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# CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	THE RELATIONSHIP BETWEEN ACCOUNTING REVENUES, INCOME AND EXECUTIVE PAY <i>DR. C. JOE UENG, DR. VINITA RAMASWAMY, DR. YA-HUI HSIEH, DR. YU-TA CHEN &amp; CHING LIANG CHANG</i>	1
2.	TRAFFIC FATALITIES AMONG CHILDREN THAT IS CAUSING EXTENSIVE ECONOMIC DAMAGES <i>MURAT DARCIN</i>	5
3.	IMPACT OF CONSUMER PRICE INDEX, REAL EFFECTIVE EXCHANGE RATE INDEX, PER CAPITA INCOME AND DISCOUNT RATE ON PAKISTAN'S STOCK MARKET INDEX <i>MUHAMMAD TOSEEF ASLAM &amp; DR. MUHAMMAD RAMZAN</i>	10
4.	NEW FACE OF MANAGEMENT EDUCATION: ISSUES AND CHALLENGES <i>DR. S. K. BARAL</i>	15
5.	MANAGEMENT OF RURAL FINANCING FOR RURAL UPLIFTMENT -AN ANALYSIS <i>DR. A. JAGADESH BABU &amp; DR. V. V. RATNAJI RAO CHOWDARY</i>	20
6.	PROBLEMS OF WOMEN ENTREPRENEUR IN MAYILADUTHURAI, NAGAI DISTRICT <i>K. MANIKANDAN &amp; DR. K. RAMAKRISHNAN.</i>	24
7.	SWOT ANALYSIS OF WOMEN ENTREPRENEURSHIP IN TIRUPUR WITH SPECIAL REFERENCE TO DALITS <i>P. DEVI BHUVANESHWARI &amp; DR. R. ANNAPOORANI</i>	29
8.	QUALITY WORK LIFE OF MIGRANT CONSTRUCTION WORKERS IN CHENNAI <i>DR. LAVANYA VEDAGIRI RAO</i>	33
9.	AWARENESS LEVEL AMONG WOMEN ENTREPRENEURS TOWARDS STREE SHAKTI AND SGS – A STUDY OF NORTH KARNATAKA DISTRICTS <i>DR. A. S. SHIRALASHETTI</i>	37
10.	SACK TO SOPHISTICATION: JOURNEY OF JUTE INDUSTRY <i>SANGEETA DEWAN &amp; PREETI SODHI</i>	41
11.	SOCIO ECONOMIC DETERMINANTS OF PARTICIPATION IN MGNREGA: A STUDY IN BANKURA DISTRICT OF RURAL WEST BENGAL <i>BIPUL DE &amp; SEBAK JANA</i>	48
12.	CUSTOMER PREFERENCE AND SATISFACTION TOWARDS CHAT OUT RESTAURANTS <i>DR. C. K. MUTHUKUMARAN, DR. D. SUGUMAR &amp; DR. A. B. ANGAPPAPILLAI</i>	55
13.	IS LABOUR GETTING FAIR SHARE IN ORGANISED MANUFACTURING SECTOR? <i>DR. ASHOK KUMAR &amp; BALJEET KAUR</i>	60
14.	SOCIO-ECONOMIC STATUS OF TSUNAMI SURVIVORS IN KOTTUCHERRYMEDU, KARAİKAL DISTRICT - A CASE STUDY <i>DR. N. UDAYAKUMARI &amp; N. MANIMOZHY</i>	65
15.	COINTEGRATION AND CAUSAL RELATIONSHIP AMONG CONTRIBUTION OF AGRICULTURE, INDUSTRY AND SERVICE SECTOR TO GROSS DOMESTIC PRODUCT IN BANGLADESH <i>MD. ARAFAT RAHMAN &amp; TANVIR KHAN</i>	68
16.	ASSET LIABILITY MANAGEMENT IN PUNJAB NATIONAL BANK -WITH SPECIAL REFERENCE TO THEIR INTEREST RATE SENSITIVITY <i>DEVI PREMNATH &amp; GOWRY.R</i>	73
17.	STRUCTURAL CHANGE IN SOUTHERN STATES OF INDIA <i>TINA SINGH</i>	79
18.	ANALYSIS OF INDIAN DIRECT TAX SYSTEM <i>DR. P. AMARJOTHI.</i>	83
19.	FRAMEWORK FOR DEVELOPMENT OF STRATEGIC ELEMENTS TO SELF HELP GROUPS IN JAMMU AND KASHMIR STATE <i>AASIM MIR</i>	86
20.	WEAK AREAS IN ACCOUNTING SYSTEM CONTROL FACILITATING WHITE COLLAR CRIME <i>DR. YOGESH MAHESWARI</i>	88
21.	HUMAN RESOURCE ACCOUNTING: AN EFFECTIVE ANALYSIS AND FUTURE ASPECT <i>SUJAN KANTI BISWAS &amp; SUMAN KANTI DEB</i>	92
22.	EFFECT OF HEALTH INFORMATION LITERACY ON THE ATTITUDE OF WOMEN TOWARDS FAMILY PLANNING <i>ARAMIDE OLUFEMI, AYO ODUROYE &amp; AKIN ALAGBE</i>	99
23.	VARIATIONS IN EXTERNAL CAPITAL FLOWS AND GROWTH IN THE CEMAC ZONE <i>GEORGES DIEUDONNÉ MBONDO</i>	104
24.	ECONOMIC MODELING OF THE COST OF INPUTS FOR RICE PRODUCTION: A CASE STUDY ON BANGLADESH <i>MD. GHULAM RABBANY, SHARMIN AFRIN, AIRIN RAHMAN &amp; FARJANA SALAM</i>	111
25.	THE ROLE OF MARKETING-MIX STRATEGIES ON GROWTH OF MICRO AND SMALL ENTERPRISES IN MERU COUNTY-KENYA <i>MWIRIGI RAEK NKATHA &amp; LENITY MUGENDI</i>	116
26.	BANK -SPECIFIC DETERMINANTS OF PROFITABILITY OF QUOTED COMMERCIAL BANKS IN KENYA <i>UMULKHER ALI ABDILLAH &amp; MUGANDA MUNIR MANINI</i>	122
27.	TREND OF AREA, PRODUCTION AND PRODUCTIVITY OF RICE CROP IN ASSAM <i>ANANYA BORGHAIN</i>	130
28.	ANALYSIS OF HOME LOANS BY PUBLIC SECTOR BANKS: INTER-BANK & INTRA-BANK ANALYSIS <i>JYOTI BHATIA</i>	136
29.	TREND AND PATTERNS OF FDI INFLOW INTO INDIA <i>RANJAN KUMAR NAYAK</i>	143
30.	HEDONIC CONSUMPTION & CHANGING DEMOGRAPHICS OF THE INDIAN CONSUMER: EMERGING TRENDS AND STRATEGIC IMPLICATIONS <i>ANURAG KANSAL</i>	156
	REQUEST FOR FEEDBACK	165

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## ANALYSIS OF INDIAN DIRECT TAX SYSTEM

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**ABSTRACT**

The direct tax policy has been used to attempt to encourage savings and investment, reduce inequalities of income and wealth, and promote investment in under developed regions and in specific priority sectors. These objectives have been tempered by the need to enhance the ability of the tax system to raise revenues with minimum distortion in the economic decisions of taxpayers. In 1974, the personal income tax had as many as 11 tax brackets, with rates rising from 10 to 97.5 per cent, including surcharges. If the rates had climbed any higher, they would have gone into orbit! In the case of corporate, a distinction was made between widely and closely held companies and the tax rate varied from 45 to 65 per cent. Direct tax are primary tax system in India.

**KEYWORDS**

Index Number (IN), Annual Growth Rate (AGR), Income Tax (IT), Property Tax (PT), Estate Tax (ET), Gift Tax (GT) and Corporation Tax (CT).

**INTRODUCTION**

Direct tax is a kind of charge, which is imposed directly on the taxpayer and paid directly to the government by the persons (juristic or natural) on whom it is imposed. A direct tax is one that cannot be shifted by the taxpayer to someone else.

**OBJECTIVES OF THE STUDY**

- To analysis of major direct taxes
- To analysis of index number in direct taxes
- To analysis of annual growth rate in direct major taxes

**METHODOLOGY**

The present study is mainly based on the secondary data.

**SECONDARY DATA**

This study data are collecting from secondary data. This secondary data are collecting from books, journals, reports, newspapers and internet.

**TOOLS USED**

The method of index number used to different direct taxes. The index number formula is:

$$\text{Index Number} = \frac{\text{Current Year}}{\text{Base Year}} * 100$$

The method of Annual Growth Rate used to growth rate in different direct or indirect taxes. The Annual Growth Rate formula is:

$$\text{Annual Growth Rate} = \frac{\text{Current Year} - \text{Previous Year}}{\text{Previous Year}} * 100$$

**DIRECT TAXES**

The some important direct taxes imposed in India are as under:

**INCOME TAX**

Income Tax Act, 1961 imposes tax on the income of the individuals or Hindu undivided families or firms or co-operative societies (other than companies) and trusts (identified as bodies of individuals associations of persons) or every artificial juridical person. The inclusion of a particular income in the total incomes of a person for income tax in India is based on his residential status.

There are three residential status, viz.,

1. Resident and Ordinarily Residents
2. Resident but not Ordinarily Residents and
3. Non Residents.

There are several steps involved in determining the residential status of a person. All residents are taxable for all their income, including income outside India. Non residents are taxable only for the income received in India or Income accrued in India. Not ordinarily residents are taxable in relation to income received in India or income accrued in India and income from business or profession controlled from India.

**TABLE – 1: ANALYSIS OF ANNUAL GROWTH RATE IN TAXES ON INCOME**

YEAR	TAXES ON INCOME (RS. In Crore)	INDEX NUMBER	ANNUAL GROWTH RATE
2002-2003	36865.96	100	-
2003-2004	41386.51	112.2621	12.2621
2004-2005	49268.12	133.6412	19.0439
2005-2006	60756.9	164.8049	23.3189
2006-2007	80408.97	218.1117	32.3454
2007-2008	111820.63	303.3167	39.0649
2008-2009	106074.9	287.7313	-5.1383
2009-2010	122417.24	332.0604	15.4064
2010-2011	141569	384.0101	15.6447
2011-2012	164529.11	446.2900	16.2183
<b>AVERAGE</b>	<b>91509.73</b>		<b>38.4767</b>

Source: Indian Public Finance Statistics 2010-11 and 2011-12

Table – 1 shows that the data on components of Direct Taxes in India during the period from 2002-03 to 2011-12. The Taxes on Income has been increased from 36865.96 (Rs. In Crore) 2002-03 to 164529.11 (Rs. In Crore) in 2011-12, and it has reached the highest value of 164529.11 (Rs. In Crore) in the year 2009-10. The Index Number has increased from 100% in the year 2002-03 to 446.2900% in the year 2011-12. The highest Index Number is registered 446.2900% in 2011-12. In this decade the highest Annual Growth Rate was 39.0649% present in 2007-08 and the lowest Annual Growth Rate was -5.1383% present in 2008-09. In this decade the average value of Taxes on Income and Annual Growth Rate works out to 91509.73 (Rs. In Crore) and 38.4767% per year respectively.

**PROPERTY TAX**

Property tax or 'house tax' is a local tax on buildings, along with appurtenant land, and imposed on owners. The tax power is vested in the states and it is delegated by law to the local bodies, specifying the valuation method, rate band, and collection procedures. The tax base is the annual rateable value or area based rating. Owner occupied and other properties not producing rent are assessed on cost and then converted into annual rateable value by applying a percentage of cost, usually 6 percent. Vacant land is generally exempted from the assessment. The properties lying under control of central are exempted from the taxation. Instead a 'service charge' is permissible under executive order. Properties of foreign missions also enjoy tax exemption without an insistence for reciprocity.

**INHERITANCE (ESTATE) TAX**

An inheritance tax (also known as an estate tax or death duty) is a tax which arises on the death of an individual. It is a tax on the estate, or total value of the money and property, of a person who has died, India enforced estate duty from 1953 to 1985. Estate Duty Act, 1953 came into existence i.e. 15<sup>th</sup> October, 1953. Estate Duty on agricultural land was discontinued under the Estate Duty (Amendment) Act, 1984. The levy of Estate Duty in respect of property (other than agricultural land) passing on death occurring on or after 16<sup>th</sup> March, 1985, has also been abolished under the Estate Duty (Amendment) Act, 1985.

**TABLE – 2: ANALYSIS OF ANNUAL GROWTH RATE IN ESTATE DUTY**

YEAR	ESTATE TAX (RS. In Crore)	INDEX NUMBER	ANNUAL GROWTH RATE
2002-2003	0.27	100	-
2003-2004	-0.38	-140.7407	-240.7407
2004-2005	0.2	74.0741	-152.6316
2005-2006	-0.72	-266.6667	-460.0000
2006-2007	1.66	614.8148	-330.5556
2007-2008	0.3	111.1111	-81.9277
2008-2009	0.58	214.8148	93.3333
2009-2010	0.22	81.4815	-62.0690
2010-2011	-	-	-
2011-2012	-	-	-
<b>AVERAGE</b>	<b>0.27</b>		<b>-129.6296</b>

Source: Indian Public Finance Statistics 2010-11 and 2011-12

Table – 2 shows that the data on components of Direct Taxes in India during the period from 2002-03 to 2011-12. The Corporation Tax has been increased from 0.27 (Rs. In Crore) 2002-03 to 0.22 (Rs. In Crore) in 2011-12, and it has reached the highest value of 1.66 (Rs. In Crore) in the year 2006-07. The Index Number has increased from 100% in the year 2002-03 to 81.4815% in the year 2009-10. The highest Index Number is registered 614.8148% in 2006-07. In this decade the highest Annual Growth Rate was 93.3333% present in 2008-09 and the lowest Annual Growth Rate was -330.5556% present in 2008-09. In this decade the average value of Estate Duty and Annual Growth Rate works out to 0.27 (Rs. In Crore) and -129.6296% per year respectively.

**GIFT TAX**

Gift tax in India is regulated by the Gift Tax Act which was constituted on 1<sup>st</sup> April, 1958. It came into effect in all parts of the country except Jammu and Kashmir. As per the Gift Act 1958, all gifts in excess of Rs. 25,000, in the form of cash, draft, check or others, received from one who doesn't have blood relations with the recipient, were taxable. However, with effect from 1<sup>st</sup> October, 1998, gift tax got demolished and all the gifts made on or after the date were free from tax but in 2004, the act was again revived partially. A new provision was introduced in the Income Tax Act 1961 under section 56 (2). According to it, the gifts received by any individual or Hindu Undivided Family in excess of Rs. 50,000 in a year would be taxable.

**TABLE – 3: ANALYSIS OF ANNUAL GROWTH RATE IN GIFT TAX**

YEAR	GIFT TAX (RS. In Crore)	INDEX NUMBER	ANNUAL GROWTH RATE
2002-2003	-1.79	100	-
2003-2004	0.72	-40.2235	-140.2235
2004-2005	1.89	-105.5866	162.5000
2005-2006	1.96	-109.4972	3.7037
2006-2007	4.35	-243.0168	121.9388
2007-2008	1.57	-87.7095	-63.9080
2008-2009	1.21	-67.5978	-22.9299
2009-2010	0.97	-54.1899	-19.8347
2010-2011	-	-	-
2011-2012	-	-	-
<b>AVERAGE</b>	<b>1.36</b>		<b>6.5442</b>

Source: Indian Public Finance Statistics 2010-11 and 2011-12

Table - 3 shows that the data on components of Direct Taxes in India during the period from 2002-03 to 2011-12. The Gift Tax has been increased from -1.79 (Rs. In Crore) 2002-03 to 0.97 (Rs. In Crore) in 2009-10, and it has reached the highest value of 4.35 (Rs. In Crore) in the year 2006-07. The Index Number has increased from 100% in the year 2002-03 to -54.1899% in the year 2009-10. The highest Index Number is registered 100% in 2002-03. In this decade the highest Annual Growth Rate was 162.5000% present in 2005-05 and the lowest Annual Growth Rate was -140.2235% present in 2003-04. In this decade the average value of Gift Tax and Annual Growth Rate works out to 1.36 (Rs. In Crore) and 6.5442% per year respectively.

**CORPORATION TAX**

The companies and business organizations in India are taxed on the income from their worldwide transactions under the provision of Income Tax Act, 1961. A corporation is deemed to be resident in India if it is incorporated in India or if its control and management is situated entirely in India. In case of non-resident corporations, tax is levied on the income which is earned from their business transactions in India or any other Indian sources depending on bilateral agreement of that country.



**TABLE – 4: ANALYSIS OF CORPORATION TAX**

YEAR	CORPORATION TAX (RS. In Crore)	INDEX NUMBER	ANNUAL GROWTH RATE
2002-2003	46172.35	100	-
2003-2004	63562.03	137.6625	37.6625
2004-2005	82679.58	179.0673	30.0770
2005-2006	101277.15	219.3459	22.4935
2006-2007	144318.29	312.5643	42.4984
2007-2008	192910.83	417.8060	33.6704
2008-2009	213395.44	462.1715	10.6187
2009-2010	244725.07	530.0252	14.6815
2010-2011	296377	641.8928	21.1061
2011-2012	359990	779.6658	21.4635
<b>AVERAGE</b>	<b>174540.77</b>		<b>75.5184</b>

ANNUAL GROWTH RATE IN

Source: Indian Public Finance Statistics 2010-11 and 2011-12

Table - 4 shows that the data on components of Direct Taxes in India during the period from 2002-03 to 2011-12. The Corporation Tax has been increased from 46172.35 (Rs. In Crore) 2002-03 to 359990 (Rs. In Crore) in 2011-12, and it has reached the highest value of 244725.07 (Rs. In Crore) in the year 2009-10. The Index Number has increased from 100% in the year 2002-03 to 779.6658% in the year 2011-12. The highest Index Number is registered 779.6658% in 2011-12. In this decade the highest Annual Growth Rate was 42.4984% present in 2006-07 and the lowest Annual Growth Rate was 10.6187% present in 2008-09. In this decade the average value of Corporation Tax and Annual Growth Rate works out to 174540.77 (Rs. In Crore) and 75.5184% per year respectively.

## CONCLUSION

This study presents major direct Indian tax system Indirect taxes income tax, property tax, estate tax, gift tax and corporation tax collected by Central Board of Direct Taxes. Direct Tax Collection Rate used in this chapter is defined as the ratio of revenue collection to value for exemptions, expressed in percentage. This study computation of Author own Annual Growth Rate (AGR) calculation in the period of 2002 to 2011, in the period Annual Growth Rate is increasing or decreasing every year. So, every states and federal government direct taxes revenue collection are very helpful to growth in society, poverty development, develop to every department infrastructure facilities in India.

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