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THE IMPACT ANALYSIS OF TAXATION POLICIES ON INDIAN ECONOMIC GROWTH

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Abstract

This paper examines the impacts of taxation policies on Indian economic growth. The growth and development of a nation needs huge amount to invest, which government raises through taxes. Taxation has been the primary sources of revenue and every nation has its own tax structure through which they spend for the developmental activities. So the collection of taxes and fees are basics to generate public revenue investing infrastructure development, human capital and fulfilling the basic needs of the citizens. It is important to trace out the impacts of Tax revenue collection on economic growth and how the tax is helpful in improving many other development activities. This paper is based on the secondary data collection

Keywords: Tax revenue, Direct tax, Indirect tax and Economic growth

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INTRODUCTION

Since independence the Indian Taxation policies has been changing with recommendations of various investigating committees. The relationship between taxation and growth is playing a significant role in the economy. In ancient history the Indian books 'Manu Smiriti' and 'Arthashastra' had discussed about the taxation and according to the book the tax collection should be in such a way that the tax payer does not feel the tax burden. In the British period in 1860 James Wilson developed the modern taxation system, further in 1922 more codification has been adopted and there was a major development in the taxation policies was attempted in 1961 through the new act that is, Income Tax Act 1961. In 1961 this act was passed brought into effect, and it is still continuing with some minor changes by the government authorities. At present India has the structured and well developed three-tier tax system likely Central, State as well as municipal level and that practices the progressive and proportional taxation based on the income of the citizens and other relative factors. Even though with structured taxation policies still our economy faces with low Tax GDP ratio. According to the report of canarahsbclife.com, India's tax GDP ratio as of 2018-19 was 10.9%, a worrying low number compare to the OECD members state is around 34%. Because the high tax to GDP ratio indicates the government's ability to manage its expenditure patterns effectively without relying on excess debt.

REVIEW OF LITERATURE

Venkataraman and Urmi (2017), their study found that in the long-run, among the components of direct taxes, personal income tax had no impact on economic growth while corporate income tax had a positive statistically significant impact on economic growth. Further on Indirect taxes, the study found that in the log-run, whiles excise duty has no significant impact on economic growth, customs duty had a positive statistically significant impact. Their study concluded that policy makers must be circumspect in targeting which tax components to be used as tools in influencing long term economic growth and economic development.

Alagappan (2019), has stated in his paper that Indian Tax system is the lack of administrative efficiency and there is no coordination between the taxes to allow a well-organized, planned and coordinated tax system to evolve. In India, the rate of direct tax is very high, but the contribution to the total tax revenue is very low. Steps must be taken to curb tax evasion and tax avoidance. The exemption limit has been raised from time to time, but the levels of national and per capita incomes have failed to increase proportionately. India's new Goods and Services Tax marks a significant step towards achieving the country's long-held goal of economic liberalization.

Neog and Gaur K (2020), their paper found out the short-run and long-run relationship between different tax structure and economic growth in states of India. Their result suggests that the property tax enhancing growth and commodity and services taxes reduce it. They suggest that high property taxes are good for growth. In the case of commodity and service taxes, the results become opposite after the threshold point and affecting the growth negatively. They also found that there is no significant impact of income taxes on growth in both linear and non-linear regressions in the long-run.

Bholane P (2020), in his paper he stated that tax collection in India is dependent on indirect taxes. Corporation tax in the major contributor in direct tax revenue collection. General sales tax is the

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major contributor in indirect tax revenue collection. The contribution of indirect tax in GDP is more than that of direct tax. Government should try to increase the share of the direct tax in total revenue collection and for that structural reforms should be brought by the government. There is high need to consolidate and simplify the tax laws.

NEED OF THE STUDY

Taxation plays an important role in the development and growth of the economy. India has the strong three-tier tax structure which considered as major source of public revenue for the government to use for the spending purposes for their citizen. There is always the need to analyze about the taxation policies and their impact on the economic growth.

STATEMENT OF THE PROBLEM

India has structured tax system but also there are lots of problem in collecting the taxes and using that in the developmental activities now a days, such as lack of coordination, administrative inefficiency, lack of built-in-elasticity, corruption bias in incidence of taxes, imbalance in tax system, due to these issues, the revenue from the tax is not enough for the government to plan the public expenditure and the revenue lacks and the fiscal deficit problem arises. It is important to address the problems and find the solutions, should restructure the tax system which benefits both the people and government.

OBJECTIVES OF THE STUDY

1. To give the overview on Indian Taxation system.
2. To analyze the impact of taxation policies on Indian economic growth.
3. To suggest the policy implications.

RESEARCH METHODOLOGY

This study is based on secondary data only. The secondary data are collected from various government record and government websites and also includes books, journals, online articles, and published and unpublished sources.

CONCEPT OF TAX

The word 'tax' is derived from the Latin word 'Taxo'. Tax is the compulsory financial charge levied by the government on income, commodity, services, activities or transactions. Tax are the basic source of revenue for the government, which are utilized for the welfare of the people of the country. Taxes in India are levied by the central government and the state governments. Some minor taxes are also levied by the local authorities such as the Municipality. Article 265 of the Constitution states that no tax shall be levied or collected except by the authority of law. Therefore, each tax levied or collected has to be backed by an accompanying law, passed either by the Parliament of the State Legislature (Bholane, 2020).

CLASSIFICATION OF TAXES

The tax structure in India is classified into two categories namely direct tax and indirect tax.
Direct Tax: Direct taxes are imposed on individuals and corporate entities. These taxes are not

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transferrable to others. Income tax is the most important tax types of direct tax and this is levied during each assessment year from 1st April to 31st March. Accordance with Income Tax Act, 1961, it is compulsory to pay the income tax if the individual's income is above the minimum exemption limit and they can get tax benefits under various sections of the Act. The direct tax can be divided into two:

1. Income Tax
2. Corporate Tax

Income Tax: The income tax is levied on the income of individual, in India the nature of income tax is progressive.
Corporate Tax: The corporate tax is levied on the income of corporate firms. The company is treated as separate entity and thus must pay a separate tax different from personal income tax of its owner.
Indirect Tax: Indirect tax is in India is considered as largest sources of revenue for the government. The types of indirect taxes are:
Customs duty: Customs duty is applied to the goods being imported into India from other countries, and in a few cases on the goods being exported from India.
Excise Duties: Excise duty is a form of tax imposed on goods for their production, licensing and sale.

India's Tax Revenue Ratio of GDP

- India tax revenue percentage of GDP was reported at 7.8 percent in Dec 2022.
- This record an increase from the previous number of 7.7 percent for Sep 2022.
- India Tax revenue percent of GDP data is updated quarterly, averaging 7.3 percent from Jun 1997 to Dec 2022, with 103 observations.
- The data reached an all-time high of 10.8 percent in March 2015 and record low of 3.0 percent in June 2003 (CEIC Data).

Impact of Direct tax and Indirect tax on Economic Growth

As per the report of Business today, In the current financial year (FY23), the Central government has mopped up Rs. 16.1 lakh crore as the cumulative gross tax revenue for the seven months from April to October 2022. This is 18 percent higher than the gross tax revenue of R. 13.6 lakh crore collected in the same period in the last financial year 2021-22. Also this is more than 58 percent of budget estimates of Rs. 27.6 lakh crore for the complete FY23. This surge income tax collection is majorly driven 28 percent increase in the income tax and a 24 percent rise in the corporate tax over the collections of the corresponding years.
Both the direct and indirect tax revenues are important sources of the government revenue, it has a great impact on the economic growth of our nation. If the government increase the tax rates, people tend to save more for investment purposes and because of this reason the revenue may reduce and it will affect the economic growth, this will affect the production of luxury items and decreases the production affects the GDP. If there proper deduction are allowed according to the investment it will be helpful creating capital formation, increase the planned expenditure, availability of revenue to the government, and decrease in inflation rate.
Indirect are the transferable tax to consumer, it directly impacts the cost of goods and services. Hence the indirect tax encourage the producers and production. To keep maintaining their

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demand for the commodity they will adopt cost cutting measures and also helps the producers to utilize resources efficiently. From the consumers side they have the choices of their preferences, thus the market maintains the healthy competition in economy. It also leads to increase the demand for the luxury goods and it will increase the GDP.

ANALYSIS AND INTERPRETATIONS

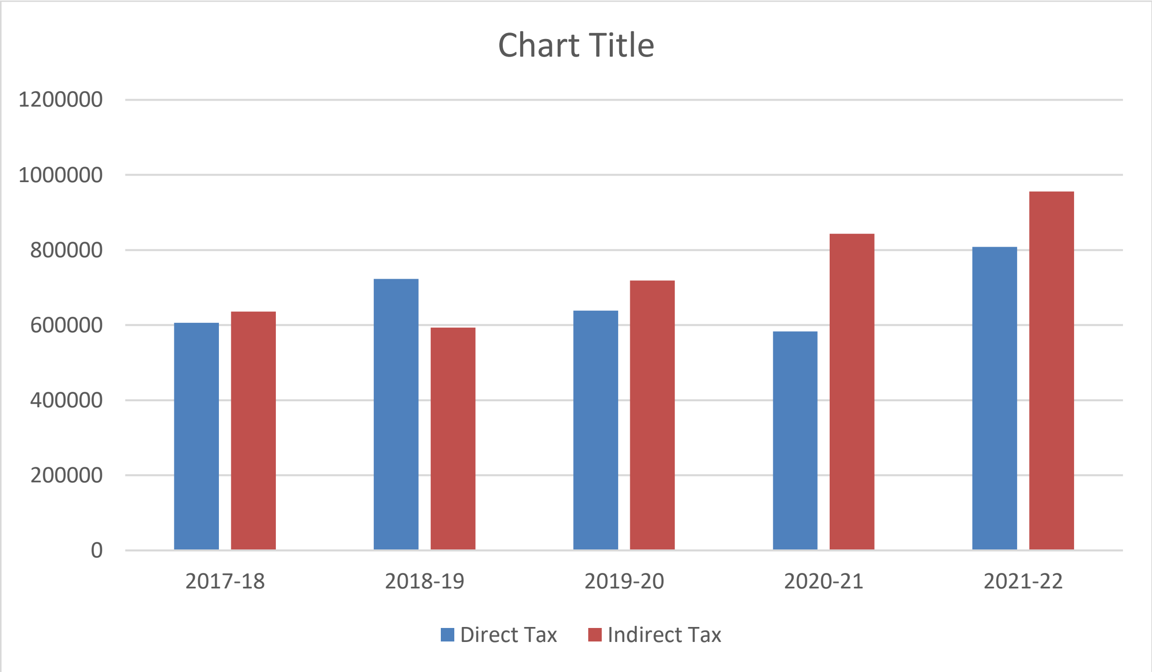
Following table no. 1 shows details of amounts raised from direct and indirect taxes by both central government.

Table. 1 Tax Revenue Collection in India (Rs. in crores)

Year	Direct Tax	Indirect Tax
2017-18	606216	636272
2018-19	723492	593719
2019-20	638365	718537
2020-21	583210	843077
2021-22	808800	956345

Source: Reserve Bank of India.

Figure. 1



Interpretations:

From the above graph, it is seen that the amount of revenue received from indirect taxes is higher than direct taxes. Hence it is observed that indirect tax constitutes the highest revenue collection.

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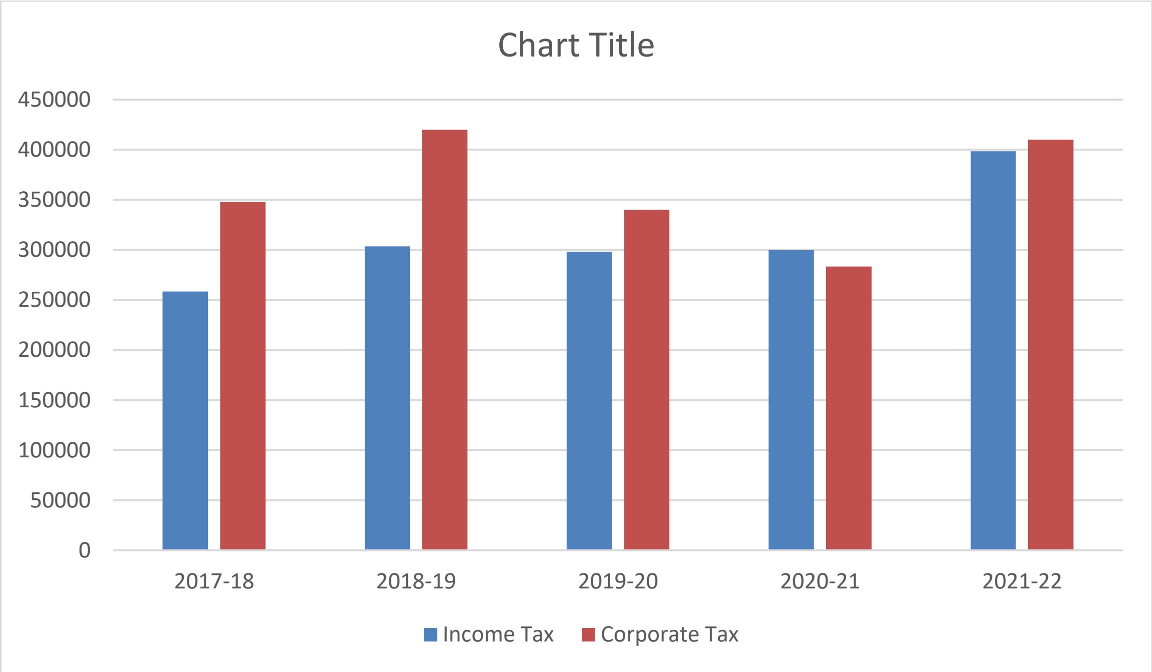
Table. 2 Direct Tax Collection in India (Rs. in crores)

Year	Income Tax	Corporate Tax
2017-18	258461	347712
2018-19	303508	419953
2019-20	298204	340143
2020-21	299689	283507
2021-22	398657	410135

Figure. 2



Interpretations:

From the above table.2 reveals that the corporate tax generates more income from 2017-18 to 2019-20, but is 2020-21, the income tax holds the major share than the corporate tax. Then in 2021-22 again the change in scenario the corporate tax increased but very less in amount.

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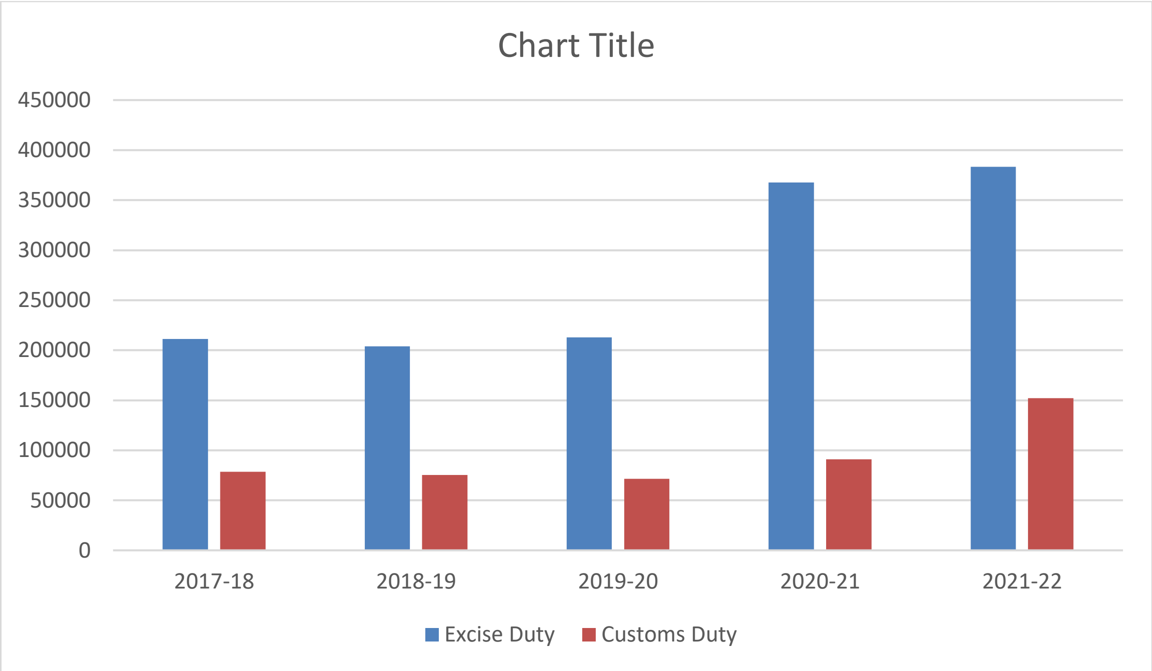
Table. 3 Indirect Tax Collection in India (Rs. in crores)

Year	Excise Duty	Customs Duty
2017-18	211393	78601
2018-19	204021	75231
2019-20	212988	71472
2020-21	367764	91070
2021-22	383289	152201

Figure. 3



Interpretations:

Table. 3 shows the revenue generation from excise duty and customs duty, Excise duty constitute more revenue than customs duty.

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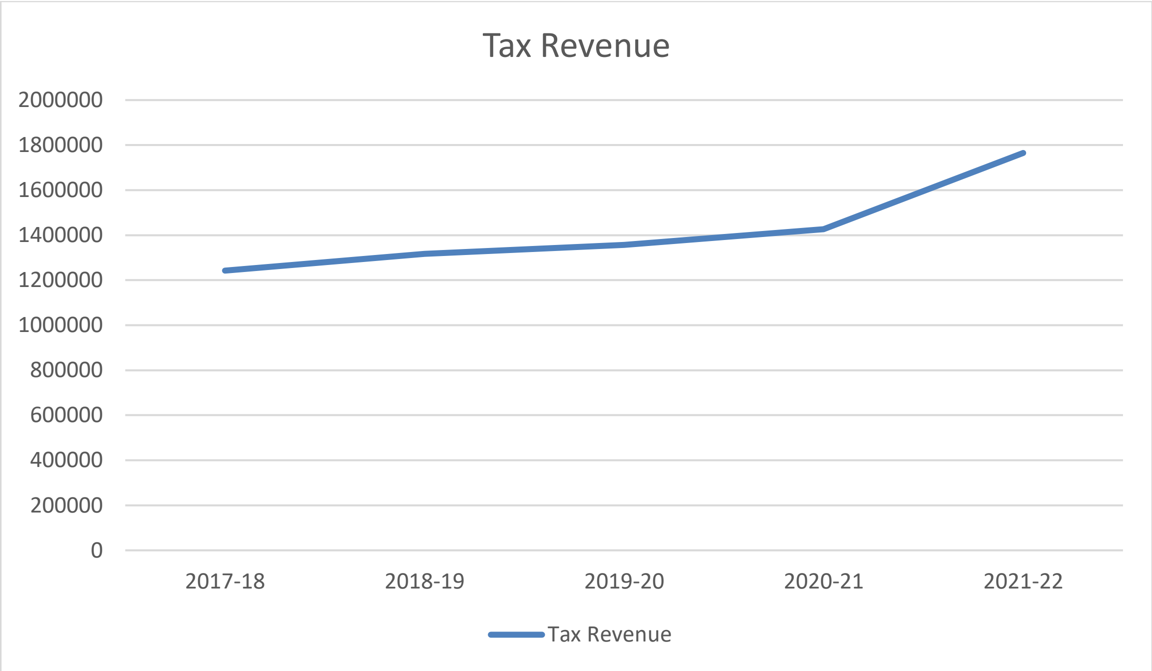
Table. 4 Total Revenue Collection

Year	Tax Revenue
2017-18	1242488
2018-19	1317211
2019-20	1356902
2020-21	1426287
2021-22	1765145

Figure. 4



Interpretation:

It is revealed from the above table. 4, that the tax revenue is increasing gradually over a period from 2017-18 to 2020-21. But in the year 2021-22, the tax revenue has been shown the sudden hike.

Findings

- The amount of revenue received from indirect taxes is higher than direct taxes. Hence it is observed that indirect tax constitutes the highest revenue collection.

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- The corporate tax generates more income from 2017-18 to 2019-20, but is 2020-21, the income tax holds the major share than the corporate tax. Then in 2021-22 again the change in scenario the corporate tax increased but very less in amount.
- The revenue generation from excise duty and customs duty, Excise duty constitute more revenue than customs duty.
- The tax revenue is increasing gradually over a period from 2017-18 to 2020-21. But in the year 2021-22, the tax revenue has been shown the sudden hike.
- It is revealed that the increase in tax revenue as direct and indirect tax, it helps in the Economic growth in the economy and increases the GDP.

Conclusion

In this study it is revealed that indirect tax is contributing higher share compare to the direct tax. Government of India is required consolidate and simplify the tax laws. The income tax share is less in the direct tax compare to the corporate tax, the Government should create awareness among the people and educate them about the tax laws. It will be helpful in increase the income tax. Government should take the steps to impose the indirect taxes to rich peoples and poor the indirect tax should not affect the poor people. Government should take important steps to increase the public revenue through the effective taxation system. It should also take the steps to reduce the tax evasion and tax avoidance.

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