Tax

Why in the news?

The Income Tax Bill, 2025 is expected to be tabled soon that will introduce changes in Standard Deduction, which will go on to benefit individual salaried taxpayers and pensioners.

What is Tax?

- A tax is a ***mandatory financial charge or levy*** imposed by the government on individuals, businesses, or organizations to fund public expenditures.
- It is enforced under the authority of law, and non-compliance leads to legal penalties.
- ***Article 265*** of the Indian Constitution states that "*No tax shall be levied or collected except by authority of law.*"

What are the powers of Taxation?

- **Union List (Entry 82-92A)** – Empowers the central government to impose taxes like Income Tax, Corporate Tax, and GST on interstate trade.
- **State List (Entry 46-63)** – Allows states to levy *Property Tax, Excise on Liquor, and GST on intrastate trade*.
- **Concurrent List (Entry 35)** – Includes *Stamp Duty* and other shared taxes.

What is the Legal Obligation & Enforcement?

- **Tax evasion** – Is a criminal offense under *Income Tax Act, 1961 (Section 276C)* and can lead to *penalties or imprisonment*.
- **GST fraud or evasion** – Is punishable under GST Act, 2017 (Section 122-138).

What are the Types of Taxes?

Direct Taxes

- Taxes levied directly on individuals or organizations and the burden of taxation cannot be transferred to others.
- Direct Taxes (Income Tax, Corporate Tax) are governed by *Income Tax Act, 1961*.
- The direct taxes include:
    - **Income** Tax – Levied on an individual's earnings based on slabs.
    - **Corporate Tax** – Imposed on the net profits of companies.
    - **Capital Gains Tax** – Charged on profits from the sale of assets like property or stocks.
    - **Securities Transaction Tax (STT)** – Applied to trades on stock exchanges.

Indirect Taxes

- Taxes *imposed on goods and services*, where the *burden can be shifted*.
- Indirect Taxes (GST, Excise and Customs) are governed by *GST Act, 2017, Customs Act, 1962*, etc.
- Indirect taxes include:
- **Goods and Services Tax (GST)** – A comprehensive indirect tax replacing multiple previous levies.
- **Customs Duty** – Applied on imports and exports.
- **Excise Duty** – Previously levied on manufacturing; now mainly applies to petroleum and alcohol.

Progressive Taxation	Regressive Taxation
In Progressive Taxation, Higher earners pay a larger share (e.g., Income Tax, Corporate Tax).	In Regressive Taxation: Affects lower-income groups more (e.g., GST, Fuel Taxes, Toll Taxes).

What are the Recent Reforms in Taxation?

- **GST Implementation (2017)** – Unified multiple indirect taxes, reducing tax complexity.
- **Faceless Tax Assessments (2020)** – Aims to reduce corruption by making tax scrutiny digital.
- **Corporate Tax Cut (2019)** – Reduced corporate tax rates from 30% to 22% for existing firms and 15% for new manufacturing firms.
- **New Income Tax Regime (2020)** – Introduced lower tax rates with fewer exemptions.
- **New Income Tax Regime (Budget 2025-26)** – Incomes up to 12 lakh rupees are exempt from taxation under the new regime.
- **Rationalization of Direct Tax Code** – Ongoing reforms to simplify tax laws and reduce litigation.

What are the Impacts of the Revised Income Tax Regime (No Tax for people earning below 12 lakh crore)?

Economic Impact

- **Boost to Consumption** – *Higher disposable income* can *increase demand* for goods and services, particularly in urban areas.
- **Multiplier Effect** – Increased spending can *stimulate production and job creation*, benefiting industries like retail, real estate.
- **Fiscal Cost** – The estimated cost of tax exemptions is around *1 lakh crore rupees*, potentially affecting government revenue.

Social Impact

- **Middle-Class Relief** – Provides *financial relief* to the middle class, improving their savings and investment capacity.
- **Widening Inequality Concerns** – High-income groups still benefit more from tax

cuts, while lower-income groups primarily bear the indirect tax burden.
- **Encouragement for Formal Employment** – Lower tax rates could *incentivize individuals to move towards formal jobs* where income is taxable.

Business and Investment Impact

- **Increased Savings and Investment** – Higher disposable income may *encourage household savings* in financial instruments like *mutual funds, PPF and insurance*.
- **Sectoral Growth** – Increased spending can benefit sectors like automobiles, housing, tourism, and consumer goods.
- **Impact on MSMEs** – Small businesses may benefit from increased consumer demand, leading to higher sales and expansion opportunities.

Government Revenue and Fiscal Management

- **Short-Term Revenue Loss** – Reduction in tax collection might *increase fiscal deficit concerns*.
- **Shift towards Indirect Taxes** – Lower income tax collection may push the government to *rely more on GST and excise duties*.
- **Impact on Social Sector Spending** – Reduced tax revenue may lead to *constraints in spending on health, education, and infrastructure development*.

Behavioral and Compliance Impact

- **Simplified Tax Filing** – The revised regime, with fewer exemptions, *reduces complexities and makes tax compliance easier*.
- **Lower Tax Evasion** – A simpler structure may reduce incentives for underreporting income.
- **Financial Planning Shift** – Taxpayers might reduce reliance on tax-saving investments (like insurance and PF) due to the removal of deductions in the new regime.

What are the Challenges in Tax Administration?

- **Tax Evasion and Black Money** – A significant portion of income remains untaxed due to underreporting and offshore accounts.
- *Informal economy* transactions *often escape the tax net.*
- **Low Tax Base** – Only around *6.68% of Indians file Income Tax Returns* (FY 2023-24).
- *Dependence on indirect taxes* (which are regressive) is high.
- **Complex Tax Compliance** – Frequent GST rate changes and compliance burdens for small businesses.
- Different tax slabs and multiple exemptions create administrative inefficiencies.
- **Litigation and Dispute Resolution Issues –** Over *4.8 lakh direct tax cases* are pending in various courts.
- *Transfer pricing issues and corporate tax disputes* are time-consuming.
- **GST Implementation Challenges** – Revenue collection inconsistencies due to evasion and refund frauds.
- States' dependence on GST compensation grants from the Centre.

What is the Way Forward?

- **Expand the Tax Base** – Formalize the informal sector and promote digital transactions.
- Implement *Aadhaar-PAN linkage to track high-value transactions*.
- **Simplify Tax Laws and Compliance** – Further streamline GST slabs for better predictability.
- Introduce a *Direct Tax Code (DTC)* to reduce ambiguities.
- **Strengthen Tax Enforcement and Reduce Evasion** – Use of AI and data analytics for better fraud detection.
- Strengthen *anti-money laundering mechanisms* to curb black money.
- **Improve Dispute Resolution Mechanisms** – Increase the efficiency of tribunals like *ITAT (Income Tax Appellate Tribunal)*.
- Implement *fast-track resolution schemes* for pending cases.
- **Reduce Dependence on Indirect Taxes** – Make direct taxes more progressive to reduce the burden on the poor.
- Increase wealth and capital gains tax contributions to government revenue.

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References

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