Q. Discus the Indian tax system elaborately.

The Indian tax system basically begins from the *Income Tax Act* of 1961 which is the chief tax law passed by the Parliament of India which imposes a tax on income of individuals & corporations. The Act imposes tax on income under the following 5 heads:

1. Income from house & property,
2. Income in the form of Capital gains,
3. Income from business & profession,
4. Income from salaries, and
5. Income from other sources

There are 3 tiers of government in India, these are union government (at the Centre), state governments (in the respective states) and local bodies/local governments (including Village Panchayat, Panchayat Samiti, Municipalities and Municipal Corporations) at the local level. Since the various layers of government operate simultaneously, confusion and financial conflict is a possibility. So, to prevent such disputes, there are guidelines or rules, regarding the distribution of the revenues and expenditures amongst the different layers of the government. The system or organisation of such rules is called 'federal finance'.

Article 246 of the Indian Constitution, allocates legislative powers, including taxation, between the Parliament & the State Legislature. These matters are categorised under three lists;

- **List - I (Union List)** covers the areas on which only the parliament can make laws,
- **List - II (State List)** covers the areas on which only the state legislature can make laws, and
- **List - III (Concurrent list)** lists the areas on which both the Parliament & the State Legislature can together make laws.

The revenue collected from taxes is distributed between the Centre & states in the following manner:

1. **Central tax revenues only for the Central Government-** Central Government levies taxes and collects the revenues from such taxes (e.g. Corporate Tax, Tax on capital values of assets, which are a property, or Capital Gains Tax excluding land and Customs Duty). No part of the revenue collected through these taxes is transferred to the state governments.

2. **Central tax revenues shared with the states-** the Central Government levies taxes, but a part of the revenue is shared with the states (e.g., Income Tax and Central Excise Duty).

3. **The Central Government levies taxes, but entire revenues are given to the states** (e.g. Wealth Tax and Real Estate duty or Property Tax).

4. **State tax revenues only for states** – State governments levy and collect tax revenues (e.g., Sales Tax/VAT, Motor Vehicle Tax and Stamp Duty).

To monitor the transfer of funds from the Centre to state governments, the share of tax revenues is based on the recommendations of the **Finance Commissions**. The President of India sets up the Finance Commission, every 5 years, under **Article 280** of the Constitution.

Two major organisations that deal with taxation are

1. **Central Board of Direct Taxes-** This board comes under the Revenue Department of the Ministry of Finance, Govt. of India. It provides important inputs for planning and policy of direct taxes in India. It is also in charge of administration of the direct tax laws through the Income Tax Department.

2. **Central Board of Excise and Customs-** is one of the oldest government departments of India. It is in charge of administration of the direct tax laws through the Income Tax Department and also provides important inputs for planning & policy of direct taxes in India.

Major direct taxes in India

A. Personal Income Tax

1. Income tax is an annual tax forced every year. Assessment year begins from 1st April and finishes on the next 31st March. The tax is imposed in respect of the income of the preceding year i.e., the financial year.
2. The income tax is paid on the total income of person, evaluated on the grounds of her/his residential status in India.
3. Non-resident Indians (NRIs) don't need to file a tax return if their income involves only interest & dividends, on condition that taxes are deducted at source on such income.
4. The taxable income includes the subsequent heads:
    - Salaries;
    - Income from house property;
    - Profits & gains of business or profession;
    - Capital gains;
    - Income from other sources.

Income Tax Slab	Tax Rates As Per New Regime
₹0 - ₹2,50,000	Nil
₹2,50,001 - ₹ 5,00,000	5%
₹5,00,001 - ₹ 7,50,000	₹12500 + 10% of total income exceeding ₹5,00,000
₹7,50,001 - ₹ 10,00,000	₹37500 + 15% of total income exceeding ₹7,50,000
₹10,00,001 - ₹12,50,000	₹75000 + 20% of total income exceeding ₹10,00,000
₹12,50,001 - ₹15,00,000	₹125000 + 25% of total income exceeding ₹12,50,000
Above ₹ 15,00,000	₹187500 + 30% of total income exceeding ₹15,00,000

B. Corporate Tax

1. Corporate tax is levied on incomes of registered companies/corporations in the country (whether national or multinational/foreign).
2. Tax on overseas companies is imposed on incomes that arise from actions taken in India.

3. Domestic organizations are subject to tax at a basic rate of 35 per cent and a 2.5% surcharge. Foreign corporations have a basic tax rate of 40% and a 2.5% surcharge.

C. Capital Gains Tax

1. Profits generated from the sale of capital assets are taxable as capital gains. The tax is applicable in the year in which the sale of the capital asset takes place.
2. Capital assets are all types of assets (movable or immovable) like business stocks, paintings, jewellery and ornaments and farmhouses.
3. The capital gain or net profit, which is taxable, is a difference between the price at which the asset is sold and the price at which it was purchased.
4. A capital gain can be due to the sale of a short-term or long-term capital asset.
5. Long-term capital gains are taxed at a basic rate of 20%.
6. Short-term capital gains from equity shares or mutual funds are taxed at a rate of 10%.

D. Property Tax

1. Property tax is measured on the value of a property. Vacant plots, without any neighbouring building, are not liable to be taxed under this head.
2. The properties that are liable to be taxed as property tax in India are:
    - Residential Houses (Self-Occupied or Let-Out)
    - Office Buildings
    - Factory Buildings
    - Go-downs (Warehouses)
    - Flats
    - Shops

3. Property taxes range from 6 per cent to 10 per cent, depending upon the city.

E. Wealth Tax

1. Wealth tax is a tax on the profits derived from property ownership. Whether such property yield any income or not, the tax is to be paid year after year on the same property on its market value.
2. It is not imposed on productive assets. So, investments in shares, debentures, mutual funds, etc. are exempted from it.
3. The assets that are accountable to be taxed are guest house, residential house, commercial building, motor car, jewellery, gold, silver, boats & aircrafts, urban land & cash in hand (in excess of Rs 50,000) etc.
4. Net wealth tax is imposed at 1 per cent on a taxpayer's net assets if it goes beyond Rs. 10 million (as of 2012).

F. Gift Tax

Gifts in the form of cash, demand draft, bank cheques, or anything having value were covered under it. Introduced in 1958, this was ended in 1998. Again, reintroduced in 2004 under the Income Tax provisions.

Trends of direct taxes in India

Year	in crores		As a percent of total tax revenue	
	Personal income tax	Corporation tax	Personal income tax	Corporation tax
1980-81	438	1311	4.68	14.01
1990-91	1250	5335	2.91	12.41
2000-01	2,3766	25177	17.39	18.42
2010-11	1,02,406	209115	17.97	36.70
2020-21	4,71,000	4, 57,00	28.10	28.3

In 1980-81, personal income tax accounted for 4.68 percent of total tax collections. However, the relative contribution declined over the years it came down to 2.91 percent in 1990-91. The reasons were tax evasion and avoidance and due to slow down of the economy. After the tax reforms initiated in 1991, the percentage share of both personal income tax and corporation tax in total tax collections has increased. During the 2020-21 fiscal, the net corporate tax collection stood at Rs 4.57 lakh crore, while net personal income tax as Rs 4.71 lakh crore.

Sharing of taxes between Centre and State governments

Separate areas 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).

13 areas are included in List-I for taxation by the Central Government:

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 or any substance included in (ii);
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 other types of taxes not listed in any of the three lists of Seventh Schedule of Indian Constitution.

19 areas are included in List-II for State taxation:

1. 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;
2. Taxes on agricultural income;
3. Duties in respect of succession to agricultural income;
4. Estate Duty in respect of agricultural income;
5. Taxes on lands and buildings;
6. Taxes on mineral rights;
7. 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;
8. Taxes on entry of goods into a local area for consumption, use or sale therein;
9. Taxes on the consumption or sale of electricity;
10. Taxes on the sale or purchase of goods other than newspapers;
11. Taxes on advertisements other than advertisements published in newspapers and advertisements broadcast by radio or television;
12. Taxes on goods and passengers carried by roads or on inland waterways;
13. Taxes on vehicles suitable for use on roads;
14. Taxes on animals and boats;
15. Tolls;
16. Taxes on profession, trades, callings and employments;
17. Capitation taxes;
18. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling;
19. Stamp duty.