IMPACT OF E-TAXATION ON REVENUES OF CENTRAL INDIRECT TAXES IN INDIA

A

SYNOPSIS

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INTRODUCTION

INDIAN TAXATION SYSTEM:

When the British left India in 1947, they left India with a structure, especially that of revenue, which hasn’t completely changed till now. There are number of reasons for the implementation of this structure. After India got independence in 1947, funds were a major problem for the government. The whole network of governing officers required their salaries for which funds were required. As a result of which “Excise Duty” was not abolished but an additional tax known as “Customs Duty” was imposed on imported goods to provide protection to Indian industries across various sectors. But gradually in the 1960-1970’s it was observed that the Indian Technology had become obsolete as compared to their foreign competitors. The high customs duty had became a protective wall incentivizing low production, obsolete technology although there were other reasons too like license raj etc. Gradually with time according to the need of the country other taxes were introduced by the government for the better revenue collection and growth of the country. Service tax was later introduced in India in the Year 1994 as per the needs of funds by the government on the services rendered in the country and Excise Duty and the Custom Duty are one of the very first Taxes which are charged in India.

In Modern era, Taxes in India are levied by the central government and the state governments. Some minor taxes are also levied by the local authorities such as the Municipality e.t.c. The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the central and the state. An important restriction on this power is Article 265 of the Indian Constitution of India 1949 which states that, "No tax shall be levied or collected except by the authority of law". Therefore, each tax levied or collected has to be backed by an accompanying law, passed either by the Parliament or the State Legislature.
There are mainly two types of Taxes:

1. Direct Tax
2. Indirect Tax

1. **Direct Tax** as the name suggests, are taxes that are directly paid to the government by the taxpayer. It is a tax applied on individuals and organizations directly by the government e.g. income tax, corporation tax, wealth tax etc. It is the tax when the impact and incidence of tax are on one and same person. It is basically imposed on the individual organization and the burden of it cannot be shifted to other. These are lesser burden than the indirect taxes as the direct taxes are based on the income earning ability of the person.

2. **Indirect Tax** is applied on the manufacture or sale of goods and services. These are initially paid to the government by an intermediary, who then adds the amount of the tax paid to the value of the goods / services and passes on the total amount to the end user. It is the tax where the impact of tax is on one person and the incidence of it on the other. It is the tax charged on the commodities and allows the tax burden to shift. These taxes are borne by the consumers of the commodity and services irrespective of the financial ability as the MRP include all taxes. The cost of collecting such taxes is very less and provides a great source of revenue to the government.

**Features of Indirect Taxes:**

- Levied on goods and services sold by an intermediary to final consumers. Consumers than pay the tax in the form of higher price of items.
- Broadly divided into categories such as sale of goods, imported/exported goods, offering of services and manufacture of goods.
• Indirect Taxes are levied on clearance of goods and services from the origin, instead of actual sale of the products to the customers. What this means is that the intermediary will pay excise duties irrespective of whether they could sell the good or service to consumers.

• Indirect Taxes fall under both the central and state governments according to specific type of Indirect Tax. For instance, VAT is levied by the state governments whereas CST is levied by the Central Government.

Indirect Tax includes:

• **Excise Duty**: Payable by the manufacturer who shifts the tax burden to retailers and wholesalers.

• **Central Sales Tax**: Paid by a shopkeeper or retailer, who then shifts the tax burden to customers by charging sales tax on goods and services purchased by them. When the tax on sales levied is collected by both the central and state government is sales tax or the central sales tax.

• **Custom Duty**: Import duties levied on goods from outside the country ultimately paid for by consumers and retailers.

• **Service Tax**: Charged on services rendered to consumers, such as food bill in a restaurant.

• **VAT**: Over a period of time, most State Governments in India have replaced their local Sales Tax Legislation with a more progressive and simplified levy, i.e. Value Added Tax (VAT), where the State Government has the right to levy Value Added Tax (VAT) on the sale of goods.

OTHER INDIRECT TAXES:

• **Entertainment Tax**: Liability is on the cinema owners, who transfer the burden to cinemagoers.
- **Anti-Dumping Duty:** Dumping is said to occur when the goods are exported by a country to another country at a price lower than its normal value. This is an unfair trade practice which can have a distortive effect on international trade. In order to rectify this situation Central Govt. imposes an anti-dumping duty not exceeding the margin of dumping in relation to such goods.

- **Stamp Duty, Registration Fees, and Transfer Tax:** this tax is imposed on the handing over of the title of property ownership by one person to another. It incorporates a legal transaction fee & stamp duty.

- **Toll Tax:** At some places you need to pay tax in order to use infrastructure (road, bridge etc.) build from your money given to government as Tax. This tax is called as toll tax.

- **Entry Tax:** This entry tax is imposed by Gujarat, Madhya Pradesh, Assam, Delhi and Uttarakhand state government recently. The tax rate is variable 5.5-10% depending upon the state. All items entering in the state boundaries ordered via E-commerce are under this tax boundary.

**E-TAXATION**

E-Governance essentially means the electronic delivery of government services. E-Governance can be treated as the logical consequence of the implementation of Information and Communication Technology (ICT) in public administration. E-Taxation includes:

1. Online filing and assessment of tax returns.
2. Electronic funds transfer to enable taxes to be paid and refunds to be issued across the internet.
3. Different government department sharing information on tax assessments to support comprehensive policy decision making.
4. Web based information portals for the use in educating tax payers and researchers on taxation issues and publishing information.
On the recommendation of the Kelkar Committee Report, the E-filing of return was started in India on 30th September 2004. Now, in India online tax filing has become an integral part of the process of registering tax returns. With the increasing penetration of internet and rising level of web awareness and work pressure among the tax payers, many people now prefer to fill the tax according their convenience. Indian government has introduced Electronic Accounting System in Excise and Service Tax (EASIEST) is a web based payment gateway launched by CBEC in 2007 enabling assesses to pay Central Excise Duties and Service Tax online. It interfaces with the E-Payment portals of the tax collecting banks and makes available accurate tax payment data from banks for revenue and tax payer accounting purposes.

With effect from 1st October 2014, the Central Board of Excise and Customs(CBEC) has made it mandatory for the payment of tax/duty electronically through Internet Banking for all the Central, Excise and Service Tax (July 2014) except in exceptional cases to be recorded by Divisional Assistance /Deputy commissioners.

**REVIEW OF LITERATURE**

**INTERNATIONAL REVIEWS:**

1. Mr. Nishant Ravindra Ghuge, Dr. Vivek Vasantrao Katdare (2016) “A Comparative Study of Tax Structure of India with respect to other countries” (5)

In this paper the attempt has been made by the researcher to study the Taxation structure of India by comparing it with some of the developed and developing economies. The sample in the study is of five countries with comparing their Tax structures with India in reference to the parameters like Tax to GDP Ratio, Tax rates, time required for the Tax compliance, No. of Tax payments , Ease of Tax Payments, and Ease of doing Business etc., the objectives of the study are To Study the Tax Structure of India with respect to the tax structures of developed countries
and other developing countries, To Compare Tax Systems on the basis of some of the key indicators like Tax to GDP ratio, Total Tax Rate (%age), Time to Comply (hours), No of Tax Payments etc., To Identify where India Ranks to ease of Tax Payments and ease of doing business in the world and with this the researcher came to the conclusion that in most of these parameters India tax Structure remains way behind than the other selected countries.


The researcher in the study defines that the taxes can be defined as the source of government for raising funds. Tax evasion is a form of resistance to the mandatory taxation. Tax is a cultural phenomenon. While British income tax represents the vanguard of modern tax, the first known records of tax date back to Ancient Egypt in the reign of King Scorpion I. A tax is rarely rescinded; however, there are historical records of such practices. VAT is a modern tax but sales tax and customs duties date back to the Roman Empire. VAT, first devised in post WWI Germany to replace ‘cascading’ turnover tax, and has evolved into a multi-stage VAT system. In the 1960s less than ten countries had adopted VAT. Today technology and globalisation have precipitated the dissemination of VAT to more than 130 countries. The technological revolution has compelled a re-examination and ‘reconceptualisation’ of traditional principles of taxation and application, and has engendered the challenge of implementing and enforcing an international taxing regime subject to the authority of international organisations.

3. Odd E. Nygård and John T. Revesz (2015)“ Optimal Indirect Taxation and the uniformity debate” (9)

A review of the theoretical literature by the researcher on optimal Indirect Taxation reveals that analytical arguments in favour of uniform Indirect Taxation seems rather weak or unrealistic; hence determining the optimal tax structure remains an empirical issue. However, reviewing the empirical-computational studies published so far, shows that most of them operate under rather restrictive and simplistic frameworks. The empirical-computational support for uniformity seems weak, particularly when the models approach to the real world complexities. It leads to
the result that in a many-consumer economy, differentiated and progressive Indirect Taxation is likely to be the optimal solution.

According to the researcher in the study VAT is an improvement over the existing union excise duty at the central level and over the sale tax at the state level while GST is a further improvement over the existing VAT which is yet to be implemented. The new GST will ensure the greater uniformity in the tax rates throughout the country and will end the cascading effects. The objective of this paper is to trace the progress of India’s Indirect Tax Reforms from an origin-based CST to a proposed destination based GST. The researcher finds in the study that GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST.

5. Dr. Mrs. P. Amarjothi, Mr. C. Azhakarraja (2013)” A Study on Indian Revenue Generators”
In this study researcher focuses that India is common law federal country, with separation of powers between the legislature, the judiciary and the executive. There is a division of legislative powers between states and the federation itself under article 246 of the Constitution. Each state has its own executive government, which functions independently from the federal government. In July 1860, James Wilson, the first Finance Member of the Governor General in Council, quoted thus from the authority of Manu while introducing the act for levying Income Tax in the country, As the leech, the calf and the bee take their food little by little, even so must the King draw from his realm, moderate annual taxes. In 1924, a Central Board of Revenue was created to administer central taxes. The attainment of Independence marked another paradigm shift for taxation.

The main thrust of this study is to investigate the Indirect Tax-economic Growth dynamics against the backdrop of the paucity of empirical literature in developing countries with Nigeria as a reference point. The study adopted a combination of co integration and error correction mechanism after series of diagnostic tests which helped to check the adequacy of the specified model. The Engel-Granger two step procedures was used to test the short run dynamic behaviour of the model while the Autoregressive Distributed Lag (ARDL) was used to correct the discrepancies between short and long run impact of the explanatory variables. The result of the diagnostic tests shows the adequacy of the specified model. The study found a negative and an insignificant relationship between indirect tax and economic growth in Nigeria. The ratio of total indirect tax to total tax revenue reported a negative coefficient of (0.5817). The ratio of total tax to total federal revenue reported a robust t-value of (19.9276) and a positive coefficient of (2.0886) at the 1% level of significance. Against the above result, it was recommended that emphasis should be shifted from indirect tax as a growth driver in Nigeria.


There are two major types of taxes: direct taxes and indirect taxes. In this research paper, for the purpose of comparing these types of taxes in India and Pakistan, we have taken a sample of tax revenue collected under the heads of direct and indirect taxes. This sample ranges from 1999-2000 to 2008-2009. The results show that Pakistan is generating more tax revenue through indirect taxes whereas India is from direct taxes. By comparing the two regression equations and the standardized betas, we come to know that in Pakistan, more revenue is charged by levying indirect taxes whereas India is on the opposite side of it. The results of these two types of fiscal policies can be very different and the more the indirect taxes in country, the more will be increasing gap between rich and poor and thus the more will be the exploitation of labour class.
NATIONAL REVIEWS:


Prevalence of indirect taxation system in India dates back to the Ancient age. The reference of a well planned and systematic approach to levy and collect taxes for the state is found from Kautilya’s Arthasastra. In respect of matters pertaining to taxation, his suggestions were an ideal blend of both direct and indirect taxes. In this paper the researcher proposed to study the GST in Ancient period. The objective of the study is to understand service tax frame in Ancient India and to relate the Ancient frame with proposed GST framework. In India, the tradition of goods and service taxation has been in force in one form or another from ancient times. GST is expected to be a critical reform in spurring growth in the economy.


The study conducted by the researcher signifies that the sales tax, VAT and GST are the important aspects for the tax revenue for the government. 100 firms are taken by the researcher in the study with the 9 years of data and the objectives To understand the key issues involved in the successful implementation of VAT and GST, To study the impact of Sales tax, VAT and GST on the profitability of manufacturing industry, To identify the drivers for the smooth implementation of tax from VAT to GST, To Study the Impact of Sales tax, VAT and GST on the price of the product, To Study the impact of Sales tax, VAT and GST on Government Revenue. This study results in finding the most beneficial system of tax structure which is suitable means less complicated from the view point of Government and Industries. This study will be useful to traders; manufacturers to analyze its tax burden, at the same time the government will also understand how to generate the revenue through indirect taxes in the Country.

Developing countries raise part of the vast financial resources required for their development needs from tax. Considering the limited scope of the Direct tax, revenue largely depends on the indirect taxes like custom duty, sales tax and excise duty. Contribution of the indirect taxes to the total revenue has an erratic trend. Custom duty constitutes major source hence the revenue policy amount virtually to import based. The distribution of incidence of indirect taxes has been found regressive. Buoyancy of components indirect taxes such as custom and sales tax is found greater than unity while that of excise duty is less than unity. In terms of GDP the sales tax is found more buoyant.


The Indirect Tax Burden on households was over 95 million Euros in 2005, some 12.5% of their income. Measuring the redistributive and budgetary impact of any reform of this taxation is thus of prime importance for government decision-makers. Following the 2002 Household Budget Survey and the arrival of the new tool of micro simulation, we describe the current effects of indirect taxation on households and study the impact of three reform measures (creation of a uniform VAT rate, increase in Excise duties on alcohol and tobacco and increasing differentials in VAT rates for a neutral budget cost), Using a new micro simulation model.


The modern literature on nonlinear optimal taxation treats differences in income as being due to unobserved differences in ability. A striking result of this assumption is that high income agents should face a zero marginal tax rate. In this paper researcher assumes that differences in observed income are due to exogenous differences in luck. Hence the optimal redistributive tax involves trading off the benefits due to ‘social insurance’ with the costs due to reduced incentives. I derive the optimal forms for linear and nonlinear taxes, and compute some
algebraic and numeric examples. Typically high income individuals will face quite high marginal tax rates.

RESEARCH GAP

• The Researcher came across a number of studies which were related to the various theoretical aspects of Indirect Taxes and the analytical part of the overall tax revenue collection of India with respect to different countries of the world.

• The Researcher did not come across any study which was related to the analytical part of the Indirect Tax Revenue Collection with reference to the states and the central level of India, in addition to the Indirect E-taxation system in India. Therefore, the researcher has taken this as a base for the present study.

NEED OF THE STUDY

The Indirect Taxation is a vast topic to study which affects the society as a whole, the Business Enterprises act accordingly to the Taxation System of the country in which they are operating. Indirect Taxation is one of the sources of revenue to the government which assists in the different welfare activities conducted by them for the society. On the other hand the important aspect of tax revenue is E-filing of tax returns in India, it is important to study the effect of E-Taxation on the Indian Taxation System and society as a whole. As far as studies on the Indirect Taxation are concerned, the number of studies which were conducted with reference to the different countries on it, there are no such published studies on the Indirect Taxation comparing the revenue in India as per the revenue collection through Indirect sources for states in the country and at a central level in addition to the development of E-taxation system in India, to the best of our knowledge and efforts. Therefore, it is necessary to conduct the comprehensive study to examine the facts which are taken in the study.
OBJECTIVES OF THE STUDY

1. To understand the “Indirect Taxation System” in India.
2. To study the progress of selected Indirect Taxes geographically.
3. To analyze the contribution of Indirect Tax Revenue on the GDP.
4. To study the progress of tax collections yearly stride and recede of Indirect tax system in India.
5. To conduct the SWOT analysis for the Electronic taxation system in India and provide suggestions for its improvements.

RESEARCH METHODOLOGY

• RESEARCH DESIGN
  The Explanatory and Analytical research will be used for the study.

• DATA COLLECTION
  The study is based on Secondary data and Primary data.

• PRIMARY DATA
  Primary data will be collected through questionnaire in which 150 respondents will be taken to collect the relevant information in assistance to the study. The respondents are divided as:

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic</td>
<td>50</td>
</tr>
<tr>
<td>Businessman</td>
<td>80</td>
</tr>
<tr>
<td>Advocates</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
</tr>
</tbody>
</table>

• SECONDARY DATA
  Secondary data will be collected through the Journals, Newspapers, Magazines and Surfing of different websites related to Indirect Taxation in India like the Website of CBEC e.t.c.
• **HYPOTHESES**

\( H_{01} = \) There is no significant affect of the E- Mode of Taxation on the Indirect Tax Revenue collection.

\( H_{02} = \) There is no significant affect of progress of Indirect Tax Revenue on the GDP of the country.

• **SAMPLE SIZE**

The researcher has taken India for the study followed by the different states of the country.

• **DURATION OF THE STUDY**

8 years i.e. from 2008-2009 to 2015-2016 financial years’ data will be taken in the study.

• **SELECTION CRITERIA**

Indirect Tax is one of the major sources of revenue generation for the government in India, and in the overall Indirect Tax Revenue Collection, major contribution is of Excise Duty, Custom Duty, and Service Tax as per the collection results shown in the table below as on 01 July 2009 (2008-2009):

<table>
<thead>
<tr>
<th>S.no</th>
<th>Collection From</th>
<th>Amount (In cr.)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Excise Duty</td>
<td>1,08,613</td>
<td>18.49%</td>
</tr>
<tr>
<td>2.</td>
<td>Custom Duty</td>
<td>99,879</td>
<td>17.00%</td>
</tr>
<tr>
<td>3.</td>
<td>Service Tax</td>
<td>60,941</td>
<td>10.37%</td>
</tr>
<tr>
<td></td>
<td>TOTAL (1+2+3)</td>
<td>2,69,433</td>
<td>45.86%</td>
</tr>
<tr>
<td></td>
<td>Indirect Tax (overall)</td>
<td>5,87,469</td>
<td>100%</td>
</tr>
</tbody>
</table>


So, the researcher has chosen the 3 most important (as per contribution in total Indirect Tax Collection) and Central level Indirect Taxes in the study.
• **TOOLS TO BE USED**

Analytical tools used in the study are trend analysis, percentage analysis, correlation, Regression etc. and results and collected data will be presented through the tables and graphs.

• **RESEARCHER WILL USE THE FOLLOWING METHODOLOGY TO ACHIEVE THE OBJECTIVES:**

<table>
<thead>
<tr>
<th>S.NO.</th>
<th>OBJECTIVE</th>
<th>RESEARCH METHODOLOGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>To understand the “Indirect Taxation System” in India</td>
<td>For achieving this objective, researcher will Study the historical background and related laws of Indirect Taxation System through different websites and other related sources.</td>
</tr>
<tr>
<td>2</td>
<td>To study the progress of selected Indirect Taxes geographically</td>
<td>For achieving this objective Trend analysis and other appropriate tools will be used by the researcher.</td>
</tr>
<tr>
<td>3</td>
<td>To analyze the contribution of Indirect tax revenue on the GDP</td>
<td>For achieving this objective the OLS regression model and other appropriate tools will be used by the researcher.</td>
</tr>
<tr>
<td>4</td>
<td>To study the progress of tax collection yearly stride and recede of Indirect tax system in India.</td>
<td>For achieving this objective Trend analysis, t-test and other appropriate tools will be used by the researcher.</td>
</tr>
<tr>
<td>5</td>
<td>To conduct the SWOT analysis for the Electronic taxation system in India.</td>
<td>For achieving this objective SWOT analysis technique and other appropriate tools will be applied by the researcher.</td>
</tr>
</tbody>
</table>
PROPOSED PLAN OF STUDY

Chapter 1- Introduction

Chapter 2- Review of Literatures

Chapter 3- Progressive Evaluation

Chapter 4- Empirical Analysis

Chapter 5- SWOT Analysis

Chapter 6- Findings, Conclusion and Suggestions


(Note: The numbers mentioned after every topic of the review indicates the serial of references “arranged alphabetically with the last name of author” given above)