Chapter 3

INCOME TAX ACT AND ITS PROVISIONS

-AN OVERVIEW
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Taxes are as old as civilisation. References to taxes in ancient India are found in Arthashatra (the famous work of Kautilya), scriptures available during the period of kings and queens are also proved the existence of taxes in India. Taxation in India comes into existence in the year 1860 and thereafter several amendments were made in the income tax rules by the British Government in the year 1886, 1918, 1922 and 1939. The achievement of independence and the national governments commitment for rapid and balanced economic development of the country provided income tax an important place in the fiscal armory of the Central Government. After independence in 1947, number of Acts were enacted for the proper administration and to mobilise the required resources to perform its traditional functions like defence, maintenance of law and order, to undertake welfare and developmental activities. As a result an Act was passed in 1961 to consolidate and amend the law relating to income tax and super tax by parliament of the Republic of India and came into force on the 1st day of April 1962 to the whole of India.

An Income Tax Act contains 298 sections and 14 schedules with numerous subsections. It laid out a system by which taxes are to be assessed and collected and specifies a procedure by which disputes with tax authorities are to be addressed. The important provisions provided in the Income Tax Act were enlisted below.

Under the Income Tax Act, every person, who is an assessee and whose income exceeds the maximum exemption limit, shall be chargeable to the
income tax at the rate or rates prescribed in the Finance Act, such income tax will be paid on the total income of the previous year in the relevant assessment year. Assessment year is a period of 12 months starting from 1\textsuperscript{st} day of April every year and ending on 31\textsuperscript{st} day of March of the next year and previous year/financial year is the 12 months period before the assessment year.

Though there is no specific definition of the term, income as per section 2(24) of the Act income means and includes salary, income from house property, Profits and gains of business and profession, capital gains and income from other sources. Income tax returns has to be filed compulsorily by every tax payers like individual, HUF, firm companies etc whose income exceeds the exemption limit. Income Tax Act, provides penalty for non-filing of income tax returns. The last date of filing income tax return is July 31 in case individuals but incase of business or professional, the last date for filing the return is 31\textsuperscript{st} October and the penalty for non-filing of income tax returns is Rs. 5,000.

The income tax to be paid by any person/assessee is based on his residential status and place of receipt of income. Section 6 of the income tax Act, 1961 specifies the basis for determination of residential status. The assessees becomes resident and ordinarily resident in India, if he/she satisfies any one of the basic and both the additional conditions, if an individual satisfies any one of the basic conditions and any one or none of the additional conditions shall be treated as resident but not ordinarily resident in India but any individual who does not fulfill any of the basic conditions laid down under section 6 of the Act shall be treated a Non Resident in India. The conditions are (a) presence in India for a period of 182 days or more in the relevant previous year (b) presence in India
during relevant previous year for 60 days or more and presence in India for 365 days or more during 4 years immediately preceding the previous year (c) he has been resident in India in at least 2 out of 10 years immediately preceding the relevant previous year (d) presence in India for more than 730 days during 7 years immediately preceding the relevant previous year. But in case of companies the residential status is based on the location of the head office of the company it can be resident or Non-resident Company.

The taxes are levied/ decided based on the cannons of taxation and distinction between capital and revenue receipt, expenditure and losses are very important because capital items are exempt from tax unless they are expressly taxable and revenue receipts, expenditure and losses are taxable unless they are expressly exempt. While computing taxable income of an assessee certain exemptions are allowed under section 10 of the Income Tax Act 1961 to encourage the tax payers like agricultural income, share of income from HUF, share of income from partnership firm, life insurance policy money. Allowances to MLA’s, MP’s, awards made by the government in public interest, family pension, dividends from domestic company, income from units of mutual fund etc.

A tax payer may get varieties of income in a period of 12 months starting from 1st day April every year and ending on 31st day of March of the next year. All these incomes are grouped in to five heads of income for computation of taxable income i.e., Income from salaries, house properties, business or profession, capital gains and other sources.
1. Income from salaries

This is one of the main ingredients of taxation. The amount received by an employee from the employer is termed as salary. It involves an employee, employer relationship as pre-requisite. According to section 17(1), salary means and includes basic salary/wages, pension, Gratuity, leave encashment, arrears of salary, advance salary Allowances, perquisites, Employers contribution to provident funds, profits in lieu or in addition to salary or wages including retrenchment benefits. The following are the important tax provisions prevailed during the period under study.

(a) Encashment of leave salary u/s 17(1) (vi)

If an employee gets a salary for not utilising the leaves available as per the terms of employment is known as encashment of leave salary, leave salary received while in service is fully taxable both in case of government and non-government employees but if the leave salary received at the time of retirement, death etc, Government employees are exempted where as private employees are partly exempted which is the lower of the following (a) Actual amount received on the encashment of leave (b) Cash equivalent of leave to the credit of employee (c) 10 months of average salary (d) Maximum limit of Rs. 3,00,000.

(b)Gratuity u/s 17(1) (iii)

It is a gracious amount given by an employer for the long and meritorious work of an employee either on retirement, death, VRS etc. Gratuity received by Government employees is fully exempted from tax under section 10(10).
Where as in the case of non-government employees, exemption is based on whether employees are covered by the Gratuity Act, 1972 or not, if the employees are covered by the Gratuity Act, then gratuity received by them is exempted up to the lowest of the (a) Actual gratuity received in the previous year (b) Average of the 15 days salary drawn with multiplied by number of years of service (c) Maximum limit of Rs. 3,50,000.

But in case of employees who are not covered by the Government Act 1972. Gratuity is exempted up to the lowest of (a) Actual amount of Gratuity received (b) Half of average salary multiplied by number of completed years of service (c) Maximum amount: Rs. 3,50,000.

(c) Pension u/s 17(1)(ii)
It is the amount received by employee after his retirement for the service rendered during the service period. It may be payable either monthly or lump sum (commuted). The monthly (uncommuted) pension received by all types of employees is fully taxable. Where as commuted pension received by Government employees is fully exempted but the commuted pension received by non Government employees is partly exempted to the extent of 1/3 or 1/2 of the full value of pension depending on the whether gratuity was also received along with the pension or not.

(d) Allowances u/s 17(3)
It is fixed quantity of money paid by employer to employee to meet a particular purpose. Certain allowances are fully taxable like Dearness allowance, city compensatory allowance, helper allowance, uniform allowance, medical allowance, entertainment allowance given to non-government employees etc. But certain allowances like House rent allowance is partly exempted. It is exempted up to the least of (a) Actual
HRA received (b) Excess of rent paid over 10 percent of employees salary (c) 40 percent or 50 percent of employees salary, entertainment allowance received by government employees is exempted up to the least of (a) Actual entertainment allowance received (b) 20 percent of employees basic salary (c) Fixed amount of Rs. 5,000 per annum, children education allowance is exempted up to Rs. 100 per month per child to a maximum of two children, Hostel allowance is exempted up to Rs. 300 per month per child to a maximum of two children, Transport allowance is exempted up to Rs. 800 per month to all employees to commute between office to residence and vice-versa, but in case of physically handicapped, allowance is exempted up to Rs.1,600 per month, Tribal area allowance up to Rs. 200 per month is exempted etc.

(e) Any fees, commission, bonus, annuities and any other monetary benefit received is fully taxable.

(f) Provident fund

It is a fund to be provided in the future and it is a part of salary, which is for the benefit of the assessee after retirement. Any provident fund consists of employees and employers contribution and interest there on. The company can maintain either statutory provident fund (SPF), recognised provident fund (RPF) or unrecognised provident fund and also public provident fund.

Employees own contribution to any of the provident fund shall be deductible under section 80C where as employer contribution to Recognised Provident Fund is exempted up to 12 percent of employees salary and interest received there on is also exempted up to 9.5 percent
per annum, if an employee withdrawn from recognised provident fund is exempted provided if an employee has rendered a continues of 5 or more years of service.

(g) Perquisites u/s 17(2)

It is a non-monetary benefit (received in kind) attached to an office in addition to salary, like rent free accommodation, obligations of employees met by an employer, free motor car, domestic servants etc.

1. Rent free accommodation may be unfurnished or with furnished, owned or leased or rented accommodation. It is taxable for all types of employees based on density of population whether the population is exceeding Rs. 25 lakh (15 percent of salary), between 10 to Rs. 25 lakh (10 percent of salary) and any other places 7.5 percent of salary. Suppose if furnished accommodation is provided, then accommodation value is raised by 10 percent of costs of furniture provided or actual rent paid by employer to provide such facilities. If concessional accommodation is given perquisite value is reduced by the amount paid by an employee.

2. Certain obligations like repayment of housing loan, income tax liability etc., of an employee, if it is paid by an employer such payments are fully taxable.

3. Few fringe benefits like interest free loan, use of movable assets excluding computer and laptops are treated as part of salary and considered white computing salary income.
4. The services of watchman, sweeper, Gardner, free supply of gas and electricity, water, free education to family members, motor car (this was considered as not a perquisite from last few years) are taxable to the extent of actual amount of the bill paid by an employer.

5. Leave travel concession facility received by an employee is exempted up to the actual spent in connection with leave travel either by air, rail or any other mode of transport and the exemption is restricted to only two journeys performed in a block of 4 years.

(h) Professional or employment taxes
Any professional tax paid by employee is deductible under section 16(iii) of the income tax, 1961 suppose if employer pays on behalf of employer then it should be considered as an obligation and then deductible under section 16(iii).

(2) Income from House property
The annual value of house property is taxable as income in the hands of the owner of the property. However, the following incomes are excluded from tax liability under the income from house property i.e., annual value of house property used for business purposes, income from rent received from a vacant land, income from house property used as agricultural dwelling house by the cultivators. For tax purposes, properties are mainly classified in to let out properties, self occupied properties, deemed to be let out properties, part of the year self occupied and part of the year let out properties and partly let out house properties.
The Gross annual value of the property is the main requirement to calculate the income from house property. This is usually required in order to ascertain the reasonable value at which the property can be let out from year to year. This value is ascertained by comparing the municipal value or Actual rent received or receivable or licence fee. The higher of the municipal value or Actual rent and licence fee shall be taken as gross annual value and which is reduced by municipal taxes paid towards general tax, water and sewerage tax to obtain net annual value.

Section 24(1) of the Income Tax Act, 1961 provides certain deductions towards repairs charges as standard deductions which is restricted to 30 percent of annual value of the property and also interest on borrowed capital for the purpose of construction/reconstruction/repair/renovation/acquisition of the house property.

Interest on borrowed capital shall be fully deductible in case of current year interest but interest on pre-construction period is allowed in 5 equal annual installments starting from the previous year in which house was acquired or construction was completed. But in case of self occupied house property, maximum ceiling of interest on borrowed capital allowable u/s 24(b) is Rs. 1,50,000 on the fulfillment of certain conditions. Suppose if the loan was borrowed before 1.4.1999 the maximum ceiling of interest is Rs. 30,000.

Unrealised rent recovered from the defaulting tenant during the previous year shall be fully taxable under section 25(A) and also arrears of rent recovered shall be taxable after allowing a standard deduction at 30 percent of the arrears of rent.
3. Income from business or profession

According to section 28 of the income tax Act, 1961, the profits and gains of any business (trade, commerce, manufacture and adventure) or profession (exhibiting skills talents possessed by persons like Doctors, Lawyers, chartered Accountant etc) which was carried on by the assessee at any time during the previous year. Compensation received, profit on sale of license, speculation business etc shall be taxable under this head of income. The accounts of the business or profession can be maintained either in mercantile system or cash system.

Net profit as per profit and loss account provides the basis for computation of income from business. But certain expenses which are incurred but not related/perm itted by the Income Tax Act might have been debited to profit and loss account to calculate the net profit such items to be added back to obtain the correct profit of the business they are called inadmissible expenses like any provisions, expenses related to under heads of income, illegal expenses, advertisement in any souvenir /brochure of a political party, any payments payable outside India without tax deducted at source (TDS), any cash payment exceeding Rs. 20,000 etc. From the balance so arrived at certain expenses which were not considered in the profit and loss account like depreciation on fixed assets, bad debts for the year, entertainment expenses, under valuation and over valuation of opening and closing stock etc shall be deducted as per the provisions mentioned in sections 30 to 44 of the Income Tax Act, 1961. Any non business incomes if were credited to profit and loss account such items to be deducted from the total adjusted profit of the business to arrive at taxable income from business.
Business loss can be carried forward for a maximum of 8 assessment years and adjusted against business profits of the subsequent years. Unabsorbed depreciation can be set off even if business/profession is discontinued and can be carried forward for unlimited number of years.

Any contributions made to approved scientific research institute, university is admissible to the extent of 125 percent of such contribution and expenditure incurred on technical know, expenditure on acquisition of patent rights or copy rights shall be deductible as business expenses at 25 percent as depreciation but in case of preliminary expenses is amortised in five equal annual installments. In case of profession, the difference between professional receipts and professional expenses shall be the taxable income.

(4) Capital gains
Any profits or gains arising from the transfer of capital assets is called capital gain. Property/capital asset may be movable or immovable like land and buildings. Plant and machinery furniture, tangible or intangible like shares, debentures, good will etc., certain properties are however excluded from the definition of capital assets. Capital gain may be short term capital gain or long term capital gain. Capital gain is considered to be short term if a capital asset is transferred with in three years of acquiring the same but in case of shares or other financial securities such as mutual fund units are sold with in one year of purchase, the profit earned is treated as short term capital gain capital gain becomes long term if a capital asset is transferred on or after 3 years of acquiring the same.
Subject to certain exceptions, capital gain is computed in the following manner:

\[ \text{Capital gain} = (\text{Full value of consider received on transfer of capital asset}) - (\text{cost of acquisition of capital asset} + \text{cost of improvement of capital asset} + \text{selling expenses}) \]

Cost of acquisition is based up on the nature of acquisition of the capital asset, if the asset was acquired by means of gift succession, inheritance, will, partition etc., the cost of such assess shall be cost to the previous owner who has acquired and cost of acquisition for assets acquired before 1.4.1981 shall be the actual cost of acquisition or fair market value of the asset as on 1.4.1981 whichever is higher. However, the above rule is not applicable for a asset acquired on or after 1.4.1981 or depreciable assets, if any advance money received during the time of negotiation and fortified later shall be reduced from the cost of acquisition. Any improvements made on or after 1.4.1981 shall only be considered i.e., improvements made before 1.4.1981 shall be ignored. Expenditure incurred wholly and exclusively in connection with the transfer of capital asset such as stamp duty, registration charges legal fees, brokerage etc shall be considered as selling expenses.

In respect of long term capital assets, cost of acquisition and cost of improvement to be considered for computation of taxable capital gain and it is worked out as under:

\[ \text{cost of acquisition or improvement} \times \frac{\text{cost inflation index of year sale}}{\text{cost inflation index of year acquisition / as on 1.4.1981/ improvement}} \]

The cost inflation index is notified by the Central Government for every year. But the cost of bonus shares, self generated goodwill shall be taken as nil.

Short term capital gains are taxed in the same manner as income under the other heads. Barring certain exceptions, long term capital gains are taxed at the flat rate of 20 percent. Depending up on the nature of the
capital asset and the manner of utilisation of the consideration received on transfer, various exemptions are available under section 54 (sale and purchase of new residential house with in one year before or with in 3 years after the date of transfer to the extent of cost of new house), 54B (sale and purchase of new agricultural land), 54D (compulsory acquisition of industrial undertaking), 54EC (Transfer of any long term capital asset and invested in specified capital asset, with in 6 months), 54F (Transfer of any capital asset and invested in a residential house), 54G (transfer of industry to Rural area).

5. Income from other sources

It is the last and residency head income where in any income which is chargeable to tax but does not find under any of the preceding four heads of incomes (salary, house property, business, capital gains) will be assessed to tax under the head income from other sources. According to section 56(2) of the Income Tax Act, 1961 the following incomes are chargeable to tax under this head of income. (a) Dividends (b) Interest on securities (c) Any casual incomes (d) Income from letting of plant and machinery along with buildings. Besides, interest on fixed assets, income from subletting, income from royalties, director fees etc are taxable under this head of income.

Dividends received from a domestic company including Indian company is exempt fro tax u/s 10(34) but dividends received by a cooperative society or foreign company is chargeable to tax and also corporate dividend tax payable by company is 16.995 percent.

Casual income by way of winnings from lotteries, crossword puzzles, card games, horse race and other races and other games of any sort shall
be taxable after deduction of tax deducted at source only if winnings from lotteries etc exceeds Rs. 5,000 and winnings from races exceeds Rs. 2,500. The rate of TDS shall be 30.9 percent.

Interest on securities shall be chargeable to tax only if securities are held as investments but not as a stock in trade in the hands of the owner of the securities at the time, when the interest become due. Securities may be Government securities or non-government securities. Tax-free government interest is fully exempted u/s 10(15) and less tax government securities interest is fully taxable without grossing up as it is always gross. Where as in case of Non-government securities, they may be Tax free government or less tax non government securities. Tax free commercial securities always to be grossed up since it is always net, if the rate of interest is given then there is no grossing up is required and if interest amount is given, then it is always grossed up, if the securities are listed then, then the grossing up is made by using the formula i.e., Amount received×100÷89.7 and if the securities are unlisted, interest received can be converted into gross by using the formula i.e., Interest Amount received×100÷79.4 percent. While including interest on securities in the total income certain interest on investments are exempted like interest on 12 years National Savings Certificates, National defence gold bonds 1980, special bearers bonds 1991, post office Savings Bank Account etc.

While calculating income from other sources certain deductions are allowed under section 57 of the income tax Act, 1961 like commission for realising interest, interest on borrowed loan, standard deduction in case of family pension etc.
6. Setoff and carry forward of losses

According to sections 70, 71 of the income tax Act, 1961, loss for any assessment year in respect of any particular head of income can be setoff against income from any other sources under the same head of income or from other heads of income for the same assessment year except loss from speculation business, long term capital gains, loss from activity of owing and maintaining race horses and no loss shall be setoff against casual income which are to be setoff only against incomes from same sources.

An unadjusted loss can be carried forward for eight years i.e., loss under house property, loss from business, loss from short term capital assesses as per section 71B, 72, 73, 74, 32 of the income tax act, 1961.

7. Clubbing of income u/s 60-64.

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly to the spouse of the individual by way of salary, commission, fees or any other form of remuneration whether in cash or in kind from a concern in which such individuals has a substantial interest except income from professional or technical skills, income from assets transferred for adequate consideration or in connection with an agreement to live apart, assets transferred to sons wife.

A minor’s income or loss is clubbed with that of the parent whose income is higher, if the said losses cannot be adjusted against the parents income, only the parent is entitled to carry forward this loss, even if the minor attains majority immediately thereafter. The losses of a minor that remain
unabsorbed in the hands of the parent do not get transferred back to the minor on his attaining majority.

In computing the total income of an assessee who is a member of an association of persons, whether the net result of the computation of the total income of such association is a profit or loss shall be computed by deducting any salary, interest, bonus, paid and the balance ascertained and apportioned among the members in the proportions in which they are entitled to share in the income of the association.

8. Deductions from Gross total income u/s 80C to 80U

While computing the taxable of an assessee, there shall be allowed certain deductions from his/her gross total income except on long terms capital gains and casual incomes and aggregate of all the deductions cannot exceed the gross total income to encourage tax payers to invest in various savings schemes and investment. Deductions are allowed both for certain payments and receipts of certain incomes.

Deduction under section 80C shall be allowed to an individual if an assessee has invested/contributed to provident fund, life insurance premium, equity linked saving schemes, until linked insurance plan, repayment of housing plan, tuition fee etc to a maximum limit of Rs. 1,00,000 deduction u/s 80CCC is available only to an individual if contribution is made towards pension funds and deductions under section 80CCD is allowed to individual who is central Government employee and contributed towards new pension scheme. As per section 80CCE, aggregate deduction under section 80C, 80CCC, 80CCD cannot be more than Rs. 1,00,000.
Deduction under section 80D is allowed to an assessee for the medical insurance premium paid other than cash up to Rs. 15,000 but in case of senior citizen Rs. 20,000. Under section 80DD deduction is allowed to an assessee for the medical treatment of the dependant who is suffering from disability up to Rs. 50,000 but in case of severe disability, deduction allowed up to Rs. 75,000. Under section 80DDB deduction is allowed for the medical treatment of dependants up to Rs. 40,000 but in case of senior citizen deduction allowed is maximum of Rs. 60,000. Under section 80E deduction is allowed for the interest paid on the loan taken for the higher education for a period of 8 years.

Under section 80G deduction is allowed to all assesses for the donations given. Some donations given are allowed 100 percent deduction like Donation to National defence fund, National relief fund, Communal Harmony, Saksharatha Samiti, Chief Ministers fund etc and some other are allowed at 50 percent deduction like Donation to Prime Ministers drought relief fund, children’s fund, Nehru Memorial Fund etc,. Deduction shall be allowed under section 80GG to an individual for the rent paid who does not received HRA from his employer to a maximum of Rs. 2,000 per month. Under section 80GGA deduction is allowed to all assessee for donations given for scientific research and also deduction under section 80GGB, 80GGC are allowed for the donations given to political parties by Indian companies and other assesses.

Under section 80JJA, deduction is allowed for 100 percent of profits earned from the business of collection and processing of Bio-degradable waste. Deduction allowed to all assesses for a consecutive period of 5 years from the date of commencement. Deduction under section 80QQB is allowed for the royalty income, copy right fees received by authors to
an extent of net income received or Rs. 3,00,000 whichever is less. Deduction under section 80RRB is allowed for individuals for royalty earned for transferring the rights of the patent with a maximum limit of Rs. 3,00,000, Deduction under section 80U is allowed for the individuals suffering from mental illness etc to a fixed amount of Rs. 50,000 but in case of severe disability, deduction amount of Rs. 1,00,000 is allowed.

9. **Double taxation agreements:**
India has executed double taxation avoidance agreements with many countries, including the UK, the USA, Cyprus, Mauritius Islands, etc. Favorable tax treatment is available under these treaties. It is quite common for foreign companies to route investments through the Mauritius Islands in order to avail of reduced withholding taxes on payments of royalty, technical service fees, interest on loans, capital gains etc.

10. **Advance Rulings**
The Authority for Advance Rulings ('AAR'), constituted under the Income Tax Act, 1961 is authorised to determine any question of law or facts in relation to transactions which have been undertaken or are proposed to be undertaken by a non-resident. The AAR is required to make an advance ruling within a period of six months. The advance ruling of the AAR is binding on the Commissioner of Income Tax and other subordinate income tax authorities and continues to be in force unless there is a change in law or in the facts on the basis of which it was pronounced.
11. Taxation of companies
Indian companies are taxable in India on their world wide income, irrespective of its source and origin. Foreign companies are taxed only on income which arises from operations carried out in India or in certain cases on incomes which is deemed to have arisen in India. Thus the tax liability of income of a company depends up on the residential status of the company. Company may be resident (control and management situated in India) or Non-resident. For the assessment year 2009-10 the domestic companies are taxable at 33.6 percent and foreign companies at 40 percent. In addition to tax at the rate mentioned above, a domestic company is liable to an additional tax called tax on distributed profits at the rate of 16.995 percent in respect of dividends declared and distributed. However, such dividends received are exempt in the hands of recipients. Companies also have to pay for minimum alternative tax at 15 percent (MAT) including surcharge and education cess on book profit as tax, if the tax payable as per regular tax provisions is less than 10 percent of its book profits.

Numerous concessions and incentive are provided to companies in India under the income tax Act, 1961. Tax incentives are provided for varied purposes, such as promoting savings, investment, regional development needs encouragement to certain industries etc.

12. Taxation of partnership firms
A partnership firm is a separate taxable entity under the income tax Act, 1961. The computation of the partnership has to be done in accordance with the provisions of the Act. There is no distinction as registered and unregistered firms. For calculation of total income of the firm any salary,
bonus commission, remuneration to a partner shall be deductible subject to certain restrictions. However, share of profit of a partner is fully exempt under section 10(2A) and cannot setoff against partners other incomes. Firm can get deduction for interest paid.

13. Assessment of Hindu and dividend families

Under the Income Tax Act, 1961, an HUF is assessable in respect of the income of the common property of the family or any income having a nucleus with the joint family property and not in respect of the member’s individual earning even though they live jointly under the common mess.

14. Co-operative society and trusts/charitable institutions

Subject to the fulfillment of specified conditions, a public trust is exempt from tax if the income is applied for charitable or religious purposes. Approved retirement trusts are also exempt from tax. In the case of private trusts, if the individual shares of the beneficiaries are ascertainable, they are included in the individual taxable incomes. The tax assessment being made either directly on the beneficiary or on the trustee as a representative of the beneficiary. However, if the trust has income from business, the entire income from the trust is taxed in the hands of the trustee at the maximum marginal rate applicable to individuals unless the trust is created by will for the benefit of relatives. When the individual share of the beneficiaries are indeterminate (i.e., discretionary trust), the entire income is taxed in the hands of the trustees, in most cases at the maximum marginal rate applicable to individuals.
15. Tax administration

An assessee is under statutory obligation to file a return of income, if the total income without giving effect to the provisions under section 10A, 10AA, 10B or deductions from gross total income exceeds the minimum limit prescribed by relevant Finance Act or if any individual full fill certain conditions like owner of house property, club membership etc. An individual resident in India can file his/her return with his employer if his total income exceeds the minimum limit before 31st July but in case of companies, trusts, co-operative societies etc have to file their returns voluntarily without waiting for the notice of the assessing officer before 31st October of every year. Any person who has not filed the returns with in the time limit may file a belated return before one year of assessment revised return or defective returns also can be filed in case of any defective in the original assessment.

Under the act, penalty for delay in filing of the return of income is calculated as a percentage of short fall of tax, where tax is deducted at source or advance tax is duly paid no penalty is leviable. The way the deductions, the rebates are allowed in the income tax, several penalties adhere to the tax offences which may be committed like failure to comply with notice Rs. 10,000, concealment of income-minimum of 100 percent and maximum of 300 percent of tax evaded, failure to maintain books of accounts Rs. 25,000 etc, penal interest is usually levied apart from above penalties for various defaults in making tax payment. A person may be prosecuted under the income tax Act for various offences under section 275A, 276, 277 278 etc. The punishment is by the order of the court on the prosecution launched by chief commissioner or CIT on by where there is willful offence.
Central Board of Direct taxes in the statutory board empowered to administer the law of income tax with various authorities like income tax officer, recovery officer, chief commissioner etc. Generally, the assessee required to make self assessment and pay the tax on the basis of returns furnished, assessment can also be regular assessment, best judged assessment, reassessment if the assessing officer has a reason to believe that any income is not properly assessed. The authorities have the power for search and seizure, issuing summons etc. if any person paid the tax or deducted tax at source more than the tax due on his income, an assessee is eligible for tax refund along with the interest if tax returns were filed with in the due date.

If a taxpayer is against the order of the assessing officer, can appeal to the commissioner of income tax (Appeals) or income tax appellate tribunal or High court or Supreme Court. The commissioner of income tax himself can pass a revision order if it is prejudicial to the interest of revenue.

**Income tax reforms committees**

There have been a number of attempts at improving the tax system since independence. The principal objective of these attempts has been to enhance revenue productivity to finance large developments. Although the various tax reform committees considered economic efficiency as one of objectives, the recommendations do not bear much testimony to this effect. The government has undertaken major reforms of the tax system of the country on the recommendations made by the various committees appointed from time to time. Hence, various committees so far have examined the tax system and suggested reforms are summarised below;
1. Tax Enquiry commission 1952
Under the chairmanship of Dr. John Mathai, the Tax enquiry commission was appointed in 1952 which suggested that, lower level of 7 percent ratio of revenue from taxation to national income should be augmented. The commission suggested that taxation policy should be utilised for reducing the inequalities of income and wealth distribution. For this purpose direct taxes should be made intensive as well as extensive for widening its base.

2. Kaldor reforms
Professor Nicholas Kaldor of Cambridge University was invited in 1956 giving suggestions of tax reforms to meet the financial needs of second direct tax reforms. He was of the opinion that direct taxation of India was inefficient as well as inequitable. He suggested that (i) Direct Tax should be widened and thereby wealth tax, capital gain tax, gift tax and expenditure tax should be imposed along with the income tax. But the maximum rate of income tax should not be allowed to exceed 45 percent (ii) He recommended progressive rate of personal expenditure taxation from 25 percent to 30 percent, wealth tax from 1/3 to 1 1/3 percent and income tax up to 44 percent (iii) For doing away with the tax evasions, compulsory enquiry over personal income of Rs. one lakh must be conducted. All of these recommendations were implemented by the government.

3. Direct tax administration Enquiry committee
It was appointed in 1958 under the chairmanship of Mahavir Tyagi for making direct tax administration to be efficient. It recommended (i) Return of income accruing from business and profession should be allowed to be submitted after four months of closing date of accounting
year and for others up to 30th June (ii) The prescribed forms of return of assessment should be sent by the post to the assesses from income tax department like wise numerous suggestions were given regarding procedural matters.

4. Wanchoo committee
It was appointed in 1970 to suggest how to stop tax evasion and avoidance and how to unearth the black income. The committee was not in favour of voluntary disclosure method of black money as it would hurt the honest tax payers but suggested in favour of secret methods. It suggested that maximum rate of income tax should be brought down from 97.75 percent to 50 percent the assesses should be allowed to give maximum of Rs. 10,000 donation to political parties, agricultural income tax at progressive rate should be imposed, excise duty should replace the sales tax and maintenance of accounts for high income groups should be made compulsory.

5. Indirect Tax enquiry committee
Mr. L.K.Jha along with six members was appointed in 1976 to suggest reforms in indirect taxes particularly in excise duty. In its first part, the committee suggested to reduce the incidence of indirect taxes on cost of capital and intermediate goods like iron and steel, diesel, tyre and tube etc. In its second part it recommended to eliminate the discrepancies of indirect tax structure.

6. Chawksee committee
The committee was appointed in 1977-78 to suggest measures of rationalisation and simplification of direct taxes –income tax, wealth tax
and surcharges. It suggested that maximum rate of income tax should not exceed to 60 percent and surcharge should not be abolished. Integration of agricultural and non-agricultural income should be continued. All the deductions allowed in salaried income should be unified, 20 percent rate of standard deduction should be allowed to maximum limit of Rs. 5,000. It also suggested reforms in capital gain tax.

7. Chellaih committee

The tax reforms committee was constituted under the chairmanship of Dr. Raja J. Chellaiah in 1991 to examine the existing tax structure in the country and make appropriate recommendations to reform it. The committee recommended far reaching changes in the tax system to remove loopholes. According to the committee, ad-hoc changes in tax system from year to year undermine rationality and create complications.

The committee was in favour of making tax system and laws relating to taxes quite simple. In a simple tax system there would be limited number of rates and few exemptions or deductions. The committee was also of the view that the present method of tax administration need to modernised and tax enforcement visible improved.

In order to make the country’s direct system more effective it is necessary that the income tax regime has lower rates of taxation with narrower spread between the entry rate and maximum marginal rate and minimum of tax incentives.

The system of subjecting the income of partnership firms as well as the partners to taxation amounted to double taxation and this should be avoided.
Corporation tax rate for domestic companies, being high to be lowered to 40 percent and the surcharge should be abolished. The present tax treatment of long term capital gains is not correct because the deductions allowed in computing taxable capital gain is not related to the period of time for which the assets have been held. A system of indexation is to be adopted to take care of the problem. Chellaiah committee, which was looked into all aspects of customs duties, recommended reduction in the general level of tariffs. It also suggested that the process of reform should be gradual, so as to moderate the impact of the adjustment both in terms of possible revenue loss and pace at which industry is exposed to competition.

State tax systems

While a good deal of progress has been made in the tax system reform of the central government, progress in the case of state tax systems has not been commensurate. The sales taxes, which account for over 60 per cent of state’s revenues, have, over the years, become stagnant. The states prefer to levy the tax at the first point of sale, and this makes the tax base narrow. With as many as 16-20 rate categories introduced to fulfill a variety of objectives, the tax has become complicated. This has given rise to a large number of classification disputes as well. Taxation of inputs and capital goods, in addition, has contributed to cascading. In an imperfect market characterised by mark up pricing, the taxes on inputs and capital goods results in the phenomenon tax-on-tax, and mark up on the tax with consumers paying much more than the revenues collected by the government.

In addition, there is a tax on inter-state sales, which not only causes severe distortions but also results in inter-state tax exportation in favour
of richer states. All these have combined to make the sales tax system complicated, opaque and distorting. Above all, with independent and overlapping commodity tax systems at the central and state levels, co-ordinated and harmonised development of domestic trade taxes has become difficult.

The government of India appointed a study group to recommend measures to harmonise and rationalise the domestic trade tax system in the country (India 1994). The study group made a thorough analysis of the distortions of the prevailing system of taxation and has recommended the gradual moving over to destination based on consumption type value added taxes at the state level. At the central level, the study group recommended complete switching over to the manufacturing stage VAT. At the state level, the existing sales taxes were to be transformed into retail stage destination type VAT.

In order to persuade the states to rationalise their tax systems on the lines recommended by the study group the Government of India appointed a state Finance Ministers’ Committee. The Committee has made recommendations to switch over to the VAT in a given time frame through stages. Unfortunately, in spite of the consensus on the need for reforms in the sales tax systems at the state level, there has been very little action in terms of actual rationalisation.

**8. Vijay Kelkar committee**

In September 2002, the government set up a new task force on tax reforms and successively a task force on implementation of the Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act), both headed by Vijay Kelkar.
The Kelkar committees had suggested sweeping reforms including: (i) raising income tax exemption limit to Rs. 100,000 and a two-tier rate structure (20 percent for income of Rs. 100,001 to Rs. 400,000 and 30 percent for income above Rs. 400,000); (ii) a cut in corporate tax rate from 35.875 to 30 percent for domestic companies; to remove the gap between the peak rate for personal income tax and the corporate tax rate; and a cut in depreciation rate for plant and machinery to 15 percent from 25; (iii) a three-rate basic custom duty structure (raw materials 5 percent, Intermediate goods 8 percent and finished goods 10 percent); (iv) service tax levied in a comprehensive manner, leaving out only a few services (public utilities and social services) to be included in a negative list; (v) abolition of wealth tax; (vi) merging of tax on expenditure in hotels with service tax; (vii) abolition of the concessional treatment of long-term capital gains through a reduced scheduler tax rate; (viii) removal of tax exemptions, rationalisation of incentives for savings and simplification of procedures; and (ix) gradual moving over to the destination-based, consumption-type value added taxes at the state level.

The decision to introduce VAT was discussed first at a conference of State chief ministers and finance ministers in 1999 and the deadline of April 2002 was decided to bring in the tax. However, the introduction of VAT was postponed to April 2003 and successively to April 2005, mainly because of the lack of administrative preparation of some states.

Meanwhile, in July 2004 the above-quoted task force on implementation of the FRBM Act has come up with a proposal for an integrated VAT on goods and services to be levied by the central government and the states in parallel, removing all cascading taxes, such as, for example, octroi, central sales tax, sales level sales taxes etc. The task force proposed a
“grand bargain” where by the states would have the power to task all services currently with the centre, and therefore both central and state government would exercise concurrent but independent jurisdiction over common tax bases extending over all goods and services.

The new goods and service tax (GST) would have three ad-valerom rates, in addition to the zero rate. The proposed rate structures consider a floor rate, equal to 6 percent for the centre and 4 percent for the states, a standard rate, equal to 12 percent for the centre (to replace the CENVAT of 16 percent) and 8 percent for states, and higher rate equal to 20 percent for the centre and 14 percent for states. Under this proposal, the total tax burden on most goods and services would work out to 20 percent, comparable with the standard VAT rates in OECD countries. Moreover, the treatments of imports and exports should be fully integrated with the dual GST system. In particular, for imports a two-part levy should replace the countervailing duty (CVD) with the first reflecting the central GST and second reflecting state level GST at the same rate applicable to domestic goods. According to this proposal, the states would obtain revenues from taxation of services and from access to GST on imports, but in our opinion, their fiscal autonomy would be undermined owing to the uniform rates across the states.

According to the task force, the reforms proposed would have great positive implications for India’s outlook and would make most of the tax system, as part of efforts to cancel revenue deficit and lower fiscal deficit to less than 3 percent of GDP by 2009. Moreover, the implementation of the proposed fiscal reforms should reduce both tax evasion and costs of compliance, and should eliminate most of the distorted behavior coming from tax avoidance.
Implementation of reforms since 2001

The government has accepted the recommendations of the TFC and has implemented them in phases. Although it did not entirely follow the recommendations and is yet to implement many of the measures to strengthen the administration and enforcement machinery, most of the recommendations have been implemented. It must also be noted that the pace and content of reforms have not been exactly true to TFC recommendations. As regards the personal income taxes, the most drastic and visible changes have been seen in the reduction in personal and corporate income tax rates and provisions. In the case of personal income taxes, besides exemption, the number of tax rates have been retained at three slabs and the tax rates were continued at 10, 20 and 30 percent.

At the same time, the exemption limit was raised in stages up to Rs.160,000 for the financial year 2009-2010. A salaried taxpayer/others up to an income of Rs.1,60,000 need not pay any tax. The standard deduction has been withdrawn and all most all exemptions with respect to tax concession were scrapped. In addition, saving incentives were given by exempting investment in small savings and provident funds up to a specified limit of Rs. 1,00,000. Attempts have also been made to bring in the self-employed income earners into the tax net. While 1/6th criterion for income tax was modified, two new taxes, the fringe benefit tax and Banking cash transaction tax were introduced in 2005-06. Empirical evidence shows that this drastic reduction in the marginal tax rates has improved the compliance index significantly.

Thus, revenues from personal and corporate income taxes have shown appreciable increases after the reforms were initiated in spite of the fact that the rates of tax have been reduced significantly. Voluntary disclosure
scheme to allow a one time amnesty to tax defaulters by paying the necessary tax was introduced in the form of presumptive taxation.

In the case of corporate income taxes, the rates were progressively reduced on both domestic and foreign companies to 35 per cent and 48 per cent respectively. The dividend tax at the individual income tax level has been abolished. However, very little has been done in terms of broadening the base of corporation tax. In fact, besides depreciation allowances and exemptions for exporters, generous tax holidays and preferences are given for investment in various activities. Consequently, the tax base has not grown in proportion to the growth of corporate profits. As many corporate entities took generous advantage of all these tax preferences, there were a number of “zero-tax” companies. To ensure minimum tax payments by them, a Minimum Alternative Tax (MAT) has re-introduced and increased from 7.5 percent to 15 percent in 2009-010.

There have been significant attempts to improve the administration and enforcement of the tax as well, though progress in actual implementation has not been commensurate. Besides amnesties given from time to time, efforts have been made to reduce arrears by introducing simplified assessment procedures. A large number of pending cases in courts have been decided through out of court settlements. There have also been attempts to establish special tax courts to deal exclusively with tax disputes. With the assistance of the Canadian International Development Agency (CIDA), the government has started a programme of computerising tax returns and building a management information system etc.
Tax policies in developed and developing Countries

There have been major changes in tax systems of countries with a wide variety of economic systems and levels of development during the last two decades. The motivation for these reforms has varied from one country to another and the thrust of reforms has differed from time to time depending on the development strategy and philosophy of the times. In many developing countries, the immediate reason for tax reforms has been the need to enhance revenues to meet impending fiscal crises. As Bird (1993) states, “…fiscal crisis has been proven to be the mother of tax reform”. Such reforms, however, are often ad-hoc and are done to meet immediate exigencies of revenue. In most cases, such reforms are not in the nature of systemic improvements to enhance the long run productivity of the tax system.

One of the most important reasons for recent tax reforms in many developing and transitional economies has been to evolve a tax system to meet the requirements of international competition. Tax policies in developing countries are much more puzzling. Developing countries are no different from others: ideas, interests, and institutions play a central role in shaping tax policy. It is of course difficult to generalise about taxation in “developing countries” as a group. There are some important similarities in the level and structure of taxation in different countries but also some differences reflecting both regional and economic factors such as the level of per capita income. Although there continues to be wide variations in the tax structures among countries, countries regardless of their income level, have generally adopted taxes that are similar in character, corporate tax and personal taxes, value-added taxes and excise duties.
An overview of the world of taxes

No single tax structure can possibly meet the requirements of every country. The best system for any country is expected to be determined taking in to account its economic structure, its capacity to administer taxes, its public service needs and many other factors. Nonetheless, one way to get an idea of what matters in tax policy is to look at what taxes exist around the world. The level and structure of taxes and the way in which taxing patterns have changed in recent years are reviewed here on the basis of data collected for some recent years for 10 countries, representing different region of the world.

Tax policy in developed and developing countries

In the developed countries, the instrument of taxation is used inter- alia a stabilising device in the functioning of the economic system, while in the developing countries, stimulating economic growth becomes an important objective of tax policy.

The pressing need for large government outlays for economic development strongly influence the approach to the problem of determining the appropriate level of taxation in an underdeveloped country. In a highly developed economy, tax policy tends to accept the level of expenditure as its revenue goal. Developing countries are currently very deeply concerned at the appropriateness of their tax base with in the overall economy. The tax base of a country is affected by the exempted incomes, tax free threshold personal allowances, business and non business deductions, rebate and tax credits.
The study analyses the tax policies prevailing in both developed and developing countries around the world. To analyse the taxation system around the world five each of developed and developing countries are chosen for the analyses based on the World Bank report. The tax policies are analysed based on various key factors such as number of taxpayers as a percentage of total population, the ratio of tax revenue to GDP and the percentage growth in income tax as compared to the growth in the GDP etc. The manner of calculating taxable income and tax liability in different countries differ in many respects. While in some countries relief’s and incentives are allowed by way of deductions from gross income, these are allowed by way of tax rebates and are deductible from tax liability in other countries.

**Tax Ratio’s in Developed and developing countries**

Despite the urgent demand for government activities to speed up the process of development, the constraints up on the ability of the government to expand the public sector are reflected in the low ratio’s of tax revenue as a percentage of tax revenue in less developed countries when compared to those in the developed countries.

**Tax Revenue and GDP**

The ratio of total tax revenue (TTR) to GDP for Ten OECD member countries for the period 2001- 2008 are presented in table 3.1
It can be seen from the table that the ratio of total taxes to GDP ranges from 26.9 percent for United States to 42.9 percent for Australia and 43.1 percent for France. It is evident that the ratios of direct taxes to GDP is higher in the developed Countries.

**Graph : 3.1**

**Total tax revenue as a percentage of GDP of Developed and developing countries**

Compared to developing countries. Many developing countries including India are facing the severe problem of fiscal deficit. Amongst the many steps taken by the government to reduce the fiscal deficit, one such
measure is to increase the tax revenue. However, the tax revenue as compared to GDP in the developing countries to be small. The ratio of tax revenue to GDP of these countries shall reflect how much is the share of tax revenue to GDP of these countries.

**Tax structure**

A country’s revenue structure appears to depend to some extent upon its location and economic structure. Trade taxes (mainly customs duties) appear to decline steadily as countries become more developed. Interesting exceptions are the transitional countries which-although many of them fall within the low-income group as defined here-have traditionally relied little on trade taxes.

### Table 3.2

*Tax structures in the OECD countries*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>26</td>
<td>30</td>
<td>30</td>
<td>27</td>
<td>25</td>
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<tr>
<td>Corporate income tax</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Social security cont(^2)</td>
<td>18</td>
<td>22</td>
<td>22</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>(employee)</td>
<td>(6)</td>
<td>(7)</td>
<td>(7)</td>
<td>(8)</td>
<td>(9)</td>
</tr>
<tr>
<td>(employer)</td>
<td>(10)</td>
<td>(14)</td>
<td>(13)</td>
<td>(14)</td>
<td>(15)</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Property taxes</td>
<td>8</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>General cons taxes</td>
<td>12</td>
<td>13</td>
<td>16</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Specific cons taxes</td>
<td>24</td>
<td>18</td>
<td>16</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Other taxes(^3)</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

1. Percentage share of major tax categories in total tax revenue.
2. Including social security contributions paid by the self-employed and benefit recipients (heading 2300) that are not shown in the breakdown over employees and employers.
3. Including certain taxes on goods and services (heading 5200) and stamp taxes.

Source: OECD (2009), Revenue statistics: Comparative tables, OECD Tax Statistics (database)
The higher the level of per capita income, the more a country relies on direct taxes, especially those on personal income. Similarly, although they rise more slowly consumption taxes too become relatively more important in more developed countries.

Table 3.2 shows the trends in OECD average revenue shares over the last 37 years. The lack of clear trend in the share of personal and corporate income taxes might partly reflect changing policies overtime, with recent years witnessing a combination of tax rate reductions and base broadening measures. However, the changes can also be partly explained by change in the economy and in particular by inflation as high inflation increases the revenue from personal income taxes unless income brackets are indexed. One clear trend has been a shift of revenues to general consumption taxes as countries introduce VAT and gradually increase its rate. After Australia introduced GST in 2000, the United States is the only OECD country that doesn’t have VAT/GST has mainly been at the expense of excise duties and other taxes on goods, and services both in developed and developing countries around the world.

**Trends and composition of total tax revenue**

Over the time period covered in the data (only ten years from most countries in the sample) tax burdens have increased only slightly on average, from 18.0 to 18.8 percent of GDP. Indeed taxes actually went down a bit in Asia in this period. The comparable ratio for the 10 countries for which overlapping data are available was 18.6 percent, again suggesting a slight increase over time in tax ratios.

The analysis of the composition of tax revenue shows that the vast bulk of tax revenue raised in selected countries, indeed more than 90 percent comes from three main sources; income taxes, taxes on goods and
services and social security contributions. While tax rates alone clearly do not fully reflect tax policy developments in the sample countries. The general trend towards reduced tax rates is even more pronounced in respect of corporate income tax rates with the average statutory corporate income tax rate in sample countries.

Another clear trend is the reduction in statutory tax rates on corporate income. Most of the countries covered have reduced the statutory tax rates on income, and some have already announced plans or are considering proposals for further rate reductions. In most of the countries, the rate reductions have been accompanied by base broadening initiatives which are expected to at least partly finance reductions. The reforms of the corporate tax system in Australia, France, and UK are broadly revenue oriented. Neutral countries that apply special tax rates for small business generally have reduced the taxation of small business relatively more than the taxation of large business, either through additional rate reductions or by introducing targeted tax incentives for small business. Recent tax reforms also indicate alternative strategies to improve the operation of corporate tax systems. Examples considered include increased tax relief for R&D, the elimination of profit in sensitive capital taxes and adjustments to address double taxation of distributed profits and capital gains.

The table shows that developed countries depend on income tax revenue more than on any other tax revenue. The total tax revenue in United Kingdom (UK), U.S., Germany and other developed is indicating a positive trend from 2004 to 2008 but in the year 2009 which shows decrease in their tax revenue mainly because of so many factors which includes recession in their economies where as the in the developing
Table 3.3
Total tax revenue as percentage of total taxation for the year 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Income, profits and capital gains</th>
<th>Social security</th>
<th>Property</th>
<th>Goods and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>49.50</td>
<td>14.50</td>
<td>10.20</td>
<td>23.4</td>
</tr>
<tr>
<td>France</td>
<td>24.10</td>
<td>37.20</td>
<td>7.80</td>
<td>24.5</td>
</tr>
<tr>
<td>Germany</td>
<td>31.90</td>
<td>36.40</td>
<td>2.30</td>
<td>28.9</td>
</tr>
<tr>
<td>Japan</td>
<td>55.40</td>
<td>-</td>
<td>15.10</td>
<td>29.1</td>
</tr>
<tr>
<td>U.K</td>
<td>39.90</td>
<td>19.20</td>
<td>11.60</td>
<td>28.8</td>
</tr>
<tr>
<td>U.S.A</td>
<td>46.80</td>
<td>24.50</td>
<td>11.70</td>
<td>17.0</td>
</tr>
<tr>
<td>India</td>
<td>36.55</td>
<td>-</td>
<td>0.45</td>
<td>63.0</td>
</tr>
</tbody>
</table>

Source: OECD (2009), Revenue statistics: Comparative tables, OECD Tax Statistics (database)

Table 3.4
Total Tax Revenue of the selected countries

<table>
<thead>
<tr>
<th>Countries</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.K</td>
<td>339639</td>
<td>363108</td>
<td>394002</td>
<td>412195</td>
<td>438506</td>
<td>385959</td>
</tr>
<tr>
<td>US</td>
<td>NA</td>
<td>1409</td>
<td>1586</td>
<td>1674</td>
<td>1449</td>
<td>1190</td>
</tr>
<tr>
<td>Australia</td>
<td>257255</td>
<td>278685</td>
<td>297941</td>
<td>319509</td>
<td>347899</td>
<td>338509</td>
</tr>
<tr>
<td>Japan</td>
<td>82792</td>
<td>88468</td>
<td>92438</td>
<td>94530</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Germany</td>
<td>4485570</td>
<td>497260</td>
<td>534380</td>
<td>580510</td>
<td>597370</td>
<td>567390</td>
</tr>
<tr>
<td>France</td>
<td>447008</td>
<td>469173</td>
<td>495439</td>
<td>510754</td>
<td>518906</td>
<td>482597</td>
</tr>
<tr>
<td>Pakistan</td>
<td>580</td>
<td>624</td>
<td>719</td>
<td>853</td>
<td>1009</td>
<td>NA</td>
</tr>
<tr>
<td>India</td>
<td>3567</td>
<td>4141</td>
<td>49434</td>
<td>5877</td>
<td>7367</td>
<td>8703</td>
</tr>
<tr>
<td>Srilanka</td>
<td>282</td>
<td>337</td>
<td>428</td>
<td>509</td>
<td>586</td>
<td>NA</td>
</tr>
</tbody>
</table>

NOTE: Amount given in individual country currency  NA*Not available
Source: IMF International financial statistics year book 2004 and 2010
countries like India, Pakistan, china, Sri Lanka and other nation the total tax revenue shows an increasing trend.

**Growth of income tax v/s growth of GDP**

Over a period, the role of income tax as a major revenue source in developing countries is gradually increasing. To find out this, the growth in income tax has been compared with the growth in GDP during 2000-2009 in the selected countries.

**Table:3.5**

**Taxes on Income and profits as a percentage of GDP**

(As a percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>16.7</td>
<td>17.2</td>
<td>17.3</td>
<td>18.2</td>
<td>18.2</td>
<td>18.1</td>
<td>18.4</td>
<td>18.4</td>
</tr>
<tr>
<td>Canada</td>
<td>16.7</td>
<td>15.4</td>
<td>15.4</td>
<td>15.7</td>
<td>15.8</td>
<td>16.4</td>
<td>16.6</td>
<td>15.9</td>
</tr>
<tr>
<td>France</td>
<td>11.2</td>
<td>10.4</td>
<td>10.0</td>
<td>10.2</td>
<td>10.3</td>
<td>10.7</td>
<td>10.4</td>
<td>10.4</td>
</tr>
<tr>
<td>Germany</td>
<td>10.4</td>
<td>9.9</td>
<td>9.7</td>
<td>9.5</td>
<td>9.8</td>
<td>10.8</td>
<td>11.3</td>
<td>11.6</td>
</tr>
<tr>
<td>Japan</td>
<td>9.1</td>
<td>8.0</td>
<td>7.9</td>
<td>8.4</td>
<td>9.3</td>
<td>9.9</td>
<td>10.3</td>
<td>9.7</td>
</tr>
<tr>
<td>U.K</td>
<td>14.3</td>
<td>13.2</td>
<td>12.6</td>
<td>12.8</td>
<td>13.7</td>
<td>14.5</td>
<td>14.3</td>
<td>14.2</td>
</tr>
<tr>
<td>U.S.A</td>
<td>14.1</td>
<td>11.7</td>
<td>11.2</td>
<td>11.4</td>
<td>12.9</td>
<td>13.6</td>
<td>13.9</td>
<td>12.6</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td><strong>3.2</strong></td>
<td><strong>3.1</strong></td>
<td><strong>3.4</strong></td>
<td><strong>3.8</strong></td>
<td><strong>4.1</strong></td>
<td><strong>4.4</strong></td>
<td><strong>5.1</strong></td>
<td><strong>6.15</strong></td>
</tr>
<tr>
<td>EU19</td>
<td>12.8</td>
<td>12.4</td>
<td>12.1</td>
<td>12.0</td>
<td>12.4</td>
<td>12.5</td>
<td>12.8</td>
<td>12.8</td>
</tr>
<tr>
<td>EU15</td>
<td>14.1</td>
<td>13.6</td>
<td>13.2</td>
<td>13.2</td>
<td>13.7</td>
<td>13.8</td>
<td>14.0</td>
<td>14.0</td>
</tr>
<tr>
<td>OECD - Europe</td>
<td>12.9</td>
<td>12.5</td>
<td>12.3</td>
<td>12.3</td>
<td>12.7</td>
<td>12.9</td>
<td>13.1</td>
<td>13.1</td>
</tr>
<tr>
<td>OECD - Total</td>
<td>12.8</td>
<td>12.4</td>
<td>12.2</td>
<td>12.3</td>
<td>12.8</td>
<td>13.0</td>
<td>13.2</td>
<td>13.2</td>
</tr>
<tr>
<td>OECD America</td>
<td>11.8</td>
<td>10.6</td>
<td>10.4</td>
<td>10.4</td>
<td>11.0</td>
<td>11.5</td>
<td>11.8</td>
<td>11.2</td>
</tr>
<tr>
<td>OECD Pacific</td>
<td>12.9</td>
<td>12.9</td>
<td>13.1</td>
<td>13.7</td>
<td>14.5</td>
<td>14.5</td>
<td>14.9</td>
<td>14.9</td>
</tr>
</tbody>
</table>

Source: OECD (2009), Revenue statistics: Comparative tables, OECD Tax Statistics (database)

The ratio of growth of income tax to the growth of the GDP between 2000 and 2009 is reflected in Table 3.5. The comparison reveals that income tax revenue as a percentage of GDP has been high in developed
countries as compared to developing countries. In the year 2009 it was high as 43.1 percent in France as against the low of 17.7 percent in India. One of the reasons for the small share of income tax in the GDP in India appears to be that while the maximum tax in most of the selected countries is payable by the middle income group individuals. It seems that while the salaried class people who fall mostly in the medium group income are subject to compulsory taxation, the high income group individuals, especially self employed individuals have been able to either avoid or evade tax. Another reason appears to be that the low per capita of GDP and the amount of taxable income which is otherwise low or small is outside the preview of income tax.

The percentage growth in income tax between 2000 and 2009 as compared to the growth in GDP during the same period has been higher by 446.3 percent in India and by 364.9 percent in Pakistan both developing countries. Similarly it is higher in the US by 51.0 percent and by 48.7 percent in Australia but down by 47.7 percent in Malaysia and by 17.0 percent in U.K. The reason for high percentage growth of income tax revenue in Pakistan and India as compared to the percentage growth in the GDP since 1999 onwards appears to be that in 1999 the income tax revenue in these countries was very low as compared to the other countries. Thus, in comparison to that narrow base the growth in substantial but the income tax revenue of other countries was already very high even in 1999 and that is why despite the growth in absolute terms being much higher in UK, the UK and Australia, the growth in percentage is less than the growth in Pakistan and India.

Thus, it is clear from the above analysis that in the developing countries especially in India and Pakistan, the rise in income tax revenue is
substantial but still it is far behind the level of in the developed countries in developing countries, the higher growth in income tax as compared to the growth in GDP is expected as the growth in the GDP had increased the per capita income which consequently had the effecting of increasing the income liable to tax over and above, the tax free threshold allowed to individual taxpayers. From the above, it is appears that in the coming years if the above trends persists, then the percentage growth in income tax to percentage growth in GDP in both India and other developing countries may be much higher.

A second trend evident in table 3.5 is the growth in social security contributions, so that they now merely raise as much revenue in OECD area as personal income tax. Indeed, in the majority of OECD countries more revenue was raised from social security contribution than from personal income tax.

**Personal and corporate income tax rates**

The major changes in the personal and corporate tax will have impact on the total revenue of the country but it is obvious that tax rates alone do not sum up tax policy developments in any country. They do, however, an indication of one of the overall trends in tax reform.

Table shows that the taxes on personal income as a percentage of GDP in lowest which is 5.7 percent in 2008 in Japan compared to U.K. which has 10.7 percent in the same period, which indicates that the percentage of contribution of personal income to GDP is much lower compared to other sources of revenue to the governments due to various exemptions and thresholds provided by the government as a percentage of income tax to GDP is still very low. Growth in the GDP, Per capita consequent to
increase in the GDP will contribute in much larger proportion to income tax than what is being contributed presently.

**Table 3.6**

**Taxes on personal income as a percentage of GDP**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>12.2</td>
<td>12.1</td>
<td>12.2</td>
<td>12.5</td>
<td>12.2</td>
<td>11.5</td>
<td>11.3</td>
<td>na</td>
</tr>
<tr>
<td>Canada</td>
<td>13.2</td>
<td>11.9</td>
<td>11.8</td>
<td>11.8</td>
<td>11.9</td>
<td>12.1</td>
<td>12.4</td>
<td>12.0</td>
</tr>
<tr>
<td>France</td>
<td>7.8</td>
<td>7.5</td>
<td>7.5</td>
<td>7.4</td>
<td>7.9</td>
<td>7.7</td>
<td>7.4</td>
<td>7.5</td>
</tr>
<tr>
<td>Germany</td>
<td>9.8</td>
<td>8.9</td>
<td>8.5</td>
<td>7.9</td>
<td>8.1</td>
<td>8.7</td>
<td>9.1</td>
<td>9.8</td>
</tr>
<tr>
<td>Japan</td>
<td>5.6</td>
<td>4.8</td>
<td>4.5</td>
<td>4.7</td>
<td>5.0</td>
<td>5.2</td>
<td>5.5</td>
<td>5.7</td>
</tr>
<tr>
<td>U.K</td>
<td>10.9</td>
<td>10.4</td>
<td>9.9</td>
<td>10.0</td>
<td>10.4</td>
<td>10.6</td>
<td>10.9</td>
<td>10.7</td>
</tr>
<tr>
<td>U.S.A</td>
<td>12.2</td>
<td>10.0</td>
<td>9.1</td>
<td>8.9</td>
<td>9.7</td>
<td>10.2</td>
<td>10.8</td>
<td>10.2</td>
</tr>
<tr>
<td>India</td>
<td>23.8</td>
<td>0.8</td>
<td>15.2</td>
<td>12.3</td>
<td>19.1</td>
<td>13.6</td>
<td>34.2</td>
<td>36.7</td>
</tr>
<tr>
<td>EU19</td>
<td>9.4</td>
<td>9.1</td>
<td>9.0</td>
<td>8.8</td>
<td>9.0</td>
<td>9.1</td>
<td>9.2</td>
<td>na</td>
</tr>
<tr>
<td>EU15</td>
<td>10.6</td>
<td>10.2</td>
<td>10.1</td>
<td>10.0</td>
<td>10.2</td>
<td>10.3</td>
<td>10.4</td>
<td>na</td>
</tr>
<tr>
<td>OECDEurope</td>
<td>9.5</td>
<td>9.2</td>
<td>9.1</td>
<td>8.9</td>
<td>9.1</td>
<td>9.1</td>
<td>9.2</td>
<td>na</td>
</tr>
<tr>
<td>OECD -Total</td>
<td>9.6</td>
<td>9.3</td>
<td>9.1</td>
<td>9.0</td>
<td>9.2</td>
<td>9.2</td>
<td>9.4</td>
<td>na</td>
</tr>
<tr>
<td>OECDAmerica</td>
<td>12.7</td>
<td>10.9</td>
<td>10.4</td>
<td>10.3</td>
<td>10.8</td>
<td>11.2</td>
<td>11.6</td>
<td>11.1</td>
</tr>
<tr>
<td>OECD -Pacific</td>
<td>8.9</td>
<td>8.7</td>
<td>8.5</td>
<td>8.7</td>
<td>9.0</td>
<td>8.8</td>
<td>9.1</td>
<td>na</td>
</tr>
</tbody>
</table>

Source: OECD (2009), Revenue statistics: Comparative tables, OECD Tax Statistics (database)

**Corporate Income Tax**

Tax policy issues relating to corporate income tax are numerous and complex, but particularly relevant for developing countries are the issues of multiple rates based on sectoral differentiation and the incoherent design of the depreciation system. Developing countries are more prone to having multiple rates along sectoral lines (including the complete exemption from tax of certain sectors,) than industrial countries, possibly as a legacy of past economic regimes that emphasised the state's role in resource allocation.
Table 3.7
Tax Rates around the world at 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Corporate income tax</th>
<th>Individual income tax</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>35%</td>
<td>17-45%</td>
<td>10% GST</td>
</tr>
<tr>
<td>Canada</td>
<td>19.5% (Federal)</td>
<td>15-29% (Federal)</td>
<td>5% GST</td>
</tr>
<tr>
<td>China</td>
<td>25%</td>
<td>5-45%</td>
<td>17%</td>
</tr>
<tr>
<td>Germany</td>
<td>30-33% (Effective)</td>
<td>14-45%</td>
<td>19%</td>
</tr>
<tr>
<td>Japan</td>
<td>30%</td>
<td>5-50%</td>
<td>5% consumption</td>
</tr>
<tr>
<td>Russia</td>
<td>20%</td>
<td>13%</td>
<td>18%</td>
</tr>
<tr>
<td>U.K.</td>
<td>28%</td>
<td>0-40%</td>
<td>17.5%</td>
</tr>
<tr>
<td>U.S.</td>
<td>15-35%</td>
<td>15-35%</td>
<td>-</td>
</tr>
<tr>
<td>Pakistan</td>
<td>35%</td>
<td>0-25%</td>
<td>15%</td>
</tr>
<tr>
<td>India</td>
<td>30-40%</td>
<td>10-30%</td>
<td>12.5%</td>
</tr>
</tbody>
</table>


Such practices, however, are clearly detrimental to the proper functioning of market forces. They are indefensible if a government's commitment to a market economy is real. Unifying multiple corporate income tax rates should thus be a priority.

Corporate taxation in developed and developing countries
The current corporate tax systems of the selected countries are the result of several successive fiscal reforms mainly started in the beginning of the 1990s and for certain countries, still underway. Generally, most countries have realised a consistent reduction in statutory tax rates in the last decade, while only partial efforts of broadening tax bases have been made.
Table summarised the main features of the corporate tax systems of the countries selected for the study. In considering the information reported in the table, it is the first of all important to point out that, generally, for the tax purposes, a domestic company is liable to be taxed on its world wide incomes, while the tax liability of a foreign company is normally limited to host-source income.

Moreover, with regard to the treatment of foreign source income, in order to avoid double taxation, almost all countries adopt the “residence” or “world wide” approach in computing tax liability, combined with tax credits. Under this system, foreign source income is subject to home country taxation, but a credit or deduction is allowed for taxes paid to the host government.

The foreign tax credit is typically limited to the home country tax liability on foreign source income. In Japan and Korea any remaining excess of tax credit can be carried forward for crediting in succeeding years (3 years in Japan and 5 years in Korea). In this respect, Malaysia represents a special case: income arising from foreign sources and received by a resident company is not taxed at all (“territorial” system).

Concerning the structure of the corporate tax rates, Malaysia, Japan and Korea have a graduated structure while India, China and Thailand have adopted a flat rate. Most countries have statutory rate of around 30 percent at the national level. In India, the rate depends on the nationality of the firm: for foreign companies it is set at 41 percent against 33 percent for domestic ones. In China, different tax codes are in force for domestic and foreign enterprises, even if, after WTO accession, there are
increasing pressures to adopt a unified legislation. The national CIT rate (formally equal for foreign and domestic enterprise) is 30 percent plus a

Table: 3.8
Corporate tax systems in the selected countries

<table>
<thead>
<tr>
<th>Item of difference</th>
<th>China</th>
<th>India</th>
<th>Malaysia</th>
<th>Thailand</th>
<th>Japan</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard CIT Rate</td>
<td>25%</td>
<td>Domestic company 33% Foreign company-41%</td>
<td>26%</td>
<td>30%</td>
<td>30%</td>
<td>27.5%</td>
</tr>
<tr>
<td>(state tax of 15% and local tax 3%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inter company dividends</td>
<td>Fully/partially excluded</td>
<td>Fully/partially excluded</td>
<td>Included as part of taxable income</td>
<td>Fully/partially excluded</td>
<td>Fully/partially excluded</td>
<td>Fully/partially excluded</td>
</tr>
<tr>
<td>Dividend withholding taxes</td>
<td>20%</td>
<td>Dividends are no longer taxed in the hand of recipient equity shareholders but subjected to DDT if distributed</td>
<td>Included as part of 10% of taxable income for PIT</td>
<td>10%</td>
<td>Partially included as a part of taxable income for PIT or 20%</td>
<td>Included as a part of taxable income for PIT</td>
</tr>
<tr>
<td>Capital Gains</td>
<td>CIT rate</td>
<td>Short term CIT Rate Long term - 20.5%</td>
<td>CIT Rate</td>
<td>CIT Rate</td>
<td>CIT rate surtax of 5% on gains from land or similar properties</td>
<td>CIT Rate</td>
</tr>
<tr>
<td>Treatment of losses</td>
<td>5 years carried forward</td>
<td>Business losses – 8 years carried forward Capital losses – carried forward indefinitely</td>
<td>Carried forward indefinitely</td>
<td>5 years carried forward</td>
<td>5 years carried forward -1 year carried back</td>
<td>5 years carried forward</td>
</tr>
</tbody>
</table>

Source: world Bank Report, KPMG 2009 and others.

local surtax of 3 percent. However, the state rate is reduced to 24 percent for foreign investment enterprises (FIEs) operating in costal regions; the rate even goes down to 15 percent for FIEs located in one of the special economic zones; moreover the local tax of 3 percent may be waived or
reduced by the local government. As a result, generally, the Chinese domestic companies are penalised with respect to foreign-funded companies. Among industrialised countries, Japan has a low statutory rate; the picture substantially changes when corporate taxation levied by the central government is combined with local taxes to determine the overall statutory rate. Given the graduated rates in the calculation of both corporate and business taxes and the different local tax rates, the all in statutory rate varies in Japan within in the range of approximately 39 to 43 percent.

Most of the countries in the sample adopt a broadly similar definition of taxable income; although certain relevant differences may be noted in relation to the types of deductions allowed, the amount of deductible expenses, and the types and the amounts of exemptions. In some cases, special rules in determining tax liabilities vary according to the size, location and industry of the companies (in particular in China, Malaysia and Korea).

The depreciation system differs in many aspects from country to country. The Chinese depreciation system is calculated on the straight-line basis; accelerated depreciation may be conceded in a few specified circumstances. In India, depreciation is calculated on the declining-balance method. The general rate of depreciation for plant and machinery is 15 percent. Additional depreciation of 15 percent on new machinery and plant is allowed. The higher rate of depreciation was initially adopted to offset the negative effect of the high corporate tax rate on internal accrual of resources for replacement and modernisation.
However, the cut in the tax rate realised in the last decade, and a new reduction currently under discussion, make less justified generous depreciations. In the absence of adequate profits, unabsorbed depreciation on both tangibles and intangibles can be carried forward indefinitely. Any accounting method of depreciation can be used under the Malaysian and Thai systems; in both countries, accelerated depreciation may be allowed for accessories used in research and technological development. The Japanese corporations may select either a straight-line method or the declining-balance method depending on the type of asset; special depreciation by means of either increased initial depreciation or accelerated depreciation is available for corporations in relation to specific IT-related assets and R&D-related machinery/equipment.

Most of the countries permit losses to be carried forward for a maximum period of five years (China, Thailand, Korea, Japan), while Malaysia allows unabsorbed losses to be carried forward indefinitely. Under the Indian income tax system rules change depending on the nature of losses: the operating business losses are allowed to be carried forward for eight years; capital losses arising from depreciation are carried forward indefinitely.

In all countries of the sample, excluding Malaysia, inter-corporate dividends are partially or fully exempt from corporate income tax for the resident enterprise or the company. The exemption is granted under specific conditions prescribed by the tax laws with respect to the proportion of the shares of the subsidiaries owned by their company. For example, in Thailand and in Japan inter-corporate dividends are fully excluded from taxable income if the corporation owns more than 25 percent of the shares of the domestic corporation which pays the
dividends, otherwise, the amount excluded is reduced to 50 percent. In Korea, in addition to the shares of subsidiaries owned by the company, the amount of dividends excluded depends on the type of subsidiary (listed or non-listed on the Stock Exchange) and whether the company receiving dividends is a holding company or not.

Generally, capital gains of corporations are included in ordinary taxable income and are subject to taxation in full as they are realised; in certain countries they are charged under corporate tax, but at different rate. This, for example, applies to the Indian tax system, which uses different rules depending on whether they refer to short or long-term capital gains: short-term capital gains are taxed at the normal domestic rate of 33 percent; long-term capital gains are taxed at the rates of 20 percent. In Japan, capital gains from short-term transactions of land carry an additional special tax burden (surtax of 5 percent).

Finally, in most countries, the system of integrating personal and corporate taxation is fairly conventional, adopting essentially the “classical” model. Three countries (China, Thailand and Japan) apply final withholding tax on dividends paid to domestic individuals (the withholding tax rate varies from 10 to 20 percent). In order to mitigate the burden of double taxation, Japanese tax payers may either benefit from a tax credit equal to 10 percent of their dividends if dividends are taxed as part of aggregate income, or, if dividends are taxed as separate income, pay a withholding tax at the same rate as capital gains and interest (20 percent).

With respect to the classical model, India and Malaysia represents important exceptions. Under the Indian system, the company paying the
dividends is subject to a dividend distribution tax (DDT) of 12.5 percent plus a surcharge of 2.5 percent on DDT; the tax rate on retained earnings is the standard CIT rate (35.875 percent). Dividends are exempt from income tax in the hands of shareholders, irrespective of their residential status. The taxation of companies in Malaysia is based on a full imputation system where the shareholders are taxed on the gross dividends at their own respective tax rates and are given full tax credit in respect of the tax deducted at source from a company.

**An international comparison of India’s tax structure**

On comparison of the India’s tax structure with that of developed nations, major differences exists between India and other selected nations are;

1. **Overall burden Direct taxes on companies**

   Corporate India’s direct tax burden today stands at over 30 percent corporate tax rates in other countries varies between 17.5 percent and 28 percent.

2. **Maximum tax slab for individual assesses**

   In India 30 percent tax rate applies over income Rs.8 lakh. In China, 30 percent tax rates applies only to income above Rs.40 lakh.

3. **Standard Deduction**

   While in India, the concept of standard Deduction has been discontinued for salaried employees, in Malaysia, Indonesia, Germany, UK, France, Thailand etc., allowance in the form of standard deduction is available.
4. Fringe Benefit Tax
In India, Fringe Benefit Tax aims at taxing amounts, which are not income but are in the nature of expenditure, genuine business expenditure such as sales promotion, including policy, Conference (including conveyance, tour and travel and hotel, boarding and lodging expenses) should be allowed deduction. In other countries, where the Fringe Benefit tax is there, the individual and corporate’s are required to attach their tax statement along with their normal statement and they get the due tax credit of the amount paid as PBT.

5. Depreciation
In India, depreciation rate in case of Plant and Machinery is 15 percent. In the UK, there is a system of “free depreciation”. Spain, which also had free depreciation system earlier, provides free depreciation now for certain specified assets. Finland had followed this system until the late 70’s.

6. Dividend Distribution Tax
Presently in India, a company is required to pay Dividend Distribution Tax @ 16.925 percent on its distributed profits. Liberal norms prevail overseas.

7. R&D (Research and Development)
In India, weighted deduction benefit of 150 percent is allowed in few sectors. In most of the developed countries including United States, Australia, France, Canada etc., tax incentives for promoting research and development are provided more or less on a permanent basis. In countries like Canada, Germany, UK, the Government provides up to 35 percent grant on research.
8. Tax Incentives
In India, tax incentives are provided for Infrastructure Sector Research and Development and other key sectors of the economy. Liberal incentives are provided in many countries for a range of activities.

9. Overall Incidence of Indirect Taxes
The analysis reveals that, the average total incidence on selling price in case of consumer goods is 44.11 percent, capital goods 43.26 percent, basic goods 30.28 percent and intermediate goods 30.06 percent.

10. Value Added Tax
Most of the countries have already introduced Value Added Tax in their country. Even a large number of countries have Goods and Services Tax (GST) in place but in India VAT is not yet introduced in all states and union territories. Time is now ripe to do away with other levies in any form be it octroi, entry tax, mandi tax etc., CST should be abolished at the earliest.

Selecting the right tax system
In developing countries where market forces are increasingly important in allocating resources, the design of the tax system, experts feel that it should be as neutral as possible so as to minimise interference in the allocation process. They also suggested that system should also have simple and transparent administrative procedures so that it is clear if the system is not being enforced as designed.

Conclusion
The analysis reveals that the developing countries collect an average only two-third or less of the amount of tax revenue that developed countries
do, as a percentage of GDP. Tax systems, the world over have undergone significant changes during the last twenty years. The wave of tax reforms that began in the mid-1980s and accelerated in the 1990s was motivated by a number of factors. In many developing countries pressing fiscal imbalance was the driving force.

The evolution of the Indian tax system was driven by similar concerns and yet some ways, it is different and even unique. Unlike most developing countries, which were guided in their tax reforms by multilateral agencies such as the International Monetary Fund, Indian tax reforms have largely borne a domestic brand. Despite this, the tax system reforms were broadly in conformity with international trends and advice proffered by expert groups and was in tune with international best practices. Inevitably tax policy in the country has responded to changing development strategy over the years.

Among the richest countries, the main sources of revenue are the personal income tax (42.7 percent of revenue) and various types of consumption taxes (32.9 percent of revenue). Consumption taxes are even more important among the developing countries 51.2 percent of their total tax revenue. Instead, the corporate income tax is much more important (19.3 percent of revenue, compared with 9.7 percent in richer countries), and tariffs are also important (16.4 percent of revenue, compared with richer countries) represents a major non tax source of revenue among the developing countries (12.5 percent of tax revenue, compared with 1.0 percent in richer countries). The average maximum corporate tax rates are also very close (26.7 percent vs. 29.6 percent), while the maximum personal tax rates are not that different (34.7 percent vs. 42.8 percent).
In this study, an attempt is made to evaluate recent reforms in the sphere of individual and corporate taxation. During the period under study, the major reforms in the era of individual income taxation have resulted in restructuring tax rates, increase in exemption limit, and rationalisation of tax incentives for investments and introduction of some new taxes.