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Analyzing the Evolution of Tax Reform Policies in India through Empirical Investigation

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Abstract: *Tax changes are essential to national development. India's tax system has undergone many revisions. Compliance, tax payment, and enforcement have improved due to tax legislation simplicity and rate rationalization. India has reformed its direct and indirect tax systems. After each reform, effectiveness must be assessed. The tax-to-GDP ratio is one of the measures used to evaluate changes. Tax reforms attempt to increase the ratio of total taxes to GDP to improve fiscal consolidation and resource allocation. The Indian government is also working to increase income and reduce investment taxes.*

Keywords: Taxation, Reform, India

I. INTRODUCTION

A tax is defined as a "monetary imposition imposed by the government on citizens or proprietors of a nation's property." The allocation of tax authority in the Indian Constitution has served as the foundation for the development of the country's tax system.

The government is authorized to impose taxes on both organizations and individuals, in accordance with the provisions of the Indian Constitution. The tax levied is a mandatory contribution mandated by the Indian taxation authority and supported by legislation enacted by the legislature or parliament. India currently operates under a three-tier tax system, wherein the Central, State, and Local Governments all contribute.

There are essentially two modes of tax payment: direct and indirect. Direct taxes are those that require the taxpayer to make a one-time payment to the government. Transferring the burden of direct taxes to another entity is not possible. It consists of, among others, income tax, capital gain tax, corporation tax, and wealth tax. Conversely, indirect taxes are those that are levied on the individual who ultimately endures the economic burden of the tax and collected through an intermediary. To name a few, customs duty, excise duty, service tax, and GST.

II. REVIEW OF LITERATURE

Across the previous two decades, tax structures across varied economies and development levels have altered dramatically. Development strategy and ideology have influenced these shifts among countries. (Rao, 2000).

Rao (2009) states that the 1991 fiscal and balance of payments crises led to major tax system adjustments to comply with a market economy and boost revenue productivity to minimize fiscal imbalance. This revamp must include tax adjustments.

Dasgupta, Arindam, and Mukerjee (1994) say global competitiveness norms have justified tax reforms in many developing and transitional nations.

Bird (1993) discovered fiscal crises change taxes. Such adjustments are typically hastened to meet revenue needs.

Bagchi and Nayak (1994) stated that Indian tax policy fostered savings and corrected inequities generated by a centralized planning regime-induced oligopolistic market structure with administered pricing, currency restrictions, and licencing systems.

To accomplish structural change, the Tax Reforms Committee developed a direct and indirect tax reform framework and approach. Best practices were used to streamline the tax system, reduce rate divergence, broaden the tax base, lower marginal tax rates, and improve administration and enforcement (Rao and Rao, 2009).

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Ascota and Yoo (2012) calculated the government's tax proportion of GDP. It shows government control over economic resources. Richer nations have higher GDP-based tax rates. Wagner's law states that government spending and taxes to GDP rise with national prosperity.

Government money from "tax revenue." The government collects customs, corporation, personal, and goods and services taxes.

Regular tax policy assessment is as vital as implementation. The Tax to GDP Ratio is often used to assess a nation's finances (Mittal, 2018).

India's tax-to-GDP ratio has remained stable for 25 years, according to Rao (2015). This indicates that tax resource mobilization failed for the given period.

The constitutional (Amendment) Bill introduced the Goods and Services Tax, and the direct taxes code Bill 2010 replaced the income tax Act. The 2001 ITF Indian Tax Foundation report said the twin developments might transform the Indian tax system.

Singh (2016) stated that although the Goods and Services Tax broadens indirect taxes, India's vast direct tax evasion needs major administrative and legislative adjustments.

Subrahmanyam and Urmi (2015) studied GDP inputs from direct and indirect taxes. Excise tax hampered economic growth in the short term, while customs duty benefitted, according to studies. Unlike personal income tax, corporate income tax significantly boosted long-term economic growth.

Objectives of the Study

The present study is conducted to achieve the following objectives:

- To highlight the tax reforms in India during the post liberalization period.
- To analyze the effectiveness of tax reforms with the help of tax to GDP ratio.
- To study the impact of direct and indirect taxes on the GDP of the country.
- To offer certain suggestions or recommendations, if any.

III. RESEARCH METHODOLOGY

The current investigation is founded upon secondary data gathered from a variety of sources, including websites, journals, articles, newspapers, and periodicals. This study undertakes an analysis of the tax reforms implemented in India over a five-year period, from 2013 to 2018, following the liberalization process. Utilizing statistical instruments such as percentages and methods including multiple regression analysis and the t-test, the impact of direct and indirect taxes on India's GDP has been determined. A confidence level of 95% is utilized to determine the level of significance.

The Reform ODYSSEY

Significant ramifications resulted from the evolution of tax policy within the context of planned development strategy. The government is obligated to carry out a multitude of responsibilities. The revenue generated through the tax system is utilized for the provision of public products and services, the development of social and physical infrastructure, investments in the education of the populace, and the alleviation of poverty, among other objectives. It is imperative for the government to effectively mobilize sufficient financial resources to meet the aforementioned obligations. The funding of the government's various activities is primarily derived from borrowings, user fees/service charges, and taxation.

In India, fiscal reforms were initiated in the wake of the early 1990s crisis. The fundamental goals of these reforms were to enhance the productivity, efficiency, and competitiveness of Indian industries, as well as to invigorate the nation's overall development process. The reforms sought to achieve sustainable reductions in fiscal deficits through effective resource mobilization and expenditure management. This was achieved through the rationalization of taxes and duties, expansion of the tax base, modernization of tax administration, and enhancement of fiscal relations between the Centre and the States.

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Indirect Tax reforms

1991 saw the formation of the Tax Reforms Committee, which was led by Raja J. Chelliah. Its purpose was to evaluate the country's tax structure at the time and recommend any necessary adjustments. In January 1993, the Government received a report containing a number of recommendations for reforming the tax structure in India. The following are the suggestions put forth by the committee:

Reduced rate and limited spread: In order to increase the efficiency of the direct tax system, it is critical to decrease the tax rate. A reduction in tax rates would inhibit tax evasion and circumvention. Additionally, the difference between the minimum rate and the maximum marginal rate (the rate of the highest portion) must be reduced.

Eliminating double taxation: One of the primary aims of the taxation system should be to prevent the imposition of double taxation, such as corporate tax and individual tax. This will increase capital formation by corporations.

Corporate tax rate reduction: In order to promote the inflow of foreign capital, it is imperative to decrease the tax rates imposed on foreign corporations.

Rationalisation of capital gains tax: The Committee expressed the opinion that the long-term capital gains system was not based on sound reasoning. Nonetheless, it was suggested that some form of indexation be implemented.

Tariff reduction: The Committee put forth a number of significant suggestions, including a decrease in the overall level of tariffs, a reduction in the variability of tariff rates, and a systemic rationalization through the elimination of various end-use exemptions and concessions.

Since 1991–1992, the government has implemented a number of reforms to the indirect tax structure, including the elimination of exemptions, the reduction of rate structures, and the transition to ad valorem rates. A significant initiative in the realm of indirect taxation was launched in 2005: the implementation of Value Added Tax (VAT) within the taxation framework. VAT aims to substitute the current general sales tax legislation with the VAT Act 2005 and its corresponding VAT regulations.

However, the introduction of the VAT created the opportunity for tax cascading effects (tax on tax). In response to this matter, the Goods and Services Tax was implemented as the most significant reform in the annals of India. Many indirect laws that previously existed in India have been superseded by the GST, which is imposed on the supply of products and services. It has evolved into a single indirect tax imposed by the Central and State Governments at each point of transaction throughout the nation. As a result of the implementation of the Goods and Services Tax, India has adopted a new indirect tax regime that is managed using cutting-edge information technology. Both the states and the central government renounced sales tax and excise and service tax, respectively, with the implementation of GST. The central sales tax and other entry taxes levied at state boundaries are eliminated from interstate commerce. By doing so, a genuinely cohesive and unified common economic market is established throughout India.

Direct Tax reforms:

The implementation of direct tax reforms in India began in 2002 with the Task Force on Direct & Indirect Taxes' recommendations, which were led by Vijay Kelkar. With regard to direct taxes, this task force's primary recommendations emphasized the rationalization of exemptions, the elimination of long-term capital gains tax and wealth tax, and an increase in the income tax exemption limit. The following are the recommendations put forth by the task force:

Direct Tax Administration: The quantity and quality of taxpayer services should be expanded, and taxpayers should have convenient access via email and the internet. It is recommended that the PAN be extended to encompass all citizens of the nation. It is required that all returns and refunds be processed and concluded within a four-month timeframe.

Personal income tax: Provision for an additional exemption for senior citizens and widows, in addition to an increase in the exemption limit for general categories of taxpayers to Rs.1 lakh. Increasing the deduction for contributions to pension funds under Section 80CCC.

Corporate Tax: The corporate tax rate will be reduced to 30% for domestic firms and 35% for foreign firms. The exemptation of listed companies from dividend and capital gains tax. Rate of depreciation for plant and apparatus increases.

Table 1: Table showing the Tax Revenue, GDP and Tax to GDP Ratio from 2013-2018

YEAR	TAX REVENUE (Amount in 100 crores)	GDP (Amount in 100 crores)	TAX TO GDP RATIO (In %)
2013-14	11,387	112,366	10.20
2014-15	12,449	124,337	9.90
2015-16	14,556	136,753	10.80
2016-17 (Estimated)	17,032	152,510	11.30
2017-18 (Estimated)	19,116	162,423	12.10

Source: Union Budget documents

Measurement of Effectiveness of the Re- Forms

After improvements are made, measuring their success is vital. The tax-to-GDP ratio is the best indicator of change among other indicators. The tax-to-GDP ratio compares government taxes to GDP. Policymakers compare tax receipts annually using this ratio. Ideally, this ratio should be constant.

Tax revenue rose from Rs. 11, 387 (100 crores) in 2013–14 to Rs. 14, 556 (100 crores) in 2015–16, or 10.80%. Tax revenue rose to Rs. 19, 116 (100 crores) in 2017–18, about 12.10%. The demonetization-related tax income this year may have contributed to this rise. GDP also rose throughout the research period.

IV. CONCLUSION

Size of the nation with its multilevel fiscal framework, uniqueness of reform experience, challenges in calibrating reforms due to institutional restraints, and introduction of novel tax concepts make India's tax reform experience valuable for many other countries. The full benefits of tax reform will become evident when direct and indirect tax adjustments are executed better. India needs better international performance.

Interpretation The table above shows India's GDP's direct and indirect tax links. However, the significance test showed that neither direct nor indirect taxes affected GDP growth (p values of.968 and.085 > 0.05, respectively). Direct taxes affect GDP less than the other two. This suggests that, although being a key indicator of economic growth, the tax system may not be impacting GDP.

Table 2: Table showing the Total Direct and Indirect Taxes collected by Central and State Government and the GDP from 2013-2018

YEAR	DIRECT TAXES (Amount in 100 crores)	INDIRECT TAXES (Amount in 100 crores)	TOTAL TAXES (Amount in 100 crores)	GDP (Amount in 100 crores)
2013-14	7267.73	11197.72	18465.45	112,366
2014-15	8034.40	12172.89	20207.28	124,337
2015-16	8301.21	14669.81	22971.01	136,753
2016-17	9525.09	16696.38	26221.47	152,510
2017-18	11288.26	18843.97	30132.23	162,423

Source: Budget documents of the Government of India and the State Governments

Correlations

		GDP	DIRECT TAXES	INDIRECT TAXES
Pearson Correlation	GDP	1.000	0.954	0.993
	Direct Taxes	0.954	1.000	0.962
	Indirect Taxes	0.993	0.962	1.000
Sig. (1-tailed)	GDP	.	0.006	0.000
	Direct Taxes	0.006	.	0.004
	Indirect Taxes	0.000	0.004	.

N	GDP	5	5	5
	Direct Taxes	5	5	5
	Indirect Taxes	5	5	5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.993a	.985	.971	3482.27454	.985	67.110	2	2	.015

a. Predictors: (Constant), Indirect Taxes, Direct Taxes

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1627586026.876	2	813793013.438	67.110	.015[b]
	Residual	24252471.924	2	12126235.962		
	Total	1651838498.800	4			

a. Dependent Variable: GDP, b. Predictors: (Constant), Indirect taxes, Direct taxes

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	43924.134	11144.171	-	3.941	.059	-025.362	91873.631
	Direct Taxes	-0.186	4.071	-0.014	-.046	.968	-17.703	17.331
	Indirect Taxes	6.483	2.027	1.006	3.199	.085	-2.236	15.203

a. Dependent Variable: GDP

V. SUGGESTION

Further reforms are required in India's taxation system. In order to enhance its international standing, India must assign greater emphasis to augmenting its tax to GDP ratio in the coming years. India must accelerate its efforts to increase its revenue and GDP in order to serve as a model nation for development, welfare, and growth on the international stage. An endeavor should be undertaken to augment the tax to GDP ratio of the nation.

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