



## STUDY ON REVIEW OF LITERATURE ON INCOME TAX IN INDIA

\*Manu Nandal and \*\* Dr. Gulab Singh

\*\*Research Scholar, Department of Commerce, SunRise University, Alwar, Rajasthan (India)  
\* Associate Professor, Department of Commerce, SunRise University, Alwar, Rajasthan (India)  
Email: [manu.nandal@gmail.com](mailto:manu.nandal@gmail.com)

**Abstract:** Income tax is levied on the taxable income of an assessee. Direct taxation is a tax that an assessee pays directly to the entity that imposes it. Direct taxes cannot be passed on by an assessee to a different person or entity. The assessee on whom the tax is levied is mainly responsible for paying it. Some of the major examples of direct tax include income tax and corporate tax. This research paper attempts to make an analytical review of Direct Taxation in India and accordingly three major research questions are raised. What is the quantum of direct tax collection? What is the contribution of direct tax collection towards the total tax revenue collection? And what is the cost of direct tax collection incurred by the government of India? This research is primarily based on secondary data and the duration for this research works is for a period of five years starting from the year 2013-14 to 2017-18. Analytical review has been made to understand the quantum of direct tax collection, the relationship between direct tax collection with the total tax revenue collection and the cost of direct tax collection in India.

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### Introduction:

A country is authorized to impose or collect taxation based on two principles: domicile and citizenship principle and source principle. The domicile and citizenship principle is the base for worldwide income-based tax while the source principle becomes the base for territorial-based tax. Nowadays a shift has occurred from the use of worldwide-based to territorial-based taxation system and this article aims at describing the strengths and the weaknesses of worldwide income-based and territorial-based taxation system. The implementation of worldwide-based taxation system has revealed that it is unable to reduce tax basis and prevent capital. The territorial-based taxation system, however, is able to reduce the companies' tax burdens which may increase competitiveness in global economy.

Income Tax Act was introduced in India by the British Empire in the month of February 1860. It was introduced through Income Tax Act number xxxi of 1860, which was passed by the legislative council of India and received the assent of the Governor General on 24th July 1860, (Priyabrata Panda et al, YEAR). Ever since then, income tax act has gone through numerous changes within its structure and design. Numerous amendments have been made from years to years to reach its present form of Income Tax Act 1961. In this research paper we shall be making analytical review of direct taxation in India. Direct

taxation is a tax that a person pays directly to the entity that imposes it. Direct taxes cannot be passed on by a person to a different person or an entity. The person on whom the tax is levied is responsible for paying it. Some of the major examples of direct tax are income tax and corporate tax. Direct tax is levied on the total income of person who is classified into the following seven categories as per Income Tax Act 1961. A person could be –

- i. An Individual
- ii. A Hindu Undivided Family (HUF)
- iii. A Company
- iv. A Firm
- v. An Association of Persons (AOP) or A Body of Individuals (BOI)
- vi. A Local Authority, and vii. Every Artificial Juridical Persons (AJP) not falling within any of the preceding categories.

Direct tax is collected by the government throughout the financial year. Different due dates has been fixed for the collection of taxes for different categories of the tax payers. In certain cases the government collects the direct tax well in advance throughout the financial year. The most common ways of tax collections in India are a) Advance & Self-Assessment Tax b) Tax Deducted at source (TDS) and c) Tax Collected at source (TCS). Prominent direct taxes imposed in India are Corporate

tax, Income tax and Capital Gain tax. Corporate tax is imposed on the corporate entities and it includes, MAT- Minimum Alternative Tax, FBT- Fringe Benefits Tax, DDT- Dividend Distribution Tax and STT- Securities Transaction Tax. While MAT is generally imposed on those companies who typically declare very little or zero tax liabilities in a given financial year. FBT is imposed of the fringe benefits provided by the company to their employees. DDT is imposed on the amount of dividend declared, distributed or paid to the shareholders by domestic companies and STT is imposed on the assessee at the time of purchase or sale of securities and other trade-able securities of companies listed on the stock exchanges in India. While Income Tax is imposed on the individual as well as other assessee on their annual taxable incomes, Capital Gain Tax is imposed on all the assessee who derived income from sale and gain of their investments and assets.

### Review of Literature:

Taxation is a major source of revenue for the Government. It is also a means of economic transformation and socio-economic cohesion. Taxation policy of a country has to play a vital role, particularly, by utilizing this weapon to the best advantage of the national economy. Specially, in a developing country like India, taxation has been used to promote multiple objectives such as to increase the rate of domestic savings, reduce inequalities of income and wealth and to maintain price stability. Revenue from taxes has provided a big support to the Government finances. Revenue from direct taxes is increasing day by day. Direct taxes are preferred to indirect taxes because they are more equitable, administratively effective and can be related to individual's ability to pay. Income-tax is the oldest tax in the direct taxes and has an important place in the direct tax revenue. Besides, agricultural income-tax and professional tax are also very important in the matter of economic stabilization. So, these taxes also play an important role in Indian direct taxes. This paper is an attempt to analyze and interpret the importance of taxation, especially direct taxation in India (Das Gupta et al., 1995).

VD Lall 1982, in his paper tried to find out the economic implication of direct taxes on individual and business. His study exposed that both average rate of tax and marginal rate of tax have bearing on mind set of the tax payer so there is need to give professional look to the present tax system of the country. Peter et al ,2001 investigated that taxation in its various form affect the ability and willingness of a individual to work , save and invest but the effect gets vary according to the base of tax, rate of tax and level of tax burden.

Ankita 2009, in her study propounded that a small attempt to rationalize the personal income tax structure can bring benefit to the govt as well as to the people in the form of ( i)increase in the number of assesses (ii) more compliance to the tax laws (iii) high rate of GDP and (iv) better well being of the individuals. Nirmala dorasamy,2011 provided an overview of personal income tax administration reforms as a mechanism to enhance collection of revenue on the one hand and availability of more pool of fund for welfare of the public on the other. The author found that a comprehensive tax policy encourage the individual to compliance tax law otherwise they adopt unfair mean to lessen their tax burden.

Tax has been defined by various authorities and professionals in various ways. Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public sector (Uremadu, 2000). According to Lymer and Oats (2009) tax is defined as a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets for which the taxpayer receives nothing specific in return.

Researchers have often used the term "non-compliance" to characterise the intentional or unintentional failure of taxpayers to pay their taxes correctly, and the term will be used in this way in this study. Unintentional non-compliance is the failure of a taxpayer, or of an intermediary acting on behalf of the taxpayer (in this case the employer), to remit the proper amount of tax to the authorities, perhaps on account of the complexity or contradictions in the tax legislation or tax administration procedures (Kesselman, 1994:62-84). It may arise from inadequate effort by the taxpayer or intermediary to ascertain its obligations. It may also stem from the complexity of tax provisions and the difficulty of applying them to the more complex situations of the real world. On the other hand, intentional non-compliance can be divided into two types of activities: Tax evasion and Tax avoidance.

Shackelford and Shevlin (2001) provide a careful and thorough review of empirical tax research in accounting in the prior Journal of Accounting and Economics review volume. Shackelford and Shevlin limit their review to research published in accounting outlets and describe the development of the relatively young archival, microeconomic-based income tax literature that arose from the Scholes and Wolfson framework. In his discussion of the review, Maydew (2001) emphasizes the need for tax researchers in accounting to think more broadly and to incorporate more theory and evidence from economics and finance. We agree. Tax research has a long history in many disciplines; this fact cannot be ignored. Our goal

in this paper is to integrate the theoretical and empirical tax research from accounting, economics, and finance, to summarize what is known and unknown, and to offer suggestions for future research.

Taxes potentially affect many “real” corporate decisions but their order of importance is still an open question. We review the literature on the tax effects in such decisions and focus, in particular, on the interactions and tradeoffs between tax and financial reporting incentives for these real decisions. Shackelford and Shevlin (2001) summarize that the field has much evidence that under certain conditions, such as high debt levels, firms will trade off taxes for higher accounting earnings when making reporting decisions and accounting method choices. Since Shackelford and Shevlin, research has provided evidence that even firms that fraudulently report accounting earnings will at times pay taxes on those earnings, thus sacrificing cash flow to alter a reported accounting number (Erickson, et al., 2004).

G. Garg, (2014) analysed the impact of GST on Indian tax scenario. He tried to highlight the objectives of the proposed GST plan along with the possible challenges and opportunity that GST brings. He concluded that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy i.e the industry, business including Govt. departments and service sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST. One of the biggest taxation reforms in India – the Goods and Service Tax (GST) is all set to integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India’s economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

Pinki et al., (2014) the authors in the paper have explored the concept of GST, the need to introduce it in India, the hurdles in introducing it in India and suggestions to overcome the same. The paper also discusses the benefits of introducing GST at the earliest. The authors have discussed the options to introduce the dual GST in India which could be Concurrent Dual GST, National GST or State GST. Under the concurrent dual GST the better option was the one where GST is applied on both goods and

services. The other option explored was whether the Central GST would be on goods and services but state GST would be only on goods since state to collect GST in services is difficult to determine. This option also recommended one single return with both CGST and SGST details and PAN based registration. The authors have also discussed the constitutional amendments required if GST is ever to be introduced since without the amendment taxing both goods and services using one tax is not possible. The paper also highlights the issues in the credit mechanism in the CGST/SGST model since it is difficult to practically implement in terms of determination of place where service is taxable. The other challenges to introduction of GST in India highlighted are the availability of strong IT network, infrastructure and programmes, agreement on other provisions like basic threshold, exemption to goods/services, rates to be applied, etc.

Saravanan Venkadasalam, (2014) has analysed the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries.

Shaik et al , (2015) studied the concept and impact of GST on Indian economy. The study also focused on some aspects of GST models. This study also covered the advantages and working of GST. The study concluded that GST in Indian framework will lead to commercial benefits which were untouched by VAT system and would essentially leads to economic development.

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