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TAX PROCEDURE FOR GENERAL ACCOUNTING

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ABSTRACT

Taxation is the most important source of money for the government, and the growth of every country's economy is heavily influenced by the taxation structure that has been implemented. A taxation structure that makes it simple to do business while also eliminating the possibility of tax evasion contributes to the growth of a country's economy. However, a taxation structure that has options for tax evasion as well as one that does not assist the ease of doing business has the effect of slowing the growth of an economy's overall growth. As a result, the taxation structure plays a significant role in the growth of the country. It is important to note that India has a well-developed tax framework. In accordance with the provisions of the Indian Constitution, the authority to impose taxes and charges is divided among the three levels of the government. The Indian revenue structure has undergone several revisions, but it is still a long way from becoming a perfect taxation structure. There are several issues, such as tax evasion, reliance on indirect taxes, black money, and the creation of a parallel economy, which demonstrate that the Indian taxation system will require considerable adjustments in the future to solve all of these issues. The research presented in the following paper is entirely based on secondary data. Various numbers have been acquired from the various websites of the Indian government, including Indian taxation is complicated by the fact that there are several taxes and several tax collecting bodies to contend with. Furthermore, it is observed that indirect taxes account for a greater proportion of total tax collection than direct taxes. Both indirect taxes and direct taxes have advantages and drawbacks that are unique to them.

Keywords: *Tax, accounting*

Introduction

The ability of a government to formulate and implement policies is critical to the socio-economic growth of a country's economy. It has become increasingly important in India to have the government play a more active role in the achievement of developmental objectives in general and socioeconomic objectives in particular throughout the years. The traditional functions of the government (defence, maintenance of law and order), as well as welfare and development activities such as health, education, rural development, sanitation and water supply, and environmental protection, necessitate a large amount of public funding to be carried out successfully. In reality, public finance is essential throughout the whole process of economic planning and execution in the country. Tax policy aids the government in obtaining the income necessary to achieve a variety of socio-economic objectives through the collection of taxes. It is possible to collect money through taxes, however the expenditure of revenue is the result of a properly implemented and solid public investment strategy. When the government spends money instead of the people, the social welfare is often increased to the greatest extent possible, according to research.

In this sense, taxation is seen as a critical tool in the administration of public finances. Taxation is a significant source of public finance that is raised by the government for the purpose of funding public expenditure. Taxes are divided into two categories: direct tax and indirect tax. Direct taxation encompasses income taxation as well as corporate profit taxation. Income Tax is a significant component of Direct Taxes and a significant source of revenue for the federal government. A tax system should include features such as simplicity, practicality, efficacy, and anti-inflationary effects, as well as traits such as incentives for the production of essential goods and services. Furthermore, the tax structure should be less expensive, simple to understand, easy to comply with by the general public, and simple to manage by the government officials. Income tax meets all of the taxation canons and aids the government in the achievement of its socioeconomic policy objectives. It is possible to achieve greater distributional fairness through income tax by imposing different tax rates on affluent and poor individuals, and income tax may also be used as a tool for inflation control.

With all of these characteristics, income tax has risen in importance in the framework of direct taxation in all politically advanced countries across the world. Where the population is dispersed, mainly illiterate, and engaged in subsistence production, identifying and measuring the tax base, as well as evaluating and collecting taxes, the tax system in developing nations suffers from a major disadvantage. It is necessary for the successful application of direct taxation to exist in certain conditions, such as the presence of a predominantly monetized economy, a higher level of literate tax payers, the maintenance of honest and reliable accounts, a high level of voluntary compliance by tax payers, favourable political conditions, as well as an honest and efficient tax administration. In impoverished nations, these conditions are not accessible at the appropriate level. Because it is harder to reach tax payers through direct taxes in developing nations, many countries rely increasingly on indirect taxes (Goode, 1981). India's tax structure, like that of many other developing countries, has significant flaws that must be addressed. Because of the high business tax rates, the multiplicity of taxes and the cascading of taxes, the widespread exemptions and concessions on various items as well as specific or group of manufacturers, the tax structure in developing countries is extremely complex and difficult to understand and navigate. Certain categories of activity are subject to a disproportionately large number of income tax breaks. In the absence of a cost-benefit analysis, exemptions and concessions may be harmful.

Radian (1980) made the following observation on the progressive system of taxation: "the poor are asked to pay very little, the affluent are forced to pay high rates of taxes but are able to escape the tax net through the back door." Everyone is content, with the exception of the national treasury, which remains devoid of funds." Therefore, it is essential that the taxing system be overhauled on a regular basis to ensure that it remains effective. When it comes to accomplishing predefined goals in any sector, reforms are an essential approach that must be adjusted to the changing socio-economic environment. Reforms in taxes are urgently required in order to make it more effective, more conveniently administered, and more assessee friendly. As a result, taxes changes are extremely important in making the country's taxing system compatible with the globalised economy and in revamping it to reflect the country's changing socio-economic position.

Objectives:-

1) To Study the Tax Structure of India
2) To Identify the amount incurred on collection of taxes

EVOLUTION OF INCOME-TAX IN INDIA

Taxes in ancient India

There is evidence to suggest that income tax was imposed as far back as the ancient world. Taxation was seen as a religious obligation throughout the Vedic period. There are allusions to it in Kautilya's 'Arthashasthra' as well as Manusmriti. Manu writes on the king's taxation system, including the methods and mechanism for levying and collecting taxes. The Arthashastra of Kautilya is widely regarded as the earliest authoritative treatise on public finance, administration, and fiscal policy in the world. "Raghuvansa," the finest Sanskrit scholar of ancient India, records the necessity of taxes in his book "Raghuvansa," which may be found here.

Taxes during Mughal Period

Contemporary court records, notably the Ain-i-Akbari, produced by Abul Fazl, one of Akbar's courtiers, include information about the various tax systems in place throughout Mughal reign. In truth, Babur, who was the creator of Mughal Rule in India, did not have a tax policy in the traditional sense. Plundering was the most important source of money. One of the sources of wealth for the Mughal rulers was the sale of land. When Akbar abolished the Jizya on non-Muslims, Aurangzeb re-instituted it in the form of a progressive income tax in 1679, which was later repealed by the British. A dedicated service with new tax collectors was established specifically for the purpose of collecting Jizya. It is important to note that the discriminatory tax policy based on religion, which was implemented by certain Mughal kings after the death of Aurangazeb in 1707, was a contributing reason to the fall of the Mughal Empire following his death. The concept of progressive taxation was established by the Kannada Emperor Krishnadevaraya of Vijayanagar in the 15th century. In exchange for offering the services of soldiers during times of war, the Mughal emperors awarded a Munsabdar the ability to receive land income rights. The contract of 1765, which granted Britishers the authority to collect taxes on behalf of the emperor, is shown in historical records. A case in point is the British system of District Collectors of land revenue, which served as a model for income tax administration by the British before the Mughal Empire was disbanded in 1857.

Taxes during British Rule

Before the partition of India, the tax structure of British India reflected the conventional agricultural economy of the three countries involved. Customs duties accounted for the lion's share of the federal government's revenue. Excise duty was another significant source of money for the government. The Income Tax was a significant source of revenue for the government among the direct taxes. 4 Sir James Wilson implemented income tax in its contemporary form in 1860 to help the country recover from the financial crisis caused by the Sipoy mutiny of 1857. The Income Tax Act of 1922, which established the most comprehensive income tax legislation in the world and provided the groundwork for the development of the Income Tax Department, was signed into law.

Taxes after Independence

For the time being, the Income Tax Act of 1961, which came into force on 1st April 1962 and is revised from time to time by the yearly Finance Acts, as well as other legislations relevant to Direct Taxes, serves as the primary source of law governing income taxation in India. The Income Tax Act 1961, which superseded the Indian Income Tax Act 1922, which had been in effect prior to independence and had been in existence for over 52 years, was passed in 1961. Income tax is a large piece of law with 23 chapters, 298 sections, several subsections, and 14 schedules, among other things. Since 1962, the Income Tax Act has been subjected to multiple revisions by the Finance Act in order to keep pace with India's rapidly changing economic environment. When the necessity arises, the Central Board of Direct Taxes (CBDT) has the authority to change rules and provide clarification to instructions.

SCHEME OF INCOME TAX IN INDIA

There are two levels of government in India, one at the national level and another at the state level, according to the country's Constitution. The Constitution explains in full the legislative powers and responsibilities of the two levels of government in the United States of America. According to constitutional rules, income taxation in India is divided into two basic categories: direct and indirect taxation. a) Taxation of non-agricultural income (which is a core topic); and b) Taxation of agricultural income (which is a subtopic) (a state subject). Income tax had a major part not only in the finances of the federal government, but also in the budget of the states. Income Tax is levied against an individual based on his or her total income for the preceding year. Every fiscal year's income tax rates are set down in the Finance Act of that year. Personal income tax, as well as corporate income tax, are both included in the definition of income tax. Individuals, Hindu Undivided Families, businesses, Associations of Persons (AOPs), Bodies of Individuals (BOIs), municipal governments, and Artificial Juridical Persons are all subject to income tax. Corporate Tax is the name given to the income tax placed on the profits of corporations. The incidence of income tax on each individual is determined by the location of the income's source and the residence status of the Tax-Payer in question. People are categorised into three categories based on their residential status: Residents, Resident but Not Ordinary Resident, and NonResident. This is established by looking at a person's residential status for the preceding calendar year. An individual who is not a resident of India is liable to pay tax on incomes received or deemed to be received in India, as well as on incomes accumulated or deemed to be accrued in India. When a resident of India receives, is deemed to have received, accrues or is deemed to have accrued income in India and outside India, he or she is required to pay tax on that income. Income of Indian origin and business income from other countries are included for tax purposes in the case of a resident but not ordinarily resident.

The total income is calculated by adding up the sources of revenue that are categorised under five main categories. The Income Tax Act categorises various types of income into the following categories: salary income, house property revenue, income from business and profession, capital gains, and income from various other sources. After clubbing of revenue and set-off and carry-forward of losses, the income under each heading is determined in accordance with the requirements of the heading under consideration. It is called Gross Total Income (GTI) after deductions under Chapter VI-An are taken into account, and the remaining is called Total income after the income tax slab rates stipulated in the Finance Act are used to determine the amount of tax payable.

In addition to the tax refund under section 89(1), the rebate under section 87(A) is permitted to be deducted from the tax due for the relevant assessment year. In circumstances where total income does not exceed Rupees Five Lakh, Section 87-A became applicable in the Assessment Year 2013-14; however, the threshold has been raised to Rupees Three Lakh and Fifty Thousand from the Financial Year 2017-18. Every person and Hindu Undivided Family corporation is required to file income tax returns if their Gross Total Income exceeds the amount of income that is not taxable under the applicable tax laws. The Indian income tax system offers a variety of tax breaks to encourage savings, the intensive growth of certain industries and geographical areas, and the expansion of exports. In the case of corporations, partnership businesses, and groups of persons, income taxes are charged at a fixed rate. When it comes to individuals and HUFs, income tax is charged according to a slab rate structure. As a result of India's adoption of a progressive tax system, the relevant tax rates rise, reaching up to 30 percent as income grows.

Research methodology:-

This research work is entirely dependent on secondary sources of information. Various numbers have been acquired from the various websites of the Indian government, including

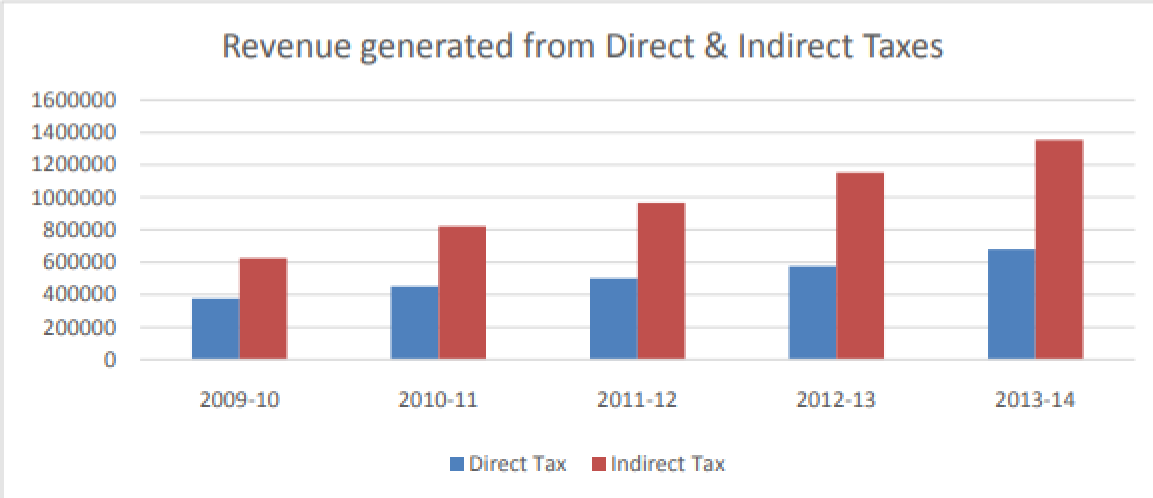
Analysis of Indian Tax Structure:-

The following are the specifics on how much money was generated from direct and indirect taxes by both the federal and state governments combined in fiscal year 2013.

Year	2010-11	2011-12	2012-13	2013-14
Revenue Receipt Direct Tax	450822.09	501394.92	574680.54	679297.56
Revenue Receipt Indirect Tax	820843.26	966495.51	1151867.99	1353191.51

Source- (Public Finance Statistics, Ministry of Finance, 2013-14)

*2014-15 data is not taken as it is not yet available



Interpretations:-

It can be observed from the statistics above that indirect taxes are more heavily reliant on revenue collection than direct taxes in terms of revenue collection. By looking at the chart above, it is fairly immediately apparent that the amount obtained through indirect taxes is about twice as large as the amount received from direct taxes. The government's over-reliance on indirect taxes is abundantly obvious. We will be learning about the pros and disadvantages of both indirect and direct taxes in this course.

Advantages of Indirect taxes:-

Convenient:-

Unlike direct taxes, which are levied against manufacturers, sellers, and dealers, indirect taxes levied against consumers are levied against consumers of products and services, who are thus the ultimate tax payers. They are advantageous from the perspective of the tax payer since he only pays tiny amounts of indirect taxes. Aside from that, they are advantageous to the government since they collect the taxes in one single payment from the producers.

Difficult to evade:-

Because indirect taxes are frequently included in the selling price, it is quite difficult to escape these taxes in many situations.

Indirect taxes have a broader base of coverage than direct taxes, owing to the fact that indirect taxes are included in the prices of the vast majority of products and services, as opposed to direct taxes. As a result, customers are required to compensate them.

Some indirect taxes are elastic in nature, meaning that when the government wishes to raise revenue, it may simply increase the indirect taxes.

Being universally appealing: Because indirect taxes are paid by both affluent and poor people, they have a global appeal.

Output Pattern:- By imposing taxes on certain goods or industries, the government can exert influence over the pattern of production in the economy.

Individuals may not demotivated to work and save:-

As indirect taxes are not depend on Income, Individuals may not get demotivated to work and save

Disadvantages of Indirect Taxes

Inequitable:-

Poor individuals bear a disproportionate share of the burden of indirect taxes compared to wealthy persons. As a result, indirect taxes are regarded as inequitable by many.

Uneconomical:-

Because the government must incur significant resources in order to collect Indirect Taxes, these taxes are seen as unprofitable by most people. The final consumer is required to pay a substantially larger amount than the amount obtained by the federal government.

Uncertainty:-

Amounts of Indirect Tax Collection are impossible to anticipate since a rise in Indirect Tax results in an increase in the prices of commodities, which in turn affects demand for those commodities. As a result, the amount of indirect taxes collected is constantly subject to unpredictability.

Inflationary:-

As Indirect Taxes increases the prices of the commodity, they are considered as Inflationary. If Government depends more on indirect taxes, then Inflation will keep on increasing.

Non-Awareness:-

A lack of knowledge of indirect taxes exists among tax payers, since no one realises that he is paying taxes because they are contained in the price of goods and services.

Evasion:-

Manufacturers have a greater probability of evading taxes since they may collect taxes from customers while paying only a fraction of the taxes due to the understanding of government authorities.

Discourage Industries:-

The raw material used by the industrial sector is taxed indirectly. Similarly Finished goods are taxed which increases the price of the product resulting in demand reduction. In this way indirect taxes discourage industries.

Unfair Profit:-

The Producers increase prices of commodities to maintain there profit margin. Hence burden is on consumers.

Unemployment:-

Increased prices lead to decreased demand, which discourages the growth of industries, resulting in an increase in the unemployment rate.

Direct taxes, like indirect taxes, have their own set of advantages and disadvantages.

Advantages of Direct taxes:-

Equitable:-

The Burden of direct taxes cannot be shifted hence they are progressive and equitable in nature

Economical:-

The Cost of collection of direct tax is low. Mostly they are collected at source. Hence the direct taxes are economical

Certain:-

On both parties, there is agreement on the amount of direct taxes that will be collected in the future. Taxpayers are aware of their income and, as a result, are aware of the amount of taxes that they would be expected to pay. Similarly, tax officials are aware of the revenue that is projected to be generated by direct taxes.

Productive:-

Direct Taxes are Productive in nature. As the community grows in numbers and prosperity, the returns from direct taxes also grow.

Means of developing civic sense:-

In case of Direct taxes the people know that they are paying taxes and it develops consciousness among the people. They know their right to ask government how the government is using the money for development of the nation. Thus Direct Taxes Increases the civic consciousness.

Disadvantages of Direct taxes:

Inconvenient

Direct Taxes Pinches the payer. The direct taxes are thus inconvenient. Nobody can help feeling the pinch.

Evadable:-

A taxpayer can submit a fictitious tax return in order to avoid paying taxes. As a result, direct taxes are a form of taxation on honesty. Direct taxes are a source of greater hardship for honest individuals than for dishonest persons.

Social conflict:-

Direct tax encourages social conflict as not every part members of the society has to pay direct taxes.

Discourage Saving and Investment:-

Excessive increase in direct taxes may discourage savings and investment which in long term will affect country's economy.

Proportion of different direct taxes under direct taxes heading for the year 2013-14

Name of Direct Tax	Amount collected (Rs Crore)	%age Share in Total Direct Tax
Corporation tax	419520.00	61.75 %
Taxes on Income	240922.10	35.47 %
Estate Duty	0	0.00 %
Interest Tax	0	0.00 %
Wealth Tax	950.00	0.13 %
Gift Tax	0	0.00 %
Land Revenue	11744.01	1.73 %
Agricultural Tax	134.59	0.02 %
Hotel Receipts Tax	90.04	0.01 %
Expenditure Tax	0.00	0.00 %
Other's	5936.82	0.87 %

Source :-(Public Finance Statistics, Ministry of Finance, 2013-14)

Interpretations:-

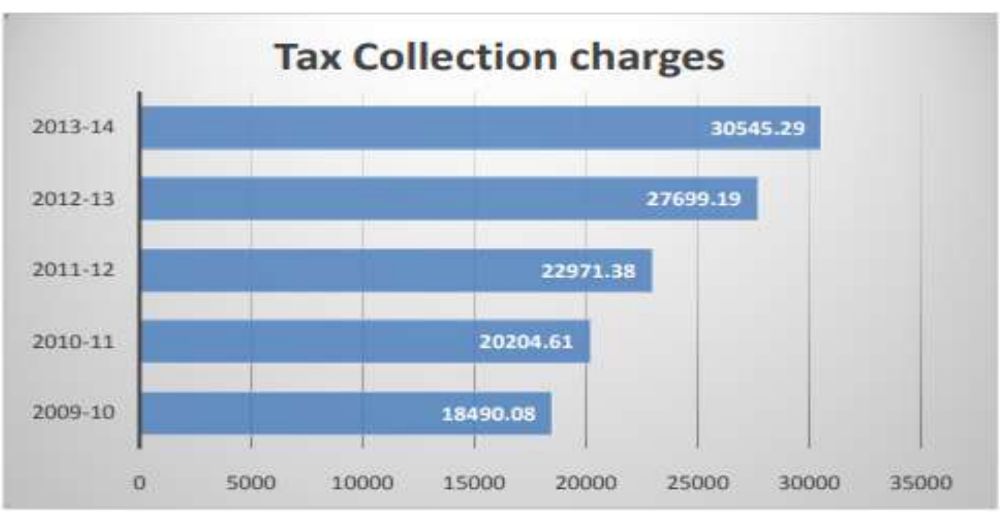
The majority of indirect taxes are derived from corporation tax and income taxation, which account for 62 percent and 35 percent of total indirect taxes, respectively. Direct taxes from all other sources account for up to 3 percent of total direct taxes. The following are the proportions of various indirect taxes under the Indirect taxation heading:-

Name of Indirect Tax	Amount collected (Rs Crore)	%age Share in Total Indirect Tax
Customs	187308	13.84 %
Union Excise Duties	196804.95	14.54 %
Service Tax	180141.04	13.31 %
State Excise Duty	98763.22	7.30 %
Stamp & registration Fees	92156.59	6.81 %
General Sales Tax	503653.36	37.21%
Taxes on Vehicle	40668.13	3.00 %
Entertainment Tax	2030.87	0.15 %
Taxes on goods & Passengers	16648.64	1.23 %
Taxes & Duty on Electricity	22009.89	1.63 %
Taxes on Purchase of Sugar Cane	349.41	0.03 %
Others	12657.41	0.95 %

Source:-(Public Finance Statistics ,Ministry of Finance, 2013-14)

Interpretations:- The Largest amount of Indirect Tax is generated from sales tax i.e. 37 % , Service tax constitute upto 13% , union excise duties 15 %, Customs 14 %, State Excise duties 7 %, Stamp and registration 7 %, taxes and vehicle 3 % and remaining all others 4%.

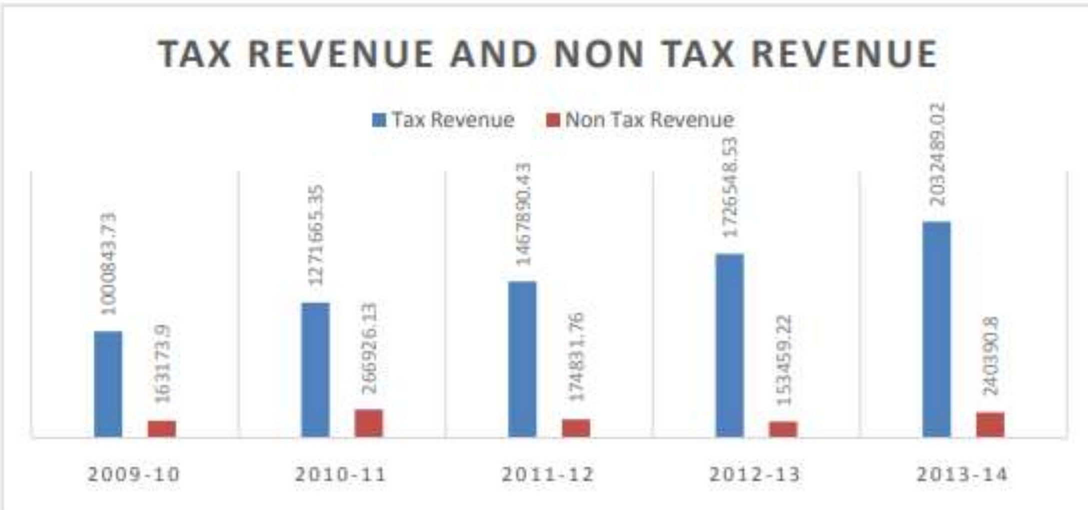
Cost incurred by government on collection of tax in the year 2013-14 (In Rs Crore)



Interpretations:-

It can be observed in the graph above that the government is incurring significant expenditures in the collection of taxes, with the amount of expenses incurred growing year after year as a result of the collecting effort.

Tax revenue as compared with Non Tax Revenue



Source:-(Public Finance Statistics ,Ministry of Finance, 2013-14)

Interpretations:-

From the above graph it is seen that the share of tax revenue in total revenue is 5 to 6 time more than the Non tax Revenue

Conclusions

The residents of India are dissatisfied with the country's tax system as a result of the multiplicity of levies. In the past, the taxation of the tax payer by the Union Government, State Governments, and municipal governments has resulted in hassles and harassment for the taxpayer. He must communicate with a number of different authorities and keep separate records for each of them. Adam Smith's taxation canons must be followed in order for a tax system to be considered ideal. However, as a result of the over-reliance on indirect taxes, the taxation system suffers from issues such as inequality, regressiveness, uneconomicality, inflation, and so on. Tax evasion and the expansion of the parallel economy have been exacerbated by the failure of the tax system to halt them. According to a white paper published by the Indian government on black money in 2012, a parallel economy exists that accounts for the same amount of GDP as India.

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