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A STUDY ON ABOLISHMENT OF DIRECT TAX IN INDIAN ECONOMY

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ABSTRACT

The Indian Government raises revenue from two different types of taxation. A government levy on the income, property, or wealth of people or companies. A direct tax is borne entirely by the entity that pays it, and cannot be passed on to another entity. Examples include corporation tax, income tax, and social security contributions. An indirect tax is collected by one entity in the supply chain (usually a producer or retailer) and paid to the government, but it is passed on to the consumer as part of the purchase price of a good or service. The consumer is ultimately paying the tax by paying more for the product. The examples of indirect taxes include CGST, SGST, IGST and the custom charges that are imposed on imported goods. There is a debate going on if the direct taxes should be abolished. Various arguments have been given again and in favor of the Abolition of direct taxes. In this paper benefits and demerits of direct tax abolishment is discussed and highlighted.

KEYWORDS

direct tax, indirect tax, Abolition of direct tax.

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INTRODUCTION

As per experts of economy, abolishment of direct tax in Indian Economy and replacing them with other levies and some other suitable form of revenue is both feasible and desirable. It will give great incentive to work as quite a portion of service class incomes goes into income tax. It shall certainly lead to an increase in personal savings rate and help economic growth. Tax experts and industrialists also believe that it will reduce corruption. Taxpayers will also not indulge into practices like falsification of accounts, money laundering and other illegal ways of tax evasion. However, there also exists other school of thought, it says Abolition of income tax will lead to higher Indirect taxes which are regressive in nature, i.e., you pay tax as you buy. This act will also increase the gap between rich and poor.

OBJECTIVES OF THE STUDY

1. Study the features of direct and indirect taxes
2. Study the advantages and disadvantages of direct tax
3. To evaluate the situation when direct tax is abolished

LITERATURE REVIEW

1. **Dr. P.K Pani, Dr. P.K Jain & R.K Tyagi (2018)** have mentioned the provisions of Income Tax in a simple way. They presented the definitions of terms related to income tax like direct taxes and indirect taxes. Provisions of the Income Tax Act have been explained with tables, illustrations and clarifications. Have explained the burden of direct taxes on an individual.
2. **Dr. H.C Mehrotra & Prof. V.P Agarwal (2018)** have mentioned the heads of charging indirect taxes like GST, VAT, Excise and custom. They have explained about the procedure of assessment of individual under various heads. Have mentioned about deductions, rebates and exemptions that an individual can avail. They have also mentioned the method of investment as per their income.
3. **Tim Worstall (2017)** concluded that abolishing income tax in India is a very bad idea. He mentions the problems in current system but he concludes that abolishing income tax will lead to great loss of fixed income of Government hence should not be abolished.

RESEARCH METHODOLOGY

Research methodology is the method of solving a research problem systematically. Data is collection from secondary sources such as books, periodicals and websites. This is an exploratory research based solely on insights drawn from the analysis of existing literatures of different studies, reports, periodicals and books related to the topic of study in order to investigate the idea of abolishment of direct taxes in Indian economy. This research work will serve as a means to help acquire useful information or knowledge about the subject area.

DISCUSSION

One of the important ways to put Indian economy on a double digit expansion mode would be 'to raise savings and abolish the Income Tax'. Government needs tax revenues to meet demands of different stakeholders in the economy, and also to meet its larger socio-economic development agenda like infrastructure development, healthcare, education etc.

In India, out of 7.6 million individuals who declare incomes above Rs 5 lakh, 5.6 million are in the salaried class, for whom the taxes are deducted at source and only two million businessmen and self-employed people who earn incomes above Rs 5 lakh???

But social media gives a different picture. Most of the people are going abroad for vacations, many of them are changing their four wheeler vehicles in every 5 year. Can a person having income less than 10 lakhs per annum will be able to do such things.

Is this the true picture? Certainly not.

The data shows the failure of current taxation system of our country.

To analyze, let's begin with some basics.

What is a Tax?

A tax is a mandatory financial charge or some other type of levy imposed upon a taxpayer (an individual or other legal entity) by a governmental organization in order to fund various public expenditures.

TYPES OF TAXES

In India, there are two types of Tax: Direct and indirect.

DIRECT TAX

Income Tax is a direct tax which is charged by income tax department of the central govt. on the income earned by the assessee in the previous year whether in the form of salary, or income from house property or capital gain or other source income or is it a gain from business or profession. Examples include corporation tax, income tax, and social security contributions.

TYPES OF DIRECT TAX

1. Income tax- It is based on one's income. A certain percentage is taken from a worker's salary, depending on how much he earns. It is also charged on income from business and profession. The good thing is that the government is also keen on listing credits and deductions that help lower one's tax liabilities and helps in forming capital.
2. Transfer taxes- The most common form of transfer taxes is the estate tax. Such tax is levied on the taxable portion of the property of a deceased individual, including trusts and financial accounts. A gift tax is also another form wherein a certain amount is collected from people who are transferring properties to another individual.
3. Entitlement tax- Such type of direct tax is the reason why people enjoy social programs like Medicare, Medicaid, and Social Security. The entitlement tax is collected through payroll deductions and is collectively grouped as Federal Insurance Contributions Act.
4. Tax on Income from Property- Property tax is charged on properties like land and buildings and is used for maintaining public services like the police and fire departments, schools, and libraries, as well as roads.
5. Tax on Income from Capital gains - Such type of tax is charged when an individual sells assets such as stocks, real estate, or business. The tax is computed by determining the difference between the acquisition amount and the selling amount.

FEATURES OF DIRECT TAXES

1. It is imposed upon either an individual (which can include a person, or even an individual organization or company) or else upon some sort of property (this can include land, or even income such as wages).
2. These taxes are paid to the government directly by the person who is bearing their burden. For example, property tax is paid by the owner of the property.
3. The burden of direct taxes cannot be shifted. This is an important feature of all direct taxes, because it means that the taxpayer cannot shift the burden onto anyone else. Hence if a person is to pay income tax on the income they have earned, then they *must* pay this amount out of their own pocket. There is no way of shifting the burden onto anyone else. No third person can be asked to pay the tax or bear the burden of the tax. The person earning the income is the only person who can be asked to bear the burden of the income tax. Hence a direct tax is often defined as one whose burden cannot be shifted to anyone other than the taxpayer.
4. Direct taxation applies to all individuals. There is no way in which one can actively avoid direct taxes, or consciously make decisions so as not to pay such taxes. Direct taxes are mostly unconditional.
5. Direct taxes are mostly progressive, meaning that they are levied according to the financial status of a person. In Income tax, people with higher incomes are charged higher percentages of tax while those with extremely low incomes are often exempted from tax altogether.

NOW WHAT IS INDIRECT TAX?

Indirect tax is a type of tax collected by govt. from an intermediary such as manufacturer or retailer. The eventual burden of tax falls on to consumer who buys that goods or services. When we are going to buy tickets of movie, or we are going restaurants to celebrate birthday or anything else, at that time we are paying tax. Even when we are buying a pen or a packet of chips or cold drink, every time we are paying tax without any pain of paying tax. The ultimate tax burden lies on the consumer who consumes it.

So idea is that why shouldn't we abolish direct taxes in which we are feeling pain to submit. We must charge indirect taxes on each and every goods depending on its utility.

Necessity will be taxed at a lower rate and comforts will be taxed at a higher rate and luxury at highest rate of indirect tax.

There is only one indirect tax levied by the government currently. This is called GST or the Goods and Services Tax.

GST: This is a consumption tax that is levied on the supply of services and goods in India. Every step of the production process of any goods or value-added services is subject to imposition of GST. It is supposed to be refunded to the parties that are involved in the production process (and not the final consumer).

GST resulted in the elimination of other kinds of taxes and charges such as Value Added Tax (VAT), octroi, customs duty, Central Value Added Tax (CENVAT), as well as customs and excise taxes. The products or services that are not taxed under GST are electricity, alcoholic drinks, and petroleum products. These are taxed as per the previous tax regime by the individual state governments.

FEATURES OF INDIRECT TAXES

1. Payment and Tax Load - The service provider makes payment of indirect taxes and this is transferred to a final consumer.
2. Liability of Tax –tax liability is on ultimate consumer without having knowledge of paying tax.
3. Nature – Initially, indirect taxes was regressive in nature.but, now with GST, they have become quite progressive.
4. Evasion - Indirect taxes are hard to evade due to direct implementation through goods and services.
5. Investment and Saving - Most indirect taxes are largely growth-oriented since they de-motivate the consumer and encourage savings. Like alcohols and cigarettes.
6. Social Coverage - The indirect tax has a much larger coverage since their charge falls upon each individual buying products or services.

Having looked in to the definitions and features of direct and indirect taxes, let's see the disadvantages associated with direct taxes.

1. Inconvenient: The great disadvantage of a direct tax is that it pinches the payer. He 'squeaks' when a lump sum amount is taken out of his pocket. The direct-taxes are thus very inconvenient to pay. Nobody can help feeling the pinch.
2. Evadable: The assessee can submit a false return of income and thus evade the tax. That is why a direct-tax is "a tax on honesty." There is a lot of evasion. Many of those who should be paying taxes go scot-free by concealing their incomes.
3. Arbitrary: If taxes are progressive, the rate of progression has to be fixed arbitrarily; and if proportional, they fall more heavily on the poor. Thus, both are bad. The rate of taxes depends upon the whim of the Finance Minister. This is arbitrary.
4. Disincentive: If the taxes are too heavy, they discourage savings and investment. In that case the country will suffer economically. A high level of taxation discourages investment and enterprise in the country. It inflicts a lot of damage, on business and industry.

Also, we have mentioned here the advantages of indirect taxes over direct taxes.

1. Contributions even by the poor- Poor folk are outside the purview of direct taxes and this is the only way that this section of the society contributes. This goes along the basic principle of giving every person a share towards the growth of the country using state governments.

2. Convenient for all -Taxpayers are saved from indirect taxes since they are paid while buying things. Also, it is easy for state authorities to gather this tax since they are direct upon collection from the factories / ports, saving effort and time.
3. Easy collection process- Gathering these taxes is an automatic function performed when purchasing and selling goods and services.

In above we have said all advantages of indirect taxes over direct and we advocate the abolishment of direct taxes.

Let's now look in to the situation of Indian economy where direct taxes are completely abolished.

The arguments are:

1. Indirect tax is regressive. Abolishment would lead to rise in prices of some basic goods which will in turn have great effect on poor people. Also, it may lead to decrease in price of luxury items which is used by rich. This will increase the gap between rich and poor.
2. There are many people who believe that it is the right of the government to demand money from the citizens as the governments provide a lot of services to the citizens like defense, welfare and education. Therefore, direct taxes should not be abolished outrightly even though it appears that a lot of people don't like the present methods of taxation. There can be several different ways in which the direct tax methods can be changed with a view to help the people. As a result, there is no real reason why taxation system should be changed thing for the elusive public approbation.
3. It is also believed by many that abolishing direct taxes and going for the system of indirect taxes may not work because it will need a value judgment on various types of goods. For example, it needs to be decided if a car is a luxury item or not. Similarly, can a distinction be made between a Ferrari and a multi-utility van. If this is the case, the next question that arises is where the boundary can be drawn. This type of problems will be present in case of all the goods and therefore, there is a danger that the system may become arbitrary and at the same time, very difficult or even impossible to administrate.
4. Similarly, it can also be said that although this may take place, people may decide to go to other parts of the world, which are attractive in terms of the taxation system. For example, significant problems may be caused if people decide to go abroad for doing their shopping and in this way, deprive their own country from valuable revenue.
5. At the same time, it also needs to be noted that it is not true that the evasion of text is easy in case of direct taxes. As against this popular belief, perhaps the evasion of tax is much easier in case of indirect taxes. The reasons include smuggling, car boot sales, unlicensed trading and similar other causes. An example in this regard can be given of the situation according to which half of the cigarettes that are being sold in Britain were sold illegally. Therefore, indirect taxes can prove to be disastrous for the revenue of the country and at the same time much more difficult to trace as compared to detecting the evasion of direct tax.

CONCLUSION

It is found that the direct and indirect taxes are both necessary for a country. The system has evolved over the ages and is not faulty. However, government needs to ensure that it does not lead to unnecessary burden to the common man. There should also not be any double taxation. The government should also take measures to increase compliance, especially by businessmen in small towns and cities.

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