlights Of The Direct And Indirect Taxes

- The total revenue realization from Direct and Indirect Taxes increased from Rs. 1881.19 billion in 2000-01 to Rs. 6076.45 billion in 2008-09. The percentage share of revenue realization from direct taxes to the total revenue realization increased from 36.3% in 2000-01 to 55.7% in 2008-09, whereas, the percentage share of revenue realization from indirect taxes declined from 63.7% in 2000-01 to 44.3% in 2008-09.
- Revenue collection from direct taxes increased from Rs. 683.05 billion in 2000-01 to Rs. 3382.12 billion in 2008-09. The percentage share of revenue realization from corporation tax to the total revenue realization from direct taxes increased from 52.3% in 2000-01 to 63.2% in 2008-09, whereas, the percentage share of revenue realization from income tax decreased from 46.5% in 2000-01 to 36.7% in 2008-09.
- Revenue collection from indirect taxes increased from Rs. 1198.14 billion in 2000-01 to Rs. 2446.67 billion in 2009-10. The percentage share of revenue realization from customs duties to the total revenue realization from indirect taxes decreased from 39.7% in 2000-01 to 34.5% in 2009-10, whereas, the percentage share of revenue realization from excise duties declined from 57.2% in 2000-01 to 42.1% in 2009-10. However, the

percentage share of revenue realization from service tax to the total revenue realization from indirect taxes increased substantially from 2.2% in 2000-01 to 23.5% in 2009-10.

- The total number of effective assesseees of income tax and corporation tax increased from 23 million in 2000-01 to 32.65 million in 2008-09. The Hindu Undivided Families of income tax increased 20.66 million and 0.55 million respectively in 2000-01 to 30.10 million and 0.77 million in 2008-09. The assesseees of firms declined from 1.34 million to 1.31 million during same period, whereas, trusts assesseees increased from 0.064 million in 2000-01 to 0.071 million in 2008-09. However, the other assesseees increased from 0.051 million to 0.071 million during same period.
- The customs collection rate gradually decreased from 20.2% in 2000-01 to 6.9% in 2008-09. Customs collection rate of petroleum products decreased from 10% in 2004-05 to 3% in 2008-09, whereas, customs collection rate of non-petroleum products decreased from 12% in 2004-05 to 9% in 2008-09.
- About 34% of total import duties were realized from machineries, whereas, 10.8%, 9.0%, 8.5% and 7.7% of the total import duties were realized from Gold and articles other than Gold, petroleum products, chemicals and iron and steel respectively during 2009-10.
- About 62.2% of total excise duties was realized from petroleum crude and petroleum products, whereas, 13.5% and 9.4% of the total excise duties were realized from tobacco products and Iron and steel and articles thereof respectively during 2009-10.
- 7% of total service tax was realized from telephone billing, whereas, 6.9%, 6.3% and 5.4% of the total service tax were realized from banking and other financial service, business auxiliary service and general insurance premium respectively during 2009-10.

DIRECT TAXES

The direct tax policy has been used to attempt to encourage savings and investment, reduce inequalities of income and wealth, and promote investment in under developed regions and in specific priority sectors. These objectives have been tempered by the need to enhance the ability of the tax system to raise revenues with minimum distortion in the economic decisions of taxpayers. In 1974, the personal income tax had as many as 11 tax brackets, with rates rising from 10 to 97.5 per cent, including surcharges. If the rates had climbed any higher, they would have gone into orbit! In the case of corporate, a distinction was made between widely and closely held companies and the tax rate varied from 45 to 65 per cent.

A Direct tax is a kind of charge, which is imposed directly on the taxpayer and paid directly to the government by the persons (juristic or natural) on whom it is imposed. A direct tax is one that cannot be shifted by the taxpayer to someone else.

The some important direct taxes imposed in India are as under:

Income Tax

Income Tax Act, 1961 imposes tax on the income of the individuals or Hindu undivided families or firms or co-operative societies (other than companies) and trusts (identified as bodies of individuals associations of persons) or every artificial juridical person. The inclusion of a particular income in the total incomes of a person for income tax in India is based on his residential status.

There are three residential status, viz.,

- (i) Resident and Ordinarily Residents
- (ii) Resident but not Ordinarily Residents and
- (iii) Non Residents.

Corporation Tax

The companies and business organizations in India are taxed on the income from their worldwide transactions under the provision of Income Tax Act, 1961. A corporation is deemed to be resident in India if it is incorporated in India or if it's control and management is situated entirely in India. In case of non-resident corporations, tax is levied on the income which is earned from their business transactions in India or any other Indian sources depending on bilateral agreement of that country.

Property Tax

Property tax or 'house tax' is a local tax on buildings, along with appurtenant land, and imposed on owners. The tax power is vested in the states and it is delegated by law to the local bodies, specifying the valuation method, rate band, and collection procedures. The tax base is the annual rateable value or area based rating. Owner occupied and other properties not producing rent are assessed on cost and then converted into annual rateable value by applying a percentage of cost, usually 6 percent. Vacant land is generally exempted from the assessment. The properties lying under control of central are exempted from the taxation. Instead a

'service charge' is permissible under executive order. Properties of foreign missions also enjoy tax exemption without an insistence for reciprocity.

Gift Tax

Gift tax in India is regulated by the Gift Tax Act which was constituted on 1st April, 1958. It came into effect in all parts of the country except Jammu and Kashmir. As per the Gift Act 1958, all gifts in excess of Rs. 25,000, in the form of cash, draft, check or others, received from one who doesn't have blood relations with the recipient, were taxable. However, with effect from 1st October, 1998, gift tax got demolished and all the gifts made on or after the date were free from tax but in 2004, the act was again revived partially. A new provision was introduced in the Income Tax Act 1961 under section 56 (2). According to it, the gifts received by any individual or Hindu Undivided Family in excess of Rs. 50,000 in a year would be taxable.

INDIRECT TAXES

The year 1991 was a watershed in the history of indirect taxes in India. Triggered by a serious balance of payments position and the consequent financial crisis, a process of far reaching reform, guided by the recommendations of the Tax Reforms Committee 1991, chaired by Mr. R. J. Chelliah, was initiated. Until then, the efficiency of the indirect tax system and compliance levels were severely compromised by very high rates of duty, coupled with a large number of exemptions for meeting a variety of socio economic objectives driven by policy imperatives similar to those on the direct taxes side. Unduly high dependence on import duties as a source of revenue was also a characteristic of the system. Such a tax structure was not conducive to high growth as it engendered a high cost economy riddled with tax cascading. It also did not raise adequate revenues commensurate with the tax rates and effort, thereby having a deleterious impact on the health of public finances.

An indirect tax is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the customer). An indirect tax is one that can be shifted by the taxpayer to someone else. An indirect tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products.

The some important indirect taxes imposed in India are as under:

Customs Duty

The Customs Act was formulated in 1962 to prevent illegal imports and exports of goods. Duties of customs are levied on goods imported or exported from India at the rate specified under the Customs Tariff Act, 1975 as amended from time to time or any other law for the time being in force.

Under the custom laws, the various types of duties are leviable.

(1) Basic Duty: This duty is levied on imported goods under the Customs Act, 1962.

(2) Additional Duty (Countervailing Duty): This is levied under section 3 (1) of the Custom Tariff Act and is equal to excise duty levied on a like product manufactured or produced in India. If a like product is not manufactured or produced in India, the excise duty that would be leviable on that product had it been manufactured or produced in India is the duty payable. If the product is leviable at different rates, the highest rate among those rates is the rate applicable. Such duty is leviable on the value of goods plus basic custom duty payable.

(3) Additional Duty to compensate duty on inputs used by Indian manufacturers: This is levied under section 3(3) of the Customs Act.

(4) Anti-Dumping Duty: Sometimes, foreign sellers abroad may export into India goods in their domestic markets in order to capture Indian markets to the detriment of Indian industry this is known as dumping. In order to prevent dumping, the Central Government may levy additional duty equal to the margin of dumping on such articles. There are however certain restrictions on imposing dumping duties in case of countries which are signatories to the General Agreement on Tariffs and Trade or on countries given "Most Favoured Nation Status" under agreement.

(5) Protective Duty: If the Tariff Commission set up by law recommends that in order to protect the interests of Indian industry, the Central Government may levy protective anti-dumping duties at the rate recommended on specified goods.

(6) Duty on 73 Bounty Fed Articles: In case a foreign country subsidizes its exporters for exporting goods to India, the Central Government may impose additional import duty equal to the amount of such subsidy or bounty. If the amount of subsidy or bounty cannot be clearly determined immediately, additional duty may be collected on a provisional basis and after final determination of the difference may be collected or refunded, as the case may be.

(7) Export Duty: Such duty is levied on export of goods. At present very few articles such as skins and leather are subject to export duty. The main purpose of this duty is to restrict exports of certain goods.

(8) Cess on Export: Under sub-section (1) of section 3 of the Agricultural and Processed Food Products Export Cess Act, 1985 (3 of 1986), 0.5% advalorem as the rate of duty of customs be levied and collected as cess on export of all scheduled products.

(9) National Calamity Contingent Duty: This duty was imposed under Section 134 of the Finance Act, 2003 on imported petroleum crude oil. This tax was also leviable on motor cars, imported multi-utility vehicles, two wheelers and mobile phones.

(10) Education Cess: Education Cess is leviable @ 2% on the aggregate of duties of Customs (except safeguard duty under Section 8B and 8C, Countervailing Duty under Section 9 and anti-dumping duty under Section 9A of the Customs Tariff Act, 1985). Items attracting Customs Duty at bound rates under international commitments are exempted from this Cess.

(11) Secondary and Higher Education Cess: Leviable @1% on the aggregate of duties of customs.

(12) Road Cess: Additional Duty of Customs on Motor Spirit is leviable and Additional Duty of Customs on High Speed Diesel Oil is leviable by the Finance Act (No.2), 1998, and the Finance Act, 1999 respectively.

(13) Surcharge on Motor Spirit: Special Additional Duty of Customs (Surcharge) on Motor Spirit is leviable by the Finance Act, 2002.

Central Excise Duty

The Central Government levies excise duty under the Central Excise Act, 1944 and the Central Excise Tariff Act, 1985. Central excise duty is tax which is charged on such excisable goods that are manufactured in India and are meant for domestic consumption.

The term "excisable goods" means the goods which are specified in the First Schedule and the Second Schedule to the Central Excise Tariff Act 1985. It is mandatory to pay Central Excise duty payable on the goods manufactured, unless exempted.

Various Central Excise Duties are:

(1) Basic Excise Duty: Excise Duty, imposed under section 3 of the 'Central Excises and Salt Act' of 1944 on all excisable goods other than salt produced or manufactured in India, at the rates set 4th in the schedule to the Central Excise Tariff Act, 1985, falls under the category of Basic Excise Duty in India.

(2) Special Excise Duty: According to Section 37 of the Finance Act, 1978, Special Excise Duty is levied on all excisable goods that come under taxation, in line with the Basic Excise Duty under the Central Excises and Salt Act of 1944. Each year the Finance Act spells out that whether the Special Excise Duty shall or shall not be charged, and eventually collected during the relevant financial year.

(3) Additional Duty of Excise: Section 3 of the 'Additional Duties of Excise Act' of 1957 permits the charge and collection of excise duty in respect of the goods as listed in the Schedule of this Act.

(4) Road Cess: (a) Additional Duty of Excise on Motor Spirit: This is leviable by the Finance Act (No.2), 1998.

(b) Additional Duty of Excise on High Speed Diesel Oil: This is leviable by the Finance Act, 1999.

(5) Surcharge: (a) Special Additional Duty of Excise on Motor Spirit: This is leviable by the Finance Act, 2002.

(b) Surcharge on Pan Masala and Tobacco Products: This Additional Duty of Excise has been imposed on cigarettes, pan masala and certain specified tobacco products, at specified rates in the budget every year.

(6) National Calamity Contingent Duty: National Calamity Contingent Duty was levied on pan masala and certain specified tobacco products vide the Finance Act, 2001. The Finance Act, 2003 extended this levy to polyester filament yarn, motor car, two wheeler and multi-utility vehicle and crude petroleum oil.

(7) Education Cess: Education Cess is leviable@2% on the aggregate of duties of Excise and Secondary and Higher Education Cess is Leviable@1% on the aggregate of duties of Excise.

(8) Cess: A cess has been imposed on certain products.

Service Tax & Sales Tax

The service providers in India except those in the state of Jammu and Kashmir are required to pay a Service Tax under the provisions of the Finance Act of 1994. The provisions related to Service Tax came into effect on 1st July, 1994. Under Section 67 of this Act, the Service Tax is levied on the gross or aggregate amount charged by the service provider on the receiver. However, in terms of Rule 6 of Service Tax Rules, 1994, the tax is permitted to be paid on the value received. The interesting thing about Service Tax in India is that the Government depends heavily on the voluntary compliance of the service providers for collecting Service Tax in India.

Sales Tax in India is a form of tax that is imposed by the Government on the sale or purchase of a particular commodity within the country. Sales Tax is imposed under both, Central Government (Central Sales Tax) and State Government (Sales Tax) Legislation. Generally, each state follows its own Sales Tax Act and levies tax at various rates. Apart from sales tax, certain states also imposes additional charges like works contracts tax, turnover tax and purchaser tax. Thus, Sales Tax Acts as a major Revenue Generator for the

various State Governments. From 10th April, 2005, most of the States in India have supplemented sales tax with a new Value Added Tax.

Value Added Tax

Value Added Tax can be computed by using any of the three methods:

- (a) Subtraction method: The tax rate is applied to the difference between the value of output and the cost of input.
- (b) The Addition method: The value added is computed by adding all the payments that is payable to the factors of production (viz., wages, salaries, interest payments and the like).
- (c) Tax credit method: This entails set-off of the tax paid on inputs from tax collected on sales.

IV. Conclusion

The government of India should be fixed tax rate in every year, during their good behaviour and many good schemes. India must be modernizing the tax collection system, and structural changes must be made for fair and speedy disposal solutions. Taxpayers who contribute to the nation, must be treated fairly, and must be conferred certain basic rights in investigation of cases of tax evasion against them, following procedures established in our country Taxpayer Rights. There is a lack of political will power to collect revenues that results in a narrow tax base on account of a number of politically motivated tax exemptions and deductions. So, taxes are important key or health of the nation in the world.

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