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A COMPARATIVE STUDY OF TAX STRUCTURE OF INDIA WITH RESPECT TO OTHER COUNTRIES

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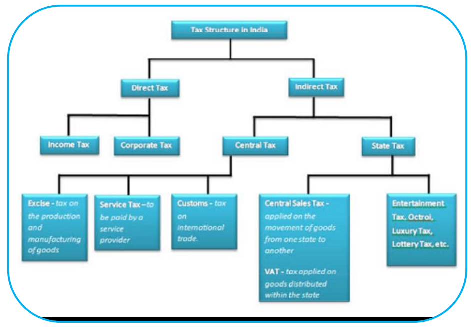
ABSTRACT:
In the present paper an attempt has been made to study the taxation structure of India by comparing it with some of the developed and developing economies. The Comparison is done by selecting a sample of five countries and comparing their tax structures with India with respect to the parameters like Tax to GDP ratio, overall ranking in economy, Ease of Tax Payments, Total tax and contribution rate (TTCR), Time to comply with taxation formalities & Number of payments. It was found that in most of these parameters India tax Structure remains way behind than the other selected countries.



KEYWORDS: *Tax Structure, India, Comparison of Tax*

INTRODUCTION

A tax is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state to fund various public expenditures. Taxation Structure of any country is the set of rules and laws set up by that particular country for the collection of taxes from the public. The Fundamental objective of collecting Tax is to raise government revenue for development and welfare programs in the country. The Secondary objectives is to maintain economic equalities by imposing tax to the income earners and improving the economic condition of the general people, to encourage the production and distribution of the products of basic needs and discourage the production and harmful ones, to discourage import trade and protect the national industries (Bhim Chimoriya). Growth and Development of a Country is largely dependent on the Taxation Structure it adopts. High taxation rates and complex tax systems curb growth. Complex Taxation System also results in evasion of taxes and thus increase the parallel economy. Complex Tax Systems are also responsible for hampering the ease of doing business. Whereas countries with simplified taxation systems has resulted in facilitating ease of doing business as well as growth and development of that particular country. India being one of the largest democracies has a very complex taxation structure featured with a large number of taxes, excessive and complex tax literature (rules and laws), and inefficient administration. According to the white paper published by Indian government on black money in 2012, Government cannot deny the presence of parallel economy in the country. The amount of this parallel economy is nearly equal to the GDP. This huge existence of parallel economy certainly denotes certain faults in the taxation structure of India. In

This Study we are Comparing Indian Tax Structure with the other developing and developed countries Tax Structure in order to analyze Indian tax structures strengths and weaknesses.

LITERATURE REVIEW:

(CBGA-India, 2015) in its working paper on International Comparison of Tax Regimes concluded that the progressivity of the tax structure in India is far below the international levels. Also it has stated that the country needs to increase its tax-GDP ratio for adequate resource mobilization. It raised questions on tax administration in India. It also raised questions on number of tax exemptions given in India and stated that there is a need to reassess India's tax system. (Jane Gravelle, 2014) in its working paper on International Corporate Tax Rate Comparison and Policy Implications has concluded that the corporate tax rates in USA can be reduced down to 25 % by removing certain provisions and exemptions. (Helene Poirson, 2006) in its working paper on The Tax System in India: Could Reform Spur Growth has stated that a tax reform combining lower statutory rates with base broadening could help achieve a regrowth fiscal adjustment in India. It also stats that tax productivity estimates suggest ample scope for raising direct tax revenue through the removal of exemptions and improved tax administration and compliance.

OBJECTIVES:

1) To Study the Tax Structure of India with respect to the tax structures of developed countries and other developing countries 2) To Compare Tax Systems on the basis of some of the key indicators like Tax to GDP ratio, Total Tax Rate (%age), Time to Comply (hours), No of Tax Payments etc. 3) To Identify where India Ranks w.r.t to ease of Tax Payments and ease of doing business in the world.

RESEARCH METHODOLOGY:

The Sample for this study have been taken as India, 2 developed countries (US and UK), 2 developing countries (South Africa and Mexico). Additionally china is also considered due to its geographic and demographic similarities to India. All the Countries which are selected are practicing democracies (exceptchina) and it is seen that due to their overall economic conditions, there taxation structure is comparable. The Taxation Structure were compared with the help of some of the key indicators. Comparative Charts are drawn for all this selected countries to help easily understand the performance of all the selected countries with respect to the key indicators. All the Countries which are selected are practicing democracies (except China) and it is seen that due to their overall economic conditions, there taxation structure is comparable. The Taxation structure were compared with the help of some of the key indicators.

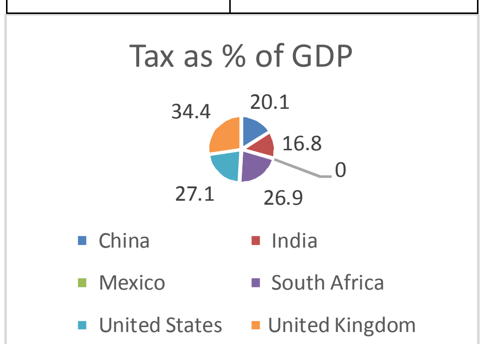
OVERVIEW OF TAXATION STRUCTURES:

Following is the summary of tax Structures of selected countries 1) India :- India has a three tier tax structure where taxes are levied by Central Government, State Government and Local Authorities like Municipal Corporations. In India, the authority to levy a tax is received from the constitution. In constitution there is clear demarcation of respective taxes to be collected by center and the states. Article 265 of the Indian Constitution states that "No Tax Should be levied without the authority of Law". Hence abiding to the constitution, every tax in India is backed by its respective accompanying law passed by either parliament or state legislative councils. In India, the taxes are classified as Direct Taxes and Indirect Taxes. 2) USA: - The United States of America is has its autonomous state and local governments. It is a federal republic country. Taxes in USA are levied by both autonomous state and the local governments. The taxes include, taxes on income, property, sales, capital gains, dividends, estates, gifts and imports. The Taxation System followed in USA is Progressive Tax System. Taxes are incurred on incomes of the individual. The reliance on direct taxes is more than the indirect taxes 3) UK: - In the

United Kingdom, Taxes is levied at two levels i.e. central government and the local government. Income tax, VAT, Corporate tax, Fuel duty etc. are levied by central governments. Business rates, Council Tax, street parking charges etc. are collected by local governments. In addition local governments also receive grants from funds of central government. Taxation in United Kingdom is simple and easy to understand with high administrative efficiency. 4) South Africa: -Similarly like United Kingdom, taxation in South Africa is also levied at two levels i.e. central government and local government. South African revenue services (SARS) acts on behalf of state government for the collection of taxes. Income tax, Corporate Tax, Vat and fuel duty are collected by central government whereas local government collect municipal rates and funds from central government. 5) Mexico: - In Mexico Taxes like Income Tax, Corporate Tax, and Alternative minimum tax are charged. Income Tax in Mexico is progressive i.e. from 1.92 % to 30 %. Corporate Tax rates are 30 %. Alternative minimum tax is 17.5 %. Capital gains are added to regular incomes and regular income tax is charged over them. 6) China: - China being a communist country following the principles of socialism depend largely on the taxes for its revenue sources. Tax is the important element of the macroeconomic policy of china and has a high impact on socio-economic conditions in china. From the reforms in 1994, china has a well-structured taxation system. There are currently 26 Types of taxes in china which according to their nature can be divided into the following 8 categories: Turnover Taxes, Income Taxes, Resource Taxes, and Taxes for Special Purpose, Property taxes, Behavioral Taxes, Agricultural taxes and Custom duties.

DATA ANALYSIS AND INTERPRETATIONS:
INTERPRETATION:
Tax to GDP Ratio:

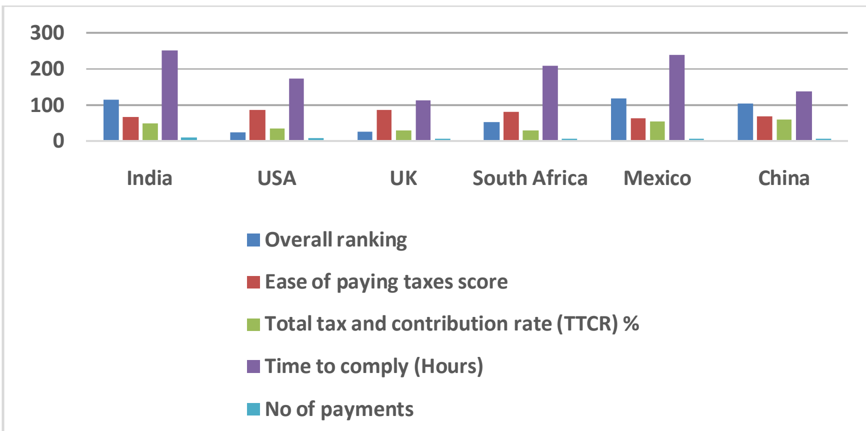
Country	Tax as % of GDP
China	20.1
India	16.8
Mexico	23.7
South Africa	26.9
United States	27.1
United Kingdom	34.4



Source: PWC Tax Payment 2019

Tax-GDP ratio is one of the methods used to assess a country's development and is calculated by dividing the tax revenue collected by the Government from the GDP of that country. Tax and GDP are related, since a higher GDP will automatically lead to a higher tax collection (a higher GDP is an indicator that there has been an increased overall development in the country and hence a higher per capita income). In the above it is clear that India is having the lowest tax to GDP ratio amongst the all developed and developing nations. India's tax to GDP ratio is also less than the world average. The low tax to GDP ratio can be due to the reasons like tax evasion, low per capita income, exemptions provided on different types of income.

Sample countries	Overall ranking (Economy)	Ease of paying taxes score	Total tax and contribution rate (TTCR) %	Time to comply (Hours)	No of payments
India	115	67.6	49.7	251.88	10.9
USA	25	86.8	36.6	175	10.6
UK	27	86.2	30.6	114	9.0
South Africa	54	81.2	29.2	210	7.0
Mexico	120	65.8	55.1	240.5	6.0
China	105	70.1	59.2	138	7.0



Source: PWC Tax Payment 2019

Overall economy:

India World Bank survey amongst 189 countries stands fifth in the countries compared when it comes to overall economy of the country.Other developing and developed countries selected in the sample other than Mexico stands far ahead of India.

Ease of tax payments:

India World Bank survey on ease of tax payments amongst 189 countries, India Ranks much higher to the other developed and developing countries compared in the sample. These denotes that India is slowly moving from complex tax system and structure to much simplified tax structure with the introduction of GST. Other developing and developed countries selected in the sample are behind India. India has simplified its Tax Administration so that there will be ease of tax payments.

Total tax and contribution rate:

Total tax rate measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits. The total tax rate of India is quite high. Only China and Mexico exceeds India's total tax rate amongst the selected sample. In spite of such high tax rate, India's Tax to GDP Ratio is amongst the lowest. These raises severe concerns over the overall Indian Tax Policy and Administration.

Time to Comply:

Time to prepare and pay taxes is the time, in hours per year, it takes to prepare, file, and pay (or withhold) three major types of taxes: the corporate income tax, goods and service tax and state levies including payroll taxes and stamp duty levies etc. Total time taken for tax compliances in India is again high as compared to the developed countries. When we compare it with developing countries then it is the highest. India needs to reduce down its tax compliance time at the levels of developed countries in order to attract more businesses in India

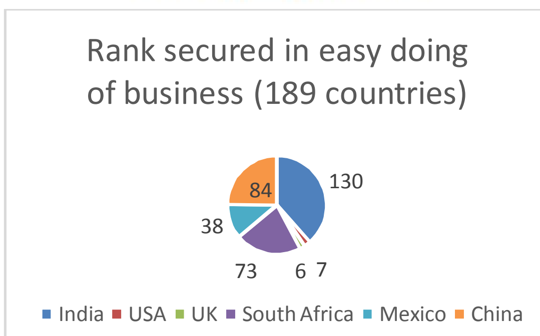
No of Payments:

Tax payments by businesses are the total number of taxes paid by businesses, including electronic filing. The tax is counted as paid once a year even if payments are more frequent. India lags behind very much when compared against this indicator. India has a huge number of tax payments i.e.10.9. Whereas all other countries selected in the sample are quite ahead with relatively very less no of tax payments. This is due to the excessive number of taxes and multiplicity of taxes in India. India needs to cut down on certain number of taxes or club them. Recent happenings to bring GST to replace most of the indirect taxes is one of the positive step towards clubbing of taxes. Reduction in no of payments of taxes will also reduce time for compliances of the taxes.

Ease of doing business: (Rank among 189 countries):

Country	Rank Secured in easy of doing business amongst 189 Countries
India	130
USA	7
UK	6
South Africa	73
Mexico	38
China	84

Source:- World Bank Data



Tax has a greater impact on doing business. More is the tax policy simplified, higher is the ease of doing business. More is the tax policy complex, lower is the ease of doing business. This above effect can be seen here. India ranks 130 in ease of doing business in Indiaamongst 189 countries. The other countries in the selected sample are very ahead of India in this rankings. Complex Tax System and administration is one of the major reasons of India lagging behind in ease of doing business.

FINDINGS:

1) India has low Tax to GDP Ratio 2) India also has a significantly higher Tax Rates as Compared to the selected sample 3) India has significantly higher time required for tax compliance as compared to developed countries. However it is par with the developing countries. 4) The total no of Tax Payments

in India are very higher as compared to the countries in selected sample and the world average. 5) India Ranks very behind i.e.10.9 among 189 countries in ease of Tax Payments 6) India Ranks very behind i.e. 130 among 189 countries in ease of doing business

CONCLUSION & RECOMMENDATIONS:

After comparing India with the other developing and developed countries on this 6 criteria, it is seen that Indian tax structure lags behind on almost every indicator. There is a strong requirement for a serious review and actions from the government in simplifying the tax structure. A country's economic progress is hugely depend on the type of taxation structure it adopts. With the advent of GST, it is strongly believed that complexity of taxation will be taken care to a great extent. There is a need that both the central governments, state governments and opposition parties should come together and work closely in simplifying the taxation structure keeping away the political motives. We are hopeful that the government will put these acts together in achieving the desired results.

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