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Analytical Review of Direct Taxation in India.

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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.

Key Words:

Tax Revenue, Direct Taxation, Cost of Tax Collection, Income Tax Act 1961.

Introduction:

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

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- 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 assesseees 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 assesseees on their annual taxable incomes, Capital Gain Tax is imposed on all the assesseees who derived income from sale and gain of their investments and assets.

Literature Review:

Mahfooz Ahmed, (1968), in the article, "Cost of Tax Collection in India", concluded that if the cost of collecting taxes is the sole criterion for choosing between various taxes, than of the major central taxes, customs duties and income tax and excise duties are preferable to income tax. Direct taxes are costlier to collect than indirect tax.

Das-Gupta, Arindam, Radhika Lahiri and Dilip Mookherjee (1995), in their research paper, Income Tax Compliance in India: An Empirical Analysis observed that, the tax revenues collected and tax compliance was significantly affected by tax structure (marginal tax rates and exemption limit).

Nishant Gauge and Katdare (2015), in the article, "Indian Tax Structure – An Analytical Perspective" identified the amount of tax revenue collected from different types of taxes over the period of four years, amount of indirect tax collection was nearly twice the amount collected from direct taxes.

Pramod Kumar Pandey (2017), in their article titled, "The Impact of Indian Taxation system on its Economic Growth" identified that there exist an impact of direct and indirect taxes on the economic growth of India.

Research Methodology:

The major research objectives of this study are to explore the answer for the following three research questions. 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?

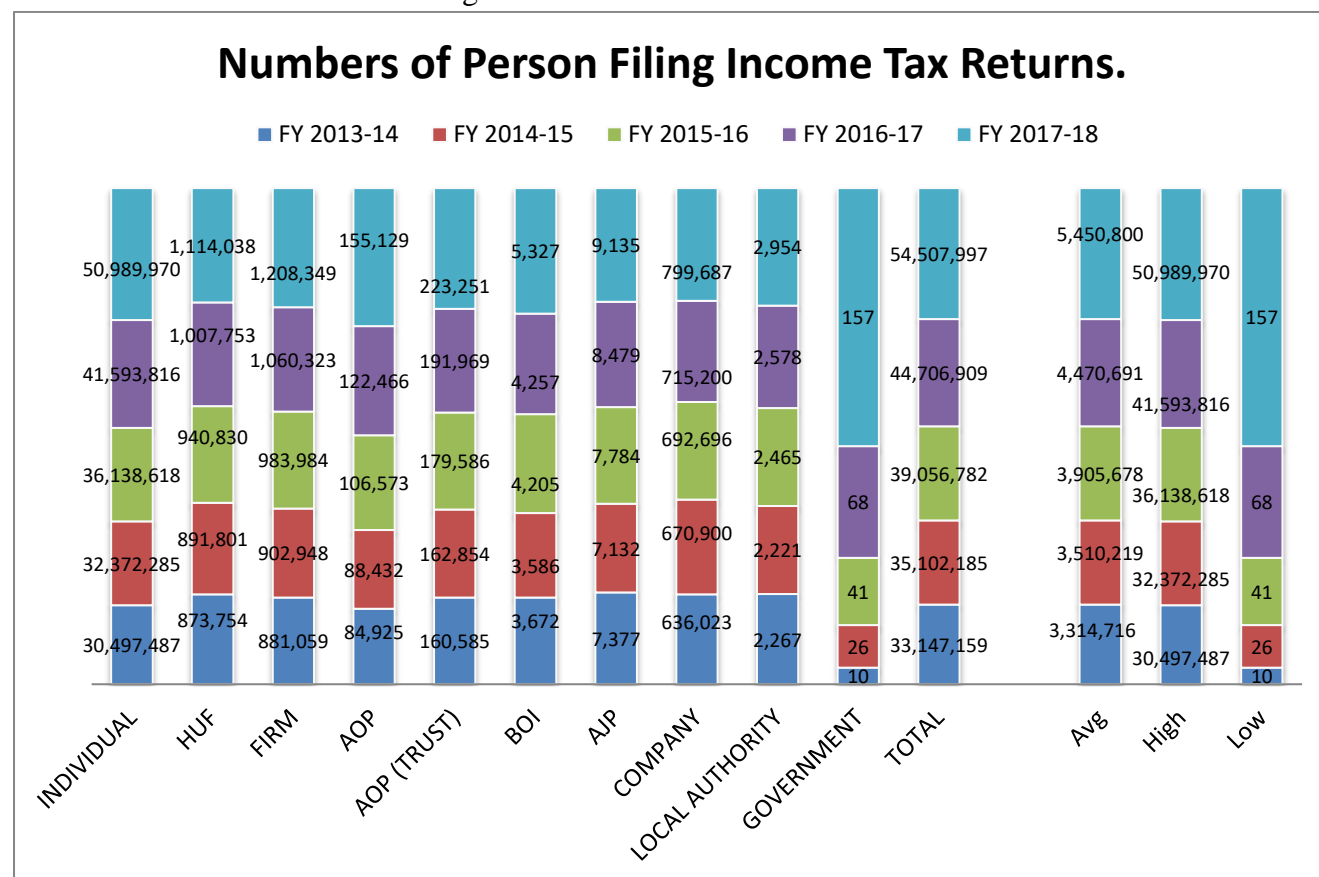
This research is exploratory in nature and is primarily based on the secondary data, which has been collected for the websites of taxation authorities, regulatory bodies, central board of direct taxes, and various ministries of government of India. The secondary data has been retrieved, extracted, tabulated and presented in the form of tables and charts for the purpose of this research. MS office and MS excel tools has been extensively used and applied for the purpose of data presentation, analysis, interpretation and to arrive at pertinent and relevant conclusions.

Data Analysis & Interpretation:

1. Number of Person Filing Income Tax Return. (Return Filers).

As discussed earlier, there are seven categories of persons under the income tax act 1961 who file their income tax returns. We are analysing the numbers of persons who have been filing the income tax return during the five years period of research starting from 2013-14 to 2017-18. Following table no, 01 shows the numbers of persons filing income tax returns.

Table 01: Number of Persons Filing Income Tax Return.



Source: Compilations by the researchers from www.incometax.gov.in

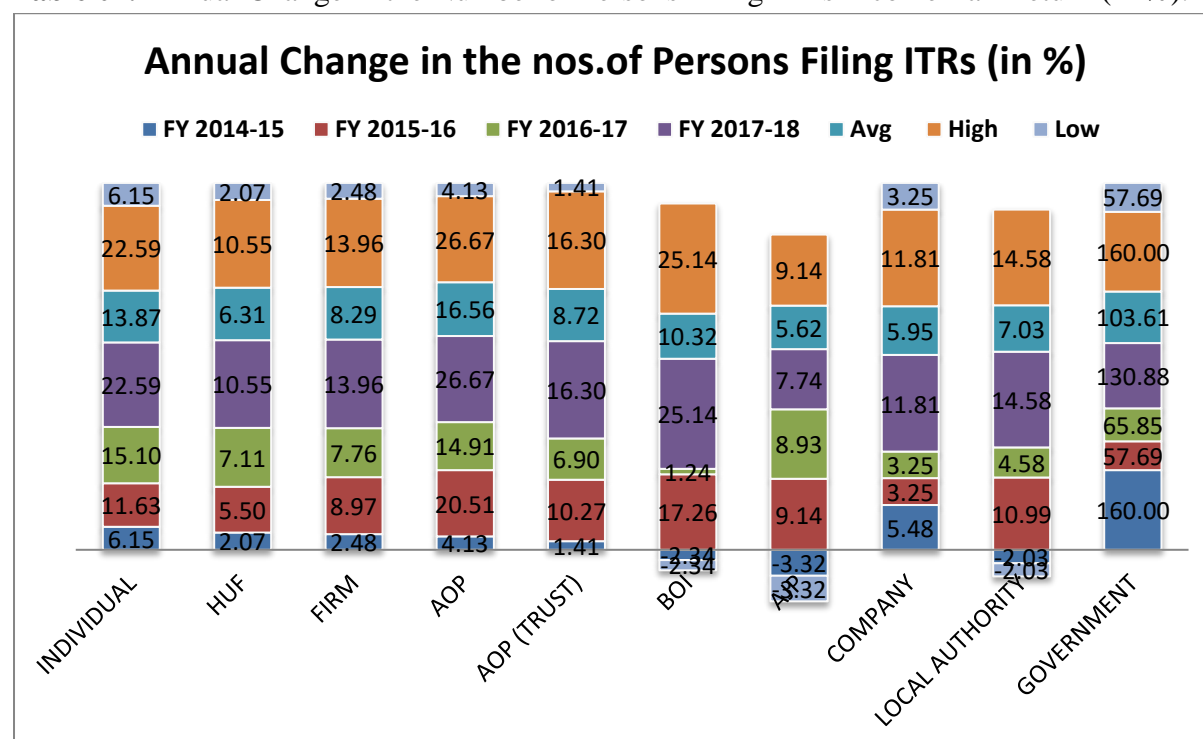
During the year 2013-14, the average numbers of the tax return filers were 33,14,716. The highest numbers of 3,04,97,487 tax return filers were the Individuals and the lowest numbers of 10 tax return filers was the Government. During the year 2014-15, the average numbers of the tax filers

were increased by 5.90% to 35,10,219. The highest numbers of tax return filers were Individuals, which increased by 6.15% to 3,23,72,285 and the lowest numbers of 26 tax return filers was the Government which also increased by 160%. During the year 2015-16, the average numbers of the tax filers were increased by 11.27% to 39,05,678. The highest numbers of tax return filers were Individuals, which increased by 11.63% to 3,62,38,618 and the lowest numbers of 41 tax return filers was the Government which also increased by 57.69%. During the year 2016-17, the average numbers of the tax filers were increased by 14.47% to 44,70,691. The highest numbers of tax return filers were Individuals, which increased by 15.10% to 4,15,93,816 and the lowest numbers of 68 tax return filers was the Government which also increased by 65.85%. During the year 2017-18, the average numbers of the tax filers were increased by 21.92% to 54,50,800. The highest numbers of tax return filers were Individuals, which increased by 22.59% to 5,09,89,970 and the lowest numbers of 157 tax return filers was the Government which also increased by 130.88%.

2. Annual Change in the Number of Persons Filing ITRs Income Tax Return (in %).

The numbers of persons filing the income tax returns are analysed to interpret the annual changes in terms of percentage that has occurred among the different persons during the five year period of the study. Table no. 02, below depicts the annual changes that has occurred in the number of persons filing ITRs - Income tax Returns.

Table 02. Annual Change in the Number of Persons Filing ITRs Income Tax Return (in %).



Source: Compilations by the researchers from www.incometax.gov.in

During the five years period from 2013-14 to 2017-18, the annual changes in the number of tax return filer expressed in terms of percentage has been analysed keeping the year 2013-14 as a base year.

According to the above table 02: Annual changes in the numbers of tax return filers in percentage, while in the case of Individuals tax return filers, it is observed that, the average percentage change is

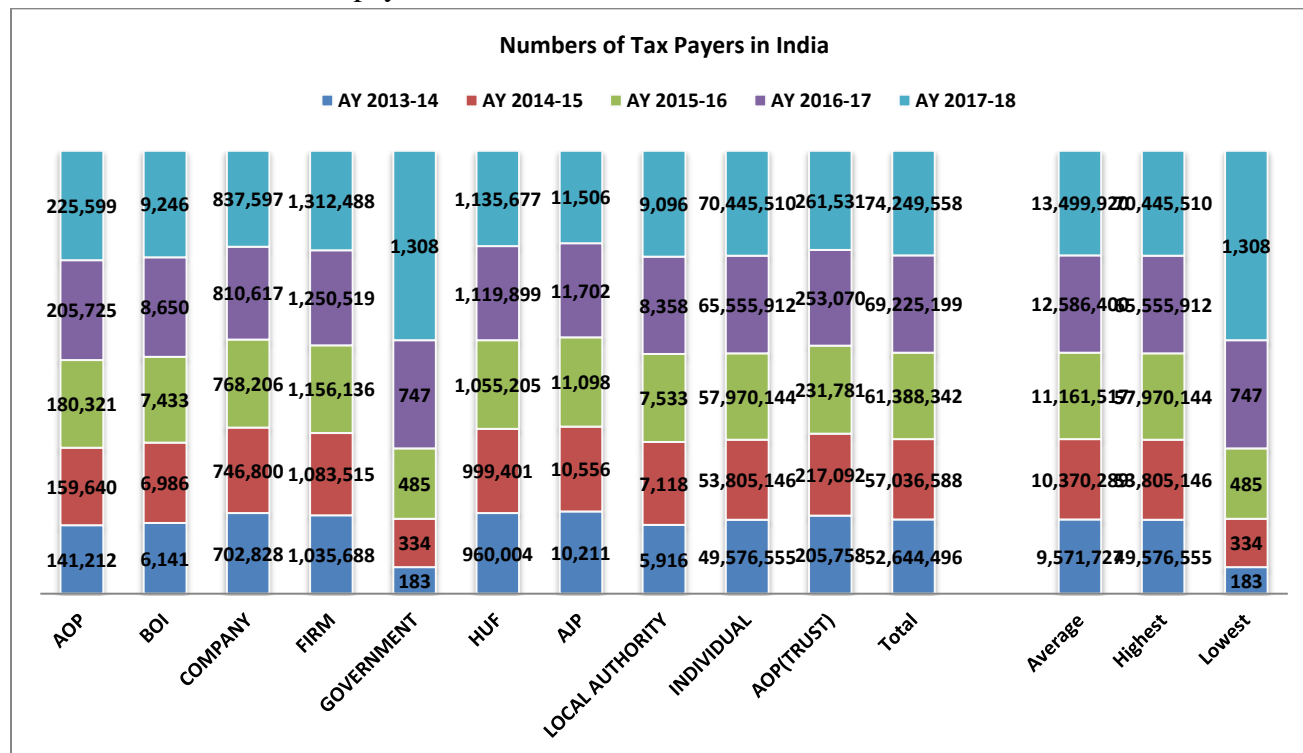
13.87%, the highest percentage change of 22.59% was observed during the year 2017-18 and the lowest percentage of change of 6.15% observed during the year 2014-15.

In the case of HUF- Hindu Undivided Family tax return filers, while it is observed that, the average percentage change is 6.31%, the highest percentage change of 10.55% was observed during the year 2017-18 and the lowest percentage of change of 2.48% observed during the year 2014-15. In the case of Firm tax return filers, while it is observed that, the average percentage change is 8.29%, the highest percentage change of 13.96% was observed during the year 2017-18 and the lowest percentage of change of 6.15% observed during the year 2014-15. In the case of AOP - Association of Person tax return filers, while it is observed that, the average percentage change is 16.56%, the highest percentage change of 26.67% was observed during the year 2017-18 and the lowest percentage of change of 4.13% observed during the year 2014-15. In the case of AOP (Trust) - Association of Person (Trust) tax return filers, while it is observed that, the average percentage change is 8.72%, the highest percentage change of 16.30% was observed during the year 2017-18 and the lowest percentage of change of 1.41% observed during the year 2014-15. In the case of BOI- Body of Individuals tax return filers, while it is observed that, the average percentage change is 10.32%, the highest percentage change of 25.14% was observed during the year 2017-18 and the lowest percentage of change of negative -2.34% observed during the year 2014-15. In the case of AJP- Artificial Juridical Person tax return filers, while it is observed that, the average percentage change is 5.62%, the highest percentage change of 9.14% was observed during the year 2015-16 and the lowest percentage of change of negative -3.32% observed during the year 2014-15. In the case of Company tax return filers, while it is observed that, the average percentage change is 5.95%, the highest percentage change of 11.81% was observed during the year 2017-18 and the lowest percentage of change of 3.25% observed during the year 2016-17. In the case of Local Authority tax return filers, while it is observed that, the average percentage change is 7.03%, the highest percentage change of 14.58% was observed during the year 2017-18 and the lowest percentage of change of negative -2.03% observed during the year 2014-15. In the case of the Government tax return filers, while it is observed that, the average percentage change is 103.61%, the highest percentage change of 160% was observed during the year 2014-15 and the lowest percentage of change of 57.69% observed during the year 2015-16.

3. Numbers of Taxpayer in India.

In order to estimate the numbers of taxpayers in India, any person who has either filed a income tax return for the relevant assessment year or any persons whose TDS- Tax Deduction at Source has been done but he hasn't filed their income tax returns has been considered as taxpayer for this study. Table no, 03, below depicts the number of Tax Payers in India for the five years of study starting from the year 2013-14 to 2017-18.

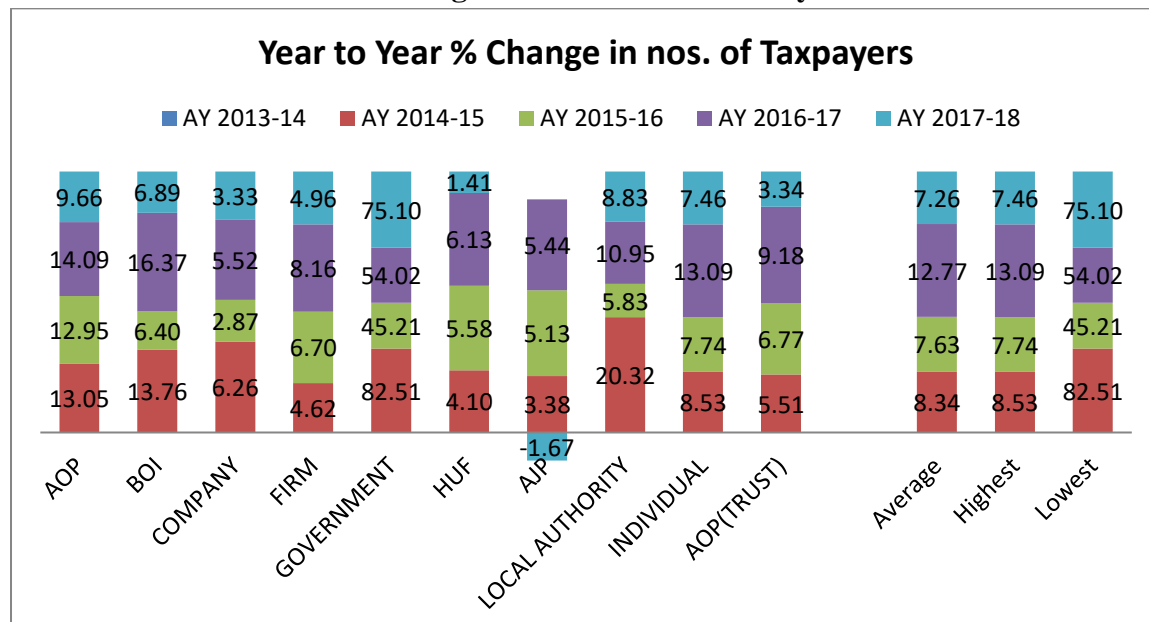
Table 03: Numbers of Taxpayers in India.



Source: Compilations by the researchers from www.incometax.gov.in

During the year 2013-14, the average numbers of the taxpayers in India were 95,71,727. The highest numbers of 4,95,76,555 taxpayers were Individuals and the lowest numbers of taxpayer was the Government 183. During the year 2014-15, the average numbers of the taxpayers were increased by 8% to 1,03,70,289. The highest numbers of taxpayers were Individuals, which increased by 9% to 5,38,05,146 and the lowest numbers of taxpayer was the Government which increased by 83% to 334. During the year 2015-16, the average numbers of the taxpayers increased by 8% to 1,11,61,517. The highest numbers of taxpayers were Individuals which also increased by 8% to 5,79,70,144 and the lowest numbers of taxpayer was the Government which also increased by 45% to 485. During the year 2016-17, the average numbers of the taxpayers increased by 13% to 1,25,86,400. The highest numbers of taxpayers were Individuals which also increased by 13% to 6,55,55,912 and the lowest numbers of taxpayer was the Government which also increased by 54% to 747. During the year 2017-18, the average numbers of the taxpayers increased by 7% to 1,34,99,920. The highest numbers of taxpayers were Individuals, which also increased by 7% to 7,04,45,510 and the lowest numbers of taxpayer was the Government which also increased by 75% to 1308.

Table no. 04. Year to Year Changes in numbers of Tax Payers.

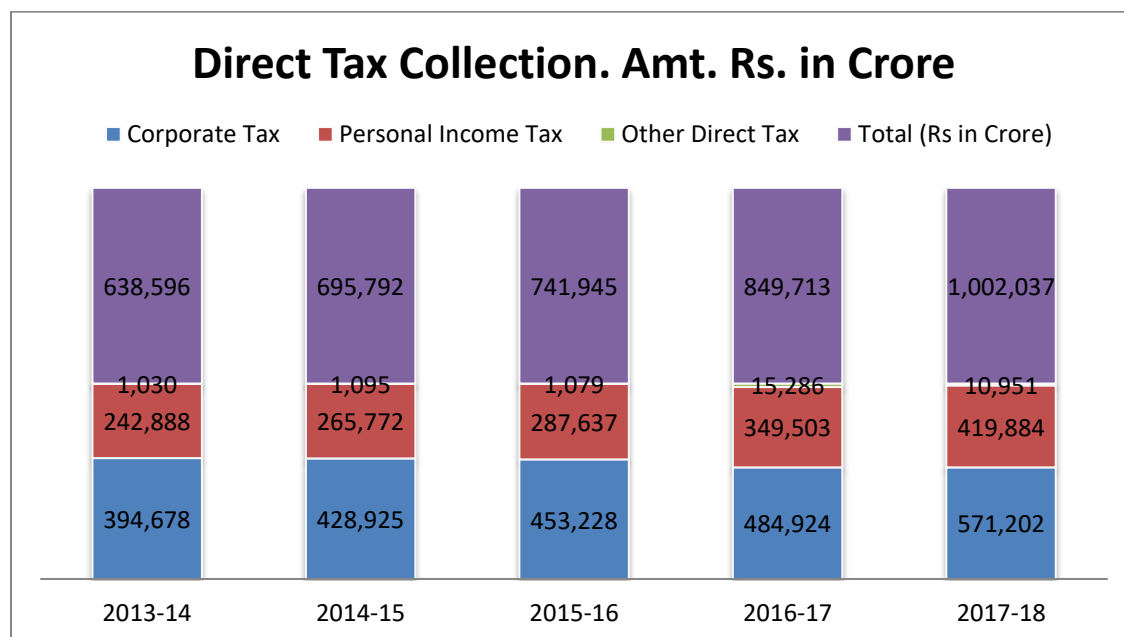


Source: Compilations by the researchers from www.incometax.gov.in

4. Direct Tax Collection.

A direct tax is a tax that one has to pay to the taxation authority. These taxes cannot be transferred by a person to others. Direct Tax includes corporate tax, personal income tax and other direct taxes in India. Table no. 05, below depict the different direct taxes collection in India during the five year period of study starting from the year 2013-14 to 2017-18.

Table 05: Direct Tax Collection.



Source: Compilations by the researchers from www.incometax.gov.in

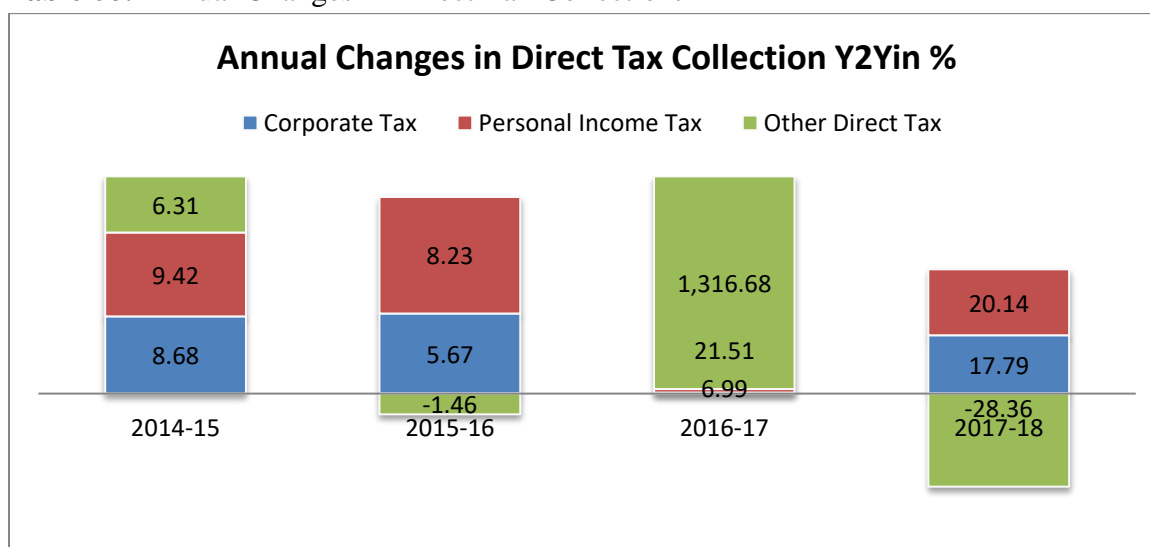
According to the above table no. 05, Direct Tax Collection, While during the year 2013-14, a total direct tax of Rs 6,38,596 crore was collected. It included, Corporate Tax of Rs 3,94,678 crore, Income Tax of Rs. 2,42,888 crore and Other Direct Tax of Rs 1,030 crore.

During the year 2014-15, a total direct tax of Rs 6,95,792 crore was collected. It included, Corporate Tax of Rs 4,28,925 crore, Income Tax of Rs. 2,65,772 crore and Other Direct Tax of Rs 1,095 crore. During the year 2015-16, a total direct tax of Rs 7,41,945 crore was collected. It included, Corporate Tax of Rs 4,53,228 crore, Income Tax of Rs. 2,87,637 crore and Other Direct Tax of Rs 1,079 crore. During the year 2016-17, a total direct tax of Rs 8,49,713 crore was collected. It included, Corporate Tax of Rs 4,84,924 crore, Income Tax of Rs. 3,49,503 crore and Other Direct Tax of Rs 15,286 crore. During the year 2017-18, a total direct tax of Rs 10,02,037 crore was collected. It included, Corporate Tax of Rs 5,71,202 crore, Income Tax of Rs. 4,19,884 crore and Other Direct Tax of Rs 10,951 crore.

While the average total Direct tax collection for the period of five years was amounting Rs 7,85,617 crore, the highest average total direct tax collection was Rs. 10,02,037 crore and the lowest average total direct tax collection was Rs. 6,38,596 crore. Similarly, the average total Corporate tax collection for the period of five years was amounting Rs 4,66,591 crore, the highest average corporate tax collection was Rs 5,71,202 crore and the lowest average corporate tax collection was Rs. 3,94,678 crore. While the average total Income tax collection for the period of five years was amounting Rs 3,13,137 crore, the highest average income tax collection was Rs 4,19,884 crore and the lowest average income tax collection was Rs. 2,42,888 crore. While the average total Other Direct tax collection for the period of five years was amounting Rs 5,888 crore, the highest average other direct tax collection was Rs 15,286 crore and the lowest average other direct tax collection was Rs. 1,030 crore.

In order to analyse the annual changes that have taken place in the amount of direct tax collection on year to year basis, the amount of direct tax collection is expressed in terms of percentage for the ease of interpretation. Table no. 06, below depicts the annual changes in terms of percentage that has occurred in the amount of Direct Tax Collection during the five year period of the study starting from the year 2014-14 to 2017-18.

Table 06: Annual Changes in Direct Tax Collection.



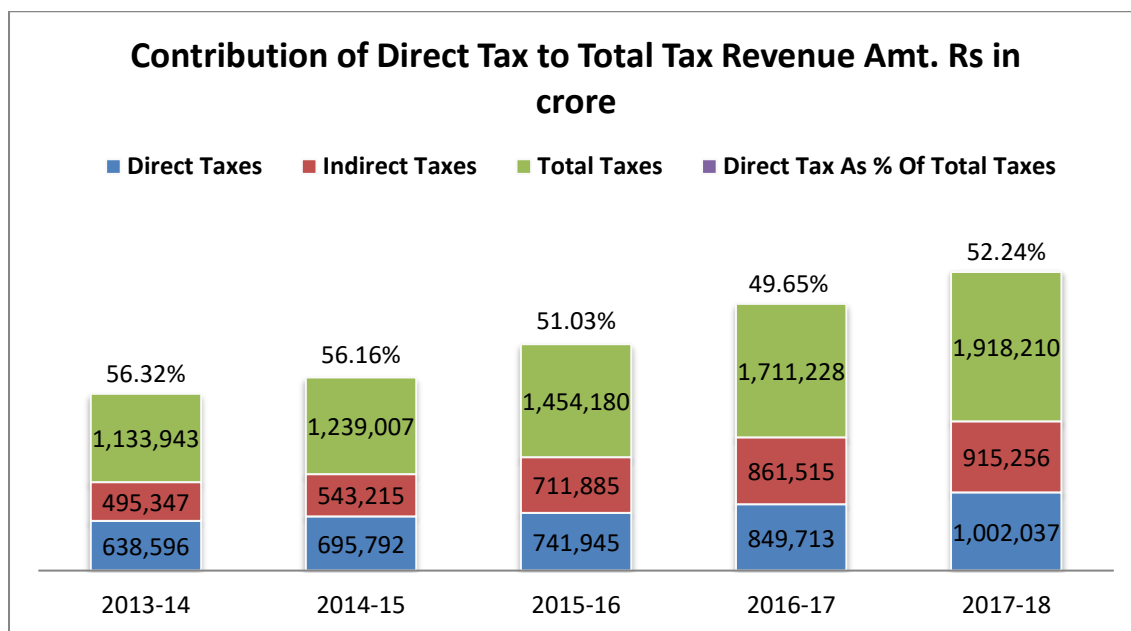
Source: Compilations by the researchers from www.incometax.gov.in

As per the above table no. 05, Annual Changes in Direct Tax Collection, year to year percentage changes in direct tax collection has been analysed, keep year 2013-14 as the base year. Accordingly, while Total Direct Tax Collection has recorded an average of 12.01 %, the highest total direct tax collection was recorded at 17.93% in the year 2017-18 and the lowest total direct tax collection was recorded at 6.63% in the year 2015-16.

While Corporate Tax Collection has recorded an average of 9.78 %, the highest corporate tax collection was recorded at 17.79% in the year 2017-18 and the lowest corporate tax collection was recorded at 5.67% in the year 2015-16. While Income Tax Collection has recorded an average of 14.82%, the highest income tax collection was recorded at 21.51% in the year 2016-17 and the lowest income tax collection was recorded at 8.23% in the year 2015-16. While Other Direct Tax Collection has recorded an average of 323.29 %, the highest corporate tax collection was recorded at 1,316.68% in the year 2016-17 and the lowest negative corporate tax collection was recorded at - 28.36% in the year 2017-18.

5. Contribution of direct tax collection towards the total tax revenue collection.

Table 07: Contribution of direct tax towards total tax revenue.



Source: Compilations by the researchers from www.incometax.gov.in

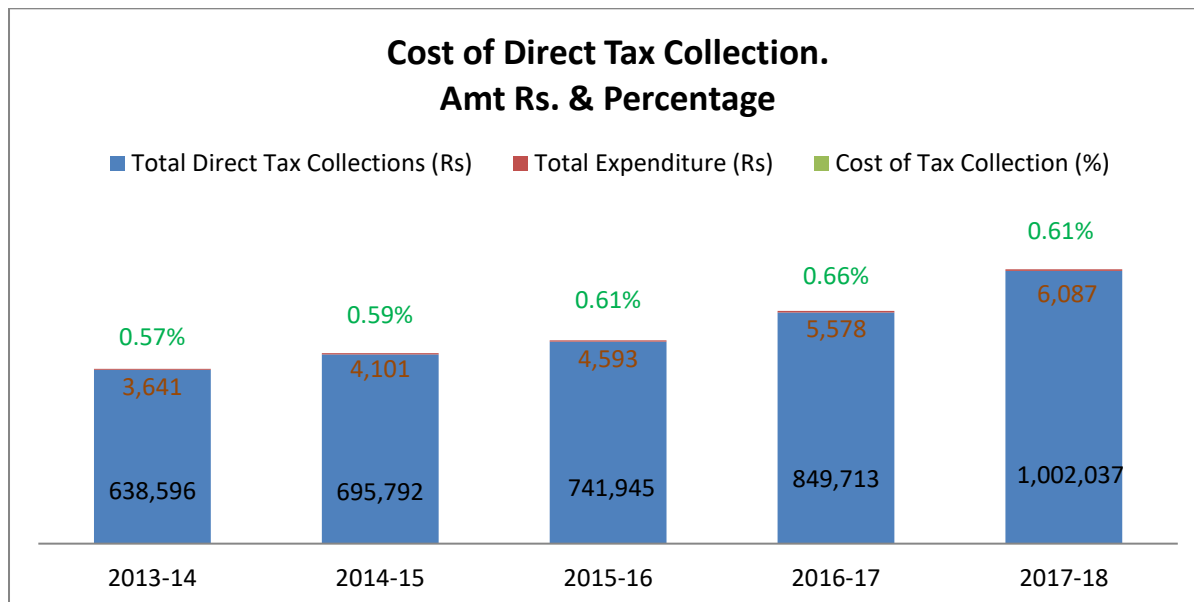
According to the above table 06: Contribution of direct tax towards total tax revenue, it is observed that, the average contribution of direct tax towards total tax revenue during the five year period from 2013-14 to 2017-18 was found to be 56.32% amounting Rs. 7,85,617 crore. Similarly, the highest contribution of direct tax towards total tax revenue was found during the year 2013-14 at 56.32% amounting Rs 6,38,596 crore and the lowest contribution of direct tax towards total tax revenue was found during the year 2016-17 at 49.65% amounting Rs 8,49,713 crore.

It is also observed that, the contribution of direct tax towards total tax revenue was amounting Rs 6,38,596 crore in the year 2013-14. Direct tax contribution towards total tax revenue had increased by 8.96% amounting to Rs 6, 95,792 crore in the year 2014-15. While during the year 2015-16, even though the amount of direct tax contribution had increased by amount Rs 46.153 crore, based on the

year to year percentage contribution towards total tax revenue, the share of direct tax contribution is observed to be fallen from 8.96% to 6.63%. During the subsequent years direct tax contribution towards total tax revenue has increased from 14.53% amounting to Rs 8.49,713 crore in 2016-17 and 17.93% amounting to Rs 10,02,037 crore in 2017-18.

6. Cost of Direct Tax Collection.

Table 08: Cost of Direct Tax Collection.



Source: Compilations by the researchers from www.incometax.gov.in

According to table no. 07, Cost of Direct Tax Collection, it is observed that, during the period of study of five years, the average cost of direct tax collection was observed to be 0.61%, amounting to Rs 4,800 crore. While the highest cost of direct tax collection was observed to be 0.66%, amounting to Rs 6,087 crore, during the year 2016-17. The Lowest cost of direct tax collection was observed to be 0.57%, amounting to Rs 3,641 crore, during the year 2013-14.

Conclusions:

Based on the data interpretation and analysis, following conclusions have been drawn.

- The numbers of taxpayers across the different categories of taxpayers has consistently increased during the five year period of the study starting from 2013-14 to 2017-18. The highest numbers of tax payers in all the categories were found during the year 2017-18, with a single exception that, in the categories of AJP, Artificial Juridical Persons, there was a decline of 196 numbers of taxpayers during the year 2017-18.
- Throughout the five years period of the study, Individuals taxpayers remains the largest and the Government taxpayers remains the lowest numbers of the taxpayers across the different categories of taxpayers.
- During 2018-19 marginal decline in the numbers of returns filed were observed, because during the year 2017-18 and earlier years, filing of belated income tax returns along with the current assessment years were permitted.
- The total amount of Direct Tax Collection is concerned, which includes corporate tax, personal income tax and other direct tax,

- There has been a consistent increase in the total amount of direct tax collection during the five year period of the study. However, when the total amount of direct tax collection is segregate into corporate taxes, personal income taxes and other direct taxes, then in the case of other direct taxes collection, inconsistency has been observed. There has been a decrease in the amount of other direct tax collection by -1.46% (2015-16) and -28.36% (2017-18).
- The relationship between the direct tax collection and the total tax revenue collection has been uneven and inconsistent. The cost of direct tax collection had steadily raised during the first four years of the study to (0.57% in 2013-14 to 0.66% in 2016-17), however, the cost of direct tax collection had fallen during the fifth year of the study to (0.61 % in 2017-18).
- The Contributions of direct taxes to the total taxes collection has been consistently over 50% (approx) during the five year period of the study. The highest percentage of contribution of 56.32% was during the year 2013-14 and the lowest contribution of 49.65% was found to be during the year 2016-17. Thus, we can conclude that contribution of Direct Tax to the total Tax revenue has fallen to 52.24% (2017-18) from 56.32% (2013-14).

As for the direct tax collection and the cost of direct tax collection has been concerned, there has been a consistent increase in the tax collections during the period of study. However, based on the year to year percentage change in the direct tax collection, again keeping the year 2013-14 as a base year, inconsistency has been observed. While during the year 2014-15, there has been an increase of 8.96% in the direct tax collection, during the year 2015-16, the direct tax collection has declined to 6.63% as compared to the previous year. However, during the year 2016-17, the direct tax collection has increased to 14.53% and during the year 2017-18, direct tax collection has again increased to 17.93%.

As for the direct tax collection as a percentage of total taxes collection, in comparison with their previous years is concerned, a consistent decline has been observed. While during the year 2014-15, the direct tax collection has declined by - 0.28 %, during the year 2015-16, the direct tax collection declined to - 9.13% and during the year 2016-17 also, the direct tax collection declined to -2.70%. However, during the year 2017-18, the direct tax collection has increased to 5.22%.

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