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THE INDIAN TAXATION SYSTEM AND ITS IMPACT ON THE ECONOMY

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ABSTRACT:
Taxation laws cover the rules, policies and laws that oversee the tax process, which involves charges on estates, transactions, property, income, licenses etc. by the government. The basic idea behind laying down taxes is to ensure collection of revenue and raise funds for the different programmes for citizens of the country. Though, the credibility of such process is still in question. There is a strategic, devised structure in every country with respect to the levying of taxes and the laws governing it. Taxation has an effect on various things, economy being the primary aspect. A proper structure assures proper income distribution and eliminates obstacles in business which in turn prospers the economy of the country. If there was no such structure there would be no regulations to govern the tax which would lower the development of the country in the economical aspect. This paper will include the effect of such taxation laws on the economy. The various factors such as improper distribution of wealth, existence of a parallel economy effects, the transparency in the tax collection etc. affect the economy of a country and hence, must be looked upon. In this paper, an attempt has been made to carry out a comparison with that of laws in the developed nations of the world. This paper will also include the barriers being faced in executing the existing laws and the measures which will be taken to overcome them, treating everybody as an equal in order to impart justice to all citizens of the country.

Keywords: taxation, economy, government, parallel economy, transparency.

Introduction:

Indian taxation system has roots back into the prehistoric texts such as Arthashastra and Manusmriti according to which the peasants and the artisans would pay taxes in the form of their agricultural produce, silver or gold. However the concept of the modern form of taxation adopted in India was proposed in the year 1860 by Sir James William. But after independence the government made few changes to that system keeping in view of the economic requirements of the country. The tax system has been modified ever since.[1]

In USA, the taxes are laid down on income, sales, gifts and customs, property etc by both the central and the state bodies. It is very progressive system and it mainly relies on direct taxes. In UK, taxes are levied on two levels i.e., the central and the local government. The central government levies taxes on income, fuel duty, VAT etc and the local government collects taxes for street parking, business rates and council tax etc. Further, the central government also

[1]AnandNayar and Inderpal Singh, The India taxation system- Scenario Before GST, A comprehensive analysis of Goods and Services tax (GST) in India (February, 2018). https://www.researchgate.net/publication/323007997_A_Comprehensive_Analysis_of_Goods_and_Services_Tax_GST_in_India?fbclid=IwAR12oJhgqXDNLD1G5HljhoFdyUpW6vv9POp0MXlEN2lbNhtmu2JmWwR70SU

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provides funds for welfare purposes to the local government. A similar system is followed in South Africa as wherein the two tier system is followed for the collection of tax. China depends on tax for the source of revenue because it follows socialist principles. It has 26 types of taxes divided under 8 categories.[2]

In India, at the beginning of the financial year, the ministry of finance presents the previous year's review and tells about the financial budget for the upcoming year while also suggesting changes. These changes or prospective amendments are considered as proposals and if majority is obtained in both the houses, followed by the consent of the President will become the law. It might be a prospective law (i.e., comes into effect on a future date) or retrospective (i.e., applicable for an existing law). Article 265 of the Indian constitution provides that taxes shall not be levied or collected except by the authority of law.
There are two types of taxes; direct tax which is collected from the citizens and the corporate entities (for example: - income tax, gift tax, wealth tax) and indirect taxes which is collected indirectly from people by levying taxes on goods and services (for example: - customs duty, Value added tax etc). GST came into force on the 1st of July 2017 until which the central, state and the local governments used to collect these taxes. GST replaced the central excise duty, service tax, sales tax, purchase tax, entertainment tax etc. Under this scheme CGST, SGST and IGST are applicable. CGST deals with the taxes which are collected by the central government when an intra-state transaction takes place. SGST deals with the taxes collected by the state government when an intra-state transaction takes place. Further, IGST is the tax which is collected by the central government when an inter-state transaction takes place. GST is destination based and is multi stage. It is extremely comprehensive and is levied on every value addition. GST basically reduces the tax on the tax which means the price of the good reduces. GST brought about uniformity in the taxation laws.
GST managed to reduce the cumbersome indirect taxes which were many in number. This not only reduced the price of the goods but also made the tax collection system more transparent among other things.

GST in other countries:
160 countries have adopted GST, France being the first country to adopt. GST is being followed in countries such as Canada, New Zealand, Malaysia, and Pakistan to name a few. The tax rate in India is 28% which makes it the country to having the highest tax rate. The procedure followed in India regarding GST is quite different from the other countries considering the fact that dual GST is applied in India wherein both the central and the state government have got the powers to levy the taxes.

Effect of GST on the economy of the country:

[2] Mr. NishantRavindraGhuge and CA Dr.VivekVasantraoKatdare, Overview of the Taxation structure, A Comparative study of Tax structure of India with respect to other countries (January 2016). https://www.researchgate.net/publication/301477624_A_Comparative_Study_of_Tax_Structure_of_India_with_respect_to_other_countries?fbclid=IwAR1D7TbVh17UyErVAV9ipPdF9JlyyhF2anCwmnDWd2gNMV1Ygo71XbPYV5k

Equalisation of products and services takes place and affixed rate of tax is set up in GST. Many tax reforms have taken places after India's independence out of which GST remains the biggest ones. The main objective behind it was to formulate a marketplace which is common by removing the existing fiscal barriers within the states.
The multiple taxes were all removed which was prevalent on every step from manufacturing to reaching the consumer. It unifies the centre and the state for the purposes of tax collection.

The State Goods and Service Tax (SGST) collect the pre-existent purchase tax, luxury tax, tax on lottery, gambling etc.and Central Goods and Service tax (CGST) came in place of the customs and excise duty, central sales and service tax. There also exists an Integrated Goods and Service Tax (IGST) which makes sure that the tax is received by the state which imports the good. The dealers are required to register under GST and then the customers will be charged on the goods and services that they avail. Taxes are collected from the customers who may or may not be the ultimate consumers and the tax already paid will be deducted before paying the exchequer.[3]

Since the Indian economy is getting more globalised day by day, bringing in GST will lead to a single tax payment which will enhance the position of our country in a global level. Inhibition of inflation will take place and the tax to GDP ratio will rise. GST therefore plays a major role in enhancing the economy of the country.[4]
The implementation of GST removes the cascading effect on the cost of production of goods and services as well as cost of distribution. The GDP will rise when the prices reduce. Removal of tax barriers (which is the main object of GST) results in low supply chain cost. GST also reduced the Production costs of most of the goods up to 20%. GST also increases the revenue which is collected through tax. The existing distortions in the economy will be removed and it will lead to a sustainable growth.[5] GST enhances the standard and cost of living. This is because the GDP will increase due to the increase in the consumption of the goods because of its low price. Further, the export of goods also will increase which indirectly affects the balance of payment of the country in a positive manner. The evasion of tax payment which is a common tactic used by huge companies and firms, can be curbed to a great extent because of the taxation on every transfer.[6]

Before the implementation of GST, if the production unit and the dealer were from separate states, a separate sales tax had to be paid which led to many production units in several states. This eventually increased the price of the commodities. But after the

[3] Volume No. 27, NeelamTandon and Deepak Tandon, Analytics of GST Enigma in India-Pospects, Imolications& Rollout (2017).

[4] Volume No. 19, Dr. Yogesh Kailash Chandra Agrawal, GST and its impact on Indian economy (2017).

[5] Lourdunathan F and Xavier P, A study on Implementation of GST in India: Prospectus and challenges (International Journal of Applied Research 2017).

[6] Yogesh Garg and Jyoti Gupta, An exploratory study on Evolution & Implementation of GST in India, 243 (2017).

implementation this practice came into a halt.

The main positive outcome of the introduction of GST was curbing of a large number of unnecessary, cumbersome taxes. This reduced the compliances. It rationalised the tax structure and also provided a wider base for tax than before. A proper structure was put forward which harmonised the relationship between the centre and the state. A common market will be created nationwide.

The burden of a common man to pay hundreds of taxes is taken away by the implementation of GST. The circulation of black money can be curbed to a large extent. A corruption less surrounded around the country. GST gives credit to the producers who pay tax which in turn motivates them buy more materials from different dealers which invites more vendors.[7]

The custom duty was removed by GST which increased the competitiveness in the global word due to the reduced cost of the transaction. The foreign direct investment (FDI) increases because of the increase in the exports. Demand and supply of products increase which raises the employment opportunities'. Goods and service tax network (GSTN) is a joint venture by the centre and the state as a non-government company which provides IT infrastructure and services. The objective of GSTN is to provide and uniform tax interface.

GST and its impact on the real estate sector:

The real estate sector comes under one of the fast developing sectors. The lifestyle and standard of living has changed over the period of years due to globalisation and modernisation which indirectly has led to the growth of the real estate sector. The growth in the real estate sector directly leads to the growth of the Indian economy. It has been found out that that the real estate sector contributes 9% to the economy.[8]

Real estate basically includes the land with the buildings and natural resources like crops, livestock, deposits of minerals etc. In India there are 4 types of real estate; land, residential real estate, industrial real estate and commercial real estate. Land includes the farms, ranches and the land which is vacant. Residential real estate includes school, colleges, hospitals, shopping centres and offices. Industrial real estate includes the production centres like buildings, warehouses and property. Buildings used for the purposes of manufacturing, production or storage of goods are included in the industrial real estate. Commercial real estate comprises of residential apartments like flats, independent houses, duplexes etc.[9]

Prior to the introduction of GST, indirect taxes were levied on this sector. All the taxes which were paid before aren't subsumed even after the introduction GST. In India, due to the federal powers conferred, both the centre and state can lay down the taxes and collect them. Under such

[7] Volume no. 3, Esha Bansal, A study on the impact of GST on Indian Economy (2018).

[8] Volume No. 3, Prof.Dr. Suresh Kumar Dhameja, Deepak Kumar and ManikaDhameja, GST in India and its impact on Indian economy (2016).

[9] CA. Susmit Das, Overview of GST in Real Estate Sector (2018).

powers, the states still collect the stamp duty.

Section 9 of the Central Goods and Services Act, 2017, defines the leviability of GST. Section 7 read in light with section 9 of the Act gives a clear picture as to what the taxes must be levied. Schedule II of the Act further specifies about the transactions which come under real estate.

A person is required to register in the state or the union territory in which he pays the tax if the turnover is more than 20 lakhs and 10 lakhs if it is a state under the special category, as per section 22. This basically means that the builders and manufacturers having production units in different states must make registrations in all those states and the concept of centralised registration is done away.

Section 25 of the GST act also describes about distinct person according to which a person having multiple registrations will be considered to be a distinct person. So this concept has allowed the ones in the real estate sector having their business across different states to pay their GST from one state to another.

Section 12 of the act further deals with the place of supply which helps to determine whether the goods are supplied between 2 different states or within itself and also ascertain as to where the goods are being consumed. Place of an immovable property is dealt by the place of supply for general services.

Construction and other services provided in the real estate business come under the continuous supply of services as per section 2(33) of the act. After the introduction of GST, a new inclusion was made for delay in payment. Earlier, this was not present mostly because delay of payment of was a common thing in the sector. When a transfer takes place with respect to land, 2/3rd of the amount charged for the supply will taxed. And 1/3rd of the amount that is totally charged will be the amount charged for the land. GST ensures that credit is made available to the buyer for each and every transaction which would reduce the construction costs.

Several amendments have been made with respect to the rate of taxes to be paid under the real estate sector. The government has laid down different tax rates for different states. 18% tax must be paid for services in the real estate business (for example: - construction work) excluding the value of the land. Moreover, 18% tax is charged on the renting of immovable properties as well. Any building which is built for the purposes of sale requires the developers to pay 12% tax including complete input tax credit which won't be refunded.

Impact of GST on other industries:

The services provided by the telecom industries are taxed at a rate of 18%, much higher than earlier tax rate.

Levying of 8 types of taxes on the pharmaceutical industries has ensured that the impact is constructive. Moreover the tax rate ranges between 5 to 12%.

The GST on the textile industry reduced from 18% to 5% and the input tax credit is available only when the tax is collected from the capital goods which mean it won't be allowed if it is collected from the unorganised sector.

Abolition of the special addition duty took place which was earlier present on the iron and steel industry, before GST came into existence. 12- 28% tax is levied on the iron and steel industry. Further, an attempt is made to keep the logistics low by levying the taxes for transportation of steel lower than 5%.

Tax rate of 18% is levied on the automobile industry which is much lower compared to the earlier rate of 30-45%, which increases the profit for manufacturers, consumers and the dealers. The automobile industry went through a lot of profit due to this. Throughout the nation hassle free taxation system is adopted which affects most of the industries in a positive way due its uniformity.

The agriculture industry also saw number of changes after the implementation of GST. The agricultural products which are in high demand and are used in great quantities were brought under the zero tax categories. 12% tax is levied on the processed food products. It is believed that the higher tax rate would reduce the demand which would indirectly reduce the production of the products.

FDI and its impact on the Real estate sector:

Foreign direct investment is when a company from a different country buys an enterprise or a company in a country where it plans to expand its business. The countries hosting the often are boosted with higher growth in the economy which increases the global competition. Further it leads to the growth in the income of the citizens in the country because of the introduction of new technologies, new markets etc. Globalisation of economy takes place through foreign direct investment.[10]

Real estate sector comes under one of the most critical sectors in India. This is mainly because the Indian economy is greatly affected by the business taking place in the real estate sector. Therefore it has attracted a lot of investments from countries globally.

There are several issues when it comes to foreign direct investment in India. The infrastructural facilities are not up to the mark. This discourages the investors in the international market from investing in India. Electricity issues are a major concern which puts the investors into thinking. The labour laws in our country are very stringent and the investors are required to be taking permission from the state government before setting up any business. Therefore even for retrenching the labour permissions are to be taken from the government which is cumbersome and the permission is rarely given. Moreover the corruption which is found in almost all the government and public offices drives away the foreign investors. The legal hurdles, improper reforms in the different institutions and corruption issues within the government offices prevalent in our country, drives the investors away. The state doesn't have much power with respect to policy making or introducing reforms with respect to investments made by the foreign companies.

[10] VenkateshUmashankar, Ph.D and Mrs. Kirti Dutta, Foreign Direct Investment in the Indian Real Estate Sector – Problems and prospects (2006).

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The rate of corporate tax is high which is a disincentive for the investments. The government is very unstable and indecisive which affects the foreign investments.

The economy, the government policies, the availability and skilled labours, the availability of necessary infrastructure in low cost are some of the determinants of the investment in India. The presence of rich natural resources also attracts the investors towards the real estate sector.

India is a developing country and it requires investment to be made from other countries because of scarcity in the capital. There are many other issues to be addressed such as health, education, poverty, employment, research, development etc with that capital. Foreign investment bridges the gap between the savings and the income. The extraction of the abundant natural resources requires foreign investments in our country. The balance of payment will be improved by FDI. Moreover the competition increases among the internal and external investors which in turn lead to the development.

Foreign Direct Investment is a requisite in the real estate sector to portray professionalism and to ensure transparency. The real estate sector is booming day by day and the growing economy is resulting in the rise of the prices of the property. The rise in the population also is increasing the demand for more shopping centres, more apartments and houses. The demand for housing facilities is rising day by day. Real estate sector provides employment facilities, being the second largest after agriculture.

However, the real estate in India is still in its infancy and it's not very organised. The local developers have hardly got any national fame and the hue companies are not involved in the development of the real estate sector completely. Large projects require higher revenues and the small scale builders are devoid of sufficient revenue to undertake risks attached with them. The domestic builders fail to provide technical expertise and don't invest in huge numbers which hinders the development of cities or towns. The government thus allowed the foreign direct investment in the real estate sector from January 2002.[11]

The Foreign direct investment increased over the years due to the relaxation of the rules and regulations by the Indian government. In spite of this the FDI/ GNP ratios are low due to deterring investors which is because of the cumbersome investment approval procedures and lack of transparency in the same. State bodies own the land in urban areas, procurement of which is a tedious procedure. Lack of a clear title, control of tenancies, further pose a threat to the investments. Thus the procedure for land procurement must be simplified.

There are many risks associated with foreign direct investment in India. The real estate sector is not transparent as per the requirements of international transactions. The turnover of the tenants maybe very frequent due to short leases. The market and the governance in our country are not sophisticated and are very immature. There are no stringent and uniformity with respect

[11] Volume 5, Abhishek Vijaykumar Vyas, An analytical Study of FDI in India (2015).

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to the quality of building standards. Unexpected changes in the tax policies further affect the investments in India.

It is estimated that the real estate sector contributes around 6.3% to the GDP and it is estimated that will create around 8 million jobs during the period. By the end of the year 2025, it is expected that this will rise up to 17 million.

The year 2018, saw a remarkable change wherein the government allowed 100% FDI. Basically it means that the foreign investors do not need the approval from the government for investing in the real estate channels mainly construction and commercial purposes. 100% FDI is allowed in the building and development of townships, development projects such as restaurants, resorts, hospitals, roads, bridges etc. Basically the builders and developers must complete the trunk infrastructure.

In case of housing there is no minimum area requirement but in the case of development and construction projects, a minimum floor area of 20,000 square metres is required. The quantum of investment within 6 months of starting the project must be a minimum of USD 5million. The investor will be permitted to exit only after the completion of the trunk infrastructure such as roads, hospitals, bridges etc. The construction should follow all the rules and regulations in the country governing the land and real estate. The company which is investing can the sell only those lands which it has developed. Certain regulations are relaxed for Non Resident Indians.

Impact of GST on the Foreign Direct Investments in India:

The introduction of GST boosted the confidence of the foreign investors to invest in India. GST mot only supports the make in India concept but also invites more investors. Corporate transparency is boosted by the implementation of the GST. The tax compliance increased after the implementation of GST which reduces the litigations and boosts the confidence of the foreign investors looking to invest in India.
Introduction of GST removed the cascading effect, raised the threshold for registration, reduced the compliances, increased the efficiency in logistics and regulated the unorganised sector. This made the business environment very convenient for the foreign investors. GST set up uniform tax rules across India and made sure that there is very less intervention from the bureaucrats.

Conclusion:

A good taxation system is necessary to bring in revenues for the government and makes sure that there is fair and equal distribution of wealth. The main object behind implementing GST was to bring in transparency in the system and encourage more investments while unifying large number of unnecessary taxes into one. Economy of a country depends on an efficient taxation system and the taxation system of India saw the introduction of GST. GST brought about a single, uniform tax in place of a diversified tax bringing in a single marketplace in India. While many of them criticised this step taken by the government, the system did prove to be a boon to most of the industries; the real estate sector being one of it. The real estate sector is very vulnerable and gets affected by minute changes. Since it is not possible to get maximum positive development through the resources available in the country, Foreign Direct Investment is adopted by which the foreign investors invest in our country and bring about significant changes in the economy. Both FDI and GST have greatly helped in the development of the real estate sector. While one has made the taxation system more transparent the other has made sure that developments and investments take place. Moreover, they are inter-related and play a significant role in the development of the real estate sector.

However, many factors such as technological developments, industrial revolution, upcoming government policies etc might bring about changes. It is time which will tell how effective the system and what more changes need to be brought about.

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