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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	ENCOMPASSING KANO'S MODEL TO AUGMENT CUSTOMER EXPERIENCE FOR THE INDIAN DTH INDUSTRY <i>DR. SUJATA JOSHI, DR. SANJAY BHATIA, ARNAB MAJUMDAR & ARCHIT MALHOTRA</i>	1
2.	WOMEN AND CHILD TRAFFICKING <i>ARJUMAND BANO & DR. SANJAY BAIJAL</i>	7
3.	OBSTACLES IN GROWTH OF ENTREPRENEURSHIP <i>MOHAN BHAGWAT BHOSALE & DR. SARANG SHANKAR BHOLA</i>	12
4.	A STUDY OF CONSUMERS' ATTITUDES AND PURCHASE INTENTIONS TOWARDS ENVIRONMENTAL: FRIENDLY PRODUCTS IN FMCG SECTOR IN INDIA <i>DR. NAMITA RAJPUT, RUCHIKA KAURA & AKANKSHA KHANNA</i>	14
5.	INDIAN COMMODITY DERIVATIVE MARKET: A STUDY OF PRICE TRENDS IN THE INTERNATIONAL MARKET <i>GIRISHA H.J, VISHWANATH C.R & MARIGOWDA K.T</i>	20
6.	A STUDY ON INFORMATION TECHNOLOGY IN THE CURRENT BUSINESS FRAMEWORK <i>PRADEEP KUMAR, RUCHI SHARMA & SUNITA PRAJAPATI</i>	22
7.	A STUDY ON THE DEVELOPMENT OF ONLINE MICRO-LENDING COMMUNITY IN NORTH BENGAL <i>DIPANJAN MOITRA & SANMOY MALLICK</i>	26
8.	TRANSACTIONAL ANALYSIS: THEORY OF PERSONALITY AND INTER PERSONAL BEHAVIOUR <i>VAJINDER PAL SINGH & AMIT KUMAR JAIN</i>	32
9.	SOCIO-ECONOMIC BACKGROUND OF MANAGEMENT STUDENTS OF PUBLIC AND PRIVATE INSTITUTIONS IN DELHI <i>VIJETA BANWARI</i>	37
10.	TAX STRUCTURE IN INDIA AND EFFECT ON CORPORATES & INDIVIDUAL CUSTOMERS <i>ABHISHEK JHA</i>	43
11.	MERGERS AND ACQUISITIONS IN INDIAN PHARMACEUTICAL INDUSTRY: A CASE STUDY ON MATRIX LAB <i>DR. SURESH CHANDRA DAS, POOJA PATTANAYAK & BHAGYASHREE PATNAIK</i>	46
12.	IMPACT OF ACHIEVEMENT MOTIVATION UPON ACADEMIC ACHIEVEMENT AND SOCIO-ECONOMIC STATUS <i>DR. SAIMA SIDDIQI</i>	50
13.	EXPLORATORY ANALYSIS ON THE TRENDS AND ISSUES RELATED TO STANDARDIZING FINANCIAL REPORTING IN ETHIOPIAN BANKING SECTOR <i>MATEWOS KEBEDE & ABIY GETAHUN</i>	53
14.	CHANGING CUSTOMER BEHAVIOR-TIME TO RETHINK BY THE INSURANCE PROVIDERS <i>PURTI BATRA</i>	57
15.	EXAMINING EMPLOYEES PERFORMANCE APPRAISAL ISSUES AND CHALLENGES IN BANKS OF PAKISTAN: COMPARATIVE STUDY OF PRIVATE AND PUBLIC BANKS OF PUNJAB PAKISTAN <i>SYEDA NUDRAT SAMEEN, SHAHID NAWAZ, MUHAMMED NAWAZ & MUHAMMAD IRFAN SHAKOOR</i>	60
	REQUEST FOR FEEDBACK & DISCLAIMER	72

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TAX STRUCTURE IN INDIA AND EFFECT ON CORPORATES & INDIVIDUAL CUSTOMERS

ABHISHEK JHA
ASST. PROFESSOR
PDM COLLEGE OF ENGINEERING
BAHADURGARH

ABSTRACT

In the present paper an attempt has been made to study the impact of Indian Corporate Tax Rates, Sales Tax Rates, Custom Duties, Excise Duties and other taxes on economic indicators such as Personal Savings, GDP and other things. Indian Tax Structure is studied by way of data available and also through conduct of interviews of Industry Experts. Findings have been summarized and conclusions have been drawn from them. Suggestions have been provided for betterment of Tax Structure based on data analysis and interviews of experts. Impact of Tax Structure has been studied with reference to effect on Corporates and individual customers.

KEYWORDS

Tax Structure, GDP, Sales, Inflation, Corporate.

INTRODUCTION

As per Income Tax Act 1961, every person (Individuals, Companies, Hindu undivided families, Firms, Cooperative Societies and all other artificial judicial persons) whose total income exceeds maximum exemption limit is liable to pay income tax at the rates prescribed in the act. It is not a voluntary payment but an enforced contribution that is why tax is known as financial charge or levy. Despite the fact that money provided by taxation is used to carry out many functions for the welfare of the society, it usually gives a feeling of displeasure to tax payee. Actually, tax payer does not want that his hard core earned money should be taken away from him. History is witness that there is always a struggle between tax payer and tax collector. Even Corporates are subjected to various direct and indirect taxes such as Corporate Income Tax, Excise Duties and Custom Duties apart from other taxes. They have impacted not even corporates but also trends in customer's behavior of purchases and other aspects of savings. The present study focuses on the effect of different types of taxes and other factors on Corporates as well as individual customers.

REVIEW OF LITERATURE

It is a matter of general belief that taxes on income and wealth are of recent origin but there is enough evidence to show that taxes on income in some form or the other were levied even in primitive and ancient communities. (IT circular, 2010). India has a tax charter with three-tier federal structure (Union, state governments. & local bodies). (Bernardi, 2005) The rapid changes in administration of direct taxes, during the last decades, reflect the history of socio-economic thinking in India. (CBDT report, 2009) Governments use different kinds of taxes and vary tax rates because taxes are one of the significant sources of revenue. Quite apart from its role of raising revenue, the personal income tax has long been regarded as a potent weapon of effecting distributive justice. Secondly, it is an instrument of equity, social justice and income distribution. (Sahota,1991) Another common and most empirically used way to understand its role is the ratio of personal income tax to total tax revenue and national income.(Agarwal,1991) A good tax system is characterized by a high responsiveness of tax revenue to changes in income of public bodies or national income; the technique of measuring this response is tax elasticity and tax buoyancy. Tax policy forms an important part of development process in a developing economy. The total tax revenue is dependent upon three variables viz., tax rate, tax base, and national income. (Ankita, 2009) Tax reforms sometime bring changes in taxation system. Even corporate are not immune to changes in the tax system. Corporates sometimes find it difficult to continue business profitably in spite of changing tax scenarios. (D. Mitra, 2011) Corporates also find that the change in tax structure of various indirect taxes such as excise duties, custom duties etc. also impact sales in a negative way and hence, profitability of corporates. (K.R.Rao, 2010) Even well envisaged plans of India such as VAT have been unsuccessful in efficiently increasing indirect taxes as planned. (K.R. Rao, 2010 and Direct Interviews).

OBJECTIVE OF THE STUDY

The objectives of the study are:-

1. To study the effect of various taxes on Economic Indicators, Corporates and Individual Customers.
2. To suggest suitable measures for rationalizing tax structure.

LIMITATIONS OF THE STUDY

Present study draws conclusions from a limited time period of data. In addition, the number of variables under consideration is also limited. Personal Interviews have been conducted on 9 Industry Experts related to diverse fields only.

RESEARCH METHODOLOGY

Present study is analytical in nature. The study takes data from tradingeconomics.com website. The data caters to various parameters such as Corporate Tax Rate, GDP Per Capita on PPP basis, Total GDP, Sales Tax Rate, Personal Savings and Inflation Rates. The unit of GDP Per Capita on PPP basis is USD, Total GDP is in USD Billion and that of Personal Savings is INR Billion. Impact of changes in exchange rates have been ignored. Bivariate Correlations are applied on the parameters and their results studied. In addition, Interviews were conducted on 9 Industry Experts related to fields such as Power, FMCG, Retail, I-Banking, Consultancy Firms and their summaries clubbed together. Hypothesis is tested on both correlation results and feedback from industry experts.

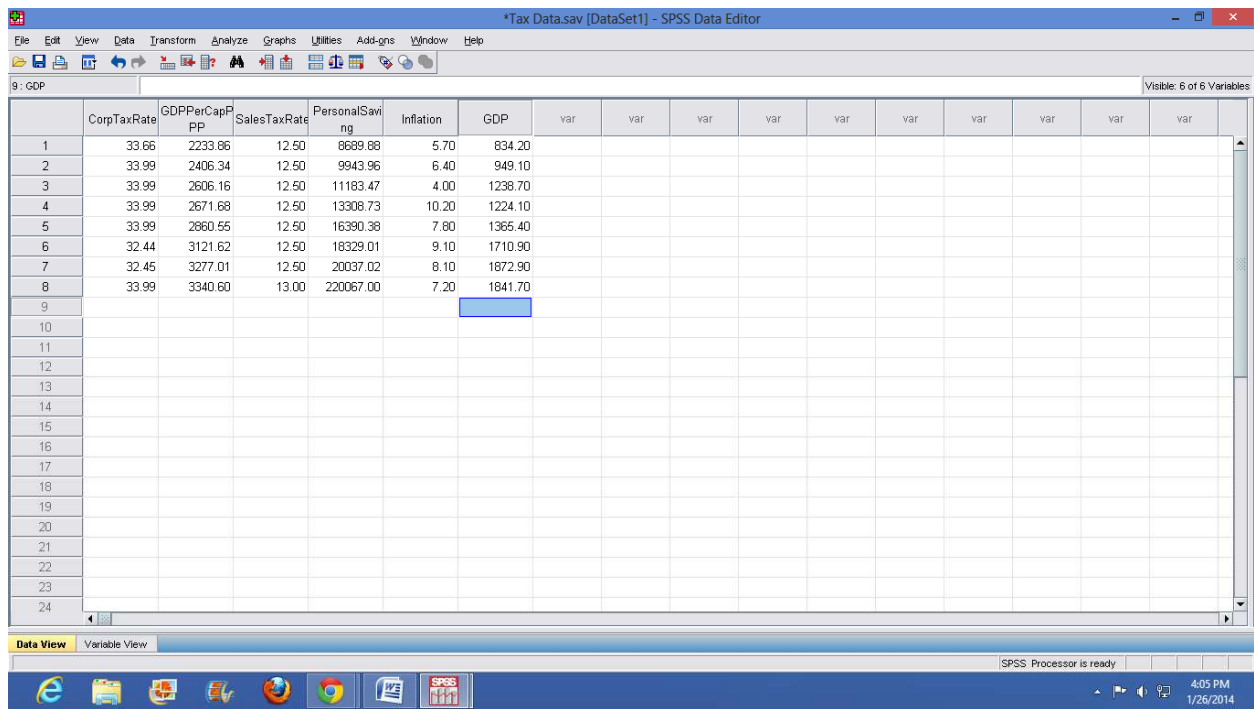
HYPOTHESIS

1. The Tax Rates are independent of Economic Indicators like Personal Savings and GDP Per Capita. In other words, the correlations between these parameters are not significant.
2. The tax structure doesn't need a reform.

DATA ANALYSIS

The data presented below refers to the variables as discussed before. The data is inputted into SPSS as shown below:-

FIGURE 1:- DATA AS FED TO SPSS



Pearson’s Correlation and Spearman’s Rank Correlation have been applied to study data. The results are as presented below:-

TABLE 1: OUTPUT OF CORRELATION FROM SPSS
Correlations

		CorpTaxRate	GDPPerCapPPP	SalesTaxRate	Personal Saving	Inflation	GDP
CorpTaxRate	Pearson Correlation	1	-.501	.247	.207	-.360	-.565
	Sig. (2-tailed)		.206	.555	.623	.381	.144
	Sum of Squares and Cross-products	3.421	-995.912	.214	73788.753	-3.451	-1.093E3
	Covariance	.489	-142.273	.031	10541.250	-.493	-156.161
	N	8	8	8	8	8	8
GDPPerCapPPP	Pearson Correlation	-.501	1	.523	.569	.443	.993**
	Sig. (2-tailed)	.206		.183	.141	.272	.000
	Sum of Squares and Cross-products	-995.912	1154680.096	262.936	1.180E8	2.463E3	1.116E6
	Covariance	-142.273	164954.299	37.562	1.686E7	351.847	1.595E5
	N	8	8	8	8	8	8
SalesTaxRate	Pearson Correlation	.247	.523	1	.998**	-.023	.472
	Sig. (2-tailed)	.555	.183		.000	.956	.237
	Sum of Squares and Cross-products	.214	262.936	.219	90161.659	-.056	231.038
	Covariance	.031	37.562	.031	12880.237	-.008	33.005
	N	8	8	8	8	8	8
PersonalSaving	Pearson Correlation	.207	.569	.998**	1	.010	.519
	Sig. (2-tailed)	.623	.141	.000		.981	.188
	Sum of Squares and Cross-products	73788.753	1.180E8	90161.659	3.728E10	1.007E4	1.047E8
	Covariance	10541.250	1.686E7	12880.237	5.325E9	1.439E3	1.496E7
	N	8	8	8	8	8	8
Inflation	Pearson Correlation	-.360	.443	-.023	.010	1	.408
	Sig. (2-tailed)	.381	.272	.956	.981		.315
	Sum of Squares and Cross-products	-3.451	2462.928	-.056	10072.450	26.809	2.212E3
	Covariance	-.493	351.847	-.008	1438.921	3.830	315.968
	N	8	8	8	8	8	8
GDP	Pearson Correlation	-.565	.993**	.472	.519	.408	1
	Sig. (2-tailed)	.144	.000	.237	.188	.315	
	Sum of Squares and Cross-products	-1093.129	1116319.446	231.038	1.047E8	2.212E3	1.094E6
	Covariance	-156.161	159474.206	33.005	1.496E7	315.968	1.562E5
	N	8	8	8	8	8	8

** . Correlation is significant at the 0.01 level (2-tailed).

As we can see from the results that there is a high degree of positive significant correlation between Sales Tax Rate and Personal Savings. Spearman's Correlation doesn't provide any more significant correlations of interest. Hence, our first hypothesis is rejected. In addition, we can reject our second hypothesis on the basis of feedback received from Industry Experts which are provided below in findings.

In another perspective, we can see from results that GDP is also highly correlated with GDP Per Capita on PPP basis. This signifies that national income is not highly unevenly distributed in the economy.

FINDINGS FROM DATA ANALYSIS

- 1) There is a strong positive correlation between Sales Tax Rate and Personal Savings.
- 2) Increasing Sales Tax Rate may discourage customers to buy products which in turn translate into increased Personal Savings.
- 3) There is no high uneven distribution of income due to high growth.

FINDINGS FROM INTERVIEWS

- 1) Bad Design and Implementation of VAT failed to yield the desired efficiency results.
- 2) Transaction Tax was also an example of inefficient tax.
- 3) States should not be independent taxing authorities. Taxing should be centralized.
- 4) The collection of taxes such as corporate income taxes, excise taxes and custom taxes was concentrated in a few sectors such as petroleum, chemicals and metal industries.
- 5) Indian Tax Policy is influenced by competitor countries in specific sectors. As an example, excise duties in textiles are influenced by China's policy.

SUGGESTIONS

- 1) VAT should be reduced and implemented in a better way such that evasions are reduced and customers are not discouraged from purchases.
- 2) Transaction Tax should be designed in a better way such that evasions are reduced and discouragement for transactions are eradicated.
- 3) High dependence on indirect taxes should be reduced by raising non tax revenues and direct taxes on the super rich.
- 4) The Corporate tax rates should be increased in such a way that it is not detrimental to the growth of corporates.
- 5) Corporate Tax Structure should motivate companies to make more investments.
- 6) Tax evasion and avoidance techniques of corporates like transfer pricing should be checked.

CONCLUSION

The Indian tax system has not fully evolved. It will take time to evolve. Hence, we should not make any decisions based on a knee jerk reaction to the changes in the economy. Different modes of taxes such as VAT, Excise Duties and Custom Duties etc should be implemented in a better way such that evasions are reduced. In addition, it should not discourage customers for purchases. Any tax structure should not be detrimental to the growth of corporates or a burden on customers or general public.

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